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

FORM 10-K

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

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2000

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
(State or Other Jurisdiction of Incorporation or Organization) 95-2588496
(I.R.S. Employer Identification No.)

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

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

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

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

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

Based on the closing sale price on Nasdaq National Market on June 26, 2000, the aggregate market value of the voting stock held by nonaffiliates of the registrant was \$91,597,073. For the purposes of this calculation, shares owned by officers, directors and 10% stockholders known to the registrant have been deemed to be owned by affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Odetics has two classes of common stock outstanding, the Class A common stock and the Class B common stock. The rights, preferences and privileges of each class of common stock are identical in all respects, except for voting rights. Each share of Class A common stock entitles its holder to one-tenth of one vote per share and each share of Class B common stock entitles its holder to one vote per share. As of June 26, 2000, there were 8,204,351 shares of Class A common stock and 1,051,541 shares of Class B common stock outstanding. Unless otherwise indicated, all references to common stock shall collectively refer to the Class A common stock and the Class B common stock

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the registrant's definitive proxy statement for the annual meeting of the stockholders scheduled to be held on September 8, 2000.

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. You should not place undue reliance on these forward-looking statements that speak only as of the date hereof. We undertake no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. We encourage you to carefully review and consider the various disclosures made by us which describe certain factors which affect our business, including the risk factors set forth at the end of Part I, Item 1 of this report and in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

PART I

ITEM 1. BUSINESS

General

Odetics, Inc. was founded in 1969 to supply digital recorders for use in the United States space program. We pioneered new designs and standards for digital magnetic tape recorders offering high reliability and enhanced

performance in the adverse environment attendant to space flight. In the 1970s, we broadened our information automation product line to include time-lapse videocassette recorders for commercial and industrial security and surveillance applications, and entered the business of manufacturing telecom network synchronization products. Through our Gyyr division, we became a leading supplier of time-lapse videotape cassette recorders, digital image processing modules and related products used in security and surveillance systems. We incorporated our Gyyr division in 1997, forming a wholly-owned subsidiary, Gyyr, Inc. In October 1997, we expanded Gyyr by acquiring Intelligent Controls Inc., a manufacturer of access control products specializing in PC based, remote site and fiber optic communications. In December 1999, we acquired the Security Products Division of Digital Systems Processing, Inc., which expanded our product line to include digital time-lapse recording based on hard disk drive technology.

We manufactured telecom synchronization products in our Communications division beginning in the late 1970s. We incorporated our Communications division in fiscal 1999 as our wholly-owned subsidiary, Zyfer, Inc., as part of our business expansion to develop products for secured communications over the Internet.

Leveraging our expertise in video image processing, we entered into the intelligent transportation system ("ITS") business with the introduction of a video-based vehicle detection system in 1993. In June 1997, we acquired certain assets comprising the Transportation Systems business from Rockwell International, creating our ITS division, which expanded our offerings to include advanced traffic management systems and advanced traveler information systems. We incorporated our ITS division in 1998 as Odetics ITS, Inc. In October 1998, we broadened our systems offerings by acquiring Meyer, Mohaddes Associates, Inc., which currently operates as a subsidiary of Odetics ITS. In January 2000, we reincorporated Odetics ITS in Delaware and changed its name to Iteris, Inc.

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In the early 1980s, we set out to develop the technical expertise to apply automation to new commercial applications and established our Odetics Broadcast division. We incorporated our Odetics Broadcast division in 1999 as Broadcast, Inc. Broadcast develops and manufactures broadcast automation control systems and pioneered the use of video tape libraries in broadcast television stations and satellite uplink operations. The success of our video tape libraries led us to pursue new applications for information automation technologies. In 1991, we introduced an automated tape handling subsystem for integration into tape libraries designed for midrange computers and client/server networks. In January 1993, we formed a separate subsidiary, ATL Products, Inc., to pursue the market for automated tape libraries. In March 1997, ATL completed an initial public offering of 1,650,000 shares of its Class A common stock. We distributed our remaining 82.9% interest in ATL to our stockholders in a tax-free distribution in October 1997.

Today, Odetics serves as an incubator of high technology companies, each with its own marketplace, customers and products. These operations share a common corporate overhead for support for facilities, human resources, benefits and certain accounting, finance and executive management services. We are pursuing our incubator business strategy to nurture and develop each of these operations with the ultimate goal of achieving a tax-free spin-off of each entity to our stockholders. In October 1999, we received a determination letter from the Internal Revenue Service to confirm the tax-free status of our proposed spin-off of Gyyr, Broadcast and Iteris. To date, we have not spun-off any of the entities for which we have received determination letters. Subject to favorable market conditions, it is still our intention to move forward with the proposed spin-offs.

We currently define our business segments as video products, telecom products and ITS. Our video products segment includes our Broadcast subsidiary and our Gyyr subsidiary. Our telecom products segment includes our Zyfer subsidiary and our Mariner Networks subsidiary. Our ITS segment consists of our Iteris subsidiary. For more information concerning our business segments, please see Note 13 of Notes to Consolidated Financial Statements.

Video Products

Broadcast, Inc.

Broadcast develops systems to automate the storage and scheduling of commercials, news stories and other television programming recorded on videotape and video server storage systems. We believe that enhanced operational efficiencies are a principal factor underlying the automation of broadcast television stations and satellite uplink operations as the industry transitions to digital television. Broadcast is developing proprietary software solutions for broadband video content management and delivery to serve broadcast and cable operations as well as broadband Internet.

The earliest commercial success for Broadcast came from the manufacture of video tape libraries. The video tape library market has experienced a trend toward smaller libraries, coupled with digital hard disk recording devices. To address this market, we introduced the TCS45 tape library, which incorporates highly integrated caching systems. The TCS45 can be coupled with hard drive recorders available from several recognized suppliers to the broadcast community. As

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a result of the industry's transition to digital television and high definition content origination, we continue to see strong demand for tape libraries. We offer software to form powerful integrated systems, including our AIRO(TM) and Microstation(TM) automation products. Our Roswell(TM) facility management system is designed for enterprise automation of operations at television broadcast facilities. Multi-channel presentation systems, which integrate the complete line of our hardware with commonly available broadcast quality video disk recorders, are quickly becoming the core business of Broadcast. Broadcast is focused on video asset management including desktop video browsing using a network PC architecture, which can be extended to wide area network applications and Internet applications.

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

The customers of Broadcast include major television networks such as Fox, the Canadian Broadcasting Corporation, CNBC, Euronews, Televisa, Measat Broadcast Network Systems, NBC, the PBS Network, Group W Satellite Communications (for the Arts & Entertainment Network and the Discovery Channel), Asia Broadcast Centre, Univision and over 100 independent and network-affiliated television stations. Broadcast currently has systems installed in over 40 countries.

Manufacturing and Materials. Broadcast maintains a dedicated manufacturing operation located within our Anaheim, California facilities. Our AIRO products are serviced primarily in a facility located in Austin, Texas. At our Anaheim facility, Broadcast maintains infrastructure to support production and inventory control, purchasing, quality assurance, manufacturing and engineering.

Broadcast purchases video servers from Grass Valley Group, Leitch and Pinnacle Systems and video switching, conversion and monitoring equipment from Grass Valley Group and Leitch for installation in our automated video management systems. Broadcast also purchases cabinets and other fabricated parts and components from other third party suppliers.

Gyyr, Inc.

Gyyr produces analog and digital video products and access control systems that meet the security and surveillance needs for a variety of markets including banking, commercial/industrial and retail. Gyyr's time-lapse VCRs are installed in automated teller machines and retail point of sale systems to record transaction information in an effort to deter and address incidents of theft and other crimes. Gyyr's access control systems offer managed access and monitoring of public, private and high security facilities. Customer demand for more sophisticated capabilities and

integration due to digital technology has also contributed to the recent growth in the market for Gyr's products. Gyr's strategy is to provide complete software-based system integration of digital security devices over the Internet. Recent additions to Gyr's product offerings include network and Internet-based video and device control, intelligent dome cameras, video multiplexing and digital recording. In December 1999, we expanded our product line to include the DVMS family of digital time-lapse recorders based on hard disk drive architecture. This product line expansion was the result of our acquisition of the Security Products Division of Digital Systems Processing, Inc. We sell our products as individual devices as well as components of fully-integrated network security control systems.

Sales, Marketing and Principal Customers. Gyr markets and sells its products through three established channels: OEMs, independent distributors and system integrators. Gyr personnel located at our principal facilities and sales offices throughout the world oversee approximately 1,000 of these channel partners. Gyr has a business development and service organization located at our Odetics Europe Limited subsidiary. Through January 2000, Odetics Europe Limited assisted Gyr with management in the development of European, Middle East and African markets. Commencing in January 2000, Gyr formed Gyr Europe Limited to succeed Odetics Europe Limited in its support services. Through September 1999, Gyr utilized Odetics Asia Pacific Pte. Ltd. to assist in sales to the Asian markets. Commencing in October 1999, Gyr consolidated its Asian sales and marketing activities into its Anaheim, California facilities. Gyr's principal customers include major security equipment companies such as Diebold, Inc., ADT Security Systems, Inc., Honeywell, Inc., Mosler, Inc., Hamilton Safe and ADI.

Manufacturing and Materials. Gyr maintains a dedicated manufacturing area located within our principal facilities in Anaheim, California. Gyr primarily uses continuous demand flow techniques in its assembly lines. Gyr maintains infrastructure to support production and inventory control, purchasing, quality assurance and manufacturing engineering.

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

Telecom Products

Zyfer, Inc.

We incorporated our Communications division in 1999 as Zyfer, Inc. Zyfer develops and manufactures telecom network synchronization products and provides service support for space borne digital data recorders. Our telecom network synchronization products synchronize communications for data security, timing networks and wireless communications systems. These products are based on GPS and oscillator technologies and are sold for new applications in

wireless networks and satellite communications for both commercial and government customers. Significant customers of Zyfer include LGIC of Korea, and the U.S. government. See "Risk Factors--Our Operating Results Have Been Adversely Affected by the Asian Economic Crisis."

Zyfer has developed a new class of encryption products for securing enterprise wide communications. These products provide transparent security to users and system administrators. Transparency results from the elimination of traditional key exchange and key management requirements and from our ability to encrypt and decrypt at high data rates.

Zyfer also provides service support for space borne 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. Zyfer conducts its selling and marketing activities worldwide directly from our principal facilities in Anaheim, California. Zyfer sells its telecom synchronization products primarily through manufacturers' representatives.

Manufacturing and Materials. Zyfer manufactures its telecom synchronization products to best commercial practices and is ISO certified. Most of the manufacturing processes consist of final assembly and test. We outsource board assembly and some preliminary fabrication processes.

Mariner Networks, Inc.

Mariner Networks, Inc. has developed and will manufacture a family of broadband integrated access devices that enable branch offices to cost effectively combine their separate voice, video and data networks onto a single wide area transport network. The Dexter(R) product family provides wire speed transport of most data traffic types. Mariner Networks' products include ATM subsystems, Frame Relay-to-ATM networking components and systems, and ATM wide area network access concentrators for handling intranet, data, voice and video traffic.

Sales, Marketing and Principal Customers. Mariner Networks sells its products through OEMs and resellers in North America and in Europe. Mariner Networks maintains sales offices at our facilities in the United States in Anaheim, California and at Odetics Europe Limited in the United Kingdom.

Manufacturing and Materials. Mariner Networks' manufacturing processes are ISO 9000 certified and consist primarily of final assembly and test. Mariner Networks currently outsources circuit board assembly and some fabrication processes.

ITS Products

Iteris, Inc.

Iteris, Inc. designs, develops, markets and implements software based solutions that improve the safety and efficiency of vehicle transportation. Using its proprietary software and

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ITS industry expertise, Iteris provides video sensor systems and transportation management and traveler information systems for the ITS industry. The ITS industry is comprised of companies applying a variety of technologies to enable the safe and efficient movement of people and goods. Iteris uses its outdoor image recognition software expertise to develop proprietary algorithms for video sensor systems that improve vehicle safety and the flow of traffic. Our knowledge of the ITS industry enables Iteris to design and implement transportation solutions that help public agencies reduce traffic congestion and provide greater access to traveler information.

Iteris' proprietary image recognition systems include AutoVue and Vantage. AutoVue is a small windshield mounted sensor that utilizes proprietary software to detect and warn drivers of unintended lane departures. Through new software development, Iteris is expanding the AutoVue platform to incorporate additional safety and convenience features. Vantage is a video vehicle sensing system that detects the presence of vehicles at signalized intersections enabling a more efficient allocation of green signal time.

Iteris, Inc. designs, develops and implements software based systems that integrate sensors, video surveillance, computers and advanced communications equipment enabling public agencies to monitor, control and direct traffic flow, assist in the quick dispatch of emergency crews and distribute real-time information about traffic conditions and alternative routes.

Sales, Marketing and Principal Customers. Iteris markets and sells its transportation management systems and services directly to government agencies pursuant to negotiated contracts which involve competitive bidding and specific

qualification requirements. Sales of Iteris' systems generally involve long lead times and require extensive specification development, evaluation and price negotiations.

Iteris sells its Vantage vehicle detection systems primarily through indirect sales channels comprised of independent dealers in the United States and Canada who sell integrated solutions and related products to the traffic intersection market. The independent dealers for Iteris are primarily responsible for sales, installation and support of Vantage systems. These dealers maintain an inventory of demonstration traffic products including the Vantage vehicle detection systems and sell directly to government agencies and installation contractors. These dealers often have long-term arrangements with the government agencies in their territory for the supply of various products for the construction and renovation of traffic intersections. Iteris holds technical training classes for our dealers and maintains a full-time staff of customer support technicians to provide technical assistance when needed.

The marketing strategy for AutoVue is to establish it as the leading platform for in vehicle video sensing for trucks and passenger cars. AutoVue is sold directly by Iteris to vehicle manufacturers. Iteris currently has a direct sales force of three product managers, and intends to expand its sales force in the future to include engineers and product managers who will be responsible for sales and customer service to specific vehicle manufacturers. Since its target customer base is well known, Iteris currently does not plan to engage in large scale marketing campaigns.

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Manufacturing and Materials. Iteris designs, assembles and tests the components of its Vantage systems in approximately 5,000 square feet of space at our Anaheim facility. Production equipment consists of assembly lines and test apparatus for final assembly and testing of the manufactured product. Production volume is based upon quarterly forecasts that Iteris readjusts on a monthly basis to control inventory. Iteris subcontracts the manufacture of its AutoVue systems to two manufacturers. We anticipate these manufacturers will be able to produce unit volume sufficient to support sales to heavy truck manufacturers. Iteris intends to engage additional manufacturers with expertise in high volume production to produce higher volumes for light and medium trucks and passenger cars. Iteris does not manufacture any of the hardware used in the transportation management and traveler information systems that it designs and implements. The production facility for Iteris is ISO 9001 certified.

Customer Support and Services

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

Backlog

Our backlog of unfulfilled firm orders was approximately \$27.3 million as of March 31, 2000 and approximately \$22.0 million as of March 31, 1999. Approximately 82% of our backlog at March 31, 1999 was recognized as revenues in fiscal 2000, and approximately 68% of our backlog at March 31, 2000 is expected to be recognized as revenues in fiscal 2001. Pursuant to the customary terms of our agreements with government contractors and other customers, customers can generally cancel or reschedule orders with little or no penalties. Lead times for the release of purchase orders depend upon the scheduling and forecasting practices of our individual customers, which also can affect the timing of the conversion of our backlog into revenues. For these reasons, among others, our backlog at a particular date may not be indicative of our future revenues.

Product Development

Each of our business units directs and staffs its own product development activities. Our businesses require substantial ongoing research and development expenditures and other product development activities. Our company-sponsored research and development costs and expenses were approximately \$9.3 million in fiscal 1998, \$11.2 million in fiscal 1999 and \$16.9 in fiscal 2000. We expect to continue to pursue significant product development programs and incur significant research and development expenditures in each of our business units.

Competition

Our business units generally face significant competition in each of their respective markets. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on our business, financial condition and results of operations.

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

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

Zyfer's primary competition for network synchronization products is Datum, Inc. and TrueTime Inc. Zyfer anticipates that its competition for encryption products for secured communications will include Zyling Corporation, Rainbow Technologies, Inc. and Redcreek Communications Inc.

For its integrated access devices, Mariner Networks' principal competition includes networking vendors Vina Technologies, Sonoma Systems and Accelerated Networks.

While we believe that AutoVue is the only commercially-available lane departure warning system, potential competitors including Delphi Automotive Systems Corporation domestically and NEC Corporation and Hitachi Ltd. in Japan and Robert Bosch GmbH in Europe are currently developing video sensor technology for the vehicle industry that could be used for lane departure warning systems. In the market for our Vantage vehicle detection systems, we compete with both manufacturers of "above ground" video camera detection systems, such as Econolite Control Products, Inc. and the Peek Traffic Systems division of Thermo Electron Corporation, and other non-intrusive detection devices including microwave, infrared, ultrasonic and magnetic detectors, as well as manufacturers and installers of in-pavement inductive loop products.

The transportation management and traveler information systems market is highly fragmented and is subject to evolving national and regional quality and safety standards. Iteris' competitors vary in number, scope and breadth of the products and services they offer. Iteris' competitors in advanced transportation management and traveler information systems include corporations such as TRW, Inc., Transcore, Lockheed Martin Corporation, PB Farradyne Inc., Kimley-Horn and Associates, Inc. and National Engineering Technology, Inc. Iteris' competitors in transportation engineering, planning and design include major firms such as Parsons Brinkerhoff, Inc. and Parsons Transportation Group Inc., as well as many regional engineering firms.

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In general, the markets for the products and services offered by our businesses are highly competitive and are characterized by rapidly changing technology and evolving standards. We believe that our ability to compete effectively in our target markets depends on a number of factors, including the success and timing of our new product development, the compatibility of our

products with a broad range of computing systems, product quality and performance, reliability, functionality, price, and service and technical support. Many of our current and prospective competitors have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, technical, manufacturing, distribution and marketing resources than us. As a result, they may be able to adapt more quickly to new or emerging standards or technologies or to devote greater resources to the promotion and sale of their products. It is also possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share. Our failure to provide services and develop and market products that compete successfully with those of other suppliers and consultants in our target markets would have a material adverse effect on our business, financial condition and results of operations.

Intellectual Property and Proprietary Rights

Our ability to compete effectively depends in part on our ability to develop and maintain the proprietary aspects of our technology. Our policy is to obtain appropriate proprietary rights protection for any potentially significant new technology acquired or developed each of our business units. We currently hold a number of United States and foreign patents and trademarks, which will expire at various dates commencing in 2004. We also have pending a number of United States and foreign patent applications relating to certain of our products; however, we cannot be certain that any patents will be granted pursuant to these applications.

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

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

Employees

We refer to our employees as associates. As of June 23, 2000, we employed 569 associates, including 113 associates in general management, administration and finance; 82 associates in sales and marketing; 196 associates in product development; 124 associates in operations, manufacturing and quality; and 54 associates in customer service. None of our associates are represented by a labor union and we have not experienced a work stoppage.

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

Government Regulation

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

the near future.

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

RISK FACTORS

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

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

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

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

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

We Have Experienced Substantial Losses and Expect Future Losses. We have experienced substantial operating losses of \$38.7 million for the year ended March 31, 2000 and \$18.3 million for the year ended March 31, 1999. We may not be able to achieve profitability on a quarterly or annual basis in the future. Most of our expenses are fixed in advance, and we generally are unable to reduce our expenses significantly in the short-term to compensate for any unexpected delay or decrease in anticipated revenues. In addition, in order to implement our incubator strategy successfully, we expect to continue to make significant investments in each of

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our business units. As a result, we may continue to experience losses which could cause the market price of our common stock to decline.

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

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

We may not be able to complete a successful initial public offering or spin-off of any of our divisions in the near future, or at all. During fiscal 2000, we attempted to complete the initial public offering of Iteris. We aborted the offering due to adverse market conditions. Even if we do complete additional public offerings, we may decide not to spin-off a particular business unit, or to delay the spin-off until a later date.

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

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

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. evolving industry standards and changes in the regulatory environment.

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

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

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

- . Roswell, our automated facility management system for broadcast television stations;
- . Bowser, our visual asset manager;
- . MicroStation, our integrated disk recorder and automation system;
- . Vortex, our high performance dome product;
- . Digi Scan Pro, our advanced digital multiplexer;
- . DVMS, our family of digital time-lapse recorders;
- . Vantage One and Vantage Edge, our single camera traffic detection systems;
- . AutoVue, our lane departure warning system; and
- . Dexter, our networking access device.

Market acceptance of our new products depends upon many factors, including our ability to resolve technical challenges in a timely and cost-effective manner, the perceived advantages of our new products over traditional products and the marketing capabilities of our independent distributors and strategic partners. Our business and results of operations could be seriously harmed by any significant delays in our new product development. We have experienced delays in the past in the introduction of new products, particularly with our Roswell system. Certain of

our new products could contain undetected design faults and software errors or "bugs" when first released by us, despite our testing. We may not discover these faults or errors until after a product has been installed and used by our customers. Any faults or errors in our existing products or in our new products may cause delays in product introduction and shipments, require design modifications or harm customer relationships, any of which could adversely affect our business and competitive position.

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

We May Need Additional Capital in the Future and May Not Be Able to Secure

Adequate Funds on Terms Acceptable to Us. We raised approximately \$7.3 million in a private placement of Odetics Class A common stock in December 1998 and approximately \$2.0 million in March 1999. We raised \$5.0 million through the sale of an option on our principal Anaheim facility in July 1999. In addition, we raised \$3.75 million through the issuance of debt to Daimler Chrysler Ventures, which is convertible into 2.5% of the equity securities of Iteris. We may need to raise additional capital in the near future, either through additional bank borrowings or other debt or equity financings. Our capital requirements will depend on many factors, including:

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

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

We Have Significant International Sales and Are Subject to Risks Associated with Operating in International Markets. International product sales represented approximately 19% of our total net sales and contract revenues for the fiscal year ended March 31, 2000, approximately 27% for the fiscal year ended March 31, 1999 and approximately 34% for the fiscal year ended March 31, 1998. International business operations are subject to inherent risks, including, among others:

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- . unexpected changes in regulatory requirements, tariffs and other trade barriers;
- . longer accounts receivable payment cycles;
- . difficulties in managing and staffing international operations;
- . potentially adverse tax consequences;
- . the burdens of compliance with a wide variety of foreign laws;
- . reduced protection for intellectual property rights in some countries;
- . currency fluctuations and restrictions; and
- . political and economic instability.

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

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

Our Operating Results Have Been Adversely Affected by the Asian Economic Crisis. Our telecommunications products are sold principally to LGIC of Korea.

As a result of economic instability in Asia, particularly in Korea, our sales in this region declined over 60% in fiscal year 1999 as compared to fiscal 1998. While sales to LGIC in fiscal 2000 increased, the aggregate sales to LGIC in fiscal 2000 were still significantly below fiscal 1998 sales. It is possible that these sales could be further impacted by the currency devaluations and related economic problems in this region, and sales in this region could continue to decline.

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

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

Our competitors are also soliciting potential acquisition candidates, which could both increase the price of any acquisition targets and decrease the number of attractive companies available for acquisition.

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

We Depend on Government Contracts and Subcontracts and Face Additional Risks Related to Fixed Price Contracts. A significant portion of the sales by Iteris, a portion of our sales by Zyfer were derived from contracts with governmental agencies, either as a general contractor, subcontractor or supplier. Government contracts represented approximately 23% of our total net sales and contract revenues for the year ended March 31, 2000. We expect revenue from government contracts will continue to increase in the near future. Government business is, in general, subject to special risks and challenges, including:

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

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

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

We Cannot Be Certain of Our Ability to Attract and Retain Key Personnel and We Do Not Have Employment Agreements with Any Key Personnel. Due to the specialized nature of our business, we are highly dependent on the continued service of our executive officers and other key management, engineering and technical personnel, particularly Joel Slutzky, our Chief Executive Officer and Chairman of the Board, and Gregory A. Miner, our Chief Operating Officer and Chief Financial Officer. We do not have any employment contracts with any of our officers or key employees. The loss of any of these persons would seriously harm our development and marketing efforts, and would adversely affect our business. Our success will also depend in large part upon our ability to continue to attract, retain and motivate qualified engineering and other highly skilled technical personnel. Competition for employees, particularly development engineers, is intense. We may not be able to continue to attract and retain sufficient numbers of such highly skilled employees. Our inability to attract and retain additional key employees or the loss of one or more of our current key employees could adversely affect upon our business, financial condition and results of operations.

We May Not be Able to Adequately Protect or Enforce Our Intellectual Property Rights. If we are not able to adequately protect or enforce the proprietary aspects of our technology, competitors could be able to access our proprietary technology and our business, financial condition and results of operations will likely be seriously harmed. We currently

attempt to protect our technology through a combination of patent, copyright, trademark and trade secret laws, employee and third party nondisclosure agreements and similar means. Despite our efforts, other parties may attempt to disclose, obtain or use our technologies or solutions. Our competitors may also be able to independently develop products that are substantially equivalent or superior to our products or design around our patents. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the United States. As a result, we may not be able to protect our proprietary rights adequately in the United States or abroad.

We have engaged in litigation in the past and litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation may also be

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

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

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

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

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We Are Controlled by Certain of Our Officers and Directors. As of March 31, 2000, our officers and directors beneficially owned approximately 29% of the total combined voting power of the outstanding shares of our Class A common stock and Class B common stock. As a result of their stock ownership, our management will be able to significantly influence the election of our directors and the outcome of corporate actions requiring stockholder approval, such as mergers and acquisitions, regardless of how our other stockholders may vote. This concentration of voting control may have a significant effect in delaying, deferring or preventing a change in our management or change in control and may adversely affect the voting or other rights of other holders of common stock.

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

In March 1998, we adopted a stockholder rights plan and declared a dividend of preferred stock purchase rights to our stockholders. In the event a third

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

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

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

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ITEM 2. PROPERTIES.

Our headquarters and principal operations are located in Anaheim, California. In 1984, we purchased and renovated a three building complex containing approximately 257,900 square feet situated on approximately 14 acres adjacent to the Interstate 5 freeway, one block from Disneyland. Our facilities house our corporate and administrative offices (approximately 43,600 dedicated square feet), as well as the operations of Gyyr and Broadcast, (approximately 113,400 dedicated square feet), Zyfer (approximately 56,300 dedicated square feet), Mariner Networks (approximately 20,600 dedicated square feet) and Iteris (approximately 24,000 dedicated square feet).

Zyfer leases approximately 4,500 square feet of space in a manufacturing facility located in El Paso, Texas. Broadcast leases approximately 5,000 square feet in Austin, Texas primarily for service and sales support. 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. Iteris leases seven office suites representing an aggregate of approximately 25,000 square feet within the United States for its support staff and development teams.

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

ITEM 3. LEGAL PROCEEDINGS.

We brought an action against Storage Technology Corporation, commonly known as StorageTek, in the Eastern District Court of Virginia alleging that StorageTek had infringed our patent covering robotics tape cassette handling systems (United States Patent No. 4,779,151). StorageTek counterclaimed alleging that we infringed several of StorageTek's patents. Prior to trial, the court dismissed two of the infringement claims against us and the third claim was dismissed upon resolution between the parties. In October 1999, we entered into a settlement agreement with StorageTek pursuant to which we granted them a non-exclusive license of this patent and released StorageTek from past infringement and all claims to civil actions. In exchange for settlement, we received total consideration of \$100 million, of which \$80 million was paid during the fiscal year ended March 31, 2000, and \$10 million was to be paid in each of fiscal years ending March 31, 2001 and 2002. The initial cash payment of \$80 million resulted in cash proceeds to us, net of expenses and fees, of approximately \$38.4 million. In June 2000, we amended the settlement agreement with StorageTek to provide for the acceleration of the \$10 million payments. Under the terms of the amendment, StorageTek paid us \$17.8 million immediately in full settlement of the \$20 million otherwise due to us to complete the settlement.

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

None.

PART II

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

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

	Class A Common Stock		Class B Common Stock	
	High	Low	High	Low
Fiscal Year Ended March 31, 1999				
First Quarter.....	\$ 17 1/8	\$ 8 3/8	\$ 17	\$ 9
Second Quarter.....	13 5/8	4 5/8	14 1/4	5
Third Quarter.....	8 3/4	4 1/16	9 5/8	4
Fourth Quarter.....	10 5/8	7 1/16	10 3/4	7 3/8
Fiscal Year Ended March 31, 2000				
First Quarter.....	10 1/4	7 5/8	10 5/8	8 1/4
Second Quarter.....	13	9 1/8	12 1/8	9 1/8
Third Quarter.....	15 1/2	10 1/8	15 5/8	10 3/8
Fourth Quarter.....	29 7/16	12	29 5/8	13
Fiscal Year Ending March 31, 2001				
First Quarter (through June 26, 2000).....	15	8 7/8	14 1/2	10

As of June 26, 2000, we had 627 holders of record of Class A common stock and 141 holders of record of Class B common stock according to information furnished by our transfer agent.

Dividend Policy

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

Recent Sales of Unregistered Securities

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

In October, 1998, Iteris acquired Meyer, Mohaddes Associates, Inc. in exchange for 55,245 shares of our Class A common stock. Pursuant to the terms of the merger agreement, we issued an aggregate of 46,726 additional shares of our Class A Common Stock in fiscal 1999 and an additional 20,181 shares of our Class A Common Stock in April 2000 to the four former shareholders of Meyer, Mohaddes as a penalty for not completing the initial public offering of Iteris.

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

foregoing transactions.

ITEM 6. SELECTED FINANCIAL DATA.

The following selected consolidated financial data with respect to our consolidated statement of operations for each of the five fiscal years in the period ended March 31, 2000 and the consolidated balance sheet data at March 31, 1996, 1997, 1998, 1999 and 2000 are derived from our audited consolidated financial statements. The consolidated financial statements for the fiscal years ended March 31, 1996 and 1997 and our consolidated balance sheet at March 31, 1996, 1997 and 1998 are not included in this report. The following information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with our consolidated financial statements and the related notes thereto included elsewhere in this report.

	Fiscal Year Ended March 31,				
	1996	1997	1998	1999	2000
(in thousands, except per share data)					
Consolidated Statement of Operations Data:					
Net sales.....	\$65,056	\$71,748	\$ 79,552	\$ 70,042	\$ 62,041
Contract revenues.....	10,161	9,032	10,284	13,331	18,666
Total net sales and contract revenues.....	75,217	80,780	89,836	83,373	80,707
Cost of sales.....	44,535	48,507	55,227	49,816	50,883
Cost of contract revenues.....	4,374	4,907	6,430	9,007	13,431
Selling, general and administrative expense.....	15,620	19,831	26,010	31,670	38,173
Research and development expenses.....	5,242	7,734	9,271	11,191	16,888
In process research and development.....	--	--	2,106	--	--
Restructuring charge.....	--	--	1,716	--	--
Income (loss) from operations..	5,446	(199)	(10,924)	(18,311)	(38,668)
Non-operating income (expense)					
Royalty income.....	--	--	--	--	38,437
Interest expense, net.....	(386)	(183)	(617)	(1,807)	(2,048)
Income (loss) before taxes.....	5,060	(382)	(11,541)	(20,118)	(2,279)
Income taxes (benefit).....	1,418	(181)	(2,858)	--	--
Income (loss) from continuing operations.....	3,642	(201)	(8,683)	(20,118)	(2,279)
Income (loss) from discontinued operations, net of income taxes.....	(1,189)	3,931	2,089	--	--
Net income (loss).....	\$ 2,453	\$ 3,730	\$ (6,594)	\$ (20,118)	\$ (2,279)
Diluted earnings (loss) per share(1):					
Continuing operations.....	\$ 0.59	\$ (0.03)	\$ (1.26)	\$ (2.57)	\$ (0.25)
Discontinued operations.....	(0.19)	0.62	0.31	--	--
Earnings (loss) per share.....	\$ 0.40	\$ 0.59	\$ (0.95)	\$ (2.57)	\$ (0.25)
Shares used in calculating diluted earnings (loss) per share.....	6,179	6,299	6,912	7,820	9,089

(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.

	Fiscal Year Ended March 31,				
	1996	1997	1998	1999	2000
(in thousands)					
Consolidated Balance Sheet Data:					

Working capital.....	\$20,610	\$21,903	\$19,996	\$ 15,216	\$ 12,855
Total assets.....	73,013	85,805	88,790	81,355	81,850
Long-term debt (less current portion) ..	22,019	11,860	21,000	19,962	11,666
Retained earnings (deficit).....	8,481	12,211	(3,795)	(23,913)	(26,192)
Total stockholders' equity.....	30,985	51,828	38,580	36,323	36,110

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

Results of Operations

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

	As of March 31,		
	1998	1999	2000
Net sales.....	88.6%	84.0%	76.9%
Contract revenues.....	11.4	16.0	23.1
Total net sales and contract revenues.....	100.0%	100.0%	100.0%
Cost of sales.....	61.4	59.7	63.0
Cost of contract revenues.....	7.2	10.8	16.6
Selling, general and administrative expenses....	29.0	38.0	47.3
Research and development expenses.....	10.3	13.4	20.9
In process research and development.....	2.3	--	--
Restructuring charge.....	1.9	--	--
Loss from operations.....	(12.2)	(22.0)	(47.9)
Non-operating income (expense)			
Royalty income.....	--	--	47.6
Interest expense, net.....	(0.7)	(2.1)	(2.5)
Loss before taxes.....	(12.9)	(24.1)	(2.8)
Income taxes (benefit).....	(3.2)	--	--
Loss from continuing operations.....	(9.7)	(24.1)	(2.8)
Income from discontinued operations, net of income taxes.....	2.4	--	--
Net loss.....	(7.3)%	(24.1)%	(2.8)%

General. We define our business segments as video products, telecom products and ITS. The video products segment includes our wholly-owned subsidiaries, Broadcast, Inc. and Gyr, Inc. The telecom products segment includes Zyfer, Inc., our wholly-owned subsidiary (formerly known as our Communications division) that manufactures timing and synchronization products, and Mariner Networks, Inc., our wholly-owned subsidiary. The ITS segment includes Odetics' 93% owned subsidiary, Iteris, Inc. On October 31, 1997, we completed the spin-off of our 82.9% interest in ATL Products, Inc. by distributing our 8,005,000 shares of Class A common stock to our stockholders of record on October 31, 1997. In connection with the spin-off, we restated our financial statements to reflect continuing and discontinued operations. Discontinued operations reflect our interest in the operations of ATL for all periods presented. All references to our subsidiaries in this report include the prior business and results of operations of such subsidiaries as business units of Odetics prior to their incorporation.

Net Sales and Contract Revenues. Net sales and contract revenues consist of (i) sales of products and services to commercial and municipal customers ("net sales") and (ii) revenues derived from contracts with state, county and

municipal agencies for intelligent transportation systems projects ("contract revenues"). Contract revenues also include revenue from contracts with agencies of the United States Government and foreign entities for space-borne recorders

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used for geographical information systems. Total net sales and contract revenues decreased 3.2% to \$80.7 million for the fiscal year ended March 31, 2000 ("fiscal 2000") compared to \$83.4 million for the fiscal year ended March 31, 1999 ("fiscal 1999"), and decreased 7.2% in fiscal 1999 from \$89.8 million for the fiscal year ended March 31, 1998 ("fiscal 1998").

Net Sales. Net sales decreased 11.4% to \$62.0 million in fiscal 2000 compared to \$70.0 million in fiscal 1999 as a result of declining sales in Broadcast, Mariner Networks and Gyr. The decrease in Broadcast sales in fiscal 2000 reflects delays in the delivery of our Roswell facility management system. We believe that the Roswell system represents key enabling software that facilitates the sale of Broadcast systems. The decline in Mariner Networks' sales reflects the loss in August 1999 of IBM as a significant OEM customer of its Fraim Product family. Gyr's revenues declined 6.1% in fiscal 2000 compared to fiscal 1999 primarily as a result of declining sales of its analog based time-lapse recorder product families. Gyr has made substantial investments in expanding its product line to include a broad family of integrated security solutions, including the acquisition of a line of digital time-lapse recorders. This product line expansion was the result of our acquisition of the Security Products Division of Digital Systems Processing, Inc. Contributions of revenue in fiscal 2000 from the expanded product offerings were not significant enough to offset the declining revenues from analog-based time-lapse recorders.

Net sales decreased 12.0% to \$70.0 million in fiscal 1999 compared to \$79.6 million in fiscal 1998 as a result of a 10.2% decrease in Gyr's sales and a 58.6% decrease in Zypher's sales. The decrease in Gyr's sales reflects reduced purchases by certain of its OEM customers who sell to the banking industry segment of the electronic security market. This market segment has undergone substantial consolidation in the current fiscal year that has negatively impacted demand for certain of our products including video multiplexers and time-lapse video tape decks. The decrease in sales in our telecom products segment reflects a decrease in sales by Zyfer of timing and synchronization products to LGIC of Korea, a significant customer. The decline in sales to this customer largely reflects adverse economic conditions in Asia. Sales by Iteris increased 360.0% in fiscal 1999 compared to fiscal 1998 partially offsetting the decline in sales of Gyr and Zyfer. The increase in Iteris' sales was primarily the result of increasing market acceptance of our Vantage line of video-based traffic intersection control systems. We also experienced a 140% increase in Mariner Networks' sales in fiscal 1999 compared to fiscal 1998 primarily due to increased sales of network interface products. Sales of Mariner Networks products represented 2.0% of our total net sales and contract revenues in fiscal 1998 compared to 6.0% in fiscal 1999. During fiscal 1999, Broadcast sales were relatively flat compared to fiscal 1998.

Contract Revenues. Contract revenues increased 40.0% to \$18.7 million in fiscal 2000 compared to \$13.3 million in fiscal 1999, and increased 29.6% in fiscal 1999 from \$10.3 million in fiscal 1998. The growth in contract revenues in fiscal 2000 compared to fiscal 1999 primarily reflects increased contract volume in our Iteris subsidiary. During fiscal 1999, Iteris completed the acquisition of Meyer Mohaddes Associates, Inc. and the assets of Viggen Corporation. In fiscal 2000 compared to fiscal 1999, Iteris experienced a 59% growth in contract revenues in Meyer Mohaddes Associates Inc., a 34% growth in contact revenues related to its acquisition of Viggen's assets, and a 37% growth in its base business of contracts.

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Approximately one-half of the increase in contract revenues in fiscal 1999 compared to fiscal 1998 resulted from the acquisition of Meyer Mohaddes. The balance of the increase in contract revenues in fiscal 1999 represents overall increased contract volume in Iteris. The increases in Iteris' contract revenues in both fiscal 2000 and fiscal 1999 were offset by continued declines in contract revenues derived from the sale of space-borne recorders and related service and equipment to agencies of the United States Government. We have focused our recent contract procurement efforts on commercial markets and the markets for Iteris' products and services.

Gross Profit. Total gross profit as a percent of net sales and contract revenues decreased to 20.3% in fiscal 2000, compared to 29.4% in fiscal 1999, and 31.4% in fiscal 1998. Gross profit as a percent of net sales decreased to 18.0% in fiscal 2000 compared to 28.9% in fiscal 1999. The decrease in gross profit as a percent of net sales reflects lower sales levels and higher unabsorbed manufacturing costs in Video Products and Telecom Products. Gross profit performance in fiscal 2000 was negatively impacted by pricing concessions to certain customers in our Broadcast business. During fiscal 2000 gross profit was impaired due to our adjustments to inventory reserves and capitalized software related to certain discontinued products and product options in our Mariner Networks, Broadcast and Gyr businesses. As a result of increasing sales volume, we experienced improved gross profit performance during fiscal 2000 on sales of Vantage Product by our Iteris subsidiary.

Gross profit as a percent of contract revenues decreased to 28.0% in fiscal 2000 compared to 32.4% in fiscal 1999. Contract revenue derived from our Iteris subsidiary comprised 83.5% of total contract revenue in fiscal 2000 compared to 64.9% of total contract revenue in fiscal 1999. Gross profit earned on Iteris' contracts activity is generally lower than gross profit historically earned by Odetics on other government contract activities.

The decrease in gross profit in fiscal 1999 compared to fiscal 1998 reflects decreased gross profit performance in Broadcast and Zyfer. The decrease in gross profit in Broadcast resulted from an unfavorable sales mix of low margin product sales in the fourth quarter of fiscal 1999, in addition to an increase in charges for warranty liabilities that are included in cost of sales. Gross profit in Zyfer decreased from 46.5% of sales in fiscal 1998 to 36.7% of sales in fiscal 1999, as a result of the decline in sales to LGIC of Korea.

Selling, General and Administrative Expense. Selling, general and administrative expense increased 20.5% to \$38.2 million (or 47.2% of total net sales and contract revenues) in fiscal 2000 compared to \$31.7 million (or 38.0% of total net sales and contract revenues) in fiscal 1999, and increased 21.8% in fiscal 1999 compared to \$26.0 million (or 29.0% of total net sales and contract revenues) in fiscal 1998. During fiscal 2000, we increased expenditures for sales and marketing and general and administrative expenses in Mariner Networks, Iteris and Broadcast. Concurrent with the completion of development of Mariner Networks' Dexter product and its progression to beta testing, we began building additional sales and marketing and administrative functions to support anticipated revenue growth. During fiscal 2000, we attempted to execute a public offering of Iteris. As a result of the volatility of the public equity markets, we aborted the planned initial public offering and in May 2000, withdrew the Registration Statement on Form S-1. In preparation for the initial public offering of Iteris, we

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increased expenditures for sales and marketing and general and administrative expenses to enable Iteris to execute on its aggressive growth plans and to function as an independent public company. As part of the process of filing a Registration Statement on Form S-1 for Iteris with the Securities and Exchange Commission, we adjusted the amortization periods for goodwill that arose upon the acquisition of the assets of the Transportation Systems business of Rockwell, and Meyer, Mohaddes Associates, Inc. The effect of the adjustment was an incremental charge to amortization expense of \$887,000 during fiscal 2000. Iteris also experienced increased sales and marketing, and general and administrative expenses as a result of its acquisitions of Meyer Mohaddes Associates in October 1998, and of certain assets of Viggen Corporation in January 19, 1999. The increase in selling, general and administrative expense in fiscal 2000 also reflects charges of approximately \$500,000 for adjustment to the allowance for doubtful accounts in Broadcast.

During fiscal 1999, we increased sales and marketing expenditures \$3.9 million or 20.7% over fiscal 1998 levels. Sales and marketing expense increased in our Iteris, Gyr, Broadcast and Mariner Networks businesses in fiscal 1999. Approximately \$514,000 of the increase in fiscal 1999 was attributable to Meyer Mohaddes, which was acquired by Iteris in October 1998. The other increases in spending were incurred to support planned growth in sales and market share and were incurred principally in the areas of labor and benefits, sales commissions, advertising and promotions, and charges related to support increased presence in international markets, particularly Europe. These increases were partially offset by decreased spending in Zyfer, which enforced general spending cutbacks in response to the sharp reduction in sales in fiscal 1999 accompanying the Asian economic crisis. General and administrative expense increased \$1.2

million in fiscal 1999 compared to fiscal 1998 primarily as a result of the write off of deferred costs associated with our delay in the initial public offering of Iteris, an increase in goodwill amortization as a result of the acquisitions of Meyer Mohaddes Associates and International Media Integration Services, and the administrative infrastructure that accompanied the acquisition of Meyer Mohaddes Associates.

Research and Development Expense. Research and development expense increased 50.9% to \$16.9 million (or 20.9% of total net sales and contract revenues) in fiscal 2000 compared to \$11.2 million (or 13.4% of total net sales and contract revenues) in fiscal 1999, and increased 20.7% in fiscal 1999 compared to \$9.3 million (or 10.3% of total net sales and contract revenues) in fiscal 1998. For competitive reasons, we closely guard the confidentiality of specific development projects. During fiscal 1999, \$2.8 million of development costs for Roswell and \$2.1 million of development costs for Dexter were capitalized as qualified software development costs. The increase in research and development expense in fiscal 2000 also reflects increased expenditures by Iteris, Broadcast and Mariner Networks. Iteris increased its development activities 72.1% during fiscal 2000 to support its AutoVue product development. Broadcast continued to aggressively develop its Roswell facility management system and completed the development of its MicroStation product offering. All software development activities for Broadcast during fiscal 2000 were charged as research and development expense. Mariner Networks capitalized \$300,000 of software development costs in fiscal 2000, significantly expanded its product development team and increased research and development expenses 223.9% during fiscal 2000 compared to fiscal 1999 to support the completion of its development schedule for Dexter in order to meet a targeted beta release of the product in the first quarter of fiscal 2001. Gyyr reduced its expenses for product development

27.6% in fiscal 2000 compared to fiscal 1999 in response to its efforts to reduce overall operating expenses and because it had completed several development initiatives as of the end of fiscal 1999. The change in Zyfer's product development expenses in fiscal 2000 compared to fiscal 1999 was not significant.

The increase in research and development expense in fiscal 1999 compared to fiscal 1998 principally reflects increased product development activity in Gyyr, Mariner Networks and Zyfer. Most of these increases represent engineering labor and related benefits, prototype material and consulting fees. Gyyr completed an aggressive product development schedule during fiscal 1999 intended to broaden its product family beyond time-lapse video recorders. During fiscal 1999, Gyyr introduced its Vortex family of domes for facility monitoring, expanded its video multiplexer product line, and launched a new Internet based security product called Tango. Mariner Networks added substantial investment in the development of Dexter, a broadband wide area access concentrator. Mariner Networks also invested development resources in FRAIM, an extension to its family of products offering Frame Relay to ATM communications. Zyfer also experienced increased development costs related to its high performance G.P.S. based synchronization product.

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

Royalty Income. In connection with the settlement of our action against StorageTek, we received proceeds, net of expenses and fees, of approximately \$38.4 million in October 1999. Under our revised settlement agreement with StorageTek, we received an additional \$17.8 million in June 2000 in full settlement of the amounts due to us. See Item 3. Legal Proceedings.

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

	Year Ended March 31,		
	1998	1999	2000
Interest expense.....	\$1,609	\$1,928	\$2,313
Interest income.....	992	121	265

	-----	-----	-----
Interest expense, net....	\$ 617	\$1,807	\$2,048
	=====	=====	=====

Interest expense increased 20.0% in fiscal 2000 compared to fiscal 1999, and decreased 19.8% in fiscal 1999 compared to fiscal 1998. Interest expense primarily reflects interest charges on Odetics line of credit borrowings and mortgage interest. The increase in fiscal 2000 represents increased average outstanding borrowings on our line of credit to fund negative operating cash flow. Interest income in fiscal 2000 primarily related to interest earned on invested cash received from our settlement with StorageTek. Interest income in fiscal 1999 and

fiscal 1998 was derived primarily from a note receivable due from ATL Products, Inc., our former subsidiary. ATL repaid in full the outstanding balance of its note receivable in July 1998.

In-Process Research and Development. In the fourth quarter of fiscal 1998, we completed the purchase price allocation related to our acquisition of Intelligent Controls and determined that \$2.1 million of the purchase price was attributable to the value of research and development activities in process at the date of acquisition, constituting the development of an integrated building access and security system that Gyyr began selling in the latter part of fiscal 1999 as the Access 202 product family. In accordance with the provisions of FASB Statement No. 2, "Accounting for Research and Development Costs," we recorded a charge in fiscal 1998 for this in-process research and development. Subsequent to this acquisition, we incurred an additional \$94,000 and \$469,000 of research and development expense in fiscal 1998 and 1999, respectively, related to this product development effort.

Income Taxes. We have not provided income tax benefit for the losses incurred in fiscal 2000 and 1999 due to the uncertainty as to the ultimate realization of the benefit. We provided for a tax benefit from continuing operations at an effective rate of (24.8)% in fiscal 1998. The tax benefit recorded in 1998 was less than the statutory rate because no benefit was recorded in connection with \$2.1 million write-off of purchased research and development expenses associated with the acquisition of Intelligent Controls, a reduction in the benefit of general business credits on total expense, and foreign losses recorded in Singapore for which no tax benefit was recognized.

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

Liquidity and Capital Resources

Odetics serves as an incubator of high technology companies, each with its own marketplace, customers and products. The process of incubating companies implies a potentially high investment of cash as each entity moves through its development stage in preparation for an initial public offering or a strategic sale. We generally fund the cash flow requirements of each entity by seeking investors who have both strategic and financial interests directly in the subsidiaries of Odetics. We also fund our operations through the sale of Odetics common stock and more traditional debt financing.

During fiscal 2000, net cash provided by operating activities was \$7.0 million. Cash used to fund purchases of property plant and equipment was \$2.2 million, reflecting a decrease of 21.0% from fiscal 1999. Net cash provided by operating activities in fiscal 2000 included the receipt of \$38.4 million from our settlement of litigation with Storage Technology Corporation ("StorageTek").

In October 1999, we settled litigation with StorageTek in exchange for license fees payable to us of \$100 million, \$80 million of which was paid on the settlement date. The initial

payment of \$80 million resulted in cash proceeds to us, net of expenses and

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

ITEM 11. EXECUTIVE COMPENSATION.

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

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

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

PART IV

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

(a) Documents filed as part of this report:

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

	Page

Report of Independent Auditors.....	F-2
Consolidated Balance Sheets as of March 31, 2000 and 1999.....	F-3
Consolidated Statements of Operations for the years ended March 31, 2000, 1999 and 1998.....	F-4
Consolidated Statements of Stockholders' Equity for the years ended March 31, 2000, 1999 and 1998.....	F-5
Consolidated Statements of Cash Flows for the years ended March 31, 2000, 1999 and 1998.....	F-6
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2. Financial Statement Schedules.	
Schedule II -- Valuation and Qualifying Accounts.....	S-1

All other schedules have been omitted because they are not required or the required information is included in our consolidated financial statements and notes thereto.

3. Exhibits.

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

- 10.1 Profit Sharing Plan and Trust (incorporated by reference to Exhibit 10.3 to Odetics' Amendment No. 2 to the Registration Statement on Form S-8 (Reg. No. 002-98656) as filed with the SEC on May 5, 1988).
- 10.2 Form of Executive Deferral Plan between Odetics and certain employees of Odetics (incorporated by reference to Exhibit 10.4 to Odetics' Annual Report on Form 10-K for the year ended March 31, 1988).
- 10.3* Loan and Security Agreement dated December 28, 1998 among Transamerica Business Credit Corporation, Odetics and the subsidiaries of Odetics, and Schedule to Loan Agreement (incorporated by reference to the same exhibit number in Odetics' Annual Report on Form 10-K for the year ended March 31, 1999).

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- 10.4* Amendment to Loan Agreement dated December 28, 1998 among Transamerica Business Credit Corporation, Odetics and the subsidiaries of Odetics, and related Schedule to Loan Agreement dated December 28, 1998 (incorporated by reference to the same exhibit number in Odetics' Annual Report on Form 10-K for the year ended March 31, 1999).
- 10.5* Revolving Credit Note dated December 28, 1998 payable to Transamerica Business Credit Corporation in the original principal amount of \$17,000,000 (incorporated by reference to the same exhibit number in Odetics' Annual Report on Form 10-K for the year ended March 31, 1999).
- 10.6* Letter of Credit Agreement dated December 28, 1998 among Transamerica Business Credit Corporation, Odetics and the subsidiaries of Odetics (incorporated by reference to the same exhibit number in Odetics' Annual Report on Form 10-K for the year ended March 31, 1999).
- 10.7* Security Agreement in Copyrighted Works dated December 28, 1998 between Transamerica Business Credit Corporation and Odetics (incorporated by reference to the same exhibit number in Odetics' Annual Report on Form 10-K for the year ended March 31, 1999).
- 10.8* Patent and Trademark Security Agreement dated December 28, 1998 between Transamerica Business Credit Corporation and Odetics (incorporated by reference to the same exhibit number in Odetics' Annual Report on Form 10-K for the year ended March 31, 1999).
- 10.9* Cross-Corporate Continuing Guaranty dated December 28, 1998 among Transamerica Business Credit Corporation, Odetics and the subsidiaries of Odetics (incorporated by reference to the same exhibit number in Odetics' Annual Report on Form 10-K for the year ended March 31, 1999).
- 10.10 Form of Indemnity Agreement entered into by Odetics and certain of its officers and directors (incorporated by reference to Exhibit 19.4 to Odetics' Quarterly Report on Form 10-Q for the quarter ended September 30, 1988).
- 10.11 Schedule of officers and directors covered by Indemnity Agreement (incorporated by reference to Exhibit 10.9.2 to Amendment No. 1 to Odetics' Registration Statement on Form S-1 (Reg. No. 033-67932) as filed with the SEC on July 6, 1993).
- 10.12 Amendment Nos. 3 and 4 to the Profit Sharing Plan and Trust (incorporated by reference to Exhibits 4.3.1 and 4.3.2, respectively, to Amendment No. 3 to Odetics' Registration Statement on Form S-3 (Reg. No. 002-86220) as filed with the SEC on June 13, 1990).
- 10.13 Separation and Distribution Agreement dated March 1, 1997 between Odetics and ATL (incorporated by reference to Exhibit 10.13 to Odetics' Annual Report on Form 10-K for the year ended March 31, 1997).
- 10.14 Tax Allocation Agreement dated March 1, 1997 between Odetics and ATL (incorporated by reference to Exhibit 10.14 to Odetics' Annual Report on Form 10-K for the year ended March 31, 1997).
- 10.15 Services Agreement dated March 21, 1997 between Odetics and ATL (incorporated by reference to Exhibit 10.15 to Odetics' Annual Report on Form 10-K for the year ended March 31, 1997).
- 10.16 Promissory Note dated April 1, 1997 between Odetics and ATL (incorporated by reference to Exhibit 10.16 to Odetics' Annual Report on Form 10-K for the year ended March 31, 1997).
- 10.17 1997 Stock Incentive Plan of Odetics (incorporated by reference to Exhibit 99.1 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998).
- 10.18 Form of Notice of Grant of Stock Option (incorporated by reference

- to Exhibit 99.2 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998)
- 10.19 Form of Stock Option Agreement (incorporated by reference to Exhibit 99.3 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998).
- 10.20 Form of Addendum to Stock Option Agreement--Involuntary Termination Following Corporate Transaction/Change in Control (incorporated by reference to Exhibit 99.4 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998).

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- 10.21 Form of Addendum to Stock Option Agreement--Limited Stock Appreciation Rights (incorporated by reference to Exhibit 99.5 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998).
- 10.23 Form of Stock Issuance Agreement (incorporated by reference to Exhibit 99.6 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998)
- 10.24 Form of Addendum to Stock Issuance Agreement--Involuntary Termination Following Corporate Transaction/Change in Control (incorporated by reference to Exhibit 99.7 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998).
- 10.25 Form of Notice of Grant of Automatic Stock Option--Initial Grant filed as Exhibit 99.8 filed as Exhibit (incorporated by reference to Exhibit 99.8 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998).
- 10.26 Form of Notice of Grant of Automatic Stock Option--Annual Grant (incorporated by reference to Exhibit 99.9 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998).
- 10.27 Form of Automatic Stock Option Agreement filed as Exhibit 99.10 to the (incorporated by reference to Exhibit 99.10 to Odetics' Registration Statement on Form S-8 (File No. 333-44907) as filed with the SEC on January 26, 1998).
- 10.28 Rights Agreement dated April 24, 1998 between Odetics and BankBoston, N.A., which includes the form of Certificate of Designation for the junior participating preferred stock as Exhibit A, the form of rights certificate as Exhibit B and the summary of rights to purchase Series A preferred shares as Exhibit C (incorporated by reference to Exhibit 4 to Odetics' Current Report on Form 8-K as filed with the SEC on May 1, 1998).
- 10.29 Promissory Note in the original principal amount of \$15,000,000 payable to The Northwestern Mutual Life Insurance Company dated October 31, 1989 and related Deed of Trust, Security Agreement and Financing Statement between Odetics, Inc. and Northwestern Mutual dated October 31, 1989 (incorporated by reference to Exhibit 10.12 to Odetics' Registration Statement on Form S-1 (Reg. No. 033-67932) as filed with the SEC July 6, 1993).
- 10.30 1994 Long-Term Equity Plan of Odetics (incorporated by reference to Exhibit 4.3 to Odetics' Registration Statement on Form S-8 (File No. 333-05735) as filed with the SEC on June 11, 1996).
- 10.31 Subordinated Convertible Note Purchase Agreement between Iteris, Inc. and DaimlerChrysler GmbH, dated January 25, 2000.
- 10.32 Subordinated Convertible Note between Iteris, Inc. and DaimlerChrysler GmbH, dated January 25, 2000.
- 21 Subsidiaries of Odetics.
- 23.1 Consent of Independent Auditors.
- 27 Financial Data Schedule.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Anaheim, State of California, on June 29, 2000.

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, 2000
/s/ CRANDALL GUDMUNDSON ----- Crandall Gudmundson	Director	June 29, 2000
/s/ JERRY MUENCH ----- Jerry Muench	Director	June 29, 2000
KEVIN C. DALY ----- Kevin C. Daly	Director	June 29, 2000

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Signature -----	Title -----	Date -----
/s/ GARY SMITH ----- Gary Smith	Vice President and Controller (principal accounting officer)	June 29, 2000
/s/ THOMAS L. THOMAS ----- Thomas L. Thomas	Director	June 29, 2000
/s/ JOHN SEAZHOLTZ ----- John Seazholtz	Director	June 29, 2000
/s/ PAUL E. WRIGHT ----- Paul E. Wright	Director	June 29, 2000

Gregory A. Miner

Odetics, Inc.

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Report of Independent Auditors

Stockholders and Board of Directors
Odetics, Inc.

We have audited the accompanying consolidated balance sheets of Odetics, Inc. as of March 31, 1999 and 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2000. 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 auditing standards generally accepted in the United States. 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, 1999 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2000, in conformity with accounting principles generally accepted in the United States. 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 15, 2000,
except for the last paragraph of Note 15,
as to which the date is June 12, 2000

Odetics, Inc.

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

	March 31	
	1999	2000

Assets		
Current assets:		
Cash and cash equivalents	\$ 787	\$ 4,880
Trade accounts receivable, net of allowance for doubtful accounts of \$839 in 1999 and \$2,068 in 2000	18,889	13,576
Costs and estimated earnings in excess of billings on uncompleted contracts	2,423	3,283
Inventories:		
Finished goods	1,101	1,203
Work in process	749	859
Materials and supplies	14,135	16,150
Prepaid expenses and other	2,202	1,978

Total current assets	40,286	41,929
Property, plant and equipment:		
Land	2,060	2,060
Buildings and improvements	18,674	18,868
Equipment	28,618	30,652
Furniture and fixtures	2,685	2,676
Allowances for depreciation	(29,561)	(33,520)

	22,476	20,736
Capitalized software costs, net	7,667	6,482
Goodwill, net of accumulated amortization of \$1,046 in 1999 and \$2,723 in 2000	10,023	12,004
Other assets	903	699

Total assets	\$ 81,355	\$ 81,850
	=====	

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Odetics, Inc.

Consolidated Balance Sheets (continued)

(In thousands, except share and per share amounts)

	March 31	
	1999	2000

Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	\$ 10,454	\$ 10,702
Accrued payroll and related	5,441	4,892
Accrued expenses	1,933	2,313
Contract reserve	3,892	3,056
Billings in excess of costs and estimated earnings on uncompleted contracts	1,276	1,303
Revolving line of credit	-	3,706
Current portion of long-term debt	2,074	3,102

Total current liabilities	25,070	29,074
Revolving line of credit	10,997	-
Long-term debt, less current portion	8,965	11,666

Other liabilities	-	5,000
Commitments and contingencies		
Stockholders' equity:		
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 - 7,941,271 of Class A and 1,060,041 of Class B at March 31, 1999; 8,183,470 of Class A and 1,051,541 of Class B at March 31, 2000	901	923
Paid-in capital	59,579	61,200
Treasury stock, 50,093 and 4,564 shares in 1999 and 2000, respectively	(240)	(22)
Notes receivable from employees	(96)	(61)
Accumulated other comprehensive income	92	262
Accumulated deficit	(23,913)	(26,192)
	-----	-----
Total stockholders' equity	36,323	36,110
	-----	-----
Total liabilities and stockholders' equity	\$ 81,355	\$ 81,850
	=====	=====

See accompanying notes.

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Odetics, Inc.

Consolidated Statements of Operations

(In thousands, except per share information)

	Year ended March 31		
	1998	1999	2000
Net sales and contract revenues:			
Net sales	\$ 79,552	\$ 70,042	\$ 62,041
Contract revenues	10,284	13,331	18,666
	-----	-----	-----
	89,836	83,373	80,707
Costs and expenses:			
Cost of sales	55,227	49,816	50,883
Cost of contract revenues	6,430	9,007	13,431
Selling, general and administrative expenses	26,010	31,670	38,173
Research and development expenses	9,271	11,191	16,888
In process research and development	2,106	-	-
Restructuring charge	1,716	-	-
	-----	-----	-----
	100,760	101,684	119,375
Loss from operations	(10,924)	(18,311)	(38,668)
Non-operating income (expense)			
Royalty income	-	-	38,437
Interest expense, net	(617)	(1,807)	(2,048)
	-----	-----	-----
Loss before taxes	(11,541)	(20,118)	(2,279)
Income tax benefit	(2,858)	-	-
	-----	-----	-----
Loss from continuing operations	(8,683)	(20,118)	(2,279)
Income from discontinued operations, net of income taxes	2,089	-	-
	-----	-----	-----
Net loss	\$ (6,594)	\$ (20,118)	\$ (2,279)
	=====	=====	=====
Basic and diluted loss per share:			

Continuing operations	\$ (1.26)	\$ (2.57)	\$ (0.25)
Discontinued operations	.31	-	-
	-----	-----	-----
Loss per share	\$ (.95)	\$ (2.57)	\$ (0.25)
	=====	=====	=====

See accompanying notes.

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Odetics, Inc.

Consolidated Statements of Stockholders' Equity

(In thousands)

	Common stock			Additional Paid-in capital	Treasury stock	Notes receivable from employees	Accumulative other Comprehensive income	Accumulated deficit	Total	Compre- -hensive income
	Class A common stock	Class B common stock	Amount							
Balance at March 31, 1997	5,316	1,064	\$638	\$38,927	\$ -	\$ -	\$ 52	\$12,211	\$ 51,828	\$ 3,792
Issuances of common stock	885	-	88	7,968	-	(3,377)	-	-	4,679	-
Conversion of Class B common stock	2	(2)	-	-	-	-	-	-	-	-
Spin-off of ATL Products, Inc. common stock	-	-	-	(1,655)	-	-	-	(9,412)	(11,067)	-
Purchase of treasury stock	-	-	-	-	(239)	-	-	-	(239)	-
Foreign currency translation adjustments	-	-	-	-	-	-	(27)	-	(27)	(27)
Net loss	-	-	-	-	-	-	-	(6,594)	(6,594)	(6,594)
Balance at March 31, 1998	6,203	1,062	726	45,240	(239)	(3,377)	25	(3,795)	38,580	\$ (6,621)
Issuances of common stock	1,736	-	175	14,339	-	-	-	-	14,514	-
Conversion of Class B common stock	2	(2)	-	-	-	-	-	-	-	-
Purchase of treasury stock	-	-	-	-	(1)	-	-	-	(1)	-
Payments on notes receivable	-	-	-	-	-	3,281	-	-	3,281	-
Foreign currency translation adjustments	-	-	-	-	-	-	67	-	67	67
Net loss	-	-	-	-	-	-	-	(20,118)	(20,118)	(20,118)
Balance at March 31, 1999	7,941	1,060	901	59,579	(240)	(96)	92	(23,913)	36,323	(20,051)
Issuances of common stock	234	-	22	1,621	218	-	-	-	1,861	-
Conversion of Class B common stock	8	(8)	-	-	-	-	-	-	-	-
Payments on notes receivable	-	-	-	-	-	35	-	-	35	-
Foreign currency translation adjustments	-	-	-	-	-	-	170	-	170	170
Net loss	-	-	-	-	-	-	-	(2,279)	(2,279)	(2,279)
Balance at March 31, 2000	8,183	1,052	\$923	\$61,200	\$ (22)	\$ (61)	\$262	\$ (26,192)	\$ 36,110	\$ (2,109)

See accompanying notes.

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Odetics, Inc.

Consolidated Statements of Cash Flows

(In thousands)

	Year ended March 31		
	1998	1999	2000
Operating activities			
Net loss	\$ (6,594)	\$ (20,118)	\$ (2,279)
Adjustments to reconcile net loss to net cash used in operating activities:			
Income from discontinued operations	(2,089)	-	-
Depreciation and amortization	2,912	5,205	7,185
Write-off of in process research and development	2,106	-	-
Contribution to ASOP	511	-	-
Provision for losses on accounts receivable	155	332	745
Provision (benefit) for deferred income taxes	(902)	915	-

Other	(11)	-	213
Changes in operating assets and liabilities (Note 14)	(1,462)	1,560	1,179
Net cash provided by (used in) operating activities	(5,374)	(12,106)	7,043
Investing activities			
Purchases of property, plant and equipment	(3,829)	(2,747)	(2,169)
Proceeds from option to sell real estate	-	-	5,000
Software development costs	(2,527)	(4,944)	(330)
Purchase of net assets of acquired business	(2,171)	-	(1,500)
Net cash received from ATL	2,978	10,019	-
Net cash provided by (used in) investing activities	(5,549)	2,328	1,001
Financing activities			
Proceeds from line of credit and long-term borrowings	49,176	44,527	23,966
Principal payments on line of credit, long-term debt, and capital lease obligations	(40,159)	(45,089)	(29,528)
Proceeds from issuance of common stock	1,172	9,996	1,611
Net cash provided by (used in) financing activities	10,189	9,434	(3,951)
Increase (decrease) in cash	(734)	(344)	4,093
Cash and cash equivalents at beginning of year	1,865	1,131	787
Cash and cash equivalents at end of year	\$ 1,131	\$ 787	\$ 4,880

See accompanying notes.

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Odetics, Inc. and Subsidiary

Notes to Consolidated Financial Statements

March 31, 2000

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 wholly-owned subsidiaries (Gyyr, Inc., Broadcast, Inc., Mariner Networks, Inc., Zyfer, Inc., Odetics Europe Limited, Odetics Asia Pacific Pte. Ltd.) and its 93% owned subsidiary, Iteris, Inc. During fiscal 1990, the Company incorporated Odetics Europe Limited to develop European commercial sales. During fiscal 1995, the Company incorporated Odetics Asia Pacific Pte. Ltd. to develop commercial sales for the Asian Market. All significant intercompany accounts and transactions are eliminated in consolidation.

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

Operations

The Company has initiated a business strategy known as its incubator strategy whereby its goal is to nurture and develop companies that can be spun-off to the Company's stockholders. In pursuing this strategy, the Company has incurred losses from continuing operations of \$20.1 million and \$2.3 million in fiscal 1999 and 2000, respectively, due in part to making investments in its business for research and development as well as developing a separate infrastructure for certain business units sufficient for these business units to function ultimately as independent public companies.

The Company has obtained funds to pursue this strategy in fiscal 1999 and 2000 from repayments of a note receivable, equity offerings, amounts received from litigation settlement and equipment financing. In fiscal 2001, it will be necessary either to obtain sufficient additional funding to continue this strategy or the Company will be required to curtail the incubator strategy in order to reduce operating losses. Management believes cash available from its revolving line of credit, possible proceeds from additional equity offerings of common stock of the Company or its subsidiaries, amounts received from

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Odetics, Inc. and Subsidiary

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies (continued)

Operations (continued)

litigation settlement and, if necessary, and the sale of certain assets, should be sufficient to allow the Company to execute its current operating plans and meet its obligations on a timely basis for at least the next twelve months. Additionally, management believes it is possible to obtain additional funds, if required, through the sale or placing of additional financing on its facilities in Anaheim, California.

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

Revenue Recognition

Product revenues and related cost of sales are recognized on the date of shipment or, if required, upon acceptance by the customer, provided that the Company believes collectibility of the net sales amount is probable. Accordingly, at the date revenue is recognized, the significant uncertainties concerning the sale have been resolved.

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

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Odetics, Inc. and Subsidiary

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies (continued)

Revenue Recognition (continued)

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

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Credit losses have been within management's expectations and within amounts provided through the allowances for doubtful accounts. At March 31, 1999 and 2000, accounts receivable from governmental agencies and prime government contractors were approximately \$3,616,000 and \$3,639,000, respectively.

Fair Values of Financial Instruments

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

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Odetics, Inc. and Subsidiary

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies (continued)

Inventory Valuation

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

Property, Plant and Equipment

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

Long-Lived Assets

Long-lived assets and certain identifiable intangibles held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability test is performed at the lowest level based on undiscounted net cash flows. Based on its analysis, the Company believes that no impairment of the carrying value of its long-lived assets, inclusive of goodwill, existed at March 31, 2000. The Company's analysis was based on an estimate of future undiscounted cash flows using forecasts contained in the Company strategic plan. It is at least reasonably possible that the Company's estimate of future undiscounted cash flows may change during fiscal 2001. If the Company's estimate of future undiscounted cash flow should change or if the strategic plan is not achieved, future analyses may indicate insufficient future undiscounted cash flows to recover the carrying value of the Company's long-lived assets, in which case such assets would be written down to estimated fair value.

Goodwill

Goodwill, representing the excess of the purchase price over the fair value of the net assets of acquired entities, is being amortized using the straight-line method over the estimated useful lives ranging from ten to fifteen years.

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Odetics, Inc. and Subsidiary

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies (continued)

Research and Development Expenditures

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

During fiscal 1998, 1999 and 2000, software development costs were amortized to cost of sales totaling \$585,000, \$1,063,000 and \$1,515,000, respectively.

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

Warranty

The Company provides a warranty of one to two years on all products and records a related provision for estimated warranty costs at the date of the sale. The estimated warranty liability at March 31, 1999 and 2000 was \$411,000 and \$596,000, respectively.

Foreign Currency Translation

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

Income Taxes

Deferred income tax assets and liabilities are computed for differences between financial statement and tax basis of assets and liabilities based on enacted tax laws and rates applicable to the period in which differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to

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Odetics, Inc. and Subsidiary

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies (continued)

Income Taxes (continued)

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

Basic and diluted earnings (loss) per share is computed using the weighted average number of shares of common stock outstanding during the year and excludes the anti-dilutive effects of options.

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

	Years ended March 31		
	1998	1999	2000
	-----	-----	-----

(in thousands, except share and

	per share information)		
Numerator:			
Loss from continuing operation	\$ (8,683)	\$ (20,118)	\$ (2,279)
Income from discontinued operations	2,089	-	-

Net income (loss)	\$ (6,594)	\$ (20,118)	\$ (2,279)
	=====		
Denominator:			
Weighted-average shares outstanding	6,912,000	7,820,000	9,089,000
	=====		
Basic and diluted earnings (loss) per share:			
Continuing operations	\$ (1.26)	\$ (2.57)	\$ (0.25)
Discontinued operations	.31	-	-

Earnings (loss) per share	\$ (.95)	\$ (2.57)	\$ (0.25)
	=====		

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Odetics, Inc. and Subsidiary

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies (continued)

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 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, if 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 \$2,226,000, \$2,622,000 and \$2,488,000 in the years ended March 31, 1998, 1999 and 2000, respectively.

Recent Accounting Pronouncement

In June 1998, FAS No. 133, Accounting for Derivative Instruments and Hedging Activities, was issued, which establishes new standards for recording derivatives in financial statements. This statement requires recording all derivative instruments as assets or liabilities, measured at fair value. Statement No. 133, as amended, is effective for fiscal years beginning after June 15, 2000. Management does not anticipate the adoption of this statement will have a significant impact on the consolidated results of operations or financial position of the Company.

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Odetics, Inc. and Subsidiary

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies (continued)

Recent Accounting Pronouncement (continued)

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation - an interpretation of APB Opinion No. 25 ("FIN 44"). FIN 44 clarifies the definition of employee for purposes of applying Accounting Practice Board Opinion No. 25, Accounting for Stock Issued to Employees, the criteria for determining whether a plan qualifies as a noncompensatory plan, the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 1, 2000, but certain conclusions cover specific events that occur after either December 15, 1998, or January 12, 2000. The Company believes that FIN 44 will not have a material effect on its financial position or results of operations.

Reclassifications

Certain amounts in the 1998 and 1999 consolidated financial statements have been reclassified to conform with the 2000 presentation.

2. Acquisitions

On June 20, 1997, the Company acquired certain assets and assumed certain contracts from Rockwell Collins, Inc. (Rockwell). Revenues and costs related to contracts assumed from Rockwell are included in the accompanying statement of operations since the date of assumption. The total payment to Rockwell associated with the assumption of contracts was approximately \$2.2 million in cash. In the transaction, a total of \$1.3 million of assets were acquired and a \$5.0 million provision for anticipated losses on a contract with the Michigan Department of Transportation (MDOT) were assumed, which resulted in the recognition of approximately \$6.0 million of goodwill. Also, Rockwell agreed to reimburse the Company for losses incurred on certain phases of the MDOT contract. At March 31, 2000, the remaining provision for contract losses totaled \$3.1 million, which the Company expects to incur over the next two years.

On October 29, 1997, the Company acquired the net assets of Intelligent Controls Inc. (ICI). The total cost of the acquisition was approximately \$2.7 million which was paid in the Company's Class A common stock. A total of \$1.0 million of assets were acquired, primarily consisting of accounts receivable, inventories and property and equipment that were recorded by the Company at this historical carrying values, and \$0.4 million of

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2. Acquisitions (continued)

liabilities were assumed. In connection with the purchase, \$2.1 million of in process research and development was written off, primarily related to software and hardware under development for an integrated building access and security system that Gyr began selling the latter part of fiscal 1999 as the Access 202 product family. Subsequent to this acquisition, the Company incurred an additional \$94,000, \$469,000 and \$307,000 of research and development expense in fiscal 1998, 1999 and 2000, respectively, related to this product development effort.

On September 12, 1998, the Company acquired International Media Integration Services Limited, a United Kingdom corporation (IMIS), pursuant to the terms of a Sale and Purchase of Shares Agreement whereby the Company purchased all of the issued and outstanding shares of stock of IMIS for an aggregate purchase price of \$970,000 which was paid in 173,214 shares of the Company's Class A common stock. The acquisition has been accounted for as a purchase, and the purchase price has been allocated to the fair value of the net assets acquired, primarily acquire technology, which is being amortized over its useful life of 5 years.

On October 16, 1998, the Company, through its subsidiary, Iteris, Inc., acquired Meyer, Mohaddes Associates, Inc., a provider of transportation, engineering and planning services (MMA). Pursuant to the terms of the merger agreement, the Company purchased all of the issued and outstanding shares of stock of MMA for \$4.3 million, by issuing 55,245 shares of the Company's Class A common stock valued at \$250,000 and 810,153 shares of Iteris, Inc.'s common stock after giving effect to the purchase price adjustment required by the merger agreement

and a 1.874916-to-1 split of Iteris common stock. The results of operations of MMA are included in the Company's consolidated results of operations from the date of acquisition.

The merger agreement provides for MMA shareholders to receive additional shares of the Company's Class A common stock with a then market value of \$250,000 at each of April 16, 1999, October 16, 1999, April 16, 2000, October 16, 2000 and April 16, 2001 in the event the Company does not consummate an initial public offering of the common stock of Iteris, Inc. by each and any of those dates. In April and October 1999 and April 2000, Odetics issued an additional 25,740, 20,986 and 20,181, respectively, shares of its Class A common stock to the MMA shareholders pursuant to this provision, which was recorded by the Company as additional goodwill. In addition, if Iteris does not complete its initial public offering by October 2001, then the holders of the Iteris common stock issued in this transaction will have the right to require Odetics to repurchase the Iteris common stock for a purchase price of \$10 per share of Iteris. At any time prior to the

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Odetics, Inc. and Subsidiary

Notes to Consolidated Financial Statements

2. Acquisitions (continued)

initial public offering of Iteris, Odetics has the right to require these shareholders to sell all of their shares of Iteris common stock at a purchase price of \$10 per share. Odetics has the option to pay the purchase price for these shares in cash or in Odetics' Class A common stock valued as of five business days prior to the date of the event triggering the payment.

On January 19, 1999, the Company, through its subsidiary, Iteris, Inc., acquired certain assets and assumed certain liabilities of Viggen Corporation, a provider of transportation, engineering and planning services, for an aggregate purchase price of \$275,000 evidenced by the issuance of 27,603 shares of the Company's Class A common stock which were issued in April 1999. The acquisition has been accounted for as a purchase and the purchase price, including direct costs of the acquisition, has been allocated to the fair value of the net assets acquired with the excess approximating \$746,000 allocated to goodwill. The results of operations of Viggen are included in the Company's consolidated results of operations from the date of acquisition.

On December 1, 1999, the Company through its wholly owned subsidiary, Gyyr, Inc., acquired the security products division of Digital Processing Systems, Inc. (DPS), a manufacturer of digital security recorder products. Pursuant to the terms of the Asset Purchase Agreement, the Company purchased certain assets and assumed certain liabilities of DPS for an aggregate purchase price of approximately \$3.5 million. The Company paid \$1.5 million in cash during fiscal 2000 and is obligated to pay \$1 million at December 1, 2000 and 2001, respectively, in accordance with the terms of the agreement. This acquisition was accounted for as a purchase and accordingly, the result of operations for DPS are included in the Company's consolidated results of operations from the date of acquisition. The excess of cost over the fair value of the net assets of approximately \$3.4 million preliminarily has been recorded as goodwill while the Company completes its identification and valuation of intangible assets acquired.

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

3. Sale of Stock of ATL Products, Inc.

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

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Odetics, Inc. and Subsidiary

Notes to Consolidated Financial Statements

3. Sale of Stock of ATL Products, Inc. (continued)

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

4. Related Party Transaction

In July 1999, the Company sold an option to an investment company incorporated in Delaware, for an aggregate purchase price of \$5.0 million to purchase certain real property of Odetics. The option exercise price is equal to the lesser of (i) the appraised fair value of the property as determined as of November 1, 1999, or (ii) at the option of the investment company, at the appraised fair value of the property as of November 1, 2000 or 2001. This investment company was formed by an officer of Odetics and certain individuals. If the investment company does not exercise the option, then the Company shall retain the option payment. If the option is exercised, the option payment will be applied as a credit against the option exercise price. Pursuant to the terms of the Option Agreement, the Company may exercise a repurchase option at a repurchase price specified in the agreement at any time prior to August 1, 2002 if the investment company has not previously exercised the option.

5. Costs and Estimated Earnings on Uncompleted Contracts

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

	March 31	
	1999	2000

	(In thousands)	
Costs incurred on uncompleted contracts	\$19,204	\$21,971
Estimated earnings	1,557	1,648

Less billings to date	20,761	23,619
	19,614	21,639

	\$ 1,147	\$ 1,980
	=====	
Included in accompanying balance sheets:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 2,423	\$ 3,283
Billings in excess of costs and estimated earnings on uncompleted contracts	1,276	1,303

	\$ 1,147	\$ 1,980
	=====	

5. Costs and Estimated Earnings on Uncompleted Contracts (continued)

Costs and estimated earnings in excess of billings at March 31, 1999 and 2000 include \$320,000 and \$150,000, 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, 2000 are expected to be billed and collected during the year ending March 31, 2001.

6. Revolving Line of Credit and Long-Term Debt

The Company has a \$17.0 million revolving line of credit which provides for borrowings at the prime rate plus 2.0% (11.0% at March 31, 2000). Borrowings are available for general working capital purposes, and at March 31, 2000, approximately \$13.3 million was available for borrowing under the line. The line expires December 31, 2000.

The revolving line of credit is collateralized by substantially all of the Company's assets. Under the terms of the loan and security agreement, the Company is required to comply with certain covenants, maintain certain debt to net worth ratios, working capital current ratios and minimum net worth requirements, and prohibits the payment of dividends without the lender's consent. The Company was in compliance with the financial covenants at March 31, 2000.

Included within the borrowing limits of the loan and security agreement, the Company has available approximately \$2,000,000 in letters of credit at March 31, 2000.

On January 25, 2000, the Company through its subsidiary, Iteris, Inc., entered into a joint venture agreement, pursuant to which the Company obtained a Subordinated Convertible Promissory Note in the amount of \$3.75 million. The note is convertible into Iteris' common stock either at the option of the joint venture partner at any time prior to the maturity, or automatically upon an initial public offering of Iteris' common stock or a change in control event, as defined in the agreement. The number of shares issuable upon conversion is subject to the fair value of the Iteris's common stock on the date of conversion. The note matures on January 25, 2002 and bears interest at 8% per annum. All accrued interest will be forgiven if the conversion feature is triggered.

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Odetics, Inc.

Notes to Consolidated Financial Statements

6. Revolving Line of Credit and Long-Term Debt (continued)

Long-term debt consisted of the following:

	March 31	
	1999	2000

	(In thousands)	
Note payable, accruing interest at 9.36%, collateralized by deed of trust on land and buildings with a net book value of approximately \$11,000,000, payable in monthly installments through December 2004.	\$ 8,173	\$ 7,027
Notes payable, accruing interest at 8.00%, payable upon maturity in January 2002	-	3,750
Note payable, in two equal annual installments in December 2001 and 2002	-	2,000
Notes payable, accruing interest at 7.55% to 8.89%, collateralized by equipment, payable in monthly installments through 2003.	2,866	1,991
	-----	-----
	11,039	14,768
Less current portion	2,074	3,102
	-----	-----
	\$ 8,965	\$11,666
	=====	=====

The annual maturities of long-term debt through March 31, 2005 are as follows:

(In thousands)	
2001	\$ 3,102
2002	6,988
2003	1,813
2004	1,666
2005	1,199

\$14,768
=====

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Odetics, Inc.

Notes to Consolidated Financial Statements

7. Restructuring Charge

In the fourth quarter of fiscal 1998, the Board of Directors approved an early retirement plan for certain founders, senior officers and employees of the Company. The Company recorded a charge of approximately \$1.5 million related to this plan that is expected to be paid out over a four year period. In addition, the Company recorded a charge of approximately \$200,000 to write down its investment in connection with the termination of its joint venture in China.

8. Income Taxes

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

	1998	Year ended March 31 1999	2000

	(In thousands)		
Income tax benefit at statutory rates	\$(3,915)	\$(6,840)	\$(775)
Acquired in process research and development	715	-	-
State income taxes, net of federal tax benefit	189	-	-
Increase (decrease) of valuation allowance associated with federal deferred tax assets	(175)	5,373	(773)
Foreign losses recorded without benefit	118	1,061	1,258
Foreign income at lower tax rate	15		
Nondeductible goodwill amortization	11	31	191
Other	184	375	99

	\$(2,858)	\$ -	\$ -
	=====		

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

	1998	Year ended March 31 1999	2000

	(In thousands)		
Pretax (income) loss:			
Domestic	\$ (9,726)	\$(16,997)	\$ 1,317
Foreign	(1,815)	(3,121)	(3,596)

	\$(11,541)	\$(20,118)	\$(2,279)
	=====		

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Odetics, Inc.

Notes to Consolidated Financial Statements

8. Income Taxes (continued)

Significant components of the income taxes benefit from continuing operations are as follows:

	Year ended March 31		
	1998	1999	2000

	(In thousands)		
Current:			
Federal	\$ (1,143)	\$ (915)	\$ -
State	(328)	-	-
Tax benefit from stock option exercises	(300)	-	-
Foreign	(485)	-	-

Total current	(2,256)	(915)	-
Deferred:			
Federal	(1,516)	915	-
State	614	-	-

Total deferred	(902)	915	-
Charge in lieu:			
Credit to additional paid-in capital attributable to stock option exercises	300	-	-

	\$ (2,858)	\$ -	\$ -
	=====		

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

	1999	2000

	(In thousands)	
Deferred tax assets:		
Inventory reserves	\$ 780	\$ 730
Deferred compensation and other payroll accruals	1,133	1,016
Acquired net operating loss carryforwards	217	217
Net operating loss carryover	6,120	4,200
General business tax credit carryforwards	958	975
Alternative minimum tax credit carryforwards	404	463
State tax credits		81
Bad debt reserve	307	865
Other reserves	178	255
Other, net	314	400

Total deferred tax assets	10,411	9,202
Valuation allowance for deferred tax assets	(6,575)	(6,145)

Net deferred tax assets	3,836	3,057

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Odetics, Inc.

Notes to Consolidated Financial Statements

8. Income Taxes (continued)

	1999	2000

	(In thousands)	
Deferred tax liabilities:		
Tax over book depreciation	2,777	1,973
Capitalized interest and taxes	468	451
Cash to accrual adjustment	556	347
Other, net	35	286
Total deferred tax liabilities	3,836	3,057

Net deferred taxes

\$ - \$ -
=====

At March 31, 2000, for federal income tax purposes, the Company had approximately \$975,000 in general business credit carryforwards and \$463,000 of alternative minimum tax credit carryforwards. The Company also has \$9,900,000 of net operating loss carryforwards for federal income tax purposes which begin to expire in 2019, and \$640,000 of net operating loss carryforwards which were acquired as part of the ICI acquisition. For financial reporting purposes, a valuation allowance has been recorded to offset the deferred tax asset related to these credits and net operating losses. Any future benefits recognized from the reduction of the valuation allowance related to these carryforwards will result in a reduction of income tax expense, other than the ICI operating loss carryforwards whose realization will result in an adjustment of assets acquired in this acquisition. The credit carryforwards expire at various dates beginning in 2001 and the acquired net operating losses begin to expire in 2003.

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

9. Associate Incentive Programs

Under the terms of a Profit Sharing Plan, the Company contributes to a trust fund such amounts as are determined annually by the Board of Directors. No contributions were made in 1998, 1999 or 2000.

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Odetics, Inc.

Notes to Consolidated Financial Statements

9. Associate Incentive Programs (continued)

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 \$548,000, \$644,000 and \$677,000 in 1998, 1999 and 2000, 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 \$511,000, \$55,000 and \$69,000 in 1998, 1999 and 2000, respectively. Shares distributed through the ASOP Plan were included in total outstanding shares used in the earnings per share calculation.

10. Deferred Compensation Plans

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, \$377,000 and \$110,000 for 1998, 1999 and 2000, respectively.

11. Stock Option Plans

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

Odetics, Inc.

Notes to Consolidated Financial Statements

11. Stock Option Plans (continued)

A summary of all Company stock option activity is as follows:

	Year ended March 31					
	1998		1999		2000	
	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	640	\$6.41	563	\$4.67	628	5.27
Granted	502	4.63	149	7.36	358	10.36
Exercised	(578)	4.79	(59)	4.63	(152)	4.65
Canceled	(1)	5.99	(25)	4.63	(33)	4.65
Options outstanding at end of year	563	\$4.67	628	\$5.27	801	7.68
Exercisable at end of year			165		219	
Available for grant at end of year	157		37		114	
Weighted average fair value of options granted		\$2.43		\$3.81		\$ 5.25

The exercise price for options outstanding as of March 31, 2000, \$4.50 to \$11.00. The weighted-average renewing contractual life of those options is 8.0 years.

In connection with the completed spin-off of the Company's interest in ATL, the Company made secured loans to option holders in amounts up to the exercise price of their options, which totaled \$3.4 million. These notes are full recourse, are secured by 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.

Odetics, Inc.

Notes to Consolidated Financial Statements

11. Stock Option Plans (continued)

Pro Forma Disclosures of the Effect of Stock-Based Compensation Plans

In calculating pro forma information regarding net income and earning per share, as required by Statement No. 123, the fair value was estimated at the date of grant using a Black-Scholes option pricing model with the following assumption:

	Years ended March 31		
	1998	1999	2000
Dividend rate	0.0	0.0	0.0
Expected life - years	7.0	7.0	7.0
Risk-free interest rate	6.0	6.0	6.0
Volatility of common stock	0.4	0.4	0.4

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 year ended March 31, 1998, 1999 and 2000 follows (in

thousands, except per share data):

	1998	1999	2000
Pro forma:			
Net loss	\$(7,084)	\$(20,555)	\$(2,969)
Basic and diluted loss per share	\$ (1.03)	\$ (2.63)	\$ (0.33)

Iteris, Inc.'s Stock Options

In September 1997, Iteris granted options to purchase up to 899,960 shares of its common stock to certain members of its senior management at an exercise price of \$1.07 per share. The options granted vested ratably at 25% on each of the first four anniversaries of the grant date.

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Odetics, Inc.

Notes to Consolidated Financial Statements

11. Stock Option Plans (continued)

Iteris, Inc.'s Stock Options (continued)

Subsequently, Iteris' Board of Directors adopted and approved the 1998 Stock Incentive Plan (the "Plan"), as amended in February 2000, authorized 3,000,000 shares of Iteris' common stock for issuance under the Plan, and granted thereunder options to purchase 1,731,485 shares of common stock at exercise prices ranging from \$1.60 to \$9.07 per share, the fair value of the underlying common stock as of the date of grant as determined by the Board of Directors. Options expire ten years after date of grant or 90 days after termination of employment. The options granted vested ratably at 25% on each of the first four anniversaries of the grant date.

Mariner Networks, Inc.'s Stock Options

In March 2000, Mariner's Board of Directors adopted a Special Executive Stock Option Plan which provides for the granting of stock options for shares of Mariner's unissued common stock to certain officers, key employees, non-employee members of the Board of Directors, consultants and independent contractors. A total of 1,176,500 shares of Mariner's common stock are reserved for issuance under this plan. Options expire ten years after date of grant or 90 days after termination of employment and vest upon the optionee's completion of five years of service measured from the vesting commencement date as specified on the stock option agreements. The vesting of these options will accelerate upon initial public offering of Mariner's common stock. Options to purchase 800,500 shares of Mariner's common stock were outstanding at March 31, 2000.

In March 2000, Mariner's Board of Directors also adopted the 1999 Employee Stock Option Plan which provides options for shares of Mariner's common stock to associates, non-employee members of the Board of Directors of Mariner, Odetics or other Odetics' subsidiaries and independent consultants. A total of 588,500 shares of Mariner's common stock are reserved for issuance under this plan. Options expire ten years after date of grant or 90 days after termination of employment and vest upon the optionee's completion of five years of service measured from the vesting commencement date as specified on the stock option agreements. The vesting of these options will accelerate upon initial public offering of Mariner's common stock. Options to purchase 328,000 shares of Mariner's common stock were outstanding at March 31, 2000.

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Odetics, Inc.

Notes to Consolidated Financial Statements

12. Commitments and Contingencies

The Company has lease commitments for facilities in various locations throughout

the United States. The annual commitment under these noncancelable operating leases at March 31, 2000 is as follows:

Fiscal Year -----	(in thousands)
2001	\$ 626
2002	508
2003	17

	\$1,151
	=====

Rent expense under operating leases totaled \$258,000, \$725,000 and \$973,000, respectively for the years ended March 31, 1998, 1999 and 2000.

13. Business Segment and Geographic Information

The Company operates in three reportable segments: intelligent transportation systems, video products which includes products for the television broadcast and video security markets, and telecommunications. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies except that certain expenses, such as interest, amortization of certain intangibles and certain

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Odetics, Inc.

Notes to Consolidated Financial Statements

13. Business Segment and Geographic Information (continued)

corporate expenses are not allocated to the segments. In addition, certain assets including cash and cash equivalents, deferred taxes and certain long-lived and intangible assets are not allocated to the segments. Intersegment sales are recorded at the selling segment's cost plus profit.

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

Selected financial information for the Company's reportable segments as of and for the years ended March 31, 1998, 1999 and 2000 follows:

(In thousands)	Intelligence Transportation	Video Products	Telecom Product	Total

Year ended March 31, 1998				
Revenue from external customers	\$ 5,841	\$ 54,161	\$23,613	\$ 83,615
Intersegment revenues	-	4,163	53	4,216
Depreciation and amortization	514	1,362	589	2,465
Segment income (loss)	(5,445)	(2,240)	3,527	(4,158)
Segment assets	11,614	37,913	7,943	57,470
Expenditure for long-lived assets	7,384	4,003	1,001	12,388
Year ended March 31, 1999				
Revenue from external customers	\$14,580	\$ 46,755	\$13,974	\$ 75,309
Intersegment revenues	-	5,351	94	5,445
Depreciation and amortization	765	2,282	1,199	4,246
Segment income (loss)	(3,865)	(5,381)	(2,617)	(11,863)
Segment assets	17,943	38,831	8,954	65,728
Expenditure for long-lived assets	4,924	3,457	3,084	11,465
Year ended March 31, 2000				

Revenue from external customers	\$23,411	\$ 38,958	\$ 9,664	\$ 72,033
Intersegment revenues	-	6,001	84	6,085
Depreciation and amortization	1,962	2,637	1,182	5,781
Segment income (loss)	(4,407)	(16,350)	(7,824)	(28,581)
Segment assets	19,240	38,831	8,954	67,025
Expenditure for long-lived assets	470	760	1,108	2,338

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Odetics, Inc.

Notes to Consolidated Financial Statements

13. Business Segment and Geographic Information (continued)

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

(In thousands)	1998	1999	2000

Revenue			
Total revenues for reportable segments	\$ 87,832	\$ 80,754	\$ 78,118
Non reportable segment revenues	6,220	8,064	8,673
Elimination of Intersegment sales	(4,216)	(5,445)	(6,084)

Total consolidated revenues	\$ 89,836	\$ 83,373	\$ 80,707
	=====		
Segment Profit or Loss			
Total profit or loss for reportable segments	\$ (4,158)	\$ (11,863)	\$ (28,581)
Other profit or loss	(273)	(1,201)	(3,618)
Unallocated amounts:			
Corporate and other expenses	(4,777)	(5,247)	(6,469)
Special income or charge	(1,716)		38,437
Interest expense	(617)	(1,807)	(2,048)

Loss from continuing operations before income taxes	\$ (11,541)	\$ (20,118)	\$ (2,279)
	=====		
Assets			
Total assets for reportable segments	\$ 57,470	\$ 65,728	\$ 67,025
Assets held at Corporate	31,320	15,627	14,825

Total assets	\$ 88,790	\$ 81,355	\$ 81,850
	=====		
Depreciation and Amortization			
Depreciation and amortization for reportable segments	\$ 2,465	\$ 4,246	\$ 5,781
Other	447	959	1,404

Total depreciation and amortization	\$ 2,912	\$ 5,205	\$ 7,185
	=====		

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Odetics, Inc.

Notes to Consolidated Financial Statements

13. Business Segment and Geographic Information (continued)

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

(In thousands)	1998	1999	2000

Geographic Area Revenue			
United States	\$60,502	\$61,171	\$65,285
Europe	5,538	7,582	8,509
Asia Pacific Rim	17,842	6,287	2,821
Other	5,954	8,333	4,092

Total net revenue	\$89,836	\$83,373	\$80,707
	=====		
Geographic Area Long-Lived Assets			
United States	\$32,929	\$39,424	\$38,805
Europe	504	1,612	1,101
Asia Pacific Rim	24	33	15

Total long-lived assets	\$33,457	\$41,069	\$39,921
	=====		

14. Supplemental Cash Flow Information

	Year ended March 31		
	1998	1999	2000

	(In thousands)		
Net cash used in changes in operating assets and liabilities, net of acquisitions:			
(Increase) decrease in accounts receivable	\$ 1,136	\$ (2,706)	\$ 4,568
(Increase) decrease in net costs and estimated earnings in excess of billings	(1,771)	276	(833)
(Increase) decrease in inventories	(4,604)	4,825	(2,227)
Increase in prepaids and other assets	(951)	111	428
Increase (decrease) in accounts payable and accrued expenses	4,728	(946)	(757)

Net cash used in changes in operating assets and liabilities	\$ (1,462)	\$ 1,560	\$ 1,179
	=====		
Cash paid during the year:			
Interest	\$ 1,526	\$ 1,997	\$ 1,995
Income taxes paid (refunded)	365	(463)	(1,144)
Noncash transactions during the year:			
Purchase of subsidiary for stock	\$ 2,734	\$ 5,845	\$ -
Acquisition of business for note payable	-	-	2,000
MMA purchase price adjustment	-	-	251

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Odetics, Inc.

Notes to Consolidated Financial Statements

15. Legal Proceedings

On October 11, 1999, the Company settled a patent infringement case it had brought against Storage Technology Corporation (StorageTek). Through an agreement, StorageTek agreed to pay the Company a license fee totaling \$100.0 million for use of the Company's United States Patent No. 4,779,151. Under the agreement, the license fee was payable in three installments: \$80.0 million upon signing of the agreement, and two annual installments of \$10.0 million payable in each of October 2000 and 2001. In connection with the initial payment, the Company received \$38.4 million, net of legal fees and other direct expenses, which is reflected in the accompanying consolidated statement of operations as royalty income.

On June 12, 2000, the Company and StorageTek amended the agreement, whereby StorageTek agreed to pay a final discounted payment of \$17.8 million immediately in full settlement of the \$20.0 million otherwise due to complete the settlement. Accordingly, the Company will recognize non-operating income in that amount in its quarter ended June 30, 2000.

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Odetics, Inc.

Schedule II - VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C	Column D	Column E	
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Accounts	Deductions Describe	Balance at End of Period
Year ended March 31, 1998:					
Deducted from asset accounts:					
Allowance for doubtful accounts.....	\$ 350,000	\$ 155,000	\$ 0	\$ (73,000)	\$ 432,000
Reserve for inventory obsolescence.....	2,437,000	1,240,000	0	\$ (796,000)	2,881,000
Total.....	<u>\$2,787,000</u>	<u>\$1,395,000</u>	<u>\$ 0</u>	<u>\$ (869,000)</u>	<u>\$3,313,000</u>
Year ended March 31, 1999:					
Deducted from asset accounts:					
Allowance for doubtful accounts.....	\$ 432,000	\$ 332,000	\$125,000	\$ (50,000)	\$ 839,000
Reserve for inventory obsolescence.....	2,881,000	1,590,000	0	\$ (1,300,000)	3,171,000
Total.....	<u>\$3,313,000</u>	<u>\$1,922,000</u>	<u>\$125,000</u>	<u>\$ (1,350,000)</u>	<u>\$4,010,000</u>
Year ended March 31, 2000:					
Deducted from asset accounts:					
Allowance for doubtful accounts.....	\$ 839,000	\$1,293,000	\$ 0	\$ (64,000)	\$2,068,000
Reserve for inventory obsolescence.....	3,171,000	\$1,438,000	0	\$ (1,123,000)	3,486,000
Total.....	<u>\$4,010,000</u>	<u>\$2,731,000</u>	<u>\$ 0</u>	<u>\$ (1,187,000)</u>	<u>\$5,554,000</u>

ITERIS, INC.

SUBORDINATED CONVERTIBLE
NOTE PURCHASE AGREEMENT

January 25, 2000

ITERIS, INC.

SUBORDINATED CONVERTIBLE NOTE PURCHASE AGREEMENT

This Agreement is made as of January 25, 2000 by and between Iteris, Inc., a Delaware corporation (the "Company"), and DaimlerChrysler Venture GmbH, a German limited liability company ("Purchaser").

RECITALS

A. Purchaser is not a U.S. Person as defined in Rule 902(k) of Regulation S ("Regulation S"), as promulgated under the Securities Act of 1933, as amended (the "Securities Act").

B. The Company desires to sell to Purchaser and Purchaser desires to purchase from the Company the subordinated convertible promissory note described herein, the offer and sale of which is being made in reliance upon the provisions of Regulation S.

AGREEMENT

SECTION 1.

AUTHORIZATION AND SALE OF NOTE

1.1 Authorization. The Company has authorized the sale and issuance

of an 8% subordinated convertible promissory note in the principal amount of \$3.75 million (the "Note"), substantially in the form attached hereto as Exhibit A.

1.2 Sale of Note. Subject to the terms and conditions hereof, the

Company will issue and sell to the Purchaser and the Purchaser will buy from the Company the Note for an amount of \$3.75 million. Such purchase price shall be paid in the manner set forth in Section 2.2. The number of shares of Common Stock into which the Note is convertible shall be subject to certain adjustment provisions.

1.3 Company Records and Use of Proceeds. Upon issuance, the Note will

be registered in the Purchaser's name in the Company's records. The proceeds from the sale and issuance of the Note shall be used for general corporate purposes and not for the retirement of any shareholder debt, except as authorized in this Agreement.

Section 2.

CLOSING DATE & DELIVERY

2.1 Closing. The closing of the purchase and sale of the Note

hereunder (the "Closing") shall be held at the offices of DaimlerChrysler Venture GmbH, Stuttgart, Germany, promptly after the execution of this Agreement or at such other time and place upon which the Company and the Purchaser shall agree (the date of the Closing is hereinafter referred to as the "Closing Date").

2.2 Payment and Delivery. At the Closing, the Company will deliver to

Purchaser the Note, against payment of the purchase price therefor, by check payable to the Company, or by wire transfer per the Company's instructions.

Section 3.
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to the Purchaser as follows as of the execution of this Agreement and the Closing:

3.1 Organization and Standing: Certificate and Bylaws. The Company is

a corporation duly organized, validly existing and in good standing under the laws of the state of Delaware. The Company has all requisite corporate power and authority to own and operate its properties and assets, and to carry on its business as presently conducted and as proposed to be conducted. The Company is qualified to do business as a foreign corporation in each jurisdiction where failure to be so qualified would have a material adverse effect on the Company's business as presently conducted and as currently proposed to be conducted. The Company has made available to the Purchaser copies of the Company's Certificate of Incorporation and Bylaws, as amended to date. Said copies are true, correct and complete and contain all amendments through the date hereof.

3.2 Corporate Power. The Company has all requisite corporate power

and authority to execute and deliver the Registration Rights Agreement (as defined in Section 5.10 hereof) and this Agreement, to sell and issue the Note hereunder, to issue the Common Stock issuable upon conversion of the Note (the "Conversion Stock"), and to carry out and perform its obligations under the terms of this Agreement and the Registration Rights Agreement.

3.3 Capitalization. The authorized capital stock of the Company

consists of 40,000,000 shares of Common Stock, \$0.01 par value (the "Common Stock"), of which 6,432,100 shares are issued and outstanding as of the Closing Date, and 5,000,000 shares of Preferred Stock, \$0.01 par value, none of which are outstanding. The Company has reserved a sufficient number of shares of Common Stock for issuance upon conversion of the Note. Shares of the Conversion Stock have the rights, preferences, privileges and restrictions set forth in the Certificate of Incorporation. Except as set forth above and options to purchase [1,400,000] shares of Common Stock, there are no options, warrants, conversion privileges or other rights to purchase or otherwise acquire any of the Company's authorized and unissued capital stock. The outstanding shares of the capital stock of the Company are duly and validly issued, fully paid and nonassessable, and such shares have been issued in compliance with the Securities Act and any applicable state securities law, or in compliance with applicable exemptions therefrom.

3.4 Subsidiaries. Except for Meyer, Mohaddes Associates, Inc., a

wholly owned subsidiary of the Company, the Company has no subsidiaries.

3.5 Financial Statements. The Company has delivered at or prior to the Closing to the Purchaser the Company's unaudited financial statements for the fiscal period ended December 31, 1999 (the "Financial Statements"). The Financial Statements are complete and correct in all material respects and have been prepared in accordance with

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generally accepted accounting principles ("GAAP") applied on a basis consistent with prior accounting periods, except to the extent that the unaudited financial statements are subject to normal and recurring year-end adjustments. The Financial Statements present fairly the financial condition and operating results of the Company as of the date and during the periods indicated therein. Except to the extent reflected or reserved against or disclosed in the Financial Statements, the Company as of the date of the Financial Statements had no material liabilities or obligations of any kind, whether accrued, absolute, contingent or otherwise, which under GAAP should have been reflected or reserved against or disclosed.

3.6 Absence of Certain Changes. Since December 31, 1999, and at all

times up to the Closing, there has not been, nor, so far as reasonably can be

foreseen at this time, is there reasonably likely to be, any event or condition of any character which has materially adversely affected, or is likely to materially affect, the Company's consolidated business operations, assets, condition (financial or otherwise), liabilities, earnings or prospects including but not limited to:

(a) any event which materially, adversely affects the Company's business as it is currently being conducted;

(b) any declaration, setting aside or payment or other distribution in respect of any of the Company's capital stock, or any direct or indirect redemption, purchase or other acquisition of any of such stock by the Company, other than the repurchase of unvested shares of Common Stock of the Company issued to employees, officers or directors of or consultants to the Company;

(c) any waiver by the Company of a valuable right or of a material debt owed to it;

(d) any material change or amendment to a material contract or arrangement by which the Company or any of its assets or properties is bound or subject;

(e) any material commitment, transaction or other action by the Company other than in the ordinary course of business and consistent with past practice;

(f) any amendment or other change to the Certificate of Incorporation or Bylaws of the Company (except as contemplated by this Agreement);

(g) any sale or other disposition of any right, title or interest in or to any material assets or properties of the Company or any revenues derived therefrom other than in the ordinary course of business and consistent with past practice;

(h) any creation, incurrence or assumption of any indebtedness for money borrowed by the Company exceeding \$50,000 (not including net increases in accounts payable or intercompany debt incurred in the ordinary course of the Company's business);

(i) any material capital expenditures by the Company not in the ordinary course of business;

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(j) any material change in any accounting principle or method or election for federal income tax purposes used by the Company;

(k) any change in the assets, liabilities, prospects, financial condition or operations of the Company from those reflected in the Financial Statements, except changes in the ordinary course of business which have not been, either in any case or in the aggregate, materially adverse;

(l) any material change in the outstanding indebtedness owed by the Company;

(m) any material change in the contingent obligations of the Company by way of guaranty, endorsement, indemnity, warranty or otherwise;

(n) any damage, destruction or loss, whether or not covered by insurance, materially and adversely affecting the properties or business of the Company;

(o) any loans made by the Company to its employees, officers or directors other than advances of expenses made in the ordinary course of business;

(p) any agreements made with any affiliates of the Company, other than agreements relating to or contemplated by the Separation and Distribution Agreement between the Company and Odetics, Inc. dated December 31, 1999; or

(q) any authorization, approval, agreement or commitment to do

any of the foregoing.

3.7 Absence of Undisclosed Liabilities. The Company does not have any

material obligation or material liability arising out of any transaction entered into at or prior to the Closing, or any act or omission to act at or prior to the Closing, except (a) to the extent set forth or reserved against in the Financial Statements, (b) as disclosed in the Disclosure Schedule, and (c) current liabilities incurred and obligations under agreements entered into in the usual and ordinary course of business since December 31, 1999, none of which (individually or in the aggregate) materially and adversely affects the business, properties, finances or prospects (financial or otherwise) of the Company.

3.8 Authorization, No Breach. The execution, delivery and performance

of this Agreement and the Registration Rights Agreement and the consummation of all transactions contemplated hereby or thereby, including but not limited to the offering, sale and issuance of the Note pursuant to this Agreement has been duly authorized by all required corporate actions of the Company and its shareholders and the Company has taken all corporate acts necessary for the due and valid authorization, execution, issuance and performance of the Agreement, the Registration Rights Agreement, the Note and the Conversion Stock. This Agreement, the Registration Rights Agreement and the Note constitute valid and binding obligations of the Company enforceable in accordance with their respective terms, except as the indemnification provisions of Section 2.7 of the Registration Rights Agreement may be limited by principles of public policy, and subject to laws of general application relating to bankruptcy, insolvency reorganization, moratorium and the relief of debtors and rules of law governing specific performance, injunctive relief or

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other equitable remedies. The Note, when issued in compliance with the provisions of this Agreement, will be validly issued, fully paid and nonassessable, and will have the rights, preferences and privileges described therein; the Conversion Stock has been duly and validly reserved and, when issued in compliance with the provisions of this Agreement and the Certificate of Incorporation, will be duly and validly authorized, validly issued and outstanding, fully paid and nonassessable; and the Note and such Conversion Stock will be free of any liens or encumbrances, other than any liens or encumbrances created by or imposed upon the holders; provided, however, that the Note and the Conversion Stock may be subject to restrictions on transfer under state and/or federal securities laws as set forth herein.

3.9 Material Contracts and Commitments. A list of and copies of the

contracts, mortgages, indentures, agreements, instruments, leases and transactions to which the Company is a party or by which it is bound which involve obligations of, or payments to, the Company in excess of Two Hundred Thousand Dollars (\$200,000) and all agreements between the Company and its officers, directors, consultants and employees (the "Material Contracts"), have been delivered to the Purchaser. All of the Material Contracts are valid, binding and in full force and effect in all material respects and enforceable by the Company in accordance with their respective terms in all material respects, subject to the effect of applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application relating to or affecting enforcement of creditors' rights and rules or laws concerning equitable remedies. To the Company's knowledge, the Company is not in material default under any of such Material Contracts and no other party to any of the Material Contracts is in material default thereunder.

3.10 Litigation, etc. There are no actions, suits, proceedings or

investigations pending or claims asserted (or, to the Company's knowledge, any basis therefor or threat thereof), to which the Company is a party or its property is subject or, to the Company's knowledge, against any officer, director or employee of the Company in connection with such person's relationship with or actions taken on behalf of the Company or which question the validity or enforceability of this Agreement, the Registration Rights Agreement or the Note which might result in (i) any material adverse change in the business, prospects or financial condition of the Company or any of its properties or assets, (ii) any material impairment of the right or ability of the Company to carry on its business as now conducted or as proposed to be

conducted or to pay amounts under the Note as they become due or (iii) in any material liability on the part of the Company, and none which question the validity of this Agreement or any action taken or to be taken in connection herewith.

3.11 Consents. No consent, approval, qualification, order or

authorization of, or filing with, any governmental authority is required in connection with the Company's valid execution, delivery or performance of this Agreement or the Registration Rights Agreement, or the offer, sale or issuance of the Note by the Company, the issuance of Conversion Stock, or the consummation of any other transaction contemplated on the part of the Company hereby, except such filings as may be required under the applicable securities laws.

3.12 Title to Properties; Liens and Encumbrances. The Company has

good and marketable title to its properties and assets and, with respect to the property and assets leased by the Company, holds valid leasehold interests therein, in each case subject to

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no mortgage, pledge, lien, security interest, conditional sale agreement, encumbrance or charge or other equitable interest, except (i) tax, materialmen's or like liens for obligations not yet due or payable or being contested in good faith by appropriate proceedings, (ii) security interests granted to Transamerica Business Credit Corporation pursuant to that certain Loan and Security Agreement to which the Company is a party dated December 28, 1998, and related documentation, or (iii) liens or encumbrances which do not individually or the aggregate in any case materially impair the Company's use thereof or materially detract from the value of the Company and which have arisen in the ordinary course of business.

3.13 Proprietary Information and Other Rights. The Company uses

patents, trade secrets, including know-how, concepts, computer programs and other technical data (the "Proprietary Information") for the development, manufacture and sale of its products. The Company owns or has the right to use all such Proprietary Information necessary for its business as now conducted and, to the knowledge of the Company, the Proprietary Information under development or intended to be used by the Company in its business as currently proposed, will not infringe upon the proprietary rights of third parties. Reasonable security measures have been taken by the Company to protect the secrecy, confidentiality and value of the Proprietary Information referred to in this Section 3.13. Each officer of the Company or subsidiary has executed a proprietary information agreement, copies of which have been provided to Purchaser. The Company, after reasonable investigation, is not aware that any of its officers is in violation thereof, and the Company will use its best efforts to prevent any such violation.

3.14 Insurance. The Company maintains insurance of the types and in

the amounts generally deemed adequate for its business and consistent with insurance coverage maintained by similar companies in similar businesses, including but not limited to, insurance covering real and personal property owned or leased by the Company against theft, damage, destruction, acts of vandalism and all other risks customarily insured against, all of which insurance is in full force and effect and all premiums with respect thereto are currently paid.

3.15 Brokers or Finders. The Company has not incurred, and will not

incur, directly or indirectly, as a result of any action taken by the Company, any liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement.

3.16 Compliance With Other Instruments.

(a) The Company is not in violation or default of any provisions of its Certificate of Incorporation or Bylaws or of any judgment, order, writ, decree or Material Contract to which it is a party or by which it is bound or, to its knowledge, of any provision of federal or state statute,

rule or regulation applicable to the Company or its subsidiaries, except to the extent that such violation or default would not have a material adverse effect on the Company, its business or its operations. The execution, delivery and performance of this Agreement, the Registration Rights Agreement or the Note and the consummation of the transactions contemplated herein will not result in any such violation nor be in conflict with or constitute, with or without the passing of time and giving of notice, either a default under any such provision, judgment, order, writ, decree or Material Contract or any event which results in the creation of any lien, charge or encumbrance upon any assets of the Company or any of its subsidiaries (other than such liens as are contemplated hereby).

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(b) The Company has avoided every condition, and has not performed any act, the occurrence of which would result in its loss of any right granted under any license, distribution or other agreement. The Company believes that has received fair value for all licenses assigned or transferred to third parties.

3.17 Registration Rights. Except as set forth in the Registration

Rights Agreement and the Registration Rights Agreement dated October 16, 1998, among the Company, Michael P. Meyer, Abbas Mohaddes, Viggen Davidian and Gary Hamrick, the Company is not under any contractual obligation to register any of its securities which are outstanding or any of its securities which may hereafter be issued.

3.18 Offering. Subject to the accuracy of the Purchaser's

representations in Section 4 hereof, the offer, sale and issuance of the Note and the issuance of the Conversion Stock, constitute transactions exempt from the registration requirement of Section 5 of the Securities Act and applicable state securities laws.

3.19 Disclosure. There is no fact known to the Company that has not

been disclosed to the Purchaser which the Company reasonably expects will have a material adverse effect upon the financial condition, operating results or assets of the Company, taken as a whole. The Company has fully provided the Purchaser with all the information which the Purchaser has requested for deciding whether to purchase the Note and, to the extent applicable, the Conversion Stock and all information which the Company believes is reasonably necessary to enable the Purchaser to make such decision.

3.20 Minute Books. The minute books of the Company contain copies of

minutes for all meetings of directors and shareholders since the time of incorporation. The Purchaser (or its counsel) has been provided with an opportunity to review the minute books or copies of such minutes.

3.21 Employees; Proprietary Information Agreement. To the best of the

Company's knowledge, no employee of the Company is in violation of any term of any employment contract, patent disclosure agreement or any other contract, agreement, order or decree relating to the relationship of such employee with the Company or any other party because of the nature of the business conducted or to be conducted by the Company. To the best of the Company's knowledge, none of its employees is obligated under any contract, agreement or judgment that would interfere with such employee exercising his or her best efforts to promote the interests of the Company or that would conflict with the Company's business as currently proposed.

3.22 Dividends. The Company has not declared or paid any dividends,

or authorized or made any distribution upon or with respect to any class or series of its capital stock.

3.23 Intellectual Property Rights. The Company (a) owns or has the

right to use, free and clear of all liens, charges, claims and restrictions (except for those disclosed in Section 3.13), all patents, trademarks, service marks, trade names, copyrights, computer software programs, databases, domain names, licenses, trade secrets and rights and any other intellectual property necessary to its business as now conducted and, to the Company's knowledge, is

not infringing upon or otherwise acting adversely to the right or

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claimed right of any person under or with respect to any of the foregoing and (b) is not obligated or under any liability whatsoever to make any payments by way of royalties, fees or otherwise to any owner of, licensor of, other claimant to, any patent, trademark, trade name, copyright, database, domain name, or other intangible asset, except pursuant to the Cooperative Development Agreement for a Lane Departure Detection and Warning System between the Company and DaimlerChrysler Corporation dated July 22, 1998, and the Asset Sale Agreement between the Company and Rockwell Collins, Inc. dated June 20, 1997 (the "License Agreements"). There are no outstanding options, licenses, or agreements of any kind relating to the foregoing nor, is the Company bound by or a party to any options, licenses or agreements of any kind with respect to the patents, trademarks, service marks, trade names, copyrights, databases, domain names, trade secrets, licenses, information, computer software programs, proprietary rights and processes of any other person or entity, except for the License Agreements the Agreement between Freightliner Corporation and the Company dated January 11, 1999, confidential nondisclosure agreements and the like.

3.24 Operating Rights. The Company has all operating authority,

licenses, franchises, permits, certificates, consents, rights and privileges as are necessary or appropriate to the operation of its business as now or as proposed to be conducted, the absence of which would have a material and adverse effect on the business of the Company ("collectively, the "Permits"). Such Permits are in full force and effect, no violations have been or are expected to have been recorded in respect of any such Permits, and no proceeding is pending or, to the Company's knowledge, threatened that could result in the revocation or limitation of any of such Permits. The Company has conducted its business so as to comply in all material respects with all such Permits.

3.25 Related Party Transactions. Except for officers or directors of

the Company who are also officers or directors of Odetics, Inc., no officer or director of the Company (a) is an officer, director or general partner of, or directly or indirectly owns beneficially more than 5% of the equity of, any business which (i) furnishes or sells services or products which compete with services or products furnished or sold by the Company or (ii) purchases from or sells or furnishes to the Company any goods or services, or (b) has a beneficial interest in any contract or agreement to which the Company is a party or by which it may be bound or affected involving the payment or receipt of in excess of \$50,000, other than any agreements governing the purchase of shares of the Company's Common Stock and agreements relating to the employment of such persons, copies of which agreements have been delivered to the Purchaser's counsel. The Company is not a guarantor or indemnitor of an indebtedness of any other person, firm or corporation.

3.26 Environmental Regulations. The Company has met, and continues to

meet in all material respects, all applicable local, state and federal environmental regulations. The Company has disposed of its waste products and effluents, and has used reasonable efforts to cause others to dispose of waste products and effluents for the Company, in accordance with, in all material respects, all applicable state, local and federal environmental regulations and in such a manner that, to the best of the Company's knowledge, no harm has resulted or will result to any of the employees or properties of the Company or to any other persons or entities or their properties.

3.27 Taxes. The Company believes that it has accurately prepared in

all material respects and has filed all tax returns that are required to have been filed on or before

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the Closing with appropriate federal, state, county and local governmental agencies or instrumentalities. The Company has paid or established adequate reserves for all material income, franchise and other taxes, assessments, governmental charges, penalties, interest and fines due and payable by it on or before the Closing. There is no pending dispute with any taxing authority relating to any of such returns, and the Company has no knowledge of any

proposed liability for any tax to be imposed upon the properties or assets of the Company.

3.28 Inventory. All inventory is of a quality and quantity usable in

the ordinary course of business, except for obsolete items, or materials below standard quality, which, in the aggregate, are not material in amount and have been written off or written down to net realizable value on the books of the Company.

3.29 Returns and Complaints. The Company has not received any

customer complaints concerning its products or services that have not been resolved and which are indicative of a problem that is reasonably likely to result in a material adverse effect on the Company, its business or its operations.

3.30 Foreign Corrupt Practices Act. The Company has not made, offered

or agreed to offer anything of value to any governmental official, political party or candidate for political office (or any person that the Company knows or has reason to know will offer anything of value to any such person) in violation of the Foreign Corrupt Practices Act of 1977, as amended.

3.31 No Cancelled Contracts. No Material Contracts or purchase orders

have been cancelled, rescinded, continued or modified in any material respect which would have a material adverse effect on the Company, its business or its operations.

Section 4.
REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

Purchaser hereby represents and warrants to the Company with respect to the purchase of the Note as follows:

4.1 Accredited Investor. It is an "accredited investor" as such term

is defined in Rule 501(a) of Regulation D of the Securities Act.

4.2 Experience. It has substantial experience in evaluating and

investing in private placement transactions of securities in companies similar to the Company so that it is capable of evaluating the merits and risks of its Investment in the Company and has the capacity to protect its own interests.

4.3 Economic Risk. It understands that the purchase of the Note

hereunder is a speculative investment which involves a high degree of risk of loss of its investment therein. It is able to bear the economic risk of its investment in the Note for an indefinite period of time, including the risk of a complete loss of its investment in such securities. It acknowledges that such Note and the Conversion Stock have not been registered under the Securities Act and, therefore, cannot be sold unless subsequently registered under the Securities Act or an exemption from such registration is available. The foregoing does

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not, however, limit or modify the representations and warranties of the Company set forth in Section 3 of this Agreement or the right of the Purchaser to rely thereon.

4.4 Strategic Investment. It is acquiring the Note and the underlying

Common Stock for investment for its own account, not as a nominee or agent, not for the account or benefit of any U.S. Person and not with the view to, or for resale in connection with, any distribution thereof. It understands that the Note and the underlying Common Stock have not been, and will not be, registered under the Securities Act by reason of a specific exemption from the registration provisions of the Securities Act, the availability of which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of its representations as expressed herein.

4.5 Execution, Delivery and Performance. It has full right, power and

authority to execute and deliver this Agreement and the Registration Rights Agreement and to perform its obligations hereunder and thereunder. At or before the Closing hereunder, it will execute and deliver to the Company the Registration Rights Agreement, and it acknowledges and agrees that the Note purchased will be subject to the terms and provisions of the Registration Rights Agreement, and the Company's Certificate of Incorporation and Bylaws. This Agreement and the Registration Rights Agreement, when so executed and delivered by the Purchaser, will constitute valid and binding obligations of each Purchaser enforceable in accordance with their respective terms, except as the indemnification provisions of the Registration Rights Agreement may be limited by principles of public policy, and subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies. No consent, approval, authorization, order, filing, registration or qualification of or with any court, governmental authority or third person is required to be obtained by the Purchaser in connection with the execution and delivery of this Agreement or the Registration Rights Agreement or the performance of each Purchaser's obligations hereunder or thereunder.

4.6 Regulation S and Rule 144. Purchaser acknowledges that the Note

and the underlying Common Stock are being purchased in reliance upon Regulation S and that the Note and the Conversion Stock must be held indefinitely unless subsequently transferred in accordance with Regulation S, registered under the Securities Act or an exemption from such registration is available. Purchaser is aware of the provisions of Regulation S, which prohibits the offer or sale of the Note and the Conversion Stock to or for the benefit or account of any U.S. Person for a period of one year following the Closing, and Rule 144 promulgated under the Securities Act ("Rule 144") which permit limited resale of securities purchased in a private placement subject to the satisfaction of certain conditions, including, among other things, the existence of a public market for the securities, the availability of certain current public information about the Company, the resale occurring not less than one year after a party has purchased and paid for the security to be sold, the sale being effected through a "broker's transaction" or in transactions directly with a "market maker" and the number of securities being sold during any three (3) month period not exceeding specified limitations.

4.7 No Public Market. Purchaser understands that no public market now

exists for any of the securities issued by the Company and that the Company has made no assurances that a public market will ever exist for the Company's securities.

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4.8 Access to Data. Purchaser acknowledges that it has had a full

opportunity to ask questions and receive answers concerning the terms and conditions of the offering of the Note and has had full access to the Company's officers and such other information concerning the Company as it has requested.

4.9 Brokers or Finders. Purchaser has not incurred and will not

incur, directly or indirectly, as a result of any action taken by the Purchaser, any liability for brokerage or finder's fees or agent's commissions or any similar charges in connection with this Agreement.

4.10 Tax Liability. Purchaser has reviewed with its own tax advisors

the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by this Agreement. It relies solely on such advisors and not on any statements or representations of the Company or any of its agents. It understands that it (and not the Company) shall be responsible for any of its own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement.

4.11 Investor Counsel. Purchaser acknowledges that it has had the

opportunity to review this Agreement, the exhibits attached hereto and the transaction contemplated by this Agreement with its own legal counsel. It is relying solely on such counsel and not on any statements or representations of

the Company, Stradling Yocca Carlson & Rauth (counsel solely to the Company) or any of its agents for legal advice with respect to this investment or the transactions contemplated by this Agreement.

4.12 Foreign Investor. Purchaser is a German limited liability company

with its principal place of business in Stuttgart, Germany, has no branch or other operations within the United States and is not a U.S. Person. All decisions concerning the purchase of the Note and the acquisition, if any, of the Conversion Stock, have been and will be made at Purchaser's principal place of business where this Agreement and the Registration Rights Agreement will be executed and delivered and where the Note will be received. The Note was not offered to Purchaser in the United States and at the time of execution of this Agreement and the time of any offer to Purchaser to purchase the Note, the Purchaser was physically outside of the United States.

Section 5.
CONDITIONS TO CLOSING OF THE PURCHASER

The Purchaser's obligations to purchase the Note at the Closing are, at the option of the Purchaser, subject to the fulfillment on or prior to the Closing Date of the following conditions:

5.1 Representations and Warranties Correct. The representations and

warranties made by the Company in Section 3 hereof shall be true and correct as of the Closing Date with the same force and effect as if made on such date.

5.2 Covenants. All covenants, agreements and conditions contained in

this Agreement to be performed by the Company on or prior to the Closing Date shall have been performed or complied with.

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5.3 Compliance Certificate. The Company shall have delivered to the

Purchaser a certificate of the Company, executed by the President of the Company, dated the Closing Date, and certifying as to the fulfillment of the conditions specified in Sections 5.1 and 5.2 of this Agreement.

5.4 Good Standing Certificates. The Company shall have delivered to

the Purchaser certificates dated as of the most recent practicable date prior to the Closing Date issued by the Delaware Secretary of State to the effect that the Company is legally existing and in good standing, and similar good standing certificates from the state of incorporation for each of the subsidiaries.

5.5 Secretary's Certificate. The Company shall have delivered to the

Purchaser a certificate executed by the Secretary of the Company dated as of the Closing, certifying the following matters: (a) resolutions adopted by the Board approving the transactions contemplated by this Agreement; (b) Certificate of Incorporation of the Company; (c) Bylaws of the Company; (d) incumbency of those officers of the Company signing the various agreements; and (e) such other matters as the Purchaser may reasonably request.

5.6 Note. A Note substantially in the form of Exhibit A shall have

been executed and delivered by the Company and the Purchaser and shall be in full force and effect as of the Closing.

5.7 Registration Rights Agreement. An Registration Rights Agreement

substantially in the form of Exhibit B (the "Registration Rights Agreement") shall have been executed and delivered by the Company and the Purchaser and shall be in full force and effect as of the Closing.

5.8 Legal Opinion. The Purchaser shall have received from Stradling

Yocca Carlson & Rauth, counsel to the Company, a legal opinion addressed to them substantially in the form of Exhibit C.

5.9 Debt Conversion. Odetics, Inc. shall have agreed to contribute to

the capital of the Company a portion of the amount of debt owed by the Company to Odetics, Inc.

Section 6.
CONDITIONS TO CLOSING OF COMPANY

The Company's obligation to sell and issue the Note at the Closing is, at the option of the Company, subject to the fulfillment as of the Closing Date of the following conditions with the same force and effect as if made on such date:

6.1 Representations. The representations and warranties made by the

Purchaser in Section 4 hereof shall be true and correct as of the Closing Date.

6.2 Registration Rights Agreement. The Purchaser shall have executed

and delivered the Registration Rights Agreement.

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6.3 Payment of Purchase Price. The Purchaser shall have delivered to

the Company the purchase price for the Note being purchased at such Closing.

6.4 Forms W-9 or W-8. Each Purchaser shall have delivered to the

Company a complete and executed Internal Revenue Service Form W-8 or Form W-9, as applicable.

Section 7.
AFFIRMATIVE COVENANTS OF THE COMPANY AND THE PURCHASER

7.1 Compliance with Documents. The Company will perform and observe

all of its obligations to the holders of the Note (and the Conversion Stock) set forth in this Agreement, the Certificate of Incorporation, the Bylaws, and all of its obligations set forth in the Investor Rights Agreement.

7.2 Observation of Board of Directors. For as long as the Note

remains outstanding or Purchaser holds at least 200,000 shares of Common Stock, if Purchaser so requests, the Company will permit a representative of Purchaser to receive notice of and attend all Board meetings and to receive all documents provided generally to the Board at the same time as such materials are provided to the Board. Purchaser's representative shall be capable of discussing strategic objectives and implementation relating to the Company's business and shall be permitted to attend portions of any Board meeting related specifically to operations or financial matters. Purchaser's representative shall be able to attend any other portions of Board meeting at the sole discretion of the Board. Notwithstanding the foregoing, Purchaser acknowledges and agrees that the Company's management will have the right to exclude any such representative from all or portions of meetings of the Board, or omit to provide such representative with certain information, if the Company's management believes it is necessary in order to preserve the attorney-client privilege, or fulfill the Company's obligations with respect to confidential or proprietary information of third parties, or if such meeting or information involves matters where a director would customarily not participate in a meeting or be provided such information. In addition, Purchaser acknowledges and agrees that any such representative will maintain the confidentiality of all information obtained through such representative's position and will be bound by the same obligations of confidentiality as Purchaser is bound.

7.3 Information Rights. In addition to the rights set forth in the

Investor Rights Agreement, the Company hereby covenants and agrees to the following with Purchaser:

(a) The Company shall provide to Purchaser (i) as soon as available and in any event within ninety (90) days after the end of each fiscal year of the Company, a balance sheet of the Company as of the end of such fiscal year and the related statements of income, retained earnings and changes in financial position for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by a

firm of independent public accountants of nationally recognized standing, (ii) as soon as available and in any event within 30 days after the end of each of month, internal balance sheet and income statement as are produced in the ordinary course of business by the Company.

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(b) The Company will permit representatives of the Purchaser to visit and inspect any of its properties and to examine and make copies of any of its books and records and to discuss its affairs, finances and accounts with its officers, employees and agents all at such reasonable times and as often as may reasonably be desired, provided Purchaser provides the Company with reasonable notice in advance of such visit.

(c) The information rights under this Section 7.3 shall terminate upon the closing of the Company's initial public offering registered under the Securities Act.

7.4 Advancement of Strategic Relationship. The parties intend to

cooperate in the following areas:

(a) Purchaser will support and use its international networks to facilitate the adoption of the AutoVue product in DaimlerChrysler commercial vehicles and passenger cars.

(b) Purchaser will support and use its international networks to facilitate joint initiatives between DaimlerChrysler and the Company to bring eBusiness solutions, such as Personalized Traveler Information, to mobile internet users in DaimlerChrysler commercial vehicles and passenger cars.

7.5 Publicity. Purchaser and the Company agree that neither shall

publicly disclose, whether by a press release or otherwise, the existence of or the terms and conditions of this Agreement until the Closing, at which time the Purchaser and the Company shall cooperate in the drafting and issuance of press releases in the United States and Europe. Neither party shall issue a press release without the prior consent of the other party. Purchaser acknowledges that the company may be required to file this Agreement and the agreements contemplated hereby with the Securities Exchange Commission in connection with its initial Public Offering, and Purchaser hereby consents to such filing.

Section 8.
RESTRICTIONS ON TRANSFERABILITY OF SECURITIES;
COMPLIANCE WITH SECURITIES ACT

8.1 Restrictions on Transferability. In addition to the restrictions

set forth in Section 8.2, Purchaser agrees that all offers and sales of the Note and the Conversion Stock prior to the expiration of a period commencing on the Closing Date and ending one year thereafter shall not be made to U.S. Persons or for the account or benefit of any U.S. Person and shall otherwise be made in compliance with Regulation S. Purchaser will cause any proposed purchaser, assignee, transferee, or pledgee of the Note or the Conversion Stock held by such Purchaser to agree to take and hold such securities subject to the provisions and upon the conditions specified in this Section 8.

8.2 Lock Up Agreement. For the period commencing on the Closing Date

and ending fifteen (15) months following the Closing Date (the "Lock Up Period"), Purchaser will not, without the prior written consent of the Company, (which consent may be withheld in its sole discretion), directly or indirectly, issue, sell, offer or agree to sell, grant any option for the sale of, pledge, make any short sale or maintain any short position, establish or maintain a "put equivalent position" (within the meaning of Rule 16-a-1(h) under

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the Securities Exchange Act of 1934, as amended), enter into any swap, derivative transaction or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Note or the Conversion Stock; provided, however, that in the event the Company has not consummated an initial public offering of its Common Stock prior to nine (9)

months following the Closing Date, the Lock Up Period shall be extended such that the Lock Up Period extends to a date that is 180 days following the date of the Company's final prospectus delivered in connection with its initial public offering. Notwithstanding the foregoing, Purchaser may transfer the Note or the Conversion Stock, subject to applicable securities laws, to any entity directly or indirectly controlling or controlled by or under common control with, the Purchaser.

8.3 Restrictive Legend. Each certificate or instrument representing

(i) the Note, (ii) the Conversion Stock, and (iii) any other securities issued in respect of the Note or the Conversion Stock upon a stock split, stock dividend, stock exchange or similar event (collectively the "Restricted Securities"), shall (unless otherwise permitted by the provisions of Rule 144) be stamped or otherwise imprinted with a legend in the following form (in addition to any legend required under applicable state securities laws):

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISPOSITION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES COMMISSION OF ANY STATE UNDER ANY STATE SECURITIES LAW. THEY ARE BEING OFFERED PURSUANT TO A SAFE HARBOR FROM REGISTRATION UNDER REGULATION S ("REGULATION S") PROMULGATED UNDER THE ACT. THE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO U. S. PERSONS (AS SUCH TERM IS DEFINED IN REGULATION S) UNLESS THE SECURITIES ARE REGISTERED UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS, OR SUCH OFFERS, SALES AND TRANSFERS ARE MADE PURSUANT TO AN AVAILABLE EXEMPTION OR SAFE HARBOR FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AND CERTAIN MARKET STAND-OFF PROVISIONS WHICH ARE CONTAINED IN A SUBORDINATED CONVERTIBLE NOTE PURCHASE AGREEMENT, DATED AS OF JANUARY 25, 2000, COPIES

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OF WHICH ARE ON FILE AT THE PRINCIPAL OFFICE OF THE CORPORATION."

Purchaser consents to the Company making a notation on its records and giving instructions to any transfer agent of the Note or the Conversion Stock in order to implement the restrictions on transfer established in this Section 8.

8.4 Notice of Proposed Transfers. The holder of each certificate

representing Restricted Securities by acceptance thereof agrees to comply in all respects with the provisions of this Section 8.3. Prior to any proposed sale, assignment, transfer or pledge of any Restricted Securities (other than a transfer not involving a change in beneficial ownership), the holder thereof shall give written notice to the Company of such Purchaser's intention to effect such transfer, sale, assignment or pledge. Each such notice shall describe the manner and circumstances of the proposed transfer, sale, assignment or pledge in sufficient detail, and shall be accompanied, at such holder's expense, by either (i) a written opinion of legal counsel, who shall be and whose legal opinion shall be reasonably satisfactory to the Company, addressed to the Company, to the effect that the proposed transfer of the Restricted Securities may be effected without registration under the Securities Act or (ii) a "no action" letter from the Commission to the effect that the transfer of such securities without registration will not result in a recommendation by the staff of the Commission that action be taken with respect thereto, whereupon the holder of such Restricted Securities shall be entitled to transfer such Restricted Securities in accordance with the terms of the notice delivered by the holder to the Company. Each certificate evidencing the Restricted Securities transferred as above provided shall bear, except if such transfer is made pursuant to Rule 144, the appropriate restrictive legend set forth in Section 8.2 above, except that such certificate shall not bear such restrictive legend if in the opinion

of counsel for such holder and the Company such legend is not required in order to establish compliance with any provision of the Securities Act.

Section 9.
MISCELLANEOUS

9.1 Governing Law. This Agreement shall be governed and construed in all respects in accordance with the laws of the State of California so applied to agreements made and performed in California by residents of the State of California.

9.2 Survival. The representations, warranties, covenants and agreements made herein shall survive any investigation made by the Purchaser and the closing of the transactions contemplated hereby for a period of two (2) years.

9.3 Successors and Assigns. Except as otherwise expressly provided herein, all covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto will bind and inure to the benefit of the respective successors and assigns of such parties whether so expressed or not. In addition, and whether or not any express assignment has been made, the provisions of this Agreement which are for the Purchaser's benefit as the purchaser or holder of Note or the Conversion Stock are also for the benefit of and enforceable by any subsequent holder of Note or the Conversion Stock.

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9.4 Entire Agreement; Amendment. This Agreement and the other documents delivered pursuant hereto at the Closing constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof, and no party shall be liable or bound to any other party in any manner by any warranties, representations or covenants except as specifically set forth herein or therein. Except as expressly provided herein, neither this Agreement nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument signed by the party against whom enforcement of any such amendment, waiver, discharge or termination is sought.

9.5 Notices, etc. All notices and other communications required or permitted hereunder shall be in writing, including facsimile, or electronic communications and shall be effective upon receipt.

9.6 Delays or Omissions. Except as expressly provided herein, no delay or omission to exercise any right, power or remedy accruing to any holder of any Note, upon any breach or default of the Company under this Agreement, shall impair any such right, power or remedy of such holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any holder of any breach or default under this Agreement, or any waiver on the part of any holder of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement or by law or otherwise afforded to any holder, shall be cumulative and not alternative.

9.7 Remedies. Purchaser will have all of the rights and remedies set forth in this Agreement, the Investor Rights Agreement and the Certificate of Incorporation, as the case may be, and all of the rights and remedies which Purchaser may have under any law. The Purchaser, having any rights under any provision of this Agreement or the Investor Rights Agreement, will be entitled to enforce such rights specifically, to recover damages by reason of any breach of any provision of this Agreement or the Investor Rights Agreement and to exercise all other rights granted by law.

9.8 Severability. If any provision of this Agreement becomes or is

declared by a court of competent jurisdiction to be illegal, invalid, unenforceable or void, this Agreement shall continue in full force and effect without said provision. In such event, the parties shall negotiate, in good faith, a legal, valid and enforceable substitute provision which most nearly effects the intent of the parties in entering into this Agreement.

9.9 Expenses. The Company shall pay all of Purchaser's expenses in -----
connection with the transactions contemplated hereby, provided that the Closing and the Company's initial public offering of Common Stock registered under the Securities Act have occurred, including the fees and disbursements of the Purchaser's counsel, Baker & McKenzie. Total expenses shall not exceed the amount of \$25,000 in the aggregate.

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Dated this 25th of January 2000
At Anaheim, California

Dated this 25th of January 2000
At Stuttgart, Germany

ITERIS, INC.

DAIMLERCHRYSLER VENTURE
GMBH

By: /s/ Jack Johnson

By: /s/ Dr. Marianne Tumpen

Jack Johnson,
President

Dr. Marianne Tumpen,
Managing Director

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"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISPOSITION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES COMMISSION OF ANY STATE UNDER ANY STATE SECURITIES LAW. THEY ARE BEING OFFERED PURSUANT TO A SAFE HARBOR FROM REGISTRATION UNDER REGULATION S ("REGULATION S") PROMULGATED UNDER THE ACT. THE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO U. S. PERSONS (AS SUCH TERM IS DEFINED IN REGULATION S) UNLESS THE SECURITIES ARE REGISTERED UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS, OR SUCH OFFERS, SALES AND TRANSFERS ARE MADE PURSUANT TO AN AVAILABLE EXEMPTION OR SAFE HARBOR FORM THE REGISTRATION REQUIREMENTS OF THOSE LAWS.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AND CERTAIN MARKET STAND-OFF PROVISIONS WHICH ARE CONTAINED IN A SUBORDINATED CONVERTIBLE NOTE PURCHASE AGREEMENT, DATED AS OF JANUARY 25, 2000, COPIES OF WHICH ARE ON FILE AT THE PRINCIPAL OFFICE OF THE CORPORATION."

ITERIS, INC.

Subordinated Convertible Promissory Note

\$3,750,000

January 25, 2000
Anaheim, California

FOR VALUE RECEIVED, Iteris, Inc., a Delaware corporation ("Company"), promises to pay to DaimlerChrysler Venture GmbH ("Holder"), or its registered assigns, the principal sum of Three Million Seven Hundred and Fifty Thousand Dollars (\$3,750,000.00), or such lesser amount as shall equal the outstanding principal amount hereof, together with interest from the date of this subordinated convertible promissory note ("Note") on the unpaid principal balance calculated in accordance with Section 2 hereof. All unpaid principal,

together with any then unpaid and accrued interest and other amounts payable hereunder, shall be due and payable on

the earlier of (i) the second anniversary of the date of this Note, or (ii) when, upon or after the occurrence of an Event of Default (as defined below), such amounts are declared due and payable by Holder. This Note is issued pursuant to the Note Purchase Agreement (as defined below).

1. Definitions. As used in this Note, the following capitalized terms -----
have the following meanings:

(a) "Affiliate," with respect to any Person, means (i) any director, officer or employee of such Person, (ii) any Person directly or indirectly controlling or controlled by or under direct or indirect common control with such Person, and (iii) any Person beneficially owning or holding 10% or more of any class of voting securities of such Person or any corporation of which such Person beneficially owns or holds, in the aggregate, 10% or more of any class of voting securities. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. The term "Affiliate," when used herein without reference to any Person, shall mean an Affiliate of Company.

(b) "Company" includes the corporation initially executing this Note and any Person which shall succeed to or assume the obligations of Company under

this Note.

(c) "Certificate" shall mean the Certificate of Incorporation of Company as amended and/or restated and effective immediately prior to the redemption or conversion of all of this Note.

(d) "Equity Securities" of any Person shall mean (a) all common stock, preferred stock, participations, shares, partnership interests or other equity interests in and of such Person (regardless of how designated and whether or not voting or non-voting) and (b) all warrants, options and other rights to acquire any of the foregoing.

(e) "Event of Default" has the meaning given in Section 5 hereof.

(f) "GAAP" shall mean generally accepted accounting principles as in effect in the United States of America from time to time.

(g) "Holder" shall mean the Person specified in the introductory paragraph of this Note or any Person who shall at the time be the registered holder of this Note.

(h) "Indebtedness" shall mean and include the aggregate amount of, without duplication (i) all obligations for borrowed money, (ii) all obligations evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations to pay the deferred purchase price of property or services (other than accounts payable incurred in the ordinary course of business determined in accordance with GAAP), (iv) all obligations with respect to capital leases, (v) all obligations created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person, (vi) all reimbursement and other payment obligations, contingent or otherwise, in respect of letters of credit and similar surety instruments; and (vii) all guaranty obligations with respect to the types of Indebtedness listed in clauses (i) through (vi) above.

(i) [Intentionally Omitted]

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(j) "Material Adverse Effect" shall mean a material adverse effect on (a) the business, assets, operations, or financial condition of Company; or (b) the ability of Company to pay or perform the Obligations in accordance with the terms of this Note and the other Transaction Documents and to avoid an Event of Default, or an event which, with the giving of notice or the passage of time or both, would constitute an Event of Default, under any Transaction Document.

(k) "Note Purchase Agreement" shall mean the Note Purchase Agreement dated January 25, 2000 between Company and the Holder (as amended, modified or supplemented from time to time).

(l) "Obligations" shall mean and include all loans, advances, debts, liabilities and financial obligations, howsoever arising, owed by Company to Holder of every kind and description (whether or not evidenced by any note or instrument and whether or not for the payment of money), now existing or hereafter arising under or pursuant to the terms of the Transaction Documents, including, all interest, fees, charges, expenses, attorneys' fees and costs and accountants' fees and costs chargeable to and payable by Company hereunder and thereunder, in each case, whether direct or indirect, absolute or contingent, due or to become due, and whether or not arising after the commencement of a proceeding under Title 11 of the United States Code (11 U. S. C. Section 101 et seq.), as amended from time to time (including post-petition interest) and whether or not allowed or allowable as a claim in any such proceeding.

(m) "Person" shall mean and include an individual, a partnership, a corporation (including a business trust), a joint stock company, a limited liability company, an unincorporated association, a joint venture or other entity or a governmental authority.

(n) "Senior Indebtedness" shall mean, unless expressly subordinated to or made on a parity with the amounts due under this Note, the principal of (and premium, if any), unpaid interest on and amounts reimbursable, fees, expenses, costs of enforcement and other amounts due in connection with, (i)

indebtedness of Company, to banks, commercial finance lenders, insurance companies, leasing or equipment financing institutions or other lending institutions regularly engaged in the business of lending money (excluding debt that is convertible or exercisable into equity through venture capital, investment banking or similar institutions which sometimes engage in lending activities but which are primarily engaged in investments in equity securities), which is for money borrowed, or purchase or leasing of equipment in the case of lease or other equipment financing, whether or not secured, and (ii) any such indebtedness or any debentures, notes or other evidence of indebtedness issued in exchange for such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor.

(o) "Subsidiary" shall mean (a) any corporation of which more than 50% of the issued and outstanding equity securities having ordinary voting power to elect a majority of the Board of Directors of such corporation is at the time directly or indirectly owned or controlled by Company, (b) any partnership, joint venture, or other association of which more than 50% of the equity interest having the power to vote, direct or control the management of such partnership, joint venture or other association is at the time directly or indirectly owned and controlled by Company, (c) any other entity included in the financial statements of Company on a consolidated basis.

(p) "Transaction Documents" shall mean this Note and the Note Purchase Agreement and any other documents that may be exchanged between Company and Holder in connection with the issuance of the Note.

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2. Interest. The interest rate to be applied to the unpaid principal

balance of this Note shall be eight percent per annum. The interest rate on this Note shall be increased in accordance with Section 15 upon the occurrence of an Event of Default. In the event this Note is automatically converted into Common Stock in accordance with Section 8(b), all interest accrued under this Note shall be forgiven and Holder shall not be entitled to receive interest in cash or in the form of Common Stock upon such conversion.

3. Prepayment. Upon fifteen days prior written notice to Holder, Company

may prepay this Note in whole or in part, unless Holder elects to convert the Note in accordance with Section 8(a) of this Note; provided that any such prepayment will be applied first to the payment of expenses due under this Note, second to interest accrued on this Note and third, if the amount of prepayment exceeds the amount of all such expenses and accrued interest, to the payment of principal of this Note.

4. Certain Covenants. While any amount is outstanding under the Note,

without the prior written consent of Holder:

(a) Dividends, Redemptions, Etc. Neither Company nor any of its Subsidiaries shall (i) pay any dividends or make any distributions on its Equity Securities; (ii) purchase, redeem, retire, defease or otherwise acquire for value any of its equity securities, other than the repurchase of shares of common stock under option agreements or restricted stock purchase agreements with employees, directors or consultants; (iii) return any capital to any holder of its equity securities; (iv) make any distribution of assets, Equity Securities, obligations or securities to any holder of its Equity Securities; or (v) set apart any sum for any such purpose; provided, however, that any Subsidiary may pay cash dividends to Company.

(b) Indebtedness Payments. Neither Company nor any of its Subsidiaries shall as to any Indebtedness which is not Senior Indebtedness (i) prepay, redeem, purchase, defease or otherwise satisfy in any manner prior to the scheduled repayment thereof any Indebtedness for borrowed money (other than amounts due under this Note or the other Notes issued under the Note Purchase Agreement) or lease obligations, (ii) amend, modify or otherwise change the terms of any Indebtedness for borrowed money (other than the Obligations) or lease obligations so as to accelerate the scheduled repayment thereof or (iii) repay any principal or interest on any notes to officers, directors or shareholders, including, without limitation, obligations to Odetics, Inc.

(c) Affiliate Transactions. Neither Company nor any of its Subsidiaries shall enter into any contractual obligation with any Affiliate or

engage in any other transaction with any Affiliate except upon terms at least as favorable to Company or such Subsidiary as an arms-length transaction with unaffiliated Persons. Holder acknowledges and agrees that the Separation and Distribution Agreement and the agreements contemplated thereby are on terms at least as favorable to the Company as arms-length transactions with unaffiliated Persons.

5. Events of Default. The occurrence of any of the following shall

constitute an "Event of Default" under this Note and the other Transaction Documents. Promptly upon the occurrence thereof, the Company shall provide Holder with written notice of the occurrence of any Event of Default hereunder or any event of default with respect to any Senior Indebtedness.

(a) Failure to Pay. Company shall fail to pay (i) when due any principal payment on the due date hereunder or (ii) any interest or other payment required under the terms of

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this Note or any other Transaction Document on the date due and such payment shall not have been made within five (5) days of Company's receipt of Holder's written notice to Company of such failure to pay; or

(b) Other Payment Obligations. Company or any of its Subsidiaries shall (i) fail to make any payment when due under the terms of any bond, debenture, note or other evidence of Indebtedness, including the Senior Indebtedness, to be paid by such Person (excluding this Note and the other Transaction Documents but including any other evidence of Indebtedness of Company or any of its Subsidiaries to Holder) and such failure shall continue beyond any period of grace provided with respect thereto or thirty (30) days, whichever is longer, or (ii) default in the observance or performance of any other agreement, term or condition contained in any such bond, debenture, note or other evidence of Indebtedness, and the effect of such failure or default is to cause, or permit the holder or holders thereof to cause, Indebtedness in an aggregate amount of One Hundred Thousand Dollars (\$100,000) or more to become due prior to its stated date of maturity; or

(c) Voluntary Bankruptcy or Insolvency Proceedings. Company or any of its Subsidiaries shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property, (ii) be unable, or admit in writing its inability, to pay its debts generally as they mature, (iii) make a general assignment for the benefit of its or any of its creditors, (iv) be dissolved or liquidated, (v) become insolvent (as such term may be defined or interpreted under any applicable statute), (vi) commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it, or (vii) take any action for the purpose of effecting any of the foregoing; or

(d) Involuntary Bankruptcy or Insolvency Proceedings. Proceedings for the appointment of a receiver, trustee, liquidator or custodian of Company or any of its Subsidiaries or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to Company or any of its Subsidiaries or the debts thereof under any bankruptcy, insolvency or other similar law now or hereafter in effect shall be commenced and an order for relief entered or such proceeding shall not be dismissed or discharged within thirty (30) days of commencement; or

(e) Judgments. A final judgment or order for the payment of money in excess of One Hundred Thousand Dollars (\$100,000) (exclusive of amounts covered by insurance issued by an insurer not an Affiliate of Company) shall be rendered against Company or any of its Subsidiaries and the same shall remain undischarged for a period of thirty (30) days during which execution shall not be effectively stayed, or any judgment, writ, assessment, warrant of attachment, or execution or similar process shall be issued or levied against a substantial part of the property of Company or any of its Subsidiaries and such judgment, writ, or similar process shall not be released, stayed, vacated or otherwise dismissed within thirty (30) days after issue or levy.

6. Rights of Holder upon Default. Upon the occurrence or existence of any

Event of Default (other than an Event of Default referred to in Sections 5(c)

and 5(d)) and at any time thereafter during the continuance of such Event of

Default, Holder may, by written notice to Company, declare all outstanding
Obligations payable by Company hereunder to be immediately due and payable
without presentment, demand, protest or any other notice of any kind, all of
which are

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hereby expressly waived, anything contained herein or in the other Transaction
Documents to the contrary notwithstanding. In addition to the foregoing
remedies, upon the occurrence or existence of any Event of Default, Holder may
exercise any other right power or remedy granted to it by the Transaction
Documents or otherwise permitted to it by law, either by suit in equity or by
action at law, or both.

7. Subordination. The indebtedness evidenced by this Note is hereby

expressly subordinated, to the extent and in the manner hereinafter set forth,
in right of payment to the prior payment in full of all of Company's Senior
Indebtedness.

(a) Insolvency Proceedings. If there shall occur any receivership,
insolvency, assignment for the benefit of creditors, bankruptcy, reorganization,
or arrangements with creditors (whether or not pursuant to bankruptcy or other
insolvency laws), sale of all or substantially all of the assets, dissolution,
liquidation, or any other marshaling of the assets and liabilities of Company,
(i) no amount shall be paid by Company in respect of the principal of, interest
on or other amounts due with respect to this Note at the time outstanding,
unless and until the principal of and interest on the Senior Indebtedness then
outstanding shall be paid in full, and (ii) no claim or proof of claim shall be
filed with Company by or on behalf of Holder of this Note which shall assert any
right to receive any payments in respect of the principal of and interest on
this Note except subject to the payment in full of the principal of and interest
on all of the Senior Indebtedness then outstanding.

(b) Default on Senior Indebtedness. If there shall occur an event of
default which has been declared in writing with respect to any Senior
Indebtedness, as defined therein, or in the instrument under which it is
outstanding, permitting the holder to accelerate the maturity thereof and Holder
shall have received written notice thereof from the holder of such Senior
Indebtedness, then, unless and until such event of default shall have been cured
or waived or shall have ceased to exist, or all Senior Indebtedness shall have
been paid in full, no payment shall be made in respect of the principal of or
interest on this Note, unless within one hundred eighty (180) days after the
happening of such event of default, the maturity of such Senior Indebtedness
shall not have been accelerated. Not more than one notice may be given to Holder
pursuant to the terms of this Section 7(b) during any 360 day period.

(c) Further Assurances. By acceptance of this Note, Holder agrees to
execute and deliver customary forms of subordination agreements requested from
time to time by holders of Senior Indebtedness, and as a condition to Holder's
rights hereunder, Company may require that Holder execute such forms of
subordination agreements; provided that such forms shall not impose on Holder
terms less favorable than those provided herein.

(d) Other Indebtedness. No indebtedness which does not constitute
Senior Indebtedness shall be senior in any respect to the indebtedness
represented by this Note.

(e) Subrogation. Subject to the payment in full of all Senior
Indebtedness, Holder shall be subrogated to the rights of the holder(s) of such
Senior Indebtedness (to the extent of the payments or distributions made to the
holder(s) of such Senior Indebtedness pursuant to the provisions of this Section

7) to receive payments and distributions of assets of Company applicable to the

Senior Indebtedness. No such payments or distributions applicable to the Senior
Indebtedness shall, as between Company and its creditors, other than the holders
of Senior Indebtedness and Holder, be deemed to be a payment by Company to or on

account of this Note; and for purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness to which Holder

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would be entitled except for the provisions of this Section 7 shall, as between Company and its creditors, other than the holders of Senior Indebtedness and Holder, be deemed to be a payment by Company to or on account of the Senior Indebtedness.

(f) No Impairment. Subject to the rights, if any, of the holders of Senior Indebtedness under this Section 7 to receive cash, securities or other properties otherwise payable or deliverable to Holder, nothing contained in this Section 7 shall impair, as between Company and Holder, the obligation of Company, subject to the terms and conditions hereof, to pay to Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent Holder, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

(g) Reliance of Holders of Senior Indebtedness. Holder, by its acceptance hereof, shall be deemed to acknowledge and agree that the foregoing subordination provisions are, and are intended to be, an inducement to and a consideration of each holder of Senior Indebtedness, whether such Senior Indebtedness was created or acquired before or after the creation of the indebtedness evidenced by this Note, and each such holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and holding, or in continuing to hold, such Senior Indebtedness.

8. Conversion.

(a) Voluntary Conversion. Holder has the right, at Holder's option, at any time prior to payment in full of this Note or conversion pursuant to Section 8(b) below, to convert the Note at the office of the Company or any transfer agent for the shares of Common Stock, into the number of shares of Common Stock which is equal to the quotient obtained by dividing (A) the entire unpaid amount of this Note, together with all accrued but unpaid interest and other fees due under the Note, by (B) the Note Conversion Price. For purposes of this Section 8(a), the "Note Conversion Price" shall be the fair market value of the Common Stock at the time of conversion multiplied by .75. The fair market value of the Common Stock at the time of conversion shall be determined by mutual agreement of the Holder and the Company, and if no such agreement can be reached in good faith, by Bear, Stearns & Co., Inc. If the fair market value is determined by Bear, Stearns & Co. Inc., the Holder and the Company shall share the burden of expenses incurred in making such determination equally.

(b) Automatic Conversion. The entire unpaid principal amount of this Note, shall be automatically converted into Common Stock (subject to subsection (c), below), immediately prior to (i) any consolidation or merger of Company with or into any Person, any corporate reorganizations in which the Company shall not be the continuing or surviving entity of such consolidation, merger or reorganization and in which the holders of the outstanding voting capital stock of the Company immediately prior to such consolidation, merger or reorganization hold less than 50% of the outstanding voting capital stock of the surviving company immediately following such transaction, any transaction or series of related transactions by Company in which in excess of 50% of Company's voting power is transferred or a sale of all or substantially all of the assets of Company (each, a "Sale Transaction"); or (ii) the closing of a firmly underwritten public offering pursuant to a registration statement filed by Company under the Securities Act of 1933, as amended (the "Act"), with aggregate gross proceeds in excess of \$20 million and at a price of not less than \$10.00 per share of Common Stock (as presently constituted, subject to proportionate adjustment in the event of any stock split, stock dividend, reverse stock split, combination, consolidation, reclassification or

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similar event) (a "Qualified Public Offering"). The number of shares into which this Note shall be converted in the event of an automatic conversion pursuant to this Section 8(b) shall be equal to the product of (A) .025 multiplied by (B) the number of issued and outstanding shares of Common Stock of the Company at the time of conversion, including shares of Common Stock issued upon conversion of this Note and shares issued in a Qualified Public Offering, plus the number

of shares of Common Stock purchasable pursuant to outstanding options to purchase Common Stock that are vested at the time of conversion.

(c) Adjustments for Valuation. In the event the Acquisition Value of the Company is less than \$200 million, Holder shall elect at the time of conversion to either (1) receive a cash payment, representing a return of principal, equal to an amount calculated under the following formula (the "Cash Payment"):

Outstanding principal amount under this Note - $[\text{.75} * (\text{Acquisition Value} * \text{.025})]$; or

(2) receive such number of additional shares of Common Stock equal to the number of shares calculated under the following formula:

$$\frac{\text{Cash Payment}}{\text{Per Share Value} * \$.75}$$

In the event the Acquisition Value of the Company is more than \$200 million, Holder shall either (1) pay an additional amount of cash to the Company on the date of conversion equal to an amount calculated under the following formula (the "Additional Payment"):

$[\text{.75} * (\text{Acquisition Value} * \text{.025})]$ - Outstanding principal amount under this Note; or

(2) reduce the number of shares otherwise issuable under 8(b) by such number of shares equal to the number of shares calculated under the following formula:

$$\frac{\text{Additional Payment}}{\text{Per Share Value} * \$.75}$$

For purposes of this Section 8, the following terms shall have the meanings set forth below:

"Acquisition Value" means (a) in the event of a Qualified Public Offering, the Total Market Capitalization of the Company plus the aggregate exercise price of all options outstanding and that are vested on the date of conversion, and (b) in the event of a Sale Transaction, the aggregate consideration being paid, assuming the purchase of 100% of the capital stock or assets of the Company, less liabilities not assumed in the Sale Transaction, and plus the aggregate exercise price of all options outstanding and that are vested on the date of conversion.

"Per Share Value" means, in the event of a Qualified Public Offering, the initial public offering price, and in the event of a Sale Transaction, the Acquisition Value divided by the total number of shares of Common Stock outstanding after giving effect to this conversion and including the total number of shares issuable pursuant to options to purchase Common Stock of the Company that are vested at the time of conversion.

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(d) Adjustment for Stock Splits and Combinations. If the Company at any time or from time to time after the date of this Note (the "Effective Date") effects a division of the outstanding shares of Common Stock, then the Note Conversion Price shall be proportionately decreased and, conversely, if this Company at any time, or from time to time, after the Effective Date combines the outstanding shares of Common Stock, then the Note Conversion Price shall be proportionately increased. Any adjustment under this Section 8(d) shall be

effective on the close of business on the date such division or combination becomes effective.

(e) Adjustment for Certain Dividends and Distributions. If the Company at any time or from time to time after the Effective Date pays or fixes a record date for the determination of holders of shares of Common Stock entitled to receive a dividend or other distribution in the form of shares of Common Stock, or rights or options for the purchase of, or securities convertible into, Common Stock, then in each such event the Note Conversion Price shall be decreased, as of the time of such payment or, in the event a record date is fixed, as of the close of business of such record date, by

multiplying the Note Conversion Price by a fraction (i) the numerator of which shall be the total number of shares of Common Stock outstanding immediately prior to the time of such payment or the close of business on such record date, as the case may be, and (ii) the denominator of which shall be the sum of (A)

the total number of shares of Common Stock outstanding immediately prior to the time of such payment or the close of business on such record date, as the case may be, plus (B) the number of shares of Common Stock issuable in payment of

such dividend or distribution or upon exercise of such option or right of conversion; provided, however, that if a record date is fixed and such dividend is not fully paid or such other distribution is not fully made on the date fixed therefor, then the Note Conversion Price shall not be decreased as of the close of business on such record date as hereinabove provided as to the portion not fully paid or distributed and thereafter the Note Conversion Price shall be decreased pursuant to this Section 8(e) as of the date or dates of actual

payment of such dividend or distribution.

(f) Adjustments for Other Dividends and Distributions. If the Company at any time or from time to time after the Effective Date pays, or fixes a record date for the determination of holders of shares of Common Stock entitled to receive, a dividend or other distribution in the form of securities of the Company other than shares of Common Stock or rights or options for the purchase of, or securities convertible into, Common Stock, then in each such event provision shall be made so that the Holder shall receive upon conversion thereof, in addition to the number of shares of Common Stock receivable thereupon, the amount of securities of the Company which they would have received had the Note been converted into shares of Common Stock on the date one day before such event (adjusted to account for any additional accrued by unpaid interest and other fees due under the Note) and had Holder thereafter, from the date of such event to and including the actual date of conversion of their shares, retained such securities, subject to all other adjustments called for during such period under this Section 8 with respect to the rights of the

Holder.

(g) Adjustment for Reclassification, Exchange and Substitution. If at any time or from time to time after the Effective Date the number of shares of Common Stock issuable upon conversion of the Note, is changed into the same or a different number of shares of any other class or classes of stock or other securities, whether by recapitalization, reclassification or otherwise (other than a recapitalization, division or combination of shares or a stock dividend, or a reorganization, merger, consolidation or sale of assets provided for elsewhere in this Section 8), then in any such event the Holder shall have the right thereafter to convert the Note into the same kind and amount of stock and other securities receivable upon such recapitalization, reclassification or other change, as the maximum number of shares of Common Stock into which the Note, could have been converted

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immediately prior to such recapitalization (adjusted to account for any additional accrued but unpaid interest and other fees due under the Note), reclassification or change, all subject to further adjustment as provided herein.

(h) Reorganizations, Mergers, Consolidations or Sales of Assets. If at any time or from time to time after the Effective Date there is a capital reorganization of the Common Stock (other than a recapitalization, division, combination, reclassification or exchange of shares provided for elsewhere in this Section 8) or a merger or consolidation of this Company into or with another corporation (except as provided for in section 8(b)), then, as a part of such capital reorganization, merger or consolidation, provision shall be made so that the Holder shall thereafter receive upon conversion thereof the number of shares of stock or other securities or property of this Company, or of the successor corporation resulting from such merger or consolidation or sale, to which a holder of the number of shares of Common Stock into which the Note would have been entitled on such capital reorganization, merger, consolidation or sale (adjusted to account for any additional accrued but unpaid interest and other fees due under the Note). In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 8 with respect to the

rights of the Holder after such capital reorganization, merger, consolidation,

or sale. The provisions of this Section 8 (including adjustment of the Note

Conversion Price and the number of shares into which the Note may be converted) shall be applicable after that event and be as nearly equivalent to such Conversion Prices and number of shares as may be practicable.

(i) Conversion Procedure.

(i) Conversion Pursuant to Section 8(a). Before Holder shall be

entitled to convert this Note into Common Stock, it shall surrender this Note, duly endorsed, at the office of Company and shall give written notice by registered or certified mail, postage prepaid, to Company at its principal corporate office, of the election to convert the same pursuant to Section 8(a), and shall state therein the name or names in which the

certificate or certificates for the Common Stock are to be issued. Company shall, as soon as practicable thereafter, issue and deliver at such office to Holder of this Note a certificate or certificates for the Common Stock to which Holder shall be entitled upon conversion (bearing such legends as are required by the Note Purchase Agreement and applicable state and federal securities laws in the opinion of counsel to Company), and any other securities and property to which Holder is entitled upon such conversion under the terms of this Note. The conversion shall be deemed to have been made immediately prior to the close of business on the date of the surrender of this Note, and the Person or Persons entitled to receive the Common Stock upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date.

(ii) Conversion Pursuant to Section 8(b). If this Note is

automatically converted, written notice shall be delivered to Holder at the address last shown on the records of Company for Holder or given by Holder to Company for the purpose of notice or, if no such address appears or is given, at the place where the principal executive office of Company is located, notifying Holder of the conversion to be effected, the amount and kind of Common Stock to be issued upon conversion, the date on which such conversion is expected to occur and calling upon such Holder to surrender to Company, in the manner and at the place designated, the Note. Upon such conversion of this Note, Holder shall surrender this Note, duly endorsed, at the principal office of Company. At its expense, Company shall, as soon as practicable thereafter, issue and deliver to such Holder at such principal office a

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certificate or certificates for the Common Stock to which Holder shall be entitled upon such conversion (bearing such legends as are required by the Note Purchase Agreement and applicable state and federal securities laws in the opinion of counsel to Company), together with any other securities and property to which Holder is entitled upon such conversion under the terms of this Note. Any conversion of this Note pursuant to Section 8(b) shall be

deemed to have been made immediately prior to the closing of the issuance and sale of Common Stock as described in Section 8(b) and on and after such date the Persons entitled to receive the Common Stock issuable upon such conversion shall be treated for all purposes as the record Holder of such Common Stock and a purchaser of such Common Stock under the Note Purchase Agreement and shall be bound by the terms of the Note Purchase Agreement.

(j) Fractional Shares; Effect of Conversion. The Company may, but shall not be obligated to, issue any fractional shares upon conversion of this Note. In the event that Company elects not to issue fractional shares, Company shall round the number of shares to the nearest whole share of each type of Common Stock, provided that if such rounding would result in holder receiving less than 99.9% of the amount of such Common Stock to which he is entitled, pursuant to this Section 8, such fraction shall be rounded up to the next whole

share of Common Stock.

(k) Reservation of Stock Issuable Upon Conversion. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of

this Note, such number of shares of Common Stock as shall from time to time be sufficient to effect the conversion of the Note.

9. Successors and Assigns. Subject to the restrictions on transfer

described in the Note Purchase Agreement, the rights and obligations of Company and Holder of this Note shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

10. Assignment by Company. Neither this Note nor any of the rights,

interests or obligations hereunder may be assigned, by operation of law or otherwise, in whole or in part, by Company without the prior written consent of Holder.

11. Waiver. Company hereby waives presentment, demand, or protest and any

notice of any kind in connection with the delivery, acceptance, performance, default, acceleration, or collection of this Note.

12. Notices. Any notice, request or other communication required or

permitted hereunder shall be in writing and shall be deemed to have been duly given if personally delivered or mailed by recognized overnight courier or personal delivery at the respective addresses of the parties as set forth in the Note Purchase Agreement or on the register maintained by Company. Any party hereto may by notice so given change its address for future notice hereunder. Notice shall conclusively be deemed to have been given when received.

13. No Intent of Usury. It is the express intentions of the parties that

the payments under this Note are based upon the success and profitability of a speculative venture, and are therefore exempt from applicable usury restrictions. Holder understands and acknowledges that all payments under this Note are contingent upon the profitability of the Company. Nothing contained in this Note or in the Agreement shall be deemed to require the payment by the Company or the retention by Holder of interest in excess of the maximum legal rate (the "Maximum Legal Rate"). All agreements between Holder and Company pertaining to the obligation evidenced hereby (the "Loan") are expressly limited

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so that in no contingency or event, whether by reason of acceleration of the maturity of the Loan or otherwise, shall the amount paid or agreed to be paid to Holder for the use, forbearance, or detention of money to be loaned hereunder exceed the Maximum Legal Rate. If, under any circumstance whatsoever, the fulfillment of any provision of this Note or the Agreement shall involve transcending the limits of validity prescribed by law, then, ipso facto, the

obligation to be fulfilled by Company shall be reduced to the limit of such validity. This provision shall control every provision of all agreements between Company and Holder. In the event at any time the interest paid shall exceed the Maximum Legal Rate, the excess amount shall be deemed to be held in trust by Holder for the exclusive use and benefit of Company; provided, however, that such amounts held in trust may be applied to interest or other lawful consideration payable under the terms of this Note and the Agreement if such amounts can be so applied without violating applicable laws and without exceeding the Maximum Legal Rate. Holder may commingle any such amounts with its own funds. If at the time the Note is paid, the total amount deemed to be interest under applicable laws exceeds the Maximum Legal Rate, the maximum liability of Company shall be expressly limited to the legal maximum amounts, and in the event any excess sums have been paid or are payable such amounts shall be promptly repaid or credited to Company. In the event the interest or other consideration payable by Company hereunder is exempt from applicable usury statutes, or for any other reason is not limited by law, none of the provisions of this paragraph shall be construed so as to limit the interest or other consideration payable under the terms of this Note or the Agreement.

14. Payment. Payment shall be made in lawful tender of the United States.

15. Default Rate, Usury. In the event that any payment of principal or

interest provided for herein is not paid by Company when due (including the

entire unpaid balance of this Note in the event such amount is made immediately due and payable pursuant to the terms hereof), then Company shall pay interest after the date of default on such amounts not paid when due at a rate per annum equal to the rate otherwise applicable hereunder plus four percent (4%). In the event any interest is paid on this Note which is deemed to be in excess of the then legal maximum rate, then that portion of the interest payment representing an amount in excess of the then legal maximum rate shall be deemed a payment of principal and applied against the principal of this Note.

16. Expenses. If action is instituted to collect this Note, Company

promises to pay all costs and expenses, including, without limitation, reasonable attorneys' fees and costs, incurred in connection with such action if Holder prevails.

17. Governing Law. This Note and all actions arising out of or in

connection with this Note shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflicts of law provisions of the State of California, or of any other state.

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IN WITNESS WHEREOF, Company has caused this Note to be issued as of the date first written above.

ITERIS, INC.
a Delaware corporation

By: /s/ Jack Johnson

Jack Johnson, President

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EXHIBIT 21

List of Subsidiaries

<u>Name of Subsidiary</u>	<u>State or Other Jurisdiction of Incorporation or Organization</u>
Broadcast, Inc.	Delaware
Gyyr Incorporated	California
Iteris, Inc., formerly known as Odetics ITS, Inc. (93% subsidiary of	Delaware
Mariner Networks, Inc.	Delaware
Meyer, Mohaddes Associates, Inc. (100% owned subsidiary of Iteris, Inc.)	California
Odetics Europe Limited	England and Wales
Odetics Asia Pacific Pte. Ltd	Singapore
Zyfer, Inc.	Delaware

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements (Form S-3 Nos. 033-63983, 333-40555, 333-63911, 333-66717, 333-69677, 333-74509 and 333-91903) of Odetics, Inc. and in the related Prospectuses, and in the Registration Statements (Form S-8 Nos. 333-05735, 333-44907 and 333-30396) of our report dated May 15, 2000, except for the last paragraph of Note 15, as to which the date is June 12, 2000, 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, 2000.

/s/ ERNST & YOUNG LLP

Orange County, California
June 27, 2000

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