

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, 2001

OR

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

For the transition period from _____ to _____

Commission file number 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 21, 2001,
the aggregate market value of the voting stock held by nonaffiliates of the
registrant was \$21,733,846. 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 21, 2001, there were 9,542,889 shares of Class A common stock and 1,035,841 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 14, 2001.

ODETICS, INC.

FORM 10-K ANNUAL REPORT

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PART IV

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 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 Incorporated. 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.

Beginning in the late 1970s, we developed and manufactured telecom synchronization products in our Communications division. 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. In January 2000, we reincorporated Odetics ITS in Delaware and changed its name to Iteris, Inc. Meyer, Mohaddes Associates, Inc. currently operates as a wholly-owned subsidiary of Iteris, Inc.

In the early 1980s, we developed 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. 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.

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Today, Odetics serves as a developer of technology-oriented 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 a business strategy to develop each of these business units with the ultimate goal of monetizing them for the benefit of our stockholders. While our strategy also embodies the tax-free spin-off of our developed companies to our stockholders, we cannot assure that we will be able to spin-off any of these companies in the near future, if at all.

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. During fiscal 2001, Broadcast began transitioning its focus from a hardware-based business to a product offering based on proprietary software solutions for broadband video content management and delivery to serve broadcast and cable operations.

We offer software to form powerful integrated systems, including our AIRO(TM) automation system. 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 three persons operating in three U.S. sales regions and Canada, and a sales manager for Latin America, Europe and Asia. 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, 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. Broadcast also purchases cabinets and other fabricated parts and components from other third party suppliers.

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Gyyr Incorporated

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 currently operates two divisions, Gyyr GCTV Products and Gyyr Electronic Access Controls. Gyyr GCTV Products develops and manufactures analog and digital video products and focuses on developing innovative solutions for digital storage assistance based video surveillance. 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 Electronic Access Controls develops and manufactures enterprise security management systems and focuses on developing network-based access control products. Gyyr's access control systems offer managed access and monitoring of public, private and high security facilities. Customer demand for more sophisticated capabilities and integration due to digital technology has also contributed to the recent growth in the market for Gyyr's products. Gyyr's strategy is to provide complete software-based system integration of digital security devices over a variety of network topologies and the Internet. Recent additions to Gyyr's product offerings include network and Internet-based video and device control, and 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. Gyyr markets and sells its products through three established channels: OEMs, independent distributors and system integrators. Gyyr personnel located at our principal facilities and sales offices throughout the world oversee approximately 1,000 of these channel partners. Gyyr has a business development and service organization located at our Odetics Europe Limited subsidiary. Through January 2000, Odetics Europe Limited assisted Gyyr with management in the development of European, Middle East and African markets. Commencing in January 2000, Gyyr formed Gyyr Europe Limited to succeed Odetics Europe Limited in its support services. Its Asian sales and marketing activities are managed from our Anaheim, California facilities. Gyyr's principal customers include major security equipment companies such as Diebold, Inc., ADT Security Systems, Inc., Honeywell, Inc., Mosler, Inc., Hamilton Safe and ADI.

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

Gyyr purchases substantially all of its VCRs 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, Gyyr is vulnerable to Hitachi's actions, which might necessitate changes in the design or manufacturing of Gyyr's products. While other suppliers are available who can manufacture VCRs suitable for use in Gyyr's products, we would be required to make changes in our product design or manufacturing methods to accommodate other VCRs, and Gyyr could experience delays or interruptions in supply while these changes are incorporated or a new supplier is procured.

Telecom Products

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 the U.S. government, government subcontractors and LGIC of Korea.

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.

The space borne digital recorders serviced by Zyfer 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 directly from our principal facilities in Anaheim, California. Zyfer also sells its telecom synchronization products primarily through manufacturers' representatives.

Manufacturing and Materials. Zyfer's manufacturing processes are ISO certified. Most of its manufacturing processes consist of final assembly and test. Zyfer outsources board assembly and some preliminary fabrication processes.

Mariner Networks, Inc.

Mariner Networks, Inc. has developed and manufactures a family of multi-service 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, frame relay and voice subsystems for handling intranet, data, voice and video traffic.

Sales, Marketing and Principal Customers. Mariner Networks sells its products through its direct sales organization and resellers in North America and in Europe. Mariner Networks maintains sales offices at our facilities in Anaheim, California and maintains a European subsidiary, Mariner Networks Europe Ltd., which occupies space within 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 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.

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 its 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 two 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 broad-scale marketing campaigns.

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 \$31.0 million as of March 31, 2001 and approximately \$27.3 million as of March 31, 2000. Approximately 70% of our backlog at March 31, 2000 was recognized as revenues in fiscal 2001, and approximately 68% of our backlog at March 31, 2001 is expected to be recognized as revenues in fiscal 2002. 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.

Each of our business units directs and staffs its own product development activities. Most of our development activities are conducted at our principal facilities in Anaheim, California. Mariner Networks also maintains a development team in La Gaude, France.

Our business units require substantial ongoing research and development expenditures and other product development activities. Our company-sponsored research and development costs and expenses were approximately \$11.2 million in fiscal 1999, \$16.9 million in fiscal 2000 and \$18.8 in fiscal 2001. 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.

Broadcast's primary competitors include Sony, Harris, Encoda and Probel. Sony is a large, international supplier of extensive professional quality products, including video tape libraries, for the broadcast television market. Harris 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 Gyyr expands its product base from time-lapse VCRs to providing integrated security systems in CCTV and electronic access control, it will compete with a broader set of companies. Major Japanese competitors in Gyyr's legacy tape-based time-lapse VCR business include Panasonic, Toshiba, Sony, Sanyo, Mitsubishi and JVC. Gyyr also competes with large systems suppliers including Sensormatic, Honeywell, Pelco, Ultrak, Ademco and Vicon. In the sale of access control systems, Gyyr principally competes with Casi-Rusco, Checkpoint, Cardkey and Lenel. Gyyr 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 systems will include Cylink Corporation, Rainbow Technologies, Inc. and Redcreek Communications Inc. The competition for integrated circuits addressing encryption applications include Broadcom Corporation, Chrysalis and HiFN.

Mariner Networks' principal competition includes networking vendors Vina Technologies, Accelerated Networks, Marconi and Nortel Networks.

While we believe that AutoVue is the only commercially-available lane departure warning system, potential competitors including Delphi Automotive Systems Corporation domestically, NEC Corporation and Hitachi Ltd. in Japan and Robert Bosch GmbH in Europe, which are currently developing video sensor technologies 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., Trafficon, N.V. 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.

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. 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. 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. 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 20, 2001, we employed 442 associates, including 72 associates in general management, administration and finance; 65 associates in sales and marketing; 170 associates in product development; 105 associates in operations, manufacturing and quality; and 30 associates in customer service. None of our associates are represented by a labor union and we have not experienced a work stoppage.

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 network synchronization systems 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.

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RISK FACTORS

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

We Have Experienced Substantial Losses and Expect Future Losses. We experienced significant operating losses of \$49.8 million for the year ended March 31, 2001, \$38.7 million for the year ended March 31, 2000 and \$18.3 million for the year ended March 31, 1999. In January 2001, we announced the reorganization of our business in order to reduce our operating expenses and negative cash flow, which included the downsizing of our operations in Gyyr and Broadcast, and a 25% reduction in our total work force. We cannot assure you that this reorganization will improve our financial performance, or that we will be able to achieve profitability on a quarterly or annual basis in the future. Most of our expenses are fixed in advance, and we generally are unable to reduce our expenses significantly in the short-term to compensate for any unexpected delay or decrease in anticipated revenues. As a result, we may continue to experience losses, which could cause the market price of our common stock to decline.

We Will Need to Raise Additional Capital in the Future and May Not Be Able to Secure Adequate Funds on Terms Acceptable to Us, or at All. Our line of credit facility expired on December 31, 2000. While we have received an extension on this facility until July 31, 2001, we will need to obtain a new line of credit from another lender in the near future. Substantially all of our assets have been pledged to our existing lender to secure the outstanding indebtedness under this facility (\$13.5 million at March 31, 2001). We cannot assure you that we will be able to obtain a new line of credit on a timely basis, on acceptable terms, or at all. Even if we are able to secure a new line of credit, we anticipate that we will need to raise additional capital in the near future, either through additional bank borrowings, the monetization of certain real property, the divestiture of business units or select assets, or other debt or equity financings. These conditions, together with our recurring losses, raise substantial doubt about our ability to continue as a going concern.

Our capital requirements will depend on many factors, including:

- . our ability to control costs;
- . increased research and development funding, and required investments in our business units;
- . our ability to generate operating income;

- . market acceptance of our products;
- . technological advancements and our competitors' response to our products;
- . capital improvements to new and existing facilities;
- . increased sales and marketing expenses;
- . potential acquisitions of businesses and product lines; and
- . additional working capital needs.

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

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

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

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

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

Our Operating Strategy for Developing Companies is Expensive and May Not Be Successful. Our business strategy entails intensive business development activities, which are expensive and highly risky. The goal of this strategy is to develop companies that can be spun-off to our stockholders. This strategy has in the past required us to make significant investments in our business units, both for research and development, and also to develop a separate infrastructure for certain of our business units, sufficient to allow the unit to function as an independent public company. We expect to continue to invest in the development of certain of our business units with the goal of obtaining additional capital to support further investment and eventually completing additional public offerings. We may not recognize the benefits of this investment for a significant

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period of time, if at all. Our ability to complete private financings or an initial public offering of any of our business units and/or spin-off our interest to our stockholders will depend upon many factors, including:

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

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

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

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

Our future success will depend upon our ability to anticipate and adapt to changes in technology and industry standards, and to effectively develop,

introduce, market and gain broad acceptance of new products and product enhancements incorporating the latest technological advancements.

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

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

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

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

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

We Have Significant International Sales and Are Subject to Risks Associated with Operating in International Markets. International product sales represented approximately 20% of our total net sales and contract revenues for the fiscal year ended March 31, 2001, approximately 19% for the fiscal year ended March 31, 2000 and approximately 27% for the fiscal year ended March 31, 1999. International business operations are subject to inherent risks, including, among others:

- . unexpected changes in regulatory requirements, tariffs and other trade barriers or restrictions;
- . longer accounts receivable payment cycles;
- . difficulties in managing and staffing international operations;
- . potentially adverse tax consequences;
- . the burdens of compliance with a wide variety of foreign laws;

- . import and export license requirements and restrictions of the United States and each other country in which we operate;
- . exposure to different legal standards and reduced protection for intellectual property rights in some countries;
- . currency fluctuations and restrictions; and
- . political, social and economic instability.

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

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

We Need to Manage Growth and the Integration of Our Acquisitions. Over the past few years, we have expanded our operations and made several substantial acquisitions of diverse businesses, including Intelligent

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Controls, Inc., International Media Integration Services, Ltd., Meyer Mohaddes Associates, Inc., Vigen Corporation, certain assets of the Transportation Systems business of Rockwell International, and the Security Products Division of Digital Systems Processing, Inc. A key element of our business strategy involves expansion through the acquisition of complementary businesses, products and technologies. Acquisitions may require significant capital infusions and, in general, acquisitions also involve a number of special risks, including:

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

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

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

Acquisitions, combined with the expansion of our business units and recent

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

We Depend on Government Contracts and Subcontracts and Face Additional Risks Related to Fixed Price Contracts. A significant portion of the sales by Iteris and a portion of our sales by Zyfer were derived from contracts with governmental agencies, either as a general contractor, subcontractor or supplier. Government contracts represented approximately 25% and 26% of our total net sales and contract revenues for the years ended March 31, 2000 and 2001, respectively. We anticipate that revenue from government contracts will continue to increase in the near future. Government business is, in general, subject to special risks and challenges, including:

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

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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.

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

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proceedings could subject us to significant liabilities to third parties, require us to license disputed rights from others or require us to cease marketing or using certain products or technologies. We may not be able to obtain any licenses on terms acceptable to us, or at all. We also may have to indemnify certain customers or strategic partners if it is determined that we have infringed upon or misappropriated another party's intellectual property. Any of these results could adversely affect on our business, financial condition and results of operations. In addition, the cost of addressing any intellectual property litigation claim, both in legal fees and expenses, and the diversion of management resources, regardless of whether the claim is valid, could be significant and could seriously harm our business, financial condition and results of operations.

The Trading Price of Our Common Stock Is Volatile. The trading price of our common stock has been subject to wide fluctuations in the past. Since January 2000, our Class A common stock has traded at prices as low as \$1.88 per share and as high as \$29.44 per share. We may not be able to increase or sustain the current market price of our common stock in the future. As such, you may not be able to resell your shares of common stock at or above the price you paid for them. The market price of our common stock could continue to fluctuate in the future in response to various factors, including, but not limited to:

- . quarterly variations in operating results;
- . our ability to control costs and improve cash flow;
- . shortages announced by suppliers;
- . announcements of technological innovations or new products by our competitors, customers or us;
- . acquisitions or businesses, products or technologies;
- . changes in pending litigation or new litigation;
- . changes in investor perceptions;
- . our ability to spin-off any business unit;
- . applications or product enhancements by us or by our competitors; and

- . changes in earnings estimates or investment recommendations by securities analysts.

The stock market in general has recently experienced volatility, which has particularly affected the market prices of equity securities of many high technology companies. This volatility has often been unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of our common stock. In the past, companies that have experienced volatilities in the market price of their securities have been the subject of securities class action litigation. If we were to become the subject of a class action lawsuit, it could result in substantial losses and divert management's attention and resources from other matters.

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

Our Stock Structure and Certain Anti-Takeover Provisions May Affect the Price of Our Common Stock. Certain provisions of our certificate of incorporation and our stockholder rights plan could make it difficult for a third party to acquire us, even though an acquisition might be beneficial to our stockholders. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. Our Class A common stock entitles the holder to one-tenth of one vote per share and our

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Class B common stock entitles the holder to one vote per share. The disparity in the voting rights between our common stock, as well as our insiders' significant ownership of the Class B common stock, could discourage a proxy contest or make it more difficult for a third party to effect a change in our management and control. In addition, our Board of Directors is authorized to issue, without stockholder approval, up to 2,000,000 shares of preferred stock with voting, conversion and other rights and preferences superior to those of our common stock, as well as additional shares of Class B common stock. Our future issuance of preferred stock or Class B common stock could be used to discourage an unsolicited acquisition proposal.

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

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

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

ITEM 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 Gyr 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).

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 eleven office suites representing an aggregate of approximately 35,000 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.

None.

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, 2000				
First Quarter.....	\$10.25	\$ 7.63	\$10.63	\$ 8.25
Second Quarter.....	13.00	9.13	12.13	9.13
Third Quarter.....	15.50	10.13	15.63	10.38
Fourth Quarter.....	29.44	12.00	29.63	13.00
Fiscal Year Ended March 31, 2001				
First Quarter.....	15.25	7.88	15.00	10.00
Second Quarter.....	17.94	13.00	17.63	13.50
Third Quarter.....	17.00	5.53	17.00	5.63
Fourth Quarter.....	8.00	2.94	8.25	3.00
Fiscal Year Ending March 31, 2002				
First Quarter (through June 21, 2001).....	4.60	1.88	4.64	2.95

As of June 21, 2001, we had 556 holders of record of Class A common stock and 127 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. Pursuant to the terms of the merger agreement, and as a penalty for not completing the initial public offering of Iteris, we issued an aggregate of an additional 38,995 shares of our Class A Common Stock in fiscal 2001 to the former shareholders of Meyer, Mohaddes.

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In September 2000, we issued an aggregate of 1,199,815 shares of our Class A common stock to 24 accredited investors in a private placement at a purchase price of \$14.26 per share or an aggregate purchase price of \$17.1 million. B. Riley & Co. acted as a finder with respect to a portion of this offering.

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

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ITEM 6. SELECTED FINANCIAL DATA.

The following selected consolidated financial data with respect to our consolidated statement of operations for each of the five fiscal years in the period ended March 31, 2001 and the consolidated balance sheet data at March 31, 1997, 1998, 1999, 2000 and 2001 are derived from our audited consolidated financial statements. The consolidated financial statements for the fiscal years ended March 31, 1997 and 1998 and our consolidated balance sheet at March 31, 1997, 1998 and 1999 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,				
	1997	1998	1999	2000	2001
(in thousands, except per share data)					
Consolidated Statement of Operations Data:					
Net sales.....	\$71,748	\$ 79,552	\$ 70,042	\$ 62,041	\$ 57,030
Contract revenues.....	9,032	10,284	13,331	18,666	20,039
Total net sales and contract revenues.....	80,780	89,836	83,373	80,707	77,069
Cost of sales.....	48,507	55,227	49,816	50,883	46,244
Cost of contract revenues....	4,907	6,530	9,007	13,431	13,781
Gross profit--net sales.....	23,241	24,325	20,226	11,158	10,786
Gross profit--contract revenues.....	4,125	3,754	4,324	5,235	6,258
Total gross profit.....	27,366	28,079	24,550	16,393	17,044
Selling, general and administrative expense.....	19,831	26,010	31,670	38,173	41,780

Research and development expense.....	7,734	9,271	11,191	16,888	18,812
In process research and development.....	--	2,106	--	--	--
Special charge.....	--	1,716	--	--	6,285
	-----	-----	-----	-----	-----
Loss from operations.....	(199)	(10,924)	(18,311)	(38,668)	(49,833)
Non-operating income (expense)					
Royalty income.....	--	--	--	38,437	19,055
Interest expense, net.....	(183)	(617)	(1,807)	(2,048)	(1,762)
	-----	-----	-----	-----	-----
Loss before taxes.....	(382)	(11,541)	(20,118)	(2,279)	(32,540)
Income taxes (benefit).....	(181)	(2,858)	--	--	--
	-----	-----	-----	-----	-----
Loss from continuing operations.....	(201)	(8,683)	(20,118)	(2,279)	(32,540)
Income from discontinued operations, net of income taxes.....	3,931	2,089	--	--	--
	-----	-----	-----	-----	-----
Net income (loss).....	\$ 3,730	\$ (6,594)	\$ (20,118)	\$ (2,279)	\$ (32,540)
	=====	=====	=====	=====	=====
Diluted earnings (loss) per share:					
Continuing operations.....	\$ (0.03)	\$ (1.26)	\$ (2.57)	\$ (0.25)	\$ (3.26)
Discontinued operations.....	0.62	0.31	--	--	--
	-----	-----	-----	-----	-----
Earnings (loss) per share....	\$ 0.59	\$ (0.95)	\$ (2.57)	\$ (0.25)	\$ (3.26)
	=====	=====	=====	=====	=====
Shares used in calculating diluted earnings (loss) per share.....	6,299	6,912	7,820	9,089	9,977
	=====	=====	=====	=====	=====

Fiscal Year Ended March 31,

-----	-----	-----	-----	-----	-----
1997	1998	1999	2000	2001	-----
(in thousands)					

Consolidated Balance Sheet
Data:

Working capital (deficit)....	\$21,903	\$ 19,996	\$ 15,216	\$ 12,855	\$ (8,845)
Total assets.....	85,805	88,790	81,355	81,850	68,061
Long-term debt (less current portion).....	11,860	21,000	19,962	11,666	4,800
Retained earnings (deficit)..<	12,211	(3,795)	(23,913)	(26,192)	(58,732)
Total stockholders' equity...	51,828	38,580	36,323	36,110	20,378

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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,		
	-----	-----	-----
	1999	2000	2001
	-----	-----	-----
Net sales.....	84.0%	76.9%	74.0%
Contract revenues.....	16.0	23.1	26.0
	-----	-----	-----
Total net sales and contract revenues.....	100.0%	100.0%	100.0%

Gross profit--net sales.....	28.9	18.0	18.9
Gross profit--contract revenues.....	32.4	28.1	31.2
Selling, general and administrative expense.....	38.0	47.3	54.2
Research and development expense.....	13.4	20.9	24.4
Special charge.....	--	--	8.2
Loss from operations.....	(22.0)	(47.9)	(64.7)
Non-operating income (expense):			
Royalty income.....	--	47.6	24.7
Interest expense, net.....	(2.1)	(2.5)	(2.3)
Income taxes (benefit).....	--	--	--
Net loss.....	(24.1)%	(2.8)%	(42.2)%
	=====	=====	=====

General. We define our business segments as video products, telecom products and ITS. The video products segment includes our wholly-owned subsidiaries, Broadcast and Gyr. The telecom products segment includes Zyfer, our wholly-owned subsidiary (formerly known as our Communications division) and Mariner Networks, our wholly-owned subsidiary. The ITS segment includes Odetics' 93% owned subsidiary, Iteris. In April 2001, Gyr separated its operations into two divisions, Gyr CCTV Products, which manufactures analog and digital storage solutions, and Gyr Electronic Access Control, which manufactures enterprise security management systems. All references to our subsidiaries in this report include the prior business and results of operations of such subsidiaries as business units of Odetics prior to their incorporation.

During the quarter ended December 31, 2000, we effected a restructuring to reduce our overall expenses and to further focus our business development on those areas that we believe provide the opportunity for the highest return on stockholder capital. This restructuring included a reduction of approximately 25% of our total workforce and the discontinuation of certain product lines. As a result of these actions, we incurred charges in the amount of \$9.4 million in the three months ended December 31, 2000. Of the total charges incurred, approximately \$6.3 million was classified as a non-recurring special charge, representing severance payments and the write-down of certain assets.

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) revenue 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 used for geographical information systems. Total net sales and contract revenues decreased 4.5% to \$77.1 million for the fiscal year ended March 31, 2001 ("fiscal 2001") compared to \$80.7 million for the fiscal year ended March 31, 2000 ("fiscal 2000"), and decreased 3.2% for the fiscal year ended March 31, 2000 compared to \$83.4 million for the fiscal year ended March 31, 1999 ("fiscal 1999").

Net Sales. Net sales decreased 8.1% to \$57.0 million in fiscal 2001 compared to \$62.0 million in fiscal 2000 as a result of declining sales in Broadcast, Mariner Networks and Gyr, offset in part by increased sales in Iteris and Zyfer. Broadcast sales decreased 20.1% in fiscal 2001 compared to fiscal 2000 as a result of declining sales of its automated tape libraries. In the quarter ended December 31, 2000, Broadcast determined it would not pursue continued sales opportunities for its Roswell facility management system and shifted the focus of its business on sales of its AIRO Automation systems. Mariner Networks sales decreased 56.5% in fiscal 2001 compared to fiscal 2000 as a result of the transition of its product offering entirely to its emerging Dexter family of multi-service access devices for the telecommunications market. Prior to this shift in product strategy, Mariner Networks had sold a variety of network access products that have been removed from its product line. Gyr's sales decreased 10.8% in fiscal 2001 compared to fiscal 2000 due principally to the decline in sales of analog based time-lapse recorder product families. During the quarter ended June 30, 2001, Gyr divested its Vortex Dome and Quarterback Controller product lines as part of a broader strategy to narrow its product offering to digital and analog recording and access control systems. Iteris' product sales increased 37% in fiscal 2001, primarily due to increased unit sales of its Vantage video detection products.

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. The decline in Mariner Networks' sales reflects the loss in August 1999 of IBM as a significant OEM customer of its Frame 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 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. in December 1999. 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.

Contract Revenues. Contract revenues increased 7.4% to \$20.0 million in fiscal 2001 compared to \$18.7 million in fiscal 2000 and increased 40.0% in fiscal 2000 compared to \$13.3 million in fiscal 1999. During fiscal 1999, we acquired Meyer Mohaddes Associates, Inc. and the assets of Vigen Corporation as part of a broader strategy to significantly grow our contract systems business in the ITS market. The growth in contract revenues in fiscal 2001 and fiscal 2000 reflects the successful execution of that strategy.

Contract revenues derived from Iteris represented 83.5% of total contract revenues in fiscal 2000 compared to 64.9% of total contract revenues in fiscal 1999. The increase in Iteris' contract revenues in both fiscal 2001 and fiscal 2000 was 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 increased 4.0% to \$17.0 million in fiscal 2001, compared to \$16.4 million in fiscal 2000, and decreased 33.2% in fiscal 2000 compared to \$24.6 million in fiscal 1999. Total gross profit as a percent of net sales and contract revenues increased to 22.1% in fiscal 2001, compared to 20.3% in fiscal 2000, and declined from 29.5% in fiscal 1999. Gross profit as a percent of net sales increased to 18.9% in fiscal 2001 compared to 18.0% in fiscal 2000. Gross profit in fiscal 2001 is net of charges totaling \$3.1 million, or 4.0% of net sales and contract revenues, related to the write-off of inventories associated with discontinued product lines in our Gyr and Broadcast businesses. The charges were incurred in the third quarter of fiscal 2001 and were part of an overall restructuring announced in January 2001.

The increase in gross profit as a percent of net sales in fiscal 2001 reflects increased gross profit on sales of Iteris Vantage products which comprised 17.5% of net sales in fiscal 2001 compared to 11.7% of net sales in fiscal 2000. In addition to improvements in Vantage gross profits, the gross profit performance in fiscal 2000 was

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negatively impacted by pricing concessions to certain customers in our Broadcast business. During fiscal 2000, gross profit on net sales was also impaired due to our adjustments to inventory reserves and capitalized software related to certain discontinued products and product options in Mariner Networks, Broadcast and Gyr.

Gross profit as a percent of contract revenues increased to 31.2% in fiscal 2001 compared to 28.0% in fiscal 2000. The increase in gross profit on contract revenues in fiscal 2001 reflects improved gross profit performance in both Iteris and Zyfer. We recognize contract revenues and related gross profit using percentage of completion contract accounting, and the related gross profit recognized in any given year is primarily affected by the underlying mix of contract activity.

Gross profit as a percent of contract revenues decreased to 28.0% in fiscal 2000 compared to 32.4% in fiscal 1999. Lower gross profit on contract revenues in fiscal 2000 reflect a mix of lower margin contract activity.

Selling, General and Administrative Expense. Selling, general and

administrative expense increased 9.4% to \$41.8 million (or 54.2% of total net sales and contract revenues) compared to \$38.2 million (or 47.2% of total net sales and contract revenues) in fiscal 2000, and increased 20.5% in fiscal 2000 compared to \$31.7 million (or 38.0% of total net sales and contract revenues) in fiscal 1999. During fiscal 2001, we increased expenditures for sales and marketing and general and administrative by approximately \$4.2 million in Mariner Networks principally to fund its international sales and marketing organization to support the roll-out of its Dexter product offering. The increased expenditures were primarily in the area of salaries and related benefits, travel and living, trade shows, and advertising and promotion. The increase in sales and marketing expense in Mariner Networks was partially offset by decreased expenditures by Gyyr and Broadcast, which were part of our overall cost reduction plan. Iteris also experienced increased general and administrative expense in fiscal 2001 related to the build up of its administrative infrastructure to support its planned spin-off from Odetics, originally planned for the quarter ended June 30, 2000. As a result of the aborted public offering and spin-off, general and administrative expense in fiscal 2001 included a charge of approximately \$360,000 related to the write-off of deferred public offering costs.

During fiscal 2000, we increased expenditures for sales and marketing and general and administrative 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. In preparation for the initial public offering of Iteris, we increased sales and marketing expense and general and administrative expense to enable Iteris to execute on its expansion plans and to function as an independent public company. In connection with this proposed public offering, we also 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 1999. In addition, the increase in selling, general and administrative expense in fiscal 2000 reflects charges of approximately \$500,000 for adjustment to the allowance for doubtful accounts in Broadcast.

Research and Development Expense. Research and development expense increased 11.4% to \$18.8 million (or 24.4% of total net sales and contract revenues) in fiscal 2001 compared \$16.9 million (or 20.9% of total net sales and contract revenues) in fiscal 2000, and increased 50.9% in fiscal 2000 compared to \$11.2 million (or 13.4% of total net sales and contract revenues) in fiscal 1999. For competitive reasons, we closely guard the confidentiality of specific development projects. The increase in research and development expense in fiscal 2001 reflects increased spending primarily by Mariner Networks and Iteris, partially offset by reductions in spending by Gyyr and Broadcast. The increase in research and development expense by Mariner Networks reflects continued development of Dexter 3000, which was released for general availability to the market in June 2001. The increase in Iteris research and development expense largely represents expenditures to support its development initiatives for its Personalized Traveler Information Systems and, to a

lesser extent, continued development of its AutoVue product offering. As part of cost reduction initiatives completed in the quarter ended December 31, 2000, Iteris substantially reduced spending to support development of its Personalized Traveler Information Systems. Consequently, Iteris' research and development expense in the three months ended March 31, 2001 declined from the comparable three month period ended March 31, 2000. The reductions in research and development expense in Gyyr and Broadcast reflect the result of our overall expense reduction efforts.

The increase in research and development expense in fiscal 2000 partly reflects the capitalization of certain development costs in fiscal 1999. 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.

Nonrecurring Charge. In December 2000, we recorded a nonrecurring charge of \$6.3 million. Approximately \$1.3 million of the charge reflects severance payments for staffing reductions, and the remainder represents non-cash charges for asset write-downs and reserves established in connection with the discontinuation of certain product lines.

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, and \$17.8 million in June 2000 in full settlement of the amounts due us.

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

	Year Ended March 31,		
	1999	2000	2001
	-----	-----	-----
Interest expense.....	\$1,928	\$2,313	\$ 2012
Interest income.....	121	265	250
	-----	-----	-----
Interest expense, net.....	\$1,807	\$2,048	\$1,762
	=====	=====	=====

Interest expense decreased 13% in fiscal 2001 compared to fiscal 2000 and increased 20.0% in fiscal 2000 compared to fiscal 1999. Interest expense primarily reflects interest charges on our line of credit borrowings and mortgage interest. The fluctuations in interest expense in fiscal 2001 and fiscal 2000 represents changes in the average outstanding borrowings on our line of credit to fund negative operating cash flow. Interest income in fiscal 2001 and fiscal 2000 is primarily related to interest earned on invested cash received from our settlement with StorageTek. Interest income in fiscal 1999 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.

Income Taxes. We have not provided income tax benefit for the losses incurred in fiscal 2001, 2000 and 1999 due to the uncertainty as to the ultimate realization of the benefit.

Liquidity and Capital Resources

During fiscal 2001 and 2000, we reported operating losses of \$49.8 million and \$38.7 million, respectively, and we had a working capital deficiency of \$8.8 million at March 31, 2001. We financed our operations in fiscal 2001 and 2000 largely through cash received from the settlement of certain litigation with StorageTek, debt and equity financings and, to a lesser extent, through the sale of assets of certain of our subsidiaries.

In October 1999, we settled litigation with StorageTek in exchange for license fees payable to us in the aggregate amount of \$100.0 million, \$80.0 million of which was paid on the settlement date (resulting in net cash to us of \$38.4 million after payment of the related expenses). In June 2000, we amended the settlement agreement with StorageTek to provide for the

acceleration of the payment of the \$20.0 million still owed to us. Under the terms of the amendment, StorageTek paid us \$17.8 million in cash during fiscal 2001 to complete the settlement.

During fiscal 2001, we used \$20.1 million of cash to fund operations, which reflects our net loss of \$32.5 million, offset by non-cash charges of \$5.0 million for depreciation and amortization, \$4.0 million for the write off of capitalized software and goodwill, and a \$4.6 million reduction in net operating assets and liabilities. During fiscal 2001, we also sold certain assets of Zyfer and of our solid state recording product line for \$1.9 million in cash. In connection with these sales, we recorded a non-operating gain of \$1.2 million.

In fiscal 2000, we sold an option to purchase our principal facilities in Anaheim California to Manchester Capital LLC for an aggregate purchase price of \$5.0 million. We used \$5.6 million in cash in fiscal 2001 to repurchase this option, which included accrued interest.

At March 31, 2001, we had \$13.5 million outstanding on a \$17.0 million line of credit with Transamerica Business Credit. While this line of credit expired on December 31, 2000, we received an extension until July 31, 2001. In addition, due to the breach of certain financial and other covenants under this line of credit, we entered into a forbearance agreement in May 2001 with Transamerica that expires July 31, 2001. Under the terms of this forbearance agreement and the extension, we are prohibited from making further borrowings under the line of credit.

In May 2001, we received \$16.0 million pursuant to a promissory note secured by a first trust deed on our principal facilities in Anaheim, California. This promissory note is due in May 2002 and bears annual interest at the rate of 10%. In connection with this loan, we issued warrants to this lender to purchase 426,667 shares of our Class A common stock at an exercise price of \$4 per share. If we prepay this note prior to six months following its issuance, the lender, at its option, may convert up to \$1.6 million of the principal amount on this note into our Class A common stock at a conversion price of \$4 per share.

Of the \$16.0 million proceeds received from the promissory note financing, we used approximately \$6 million to retire the pre-existing first trust deed on our Anaheim real property and \$5.9 million to reduce the borrowings due Transamerica under the line of credit to \$7.6 million in May 2001 in accordance with the terms of the forbearance agreement. We used the balance of the proceeds from this financing, after payment of expenses, for general working capital purposes.

In January 2001, we announced that in response to tightening credit and capital markets we were taking a number of actions to reduce our operating expenses, improve our gross profit and operating profit performance, and narrow our negative operating cash flow and operating losses. Concurrent with those actions, we incurred charges in the three months ended December 31, 2000 totaling \$9.4 million. Approximately \$1.3 million of these charges incurred were cash charges related to severance payments for staffing reductions and the balance were non-cash charges related to asset write-downs and reserves established in connection with the discontinuation of certain products.

We expect that our operations will continue to use net cash for the foreseeable future. During fiscal 2002, we expect to have an ongoing need to raise cash by securing additional debt or equity financing, or by divesting certain assets to fund our operations until they return to profitability and positive operating cash

flow. We are currently considering the sale and leaseback of our principal operating facilities in Anaheim, California and are in negotiations with a financial institution to provide a new line of credit. We cannot be certain that our plan to sell and leaseback of our facilities will be successful, that we will be able to secure a new line of credit on terms acceptable to us, or at all, or that our existing lender will continue to extend our existing borrowing relationship. Our future cash requirements will be highly dependent on our ability to control expenses as well as the successful execution of the revenue plans by each of our businesses. As a result, any projections of future cash requirements and cash flows are subject to substantial uncertainty.

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

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

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

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

	Expected maturity date March 31,					Fair value
	2002	2003	2004	2005	Total	
	(dollars in thousands)					
Fixed rate debt.....	\$6,990	\$1,804	\$1,653	\$1,343	\$11,790	\$11,790
Average interest rate.....	8.87%	9.18%	9.36%	9.36%	9.02%	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

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

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

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

ITEM 11. EXECUTIVE COMPENSATION.

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

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

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

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 2001.....	F-3
Consolidated Statements of Operations for the years ended March 31, 1999, 2000 and 2001.....	F-4
Consolidated Statements of Stockholders' Equity for the years ended March 31, 1999, 2000 and 2001.....	F-5
Consolidated Statements of Cash Flows for the years ended March 31, 1999, 2000 and 2001.....	F-6
Notes to Consolidated Financial Statements.....	F-7

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).

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).

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10.5 Revolving Credit Note dated December 28, 1998 payable to Transamerica Business Credit Corporation in the original principal amount of \$17,000,000 (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 Amendments to Loan Agreement dated December 22, 2000, February 28, 2001 and May 29, 2001 among Transamerica Business Credit Corporation and Odetics and its subsidiaries.

10.11 Forbearance Agreement dated May 28, 2001 among Transamerica Business Credit Corporation and Odetics and its subsidiaries.

10.12 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).

10.13 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).

10.14 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).

10.15 1997 Stock Incentive Plan of Odetics (incorporated by reference to Exhibit 99.1 to Odetics' Registration Statement on Form S-8 (File No. 333-30396) as filed with the SEC on February 14, 2000).

10.16 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. 333-30396) as filed with the SEC on February 14, 2000)

10.17 Form of Stock Option Agreement (incorporated by reference to Exhibit 99.3 to Odetics' Registration Statement on Form S-8 (File No. 333-30396) as filed with the SEC on February 14, 2000).

10.18 Form of Addendum to Stock Option Agreement--Involuntary Termination Following Corporate Transaction or Change in Control (incorporated by reference to Exhibit 99.4 to Odetics' Registration Statement on Form S-8 (File No. 333-30396) as filed with the SEC on February 14, 2000).

- 10.19 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. 333-30396) as filed with the SEC on February 14, 2000).
- 10.20 Form of Stock Issuance Agreement (incorporated by reference to Exhibit 99.6 to Odetics' Registration Statement on Form S-8 (File No. 333-30396) as filed with the SEC on February 14, 2000)
- 10.21 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. 333-30396) as filed with the SEC on February 14, 2000).
- 10.22 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. 333-30396) as filed with the SEC on February 14, 2000).

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- 10.23 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. 333-30396) as filed with the SEC on February 14, 2000).
- 10.24 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. 333-30396) as filed with the SEC on February 19, 2000).
- 10.25 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).
- 10.26 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).
- 10.27 Subordinated Convertible Note Purchase Agreement dated January 25, 2000 between Iteris, Inc. and DaimlerChrysler GmbH (incorporated by reference to Exhibit 10.31 to Odetics' Annual Report on Form 10-K as filed with the SEC on June 29, 2000).
- 10.28 Subordinated Convertible Note dated January 25, 2000 between Iteris, Inc. and DaimlerChrysler GmbH (incorporated by reference to Exhibit 10.32 to Odetics' Annual Report on Form 10-K as filed with the SEC on June 29, 2000).
- 10.29 Securities Purchase Agreement dated May 29, 2001, by and between Odetics and Castle Creek Technology Partners LLC. Included from the Agreement are Exhibit A (form of Senior Convertible Promissory Note), Exhibit B-1 (form of Stock Purchase Warrant), Exhibit B-2 (form of Stock Purchase Warrant), Exhibit B-3 (form of Stock Purchase Warrant), and Exhibit D (form of Deed of Trust) (incorporated by reference to Exhibit 99.1 to Odetics' Current Report on Form 8-K as filed with the SEC on June 1, 2001).
- 10.30 Registration Rights Agreement dated May 29, 2001, by and between Odetics and Castle Creek Technology Partners LLC (incorporated by reference to Exhibit 99.2 to Odetics' Current Report on Form 8-K as filed with the SEC on June 1, 2001).
- 10.31 Amendment to Rights Agreement, dated May 21, 2001, by and between Odetics and Fleet National Bank (a.k.a. Bank Boston, N.A. (incorporated by reference to Exhibit 99.4 to Odetics' Current Report on Form 8-K as

filed with the SEC on June 1, 2001).

21 Subsidiaries of Odetics (incorporated by reference to Exhibit 21 to Odetics' Annual Report on Form 10-K as filed with the SEC on June 29, 2000).

23.1 Consent of Independent Auditors.

(b) Reports on Form 8-K

On August 16, 2000, we filed a Current Report on Form 8-K to announce that Iteris, Inc., a subsidiary of Odetics, Inc., reached an agreement with Ford Motor Company to become the exclusive supplier of the optical lane departure warning systems to be installed on future Ford, Lincoln and Mercury badged vehicles produced and sold in the United States. Under terms of the agreement, Ford will receive warrants to purchase up to approximately 9.9% of Iteris common stock if Ford meets predetermined Auto Vue purchase volumes over the six year term of the agreement. The warrants will not be fully exercisable until Ford purchases a number of units that results in sales of approximately \$90 million dollars over the life of the agreement. However, Ford has no obligation to purchase any Auto Vue products under the agreement. Ford will not play a role in the management of Iteris.

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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 July 13, 2001.

ODETICS, INC.

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

POWER OF ATTORNEY

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

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

Signature -----	Title -----	Date ----
/s/ Joel Slutzky _____ Joel Slutzky	Chief Executive Officer, President and Chairman of the Board (principal executive officer)	July 13, 2001
/s/ Crandall Gudmundson _____	Director	July 13, 2001

Crandall Gudmundson

/s/ Jerry Muench	Director	July 13, 2001
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Jerry Muench		
/s/ Kevin C. Daly	Director	July 13, 2001
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Kevin C. Daly		
/s/ Gary Smith	Vice President and Controller (principal accounting officer)	July 13, 2001
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Gary Smith		
/s/ Thomas L. Thomas	Director	July 13, 2001
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Thomas L. Thomas		

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Signature -----	Title -----	Date -----
/s/ John Seazholtz	Director	July 13, 2001
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John Seazholtz		
/s/ Paul E. Wright	Director	July 13, 2001
<hr/>		
Paul E. Wright		
/s/ Gregory A. Miner	Vice President, Director and Chief Operating Officer and Chief Financial Officer (principal financial officer)	July 13, 2001
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Gregory A. Miner		

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ODETICS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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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, 2000 and 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2001. Our audits also included the financial statement schedule listed in Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with 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, 2000 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2001, 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.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company's recurring losses from operations and working capital deficit raise substantial doubt about its ability to continue as a going concern. Management's plans as to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Ernst & Young LLP

Orange County, California
May 15, 2001, except for Notes 1 and 16,
as to which the date is May 29, 2001

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ODETICS, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	March 31	
	2000	2001
	-----	-----
ASSETS		

Current assets:		
Cash and cash equivalents.....	\$ 4,880	\$ 2,218
Trade accounts receivable, net of allowance for doubtful accounts of \$2,068 in 2000 and \$1,644 in 2001.....	13,576	14,380
Costs and estimated earnings in excess of billings on uncompleted contracts.....	3,283	3,296
Inventories:		
Finished goods.....	1,203	1,644

Work in process.....	859	51
Materials and supplies.....	16,150	11,371
Prepaid expenses and other.....	1,978	1,078
	-----	-----
Total current assets.....	41,929	34,038
Property, plant and equipment:		
Land.....	2,060	2,060
Buildings and improvements.....	18,868	18,982
Equipment.....	30,652	32,667
Furniture and fixtures.....	2,676	2,692
Allowances for depreciation.....	(33,520)	(35,266)
	-----	-----
	20,736	21,135
Capitalized software costs, net.....	6,482	2,090
Goodwill, net of accumulated amortization of \$2,723 in 2000 and \$1,924 in 2001.....	12,004	10,622
Other assets.....	699	176
	-----	-----
Total assets.....	\$ 81,850	\$ 68,061
	=====	=====

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ODETICS, INC.

CONSOLIDATED BALANCE SHEETS--(continued)
(In thousands, except share and per share amounts)

	March 31	
	2000	2001
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		

Current liabilities:		
Trade accounts payable.....	\$ 10,702	\$ 10,644
Accrued payroll and related.....	4,892	4,559
Accrued expenses.....	2,313	2,354
Contract reserve.....	3,056	2,290
Billings in excess of costs and estimated earnings on uncompleted contracts.....	1,303	2,575
Revolving line of credit.....	3,706	13,471
Current portion of long-term debt.....	3,102	6,990
	-----	-----
Total current liabilities.....	29,074	42,883
Long-term debt, less current portion.....	11,666	4,800
Other liabilities.....	5,000	--
Commitments (Note 12)		
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--8,183,470 of Class A and 1,051,541 of Class B at March 31, 2000; 9,468,620 of Class A and 1,035,841 of Class B at March 31, 2001....	923	1,050
Paid-in capital.....	61,200	78,548
Treasury stock, 4,564 and 93 shares in 2000 and 2001, respectively.....	(22)	(1)
Notes receivable from employees	(61)	(51)
Accumulated other comprehensive income (loss).....	262	(436)
Accumulated deficit.....	(26,192)	(58,732)
	-----	-----
Total stockholders' equity.....	36,110	20,378
	-----	-----
Total liabilities and stockholders' equity.....	\$ 81,850	\$ 68,061

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	<u>\$ (20,051)</u>

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	<u>\$ (2,109)</u>

Issuances of common stock	1,270	--	127	17,348	21	--	--	--	17,496	
Conversion of Class B common stock.....	16	(16)	--	--	--	--	--	--	--	
Payments on notes receivable.....	--	--	--	--	--	10	--	--	10	
Foreign currency translation adjustments.....	--	--	--	--	--	--	(698)	--	(698)	\$ (698)
Net loss.....	--	--	--	--	--	--	--	(32,540)	(32,540)	(32,540)

Balance at March 31, 2001.....	9,469	1,036	\$1,050	\$78,548	\$ (1)	\$ (51)	\$ (436)	\$ (58,732)	\$ 20,378	<u>\$ (33,238)</u>
=====										

See accompanying notes.

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ODETICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year ended March 31		
	1999	2000	2001
	-----	-----	-----
Operating activities			
Net loss.....	\$ (20,118)	\$ (2,279)	\$ (32,540)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization.....	5,205	7,185	4,967
Write-off of capitalized software.....	--	--	4,014
Gain on sale of product lines.....	--	--	(1,230)
Provision for losses on accounts receivable....	332	745	78
Provision for deferred income taxes.....	915	--	--
Changes in operating assets and liabilities (Note 14).....	1,560	1,179	4,621
	-----	-----	-----
Net cash provided by (used in) operating activities.....	(12,106)	6,830	(20,090)
Investing activities			
Purchases of property, plant and equipment, net..	(2,747)	(2,169)	(2,502)
Repurchase of real estate option.....	--	--	(5,000)
Proceeds from sale of product lines.....	--	--	1,877
Proceeds from option to sell real estate.....	--	5,000	--
Software development costs.....	(4,944)	(330)	--
Purchase of net assets of acquired business.....	--	(1,500)	(42)
Net cash received from ATL.....	10,019	--	--
Other.....	--	213	(688)
	-----	-----	-----

Net cash provided by (used in) investing activities.....	2,328	1,214	(6,355)
Financing activities			
Proceeds from line of credit and long-term borrowings.....	44,527	23,966	26,644
Principal payments on line of credit and long-term debt.....	(45,089)	(29,528)	(19,857)
Proceeds from issuance of common stock.....	9,996	1,611	16,996
	-----	-----	-----
Net cash provided by (used in) financing activities.....	9,434	(3,951)	23,783
	-----	-----	-----
Increase (decrease) in cash.....	(344)	4,093	(2,662)
Cash and cash equivalents at beginning of year...	1,131	787	4,880
	-----	-----	-----
Cash and cash equivalents at end of year.....	\$ 787	\$ 4,880	\$ 2,218
	=====	=====	=====

See accompanying notes.

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ODETICS, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001

1. Formation and Operations

Odetics, Inc. (the Company) serves as a developer of technology oriented companies, each with its own marketplace, customers and products, including the Company's wholly-owned subsidiaries Gyyr, Inc., Broadcast, Inc., Mariner Networks, Inc., Zyfer, Inc., Odetics Europe Limited, Odetics GYYR Limited, Odetics Mariner Limited, Odetics Asia Pacific Pte. Ltd., and its 93% owned subsidiary, Iteris, Inc.

In January 2001, the Company announced that in response to tightening credit and capital markets it was taking a number of actions to reduce its operating expenses, improve its gross profit and operating performance, and narrow its negative operating cash flow and operating losses. Concurrent with those actions, the Company incurred charges in the three months ended December 31, 2000 totaling \$9.4 million (Note 4). Including these charges, during fiscal 2001 and 2000, the Company experienced operating losses of \$49.8 million and \$38.7, respectively, and at March 31, 2001 had a working capital deficit of \$8.8 million.

Contributing to the working capital deficit at March 31, 2001, is \$13.5 million of borrowings from Transamerica Business Credit under a \$17.0 million line of credit. This line of credit expired on December 31, 2000, however, the Company received an extension until July 31, 2001. Due to the breach of certain financial and other covenants under this line of credit, the Company entered into a forbearance agreement with Transamerica in May 2001. Under the terms of this forbearance agreement and the extension, the Company is prohibited from making any further borrowings under the line of credit.

The Company financed its operations in fiscal 2000 and 2001 largely through cash received from the settlement of certain litigation with StorageTek (Note 15), debt and equity financings and, to a lesser extent, through the sale of assets of certain of its subsidiaries.

In May 2001, the Company received \$16.0 million pursuant to a promissory note secured by a first trust deed on its principal facilities in Anaheim, California. This promissory note is due in May 2002 and bears annual interest at the rate of 10%. Of the \$16.0 million of proceeds received from the promissory note financing, the Company used approximately \$6.0 million to retire the pre-existing first trust deed on its Anaheim real property and \$5.9 million to reduce the borrowings due Transamerica under the line of credit to \$7.6 million in accordance with the terms of the forbearance agreement. The balance of the proceeds from this financing, after payment of expenses, is available to the Company for general working capital purposes.

The Company expects that its operations will continue to use net cash for the foreseeable future. During fiscal 2002, the Company expects to have an

ongoing need to raise cash by securing additional debt or equity financing, or by monetizing (divesting) certain assets to fund its operations until they return to profitability and positive operating cash flow.

The Company is currently considering the sale and leaseback of its principal operating facilities in Anaheim, California and is in negotiations with a financial institution to provide a new line of credit. However, the Company cannot be certain that its plan to sell and leaseback of its facilities will be successful, that it will be able to secure a new line of credit on terms acceptable to us, or at all, or that its existing lender will continue to extend its existing borrowing relationship. The Company's future cash requirements will be highly dependent on its ability to control expenses as well as the successful execution of the revenue plans by each of our businesses. As a result, any projections of future cash requirements and cash flows are subject to substantial uncertainty.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments to reflect the possible future

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

effects on the recoverability and classification of assets or liabilities that may result from the outcome of this uncertainty.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates made in preparing the consolidated financial statements include the allowances for doubtful accounts and deferred tax assets, inventory reserves, certain accrued liabilities, costs to complete long-term contracts and estimates of future cash flows used to determine the recoverability of long lived assets.

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.

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.

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OETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

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, 2000 and 2001, accounts receivable from governmental agencies and prime government contractors were approximately \$3,639,000 and \$3,719,000, 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.

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 Company believes no impairment of the carrying value of its long-lived assets, inclusive of goodwill, existed at March 31, 2001. 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 2002. 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 three to fifteen years.

Research and Development Expenditures

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

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

During fiscal 1999, 2000 and 2001, software development costs were amortized to cost of sales totaling \$1,063,000, \$1,515,000 and \$940,000, respectively. During fiscal 2001, the Company discontinued certain product lines, resulting in the write-off of \$3.5 million of previously capitalized software development costs (Note 4).

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, 2000 and 2001 was \$596,000 and \$389,000, respectively.

Comprehensive Income (Loss)

Statement of Financial Accounting Standards No. 130, establishes standards for reporting and displaying comprehensive income (loss) and its components in the consolidated financial statements. For the Company, the only component of accumulated other comprehensive income (loss) is the cumulative foreign currency translation adjustment recorded in stockholders' equity.

Income Taxes

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

Loss Per Share

Basic and diluted 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.

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 Statement of Financial Accounting Standard No. 123, Accounting for Stock-Based Compensation ("Statement 123"), 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.

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

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

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 adoption of FIN 44 did not have a material effect on the Company's financial position or results of operations.

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 \$2,622,000, \$2,488,000 and \$3,491,000 in the years ended March 31, 1999, 2000 and 2001, respectively.

Derivative Instruments and Hedging Activities

In June 1998 Statement of Financial Accounting Standard No. 133, Accounting for Derivative Instruments and Hedging Activities ("Statement 133"), 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 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.

Reclassifications

Certain amounts in the 1999 and 2000 consolidated financial statements have been reclassified to conform with the 2001 presentation.

3. Acquisitions and Dispositions

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 acquired technology, which is being amortized over its expected 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.

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The merger agreement provided 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 did not consummate an initial public offering of the common stock of Iteris, Inc. by each and any of those dates. Pursuant to this provision, Odetics issued an additional 164,461 shares of its Class A common stock to the MMA shareholders through April 16, 2001, 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 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, Gyrr, 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 on December 1, 1999 and \$1 million on December 1, 2000. The final payment of \$1 million is due on December 1, 2001. 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 has been recorded as goodwill.

During fiscal 2001, the Company sold certain assets of its sold state recording product line and of its Zyfer subsidiary for cash proceeds of \$1.9 million. In connection with these sales the Company recorded gains aggregating \$1.2 million.

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

4. Special Charge

During fiscal 2001, the Company approved a number of actions to reduce operating expenses and improve profitability and cash flows. These actions included a reduction in workforce of 104 employees and the discontinuance of certain product lines. As a result of these actions the company recorded the following as special charge (in thousands):

Severance and related costs.....	\$1,305
Write-off of capitalized software.....	3,452

Write-off of goodwill.....	562
Write-off deferred costs.....	966

	\$6,285
	=====

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

In addition, the Company reserved or wrote-off inventory in the amount of \$3.1 million, primarily related to discontinued products in its Broadcast and Gyr subsidiaries. This charge is included in cost of sales in the accompanying consolidated statement of operations.

5. Related Party Transaction

In July 1999, the Company sold an option to an investment company controlled by certain officers and shareholders of the Company, for an aggregate purchase price of \$5.0 million to purchase certain real property of Odetics. In August 2000 the Company repurchased the option for \$5.6 million which represented the original purchase price plus accrued interest.

6. Costs and Estimated Earnings on Uncompleted Contracts

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

	March 31	
	2000	2001

	(In thousands)	
Costs incurred on uncompleted contracts.....	\$21,971	\$14,054
Estimated earnings.....	1,648	1,054
	-----	-----
	23,619	15,108
Less billings to date.....	21,639	14,387
	-----	-----
	\$ 1,980	\$ 721
	=====	=====
Included in accompanying balance sheets:		
Costs and estimated earnings in excess of billings on uncompleted contracts.....	\$ 3,283	\$ 3,296
Billings in excess of costs and estimated earnings on uncompleted contracts.....	1,303	2,575
	-----	-----
	\$ 1,980	\$ 721
	=====	=====

Costs and estimated earnings in excess of billings at March 31, 2000 and 2001 include \$150,000 and \$232,575, 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, 2001 are expected to be billed and collected during the year ending March 31, 2002.

7. Revolving Line of Credit and Long-Term Debt

In December 1998, the Company entered into a \$17.0 million revolving line of credit, which provided for borrowings at the prime rate plus 2.0% (9.0% at March 31, 2001). 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. As amended, the line of credit expires on July 31, 2001 (Note 1).

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 8.0% 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--(Continued)

Long-term debt consisted of the following:

	March 31	
	2000	2001
	(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 \$14.4 million, paid in May 2001 (Note 1).....	\$ 7,027	\$5,874
Notes payable, accruing interest at 8.00%, payable upon maturity in January 2002.....	3,750	3,750
Note payable, in two equal annual installments in December 2001 and 2002.....	2,000	1,000
Notes payable, accruing interest at 7.55% to 17.08%, collateralized by equipment, payable in monthly installments through 2003.....	1,991	1,166
	14,768	11,790
Less current portion.....	3,102	6,990
	\$11,666	\$4,800
	=====	=====

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

	(In thousands)	
2002.....	\$ 6,990	
2003.....	1,804	
2004.....	1,653	
2005.....	1,343	

	\$11,790	
	=====	

8. Income Taxes

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

	Year ended March 31		
	1999	2000	2001
	(In thousands)		
Income tax benefit at statutory rates.....	\$ (6,840)	\$ (775)	\$ (11,064)
Increase (decrease) of valuation allowance	5,373	(773)	8,353
Foreign losses recorded without benefit.....	1,061	1,258	2,255
Nondeductible goodwill amortization.....	31	191	153
Other.....	375	99	303
	\$ --	\$ --	\$ --

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

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

	Year ended March 31		
	1999	2000	2001
	(In thousands)		
Pretax (income) loss:			
Domestic.....	\$ (16,997)	\$ 1,317	\$ (25,918)
Foreign.....	(3,121)	(3,596)	(6,622)
	\$ (20,118)	\$ (2,279)	\$ (32,540)

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

	Year ended March 31		
	1999	2000	2001
	(In thousands)		
Current:			
Federal.....	\$ (915)	\$ --	\$ --
State.....	--	--	--
Foreign.....	--	--	--
Total current.....	(915)	--	--
Deferred:			
Federal.....	915	--	--
State.....	--	--	--
Foreign.....	--	--	--
Total deferred.....	915	--	--
	\$ --	\$ --	\$ --

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

	2000	2001
	-----	-----
	(In thousands)	
Deferred tax assets:		
Inventory reserves.....	\$ 730	\$ 738
Deferred compensation and other payroll accruals.....	1,016	1,074
Net operating loss carryover.....	4,417	14,578
Credit carryforwards.....	1,519	2,051
Bad debt and other reserves.....	1,120	1,300
Other, net.....	400	281
	-----	-----
Total deferred tax assets.....	9,202	20,022
Valuation allowance for deferred tax assets.....	(6,145)	(17,378)
	-----	-----
Net deferred tax assets.....	3,057	2,644
	-----	-----
Deferred tax liabilities:		
Tax over book depreciation.....	1,973	1,990
Capitalized interest and taxes.....	451	434
Cash to accrual adjustment.....	347	174
Other, net.....	286	46
	-----	-----
Total deferred tax liabilities.....	3,057	2,644
	-----	-----
Net deferred taxes.....	\$ --	\$ --
	=====	=====

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

At March 31, 2001, for federal income tax purposes, the Company had approximately \$1,238,000 in general business credit carryforwards and \$534,000 of alternative minimum tax credit carryforwards. The Company also has \$37,096,000 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 realization of which will result in an adjustment of assets acquired in this acquisition. The business credit carryforwards expire at various dates beginning in 2002 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 1999, 2000 or 2001.

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 \$644,000,

\$677,000 and \$795,000 in 1999, 2000 and 2001, 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 \$55,000, \$69,000 and \$17,000 in 1999, 2000 and 2001, 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 \$377,000, \$110,000 and \$128,000 for 1999, 2000 and 2001, 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

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OETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

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.

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

	Year ended March 31					
	1999		2000		2001	
	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options
(In thousands, except per share data)						
Options outstanding at beginning of year.....	563	\$4.67	628	\$ 5.27	801	\$ 7.68
Granted.....	149	7.36	358	10.36	120	13.47
Exercised.....	(59)	4.63	(152)	4.65	24	7.95
Canceled.....	(25)	4.63	(33)	4.65	93	8.21
	---		----		---	
Options outstanding at end of year.....	628	5.27	801	7.68	804	8.44
	===		====		===	
Exercisable at end of year.....	165		219		531	
	===		====		===	
Available for grant at end of year.....	37		114		487	
	===		====		===	
Weighted average fair value of options granted.....		\$3.81		\$ 5.25		\$ 7.03
		=====		=====		=====

The exercise price for options outstanding as of March 31, 2001, ranged from \$4.50 to \$15.625. The weighted-average remaining contractual life of those

options is 8.0 years.

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		
	1999	2000	2001
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

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Odetics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

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, 1999, 2000 and 2001 follows (in thousands, except per share data):

	1999	2000	2001
Pro forma:			
Net loss.....	\$ (20,555)	\$ (2,969)	\$ (33,512)
Basic and diluted loss per share.....	\$ (2.63)	\$ (0.33)	\$ (3.36)

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.

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. Options to purchase 1,731,485 shares of common stock, at exercise prices ranging from \$1.60 to \$9.07 per share, were outstanding at March 31, 2001. 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 1,500,000 shares of Mariner's common stock are reserved for issuance under this plan.

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

1,000,000 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 1,727,250 shares of Mariner's common stock were outstanding at March 31, 2001 under these plans.

Zyfer, Inc.'s Stock Option Plans

In April 2000, Zyfer's Board of Directors adopted a Special Executive Stock Option Plan which provides for the granting of stock options for shares of Zyfer'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 Zyfer's common stock are reserved for issuance under this plan.

In April 2000, Zyfer's Board of Directors also adopted the 1999 Employee Stock Option Plan which provides options for shares of Zyfer's common stock to associates, non-employee members of the Board of Directors of Zyfer, Odetics or other Odetics' subsidiaries and independent consultants. A total of 588,500 shares of Zyfer's common stock are reserved for issuance under this plan.

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OJETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

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 Zyfer's common stock. Options to purchase 885,000 shares of Zyfer's common stock were outstanding at March 31, 2001.

12. Commitments

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, 2001 is as follows:

Fiscal Year -----	(in thousands)
2002.....	\$307
2003.....	121
2004.....	35

	\$463
	====

Rent expense under operating leases totaled \$725,000, \$973,000 and \$1,040,000, respectively for the years ended March 31, 1999, 2000 and 2001.

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 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.

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Selected financial information for the Company's reportable segments as of and for the years ended March 31, 1999, 2000 and 2001 follows:

	Intelligence Transportation	Video Products	Telecom Product	Total
	-----	-----	-----	-----
	(In thousands)			
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
Year ended March 31, 2001				
Revenue from external customers..	\$28,057	\$ 39,726	\$ 7,883	\$ 75,666
Intersegment revenues.....	--	1,183	57	1,240
Depreciation and amortization....	1,502	2,513	447	4,462
Segment income (loss).....	(3,942)	(15,767)	(14,042)	(33,751)
Segment assets.....	18,709	22,706	11,965	53,380
Expenditure for long-lived assets, net.....	1,392	631	506	2,529

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ODETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

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

	1999	2000	2001
	-----	-----	-----
	(In thousands)		
Revenue			
Total revenues for reportable segments.....	\$ 80,754	\$ 78,118	\$ 76,906
Non reportable segment revenues.....	8,064	8,673	1,403
Elimination of Intersegment sales.....	(5,445)	(6,084)	(1,240)
Total consolidated revenues.....	\$ 83,373	\$ 80,707	\$ 77,069
Segment Profit or Loss	=====	=====	=====

Total profit or loss for reportable segments.....	\$ (11,863)	\$ (28,581)	\$ (33,751)
Other profit or loss.....	(1,201)	(3,618)	(2,893)
Unallocated amounts:			
Corporate and other expenses.....	(5,247)	(6,469)	(5,674)
Royalty income.....	--	38,437	17,825
Special charge.....	--	--	(6,285)
Interest expense.....	(1,807)	(2,048)	(1,762)
	-----	-----	-----
Loss from continuing operations before income taxes.....	\$ (20,118)	\$ (2,279)	\$ (32,540)
	=====	=====	=====
Assets			
Total assets for reportable segments.....	\$ 65,728	\$ 67,025	\$ 53,380
Assets held at Corporate.....	15,627	14,825	14,681
	-----	-----	-----
Total assets.....	\$ 81,355	\$ 81,850	\$ 68,061
	=====	=====	=====
Depreciation and Amortization			
Depreciation and amortization for reportable segments.....	\$ 4,246	\$ 5,781	\$ 4,462
Other.....	959	1,404	505
	-----	-----	-----
Total depreciation and amortization.....	\$ 5,205	\$ 7,185	\$ 4,967
	=====	=====	=====

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

	1999	2000	2001
	-----	-----	-----
	(In thousands)		
Geographic Area Revenue			
United States.....	\$61,171	\$65,285	\$61,506
Europe.....	7,582	8,509	7,340
Asia Pacific Rim.....	6,287	2,821	2,703
Other.....	8,333	4,092	5,520
	-----	-----	-----
Total net revenue.....	\$83,373	\$80,707	\$77,069
	=====	=====	=====
Geographic Area Long-Lived Assets			
United States.....	\$39,424	\$38,805	\$33,586
Europe.....	1,612	1,101	414
Asia Pacific Rim.....	33	15	23
	-----	-----	-----
Total long-lived assets.....	\$41,069	\$39,921	\$34,023
	=====	=====	=====

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OETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

14. Supplemental Cash Flow Information

	Year ended March 31		
	1999	2000	2001
	-----	-----	-----
	(In thousands)		
Net cash used in changes in operating assets and liabilities, net of acquisitions:			
(Increase) decrease in accounts receivable.....	\$ (2,706)	\$ 4,568	\$ (882)
(Increase) decrease in net costs and estimated			

earnings in excess of billings.....	276	(833)	1,259
(Increase) decrease in inventories.....	4,825	(2,227)	4,499
Increase in prepaids and other assets.....	111	428	861
Increase (decrease) in accounts payable and accrued expenses.....	(946)	(757)	(1,116)
	-----	-----	-----
Net cash used in changes in operating assets and liabilities.....	\$ 1,560	\$ 1,179	\$ 4,621
	=====	=====	=====
Cash paid during the year:			
Interest.....	\$ 1,997	\$ 1,995	\$ 1,768
Income taxes paid (refunded).....	(463)	(1,144)	86
Noncash transactions during the year:			
Purchase of subsidiary for stock.....	\$ 5,845	\$ --	\$ --
Acquisition of business for note payable.....	--	2,000	--
Stock issuance to former MMA shareholders.....	--	251	500

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, which is reflected in the accompanying consolidated financial statements as royalty income.

16. Subsequent Event

In connection with entering into the \$16.0 million promissory in May 2001 (Note 1), the Company granted the lender a warrant to purchase 426,667 shares of the Company's Class A common stock at an exercise price of \$4.00 per share. The warrant expires in May 2006. During the term of the promissory note, assuming certain prepayment milestones are not met, the lender will receive warrants to purchase up to an additional 426,667 shares of the Company's Class A common stock at an exercise price equal to 110% of the then current market price. If the Company prepays the note prior to six months following its issuance, up to \$1.6 million of the principal amount is convertible, at the lender's option, into the Company's Class A common stock at a conversion price of \$4.00 per share.

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Schedule II

Odentics, Inc. Valuation and Qualifying Accounts

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, 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

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

Year ended March 31, 2001

Deducted from asset
accounts:

Allowance for doubtful accounts.....	\$2,068,000	\$ 78,000	\$	0	\$ (502,000)	\$1,644,000
Reserve for inventory obsolescence.....	3,486,000	4,925,000		0	(4,443,000)	3,968,000

TBCC

Amendment to Loan Documents

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

Address: 1515 S. Manchester
 Anaheim, California 92802

Date: May 29, 2001

THIS AMENDMENT TO LOAN DOCUMENTS is entered into between TRANSAMERICA BUSINESS CREDIT CORPORATION, a Delaware corporation, ("TBCC") having its principal office at 9399 West Higgins Road, Suite 600, Rosemont, Illinois 60018 and having an office at 15260 Ventura Blvd., Suite 1240, Sherman Oaks, California 91403, and the borrowers named above (jointly and severally, the "Borrower").

This Amendment is executed and delivered pursuant to a Forbearance Agreement of substantially even date among the parties hereto (the "Forbearance Agreement").

The parties hereto agree to amend the Loan and Security Agreement between them, dated December 28, 1998 (as amended, the "Loan Agreement"), as follows, effective as of the date hereof. (This Amendment, the Loan Agreement, any prior written amendments to said agreements signed by TBCC and the Borrower, and all other written documents and agreements between TBCC and the Borrower are referred to herein collectively as the "Loan Documents". Capitalized terms used but not defined in this Amendment shall have the meanings set forth in the Loan Agreement.)

1. Maximum Credit. Effective on the date hereof, Section 1 of the Schedule is hereby amended in its entirety to read as follows:

"1. CREDIT LIMIT (Section 1.1):

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

- (1) \$17,000,000 ("Dollar Limit"), at any one time outstanding; or
- (2) an amount equal to the sum of (i), (ii), and (iii) below:

Transamerica Business Credit

Amendment to Loan Documents

- (i) 85% of the amount of Borrower's Eligible Receivables (as defined in Section 9.1(n) above) (other than Unbilled Eligible Receivables), plus
 - (ii) the lesser of (i) \$2,000,000, or (ii) 50% of the Value of Borrower's Eligible Inventory (as defined in Section 9.1(m) above), plus
 - (iii) the lesser of (i) \$2,000,000, or (ii) 70% (the "Equipment Advance Rate") of the appraised orderly liquidation value of Eligible Equipment (as defined below).
- (a). Value. "Value", as used above, means the lower of cost or -----
 wholesale market value of Borrower's Eligible Inventory.
- (b). [omitted]

(c). Equipment. "Eligible Equipment" shall mean Equipment which TBCC in

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

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

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

(e). No Further Loans. After May __, 2001 no further Loans of any kind

will be made to Borrower, but if at any time the total outstanding Loans and other monetary Obligations

Transamerica Business Credit

Amendment to Loan Documents

exceed the Credit Limit, as set forth above, Borrower shall repay the excess to Lender immediately without notice or demand."

2. Extension of Maturity Date. Section 4 of the Schedule is hereby amended in its entirety to read as follows:

"4. MATURITY DATE (Section 1.6) July 31, 2001 (the "Maturity Date"), subject to early termination as provided in Section 1.6 above."

3. Representations True. The Borrower represents and warrants to TBCC that all representations and warranties set forth in the Loan Agreement, as amended hereby, are true and correct, except for representations and warranties that may be breached as a result of an Existing Default (as defined in the Forbearance Agreement).

4. General Provisions. This Amendment, the Loan Agreement, the Forbearance Agreement, and the other Loan Documents set forth in full all of the representations and agreements of the parties with respect to the subject matter hereof and supersede all prior discussions, representations, agreements and understandings between the parties with respect to the subject hereof. Except as herein expressly amended, all of the terms and provisions of the Loan Agreement and the other Loan Documents shall continue in full force and effect and the same are hereby ratified and confirmed.

ODETICS, INC.

TRANSAMERICA BUSINESS CREDIT CORPORATION

By /s/

President or Vice President

By /s/

Secretary or Ass't Secretary

By /s/

Title

ODETICS ITS, INC.

GYR INCORPORATED

By /s/

President or Vice President

By /s/

President or Vice President

By /s/

Secretary or Ass't Secretary

By /s/

Secretary or Ass't Secretary

Transamerica Business Credit

Amendment to Loan Documents

MARINER NETWORKS, INC.

MEYER, MOHADDES ASSOCIATES,
INC.

By /s/

President or Vice President

By /s/

President or Vice President

By /s/

Secretary or Ass't Secretary

By /s/

Secretary or Ass't Secretary

GUARANTOR'S CONSENT

The undersigned, guarantor, acknowledges that its consent to the foregoing Amendment to Loan Documents is not required, but the undersigned nevertheless does hereby consent to the foregoing Amendment and to the documents and agreements referred to therein and to all future modifications and amendments thereto, and any termination thereof, and to any and all other present and future documents and agreements between or among the foregoing parties. Nothing herein shall in any way limit any of the terms or provisions of the Continuing Guaranty of the undersigned, all of which are hereby ratified and affirmed.

ODETICS EUROPE LIMITED

By /s/

President or Vice President

By /s/

Secretary or Ass't Secretary

TBCC

Amendment to Loan Documents

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

Address: 1515 S. Manchester
Anaheim, California 92802

Date: February 28, 2001

THIS AMENDMENT TO LOAN Documents is entered into between TRANSAMERICA BUSINESS CREDIT CORPORATION, a Delaware corporation, ("TBCC") having its principal office at 9399 West Higgins Road, Suite 600, Rosemont, Illinois 60018 and having an office at 15260 Ventura Blvd., Suite 1240, Sherman Oaks, California 91403, and the borrowers named above (jointly and severally, the "Borrower").

The parties hereto agree to amend the Loan and Security Agreement between them, dated December 28, 1998 (as amended, if at all, the "Loan Agreement"), as follows, effective as of the date hereof. (This Amendment, the Loan Agreement,

any prior written amendments to said agreements signed by TBCC and the Borrower, and all other written documents and agreements between TBCC and the Borrower are referred to herein collectively as the "Loan Documents". Capitalized terms used but not defined in this Amendment shall have the meanings set forth in the Loan Agreement.)

1. Extension of Maturity Date. Section 4 of the Schedule is hereby amended in its entirety to read as follows:

"4. MATURITY DATE (Section 1.6) March 31, 2001 (the "Maturity Date"), subject to early termination as provided in Section 1.6 above."

2. Fee. In consideration for TBCC entering into this Amendment, the Borrower shall concurrently pay TBCC a fee in the amount of \$30,000, which shall be non-refundable and in addition to all interest and other fees payable to TBCC under the Loan Documents. TBCC is authorized to charge said fee to the Borrower's loan account.

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Transamerica Business Credit

Amendment to Loan Documents

3. Representations True. The Borrower represents and warrants to TBCC that all representations and warranties set forth in the Loan Agreement, as amended hereby, are true and correct.

4. General Provisions. This Amendment, the Loan Agreement, and the other Loan Documents set forth in full all of the representations and agreements of the parties with respect to the subject matter hereof and supersede all prior discussions, representations, agreements and understandings between the parties with respect to the subject hereof. Except as herein expressly amended, all of the terms and provisions of

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Transamerica Business Credit

Amendment to Loan Documents

the Loan Agreement and the other Loan Documents shall continue in full force and effect and the same are hereby ratified and confirmed.

ODETICS, INC.

TRANSAMERICA BUSINESS CREDIT CORPORATION

By /s/ _____
President or Vice President

By /s/ _____
Title-----

By /s/ _____
Secretary or Ass't Secretary

ODETICS ITS, INC.

GYR INCORPORATED

By /s/ _____
President or Vice President

By /s/ _____
President or Vice President

By /s/ _____
Secretary or Ass't Secretary

By /s/ _____
Secretary or Ass't Secretary

MARINER NETWORKS, INC.

MEYER, MOHADDES ASSOCIATES, INC.

By /s/

President or Vice President

By /s/

President or Vice President

By /s/

Secretary or Ass't Secretary

By /s/

Secretary or Ass't Secretary

Guarantor's Consent

The undersigned, guarantor, acknowledges that its consent to the foregoing Amendment is not required, but the undersigned nevertheless does hereby consent to the foregoing Amendment and to the documents and agreements referred to therein and to all future modifications and amendments thereto, and any termination thereof, and to any and all other present and future documents and agreements between or among the foregoing parties. Nothing herein shall in any way limit any of the terms or

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Transamerica Business Credit

Amendment to Loan Documents

provisions of the Continuing Guaranty of the undersigned, all of which are hereby ratified and affirmed.

ODETICS EUROPE LIMITED

By /s/

President or Vice President

By /s/

Secretary or Ass't Secretary

-4-

TBCC

Amendment to Loan Documents

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

Address: 1515 S. Manchester
Anaheim, California 92802

Date: December 22, 2000

THIS AMENDMENT TO LOAN Documents is entered into between TRANSAMERICA BUSINESS CREDIT CORPORATION, a Delaware corporation, ("TBCC") having its principal office at 9399 West Higgins Road, Suite 600, Rosemont, Illinois 60018 and having an office at 15260 Ventura Blvd., Suite 1240, Sherman Oaks, California 91403, and the borrowers named above (jointly and severally, the "Borrower").

The parties hereto agree to amend the Loan and Security Agreement between them, dated December 28, 1998 (as amended, if at all, the "Loan Agreement"), as follows, effective as of the date hereof. (This Amendment, the Loan Agreement, any prior written amendments to said agreements signed by TBCC and the Borrower, and all other written documents and agreements between TBCC and the Borrower are referred to herein collectively as the "Loan Documents". Capitalized terms used but not defined in this Amendment shall have the meanings set forth in the Loan

Agreement.)

1. Extension of Maturity Date. Section 4 of the Schedule is hereby amended in its entirety to read as follows:

"4. MATURITY DATE (Section 1.6) February 28, 2001 (the "Maturity Date"), subject to early termination as provided in Section 1.6 above."

2. Removal of Automatic Renewal Provision. Section 1.6(a) of the Loan Agreement is hereby amended in its entirety to read as follows:

"(a) The term of this Agreement shall be from the date of this Agreement to the Maturity Date set forth in the Schedule, unless sooner terminated in accordance with

-1-

Transamerica Business Credit

Amendment to Loan Documents

the terms of this Agreement. On the Maturity Date or on any earlier termination of this Agreement Borrower shall pay in full all Obligations, and notwithstanding any termination of this Agreement all of TBCC's security interests and all of TBCC's other rights and remedies shall continue in full force and effect until payment and performance in full of all Obligations."

3. Fee. In consideration for TBCC entering into this Amendment, the Borrower shall concurrently pay TBCC a fee in the amount of \$20,000, which shall be non-refundable and in addition to all interest and other fees payable to TBCC under the Loan Documents. TBCC is authorized to charge said fee to the Borrower's loan account.

4. Representations True. The Borrower represents and warrants to TBCC that all representations and warranties set forth in the Loan Agreement, as amended hereby, are true and correct.

5. General Provisions. This Amendment, the Loan Agreement, and the other Loan Documents set forth in full all of the representations and agreements of the parties with respect to the subject matter hereof and supersede all prior discussions, representations, agreements and understandings between the parties with respect to the subject hereof. Except as herein expressly amended, all of the terms and provisions of

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-2-

Transamerica Business Credit

Amendment to Loan Documents

the Loan Agreement and the other Loan Documents shall continue in full force and effect and the same are hereby ratified and confirmed.

ODETICS, INC.

TRANSAMERICA BUSINESS CREDIT CORPORATION

By /s/

President or Vice President

By /s/

By /s/

Secretary or Ass't Secretary

Title

ODETICS ITS, INC.

GYR INCORPORATED

By /s/

President or Vice President

By /s/

President or Vice President

By /s/

Secretary or Ass't Secretary

By /s/

Secretary or Ass't Secretary

MARINER NETWORKS, INC.

MEYER, MOHADDES ASSOCIATES, INC.

By /s/

President or Vice President

By /s/

President or Vice President

By /s/

Secretary or Ass't Secretary

By /s/

Secretary or Ass't Secretary

Guarantor's Consent

The undersigned, guarantor, acknowledges that its consent to the foregoing Amendment is not required, but the undersigned nevertheless does hereby consent to the foregoing Amendment and to the documents and agreements referred to therein and to all future modifications and amendments thereto, and any termination thereof, and to any and all other present and future documents and agreements between or among the foregoing parties. Nothing herein shall in any way limit any of the terms or

-3-

Transamerica Business Credit

Amendment to Loan Documents

provisions of the Continuing Guaranty of the undersigned, all of which are hereby ratified and affirmed.

ODETICS EUROPE LIMITED

By /s/

President or Vice President

By /s/

Secretary or Ass't Secretary

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FORBEARANCE AGREEMENT

THIS FORBEARANCE AGREEMENT (this "Agreement") dated as of May 28, 2001, is made by and between, on the one hand, Odetics, Inc., a Delaware corporation, Iteris, Inc., a Delaware corporation (formerly Odetics ITS, Inc., a California corporation), Gyr Incorporated, a California corporation, Mariner Networks, Inc., a Delaware corporation, and Meyer, Mohaddes Associates, Inc., a California corporation (collectively, the "Borrower"), and, on the other hand, TRANSAMERICA BUSINESS CREDIT CORPORATION, a Delaware corporation (the "Lender").

WHEREAS, the Borrower and the Lender are parties to a Loan and Security Agreement dated December 28, 1998 (as the same has been amended in writing, the "Security Agreement") (the Security Agreement and all documents executed in connection therewith and relating thereto hereinafter collectively referred to as the "Loan Documents"; each capitalized term used but not defined herein shall have the meaning given to such term in the Security Agreement); and

WHEREAS, the Borrower has notified the Lender that the following Events of Default, as defined in the Security Agreement, have occurred and/or currently exist (collectively, the "Existing Defaults"):

1. Borrower is in breach of the financial covenants set forth in Section 9(d) of the Schedule to the Security Agreement relating to working capital and unsecured indebtedness.
2. Events have occurred which can reasonably be expected to have a Material Adverse Effect (as defined in the Security Agreement).
3. Borrower has not complied with Section 1.4 of the Loan Agreement.
4. Any event in existence on the date hereof which constitutes an Event of Default or which, with the giving of notice or the passage of time or both, would constitute an Event of Default, and which does not and will not have a material adverse effect on the value of the Collateral.

WHEREAS, the Borrower acknowledges and agrees that, based on the Existing Defaults, the Lender has the right to exercise its rights and remedies under the Loan Documents; and

WHEREAS, the Borrower has requested that the Lender forbear temporarily from exercising its rights and remedies under the Loan Documents; and

WHEREAS, in consideration of the promises and undertakings of the Borrower contained herein, the Lender is willing to forbear from exercising its rights and remedies with respect to the Loan Documents but only on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the parties hereto agree as follows:

1. Forbearance. During the Forbearance Period, as defined below, and subject

to the satisfaction of the conditions precedent set forth in Section 2 hereof, the Lender shall not seek to exercise any of its rights or remedies under the Loan Documents based upon the Existing Defaults. For purposes hereof, the "Forbearance Period" shall mean the period beginning on the date hereof and ending on the earlier of: (i) July 31, 2001; (ii) the date of the occurrence of a Forbearance Default, as defined below; (iii) the date of any sale of substantially all of the stock or assets of Gyr Incorporated; or (iv) the date upon which the Borrower receives funds pursuant to the Refinancing, as defined below.

2. Conditions to Forbearance. This Agreement shall not be effective unless and

until each of the following conditions shall have been satisfied in the Lender's sole discretion, which Borrower agrees to satisfy concurrently herewith:

- (a) The Lender shall have received executed counterparts of this Agreement duly executed by the Borrower;

- (b) The Borrower shall pay all of the costs and expenses of the Lender incurred in connection with the preparation, negotiation and delivery of this Agreement, including, without limitation, the reasonable fees and expenses of its counsel;
- (c) The Lender shall have received a resolution authorizing this Agreement, the matters covered hereby and the transactions contemplated hereby;
- (d) The Lender shall have received from the Borrower \$61,000, by wire transfer, representing the initial installment of the Forbearance Fee, as defined below; and
- (e) Borrower shall pay the Lender the sum of \$5,000,000, by wire transfer, to be applied to the outstanding Obligations in such manner as Lender shall determine in its discretion.

3. Covenants. To induce the Lender to enter into this Agreement, the Borrower

hereby covenants, represents and agrees that:

- (a) The Borrower shall pay to the Lender a Report Monitoring Fee in the amount of \$5,000 per calendar month, beginning April 1, 2001. The Report Monitoring Fee for the months of April and May shall be added to the Obligations on the date and shall bear like interest as the Obligations. The Report Monitoring Fee for subsequent months shall be paid on the first of each month, commencing June 1, 2001.
- (b) On or before May 25, 2001, the Borrower shall pay the Lender an additional sum of \$2,000,000, by wire transfer, to be applied to the outstanding Obligations in such manner as Lender shall determine in its discretion.
- (c) The Borrower shall not request, and the Lender shall not make, any further Loans on or after the date of this Agreement. Borrower and Lender are, concurrently, signing an Amendment to the Security Agreement, which, among other things, is amending the Credit Limit. If at any time the total outstanding Loans and other monetary Obligations exceed the Credit Limit, as so amended, Borrower shall repay the excess to Lender

immediately without notice or demand. Borrower shall not be obligated to comply with Section 1.4 of the Loan Agreement during the Forbearance Period.

- (d) Borrower has provided the Lender with a letter of intent pursuant to which another lender is to provide the Borrower with sufficient financing to pay off all of the Obligations (the "Refinancing"), and Borrower represents that the same is in full force and effect, and said other lender is proceeding with actions necessary to provide the Refinancing.
- (e) In consideration of the Lender entering into this Agreement, the Borrower shall pay the Lender fees (the "Forbearance Fees") as follows, which shall be fully earned on the date hereof and shall be non-refundable: (i) \$61,000, concurrently with the execution of this Agreement; and (ii) \$30,000 on June 1, 2001.
- (f) The Borrower shall cooperate with the Lender in all respects, and shall pay all of the costs and expenses incurred, in connection with the Lender's obtaining any appraisal(s) and environmental report(s), up to an amount not to exceed \$8,600, including but not limited to a Phase One report, with respect to real property owned by the Borrower in Anaheim, California (the "Anaheim Real Property").
- (g) The Borrower shall not permit any liens, charges, deeds of trust, mortgages, security interests, adverse claims, or other encumbrances to attach to the Anaheim Real Property, other than those which exist as of the date of this Agreement, except (i) involuntary liens securing an amount not to exceed \$100,000, which are not delinquent, and (ii) Borrower shall be permitted to borrow up to \$16,000,000 secured by a first trust deed on the Anaheim Real Property in connection with a refinancing of the present first trust deed on the

Anaheim Real Property, and the same shall not be deemed to be a Forbearance Default (as defined below).

- (h) All proceeds received by the Borrower in connection with any sale of any assets, including but not limited to equity securities, shall be immediately applied to pay the Obligations.

4. Representations and Warranties of the Borrower. To induce the Lender to

enter into this Agreement, the Borrower represents and warrants as follows:

- (a) The recitals in this Agreement are true and correct in all respects.
- (b) This Agreement has been duly executed and delivered.
- (c) The Borrower is a corporation duly organized, validly existing, and in good standing under its state of incorporation.
- (d) The execution, delivery and performance by the Borrower of this Agreement and the documents contemplated hereby or delivered in connection herewith (i) are within Borrower's powers, (ii) have been duly authorized by all necessary action, and (iii) do not contravene (A) any documents, contracts or agreements to which Borrower is a party or by which it is bound or affected, or (B) any requirements of any law or regulation to which Borrower is bound or affected.
- (e) No authorization, approval, or other action by, and no notice to or filing with, any governmental authority is required for the due execution, delivery, and performance by Borrower of this Agreement or any of the documents contemplated hereby or delivered in connection herewith to which Borrower is a party.
- (f) This Agreement and each of the documents contemplated hereby or delivered in connection herewith to which Borrower is a party constitute, and each of such documents to which Borrower is to be a party when delivered hereunder will constitute, the legal, valid, and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.
- (g) There is no pending or, to the best of Borrower's knowledge after due inquiry, threatened action or proceeding affecting Borrower which (i) could individually or in the aggregate be reasonably expected to have a material adverse effect on Borrower, or (ii) purports to affect the legality, validity, or enforceability of this Agreement, the transactions contemplated hereby, or any of the documents contemplated hereby or delivered in connection herewith.
- (h) All representations and warranties of Borrower in the Loan Documents are incorporated herein in full by this reference and are true and correct in all material respects as of the date hereof except for representations and warranties that expressly relate to an earlier date, in which case such representations and warranties were true and correct as of such earlier date.
- (i) There are currently no Events of Default, except the Existing Defaults.

5. Forbearance Default; Rights upon Forbearance Default.

- (a) Each of the following shall constitute a "Forbearance Default" hereunder:
 - (i) The existence of any Event of Default (other than the Existing Defaults); or
 - (ii) The Borrower shall fail to keep or perform any of the covenants or agreements contained herein (except that a failure to pay the amount due under Section 3(b) above shall not constitute a Forbearance Default if it is cured within 15 days after it occurs and Borrower concurrently pays Lender a late fee in the amount of \$1,000 for each day from May 30, 2001 to the date the payment is made); or
 - (iii) Any representation or warranty of Borrower shall be false,

misleading or incorrect in any material respect.

- (b) Upon the occurrence of a Forbearance Default or the termination of the Forbearance Period, the Lender may exercise its rights and remedies under the Loan Documents and applicable law.

6. Reservation of Rights. The Borrower acknowledges that, except as expressly set forth herein, the Lender may at any time exercise any or all of the rights and remedies available to it under the Loan Documents and applicable law.

7. Acknowledgement of Obligations. The Borrower acknowledges that, as of May 17, 2001, the Borrower is indebted to the Lender in the amount of \$12,641,686.82 plus applicable residuals, fees, costs, late charges and expenses and that such obligations are absolute and unconditional and are the legal, valid and binding obligations of the Borrower without offset, defense or counterclaim, and interest, costs, and expenses continue to accrue with respect thereto.

8. Reaffirmation of Loan Documents.

- (a) Borrower hereby reaffirms the Loan Documents and acknowledges that it is indebted to the Lender under the Loan Documents and that its obligations under the Loan Documents are absolute and unconditional, are its legal, valid and binding obligations without offset, defense or counterclaim, and interest, costs and expenses continue to accrue with respect thereto.

- (b) The Borrower hereby reaffirms, confirms and acknowledges all of the terms of the Loan Documents.

9. Effect and Construction of Agreement. Except as expressly provided herein, the Loan Documents shall remain in full force and effect in accordance with its respective terms, and this Agreement shall not be construed to:

- (a) waive or impair any rights, powers or remedies of the Lender under the Loan Documents upon termination of the Forbearance Period, with respect to the Existing Defaults or otherwise; or
- (b) constitute an agreement by the Lender or require the Lender to extend the Forbearance Period, or grant additional forbearance periods, or extend the term of the Loan Documents or the time for payment of any amounts due under the Loan Documents.

The Borrower acknowledges that it has consulted with counsel and with such other experts and advisors as it has deemed necessary in connection with the negotiation, execution and delivery of this Agreement and the other documents executed in connection herewith. In the event of any inconsistency between the terms of this Agreement and the Loan Documents, the terms of this Agreement shall govern.

10. Release. In consideration of the foregoing, Borrower hereby releases,

remises acquits and forever discharges the Lender and the Lender's employees, agents, representatives, consultants, attorneys, fiduciaries, servants officers, directors, partners, predecessors, successors and assigns, subsidiary corporations, parent corporations and related corporate divisions (all of the foregoing hereinafter called the "Released Parties"), from any and all actions and causes of action, judgments, executions, suits, debts, claims, demands, liabilities, obligations, damages and expenses of any and every character, known or unknown, direct or indirect, at law or in equity, of whatsoever kind or nature, whether heretofore or hereafter arising, for or because of any matter or thing done, omitted or suffered to be done by any of the Released Parties prior to and including the date of execution hereof, and in any way directly or indirectly arising out of or in any way connected to this Agreement or any of the Loan Documents (all of the foregoing hereinafter called the "Released Matters"). The Borrower acknowledges that the agreements in this paragraph are intended to be in full satisfaction of all or any alleged injuries or damages arising in connection with the Released Matters. The Borrower represents and warrant to the Lender that it has not

purported to transfer, assign, pledge or otherwise convey any of its right, title or interest in any Released Matter to any other Person and that the foregoing constitutes a full and complete release of all Released Matters.

11. Miscellaneous.

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- (a) Further Assurances. The Borrower agrees to execute such other and

further documents and instruments as the Lender may reasonably request to implement the provisions of this Agreement.
 - (b) Benefit of Agreement. This Agreement shall be binding upon and inure

to the benefit of and be enforceable by the parties hereto and their respective successors and assigns. No other Person shall be entitled to claim any right or benefit hereunder, including, without limitation, the status of a third party beneficiary of this Agreement.
 - (c) Integration. This Agreement constitutes the entire agreement and

understanding among the parties relating to the subject matter hereof and supersedes all prior proposals, negotiations, agreements and understandings relating to such subject matter. In entering into this Agreement, the Borrower acknowledges that it is relying on no statement, representation, warranty, covenant or agreement of any kind made by the Lender or any employee or agent of the Lender, except for the agreements of the Lender set forth herein.
 - (d) Invalidity. The provisions of this Agreement are intended to be

severable. If any provision of this Agreement shall be held invalid or unenforceable in whole or in part in any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such invalidity or enforceability without in any manner affecting the validity or enforceability of such provision in any other jurisdiction or the remaining provisions of this Agreement in any jurisdiction.
 - (e) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND

INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF ILLINOIS, WITHOUT GIVING EFFECT TO ITS CONFLICTS OF LAW PRINCIPLES.
 - (f) Counterparts; Telecopied Signatures. This Agreement may be executed in

any number of counterparts and by different parties to this Agreement in separate counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute one and the same agreement. Any signature delivered by a party by facsimile transmission shall be deemed to be an original signature hereto.
 - (g) Notices. Any notices with respect to this Agreement shall be given in

the manner and to the addresses provided in the Security Agreement or to such other address as any party may designate to the other parties hereto in the manner specified in the Security Agreement.
 - (h) Headings. The titles and headings of the numbered paragraphs of this

Agreement have been inserted for convenience of reference only and are not intended to summarize or

otherwise describe the subject matter of such paragraphs and shall not be given any consideration in the construction of this Agreement.
 - (i) Survival. All representations, warranties, covenants, agreements,

undertakings, waivers and releases of the Borrower contained herein shall survive the termination of the Forbearance Period or payment in full of the obligations.
 - (j) Amendments, Etc. No Purported amendment, modification, rescission,

waiver or releases of any provision of this Agreement shall be

effective unless the same shall be in writing and signed by each of the parties hereto, and any such waiver shall be effective only in the specific instance and for the specific purpose for which given.

- (k) Cost and Expenses. The Borrower shall pay on demand all costs and expenses of the Lender including, without limitation, all reasonable attorneys and other professionals' fees and related disbursements incurred in connection with the administration and enforcement of this Agreement or with respect to advising the Lender of its rights and responsibilities hereunder and under the Loan Documents.

12. SUBMISSION TO JURISDICTION; JURY WAIVER. BORROWER IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY ILLINOIS STATE OR FEDERAL COURT SITTING IN ILLINOIS FOR ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY, AND BORROWER IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH ILLINOIS STATE OR FEDERAL COURT. BORROWER AND LENDER IRREVOCABLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their respective duly authorized officers as of the date first above written.

ODETICS, INC.

MARINER NETWORKS, INC.

By: /s/
Title:

By: /s/
Title:

GYR INCORPORATED

ITERIS, INC.

By: /s/
Title:

By: /s/
Title:

MEYER, MOHADDES ASSOCIATES, INC.

TRANSAMERICA BUSINESS CREDIT CORPORATION

By: /s/
Title:

By: /s/
Title:

GUARANTOR'S CONSENT

The undersigned, guarantor, acknowledges that its consent to the foregoing Forbearance Agreement is not required, but the undersigned nevertheless does hereby consent to the foregoing Forbearance Agreement and to the documents and agreements referred to therein and to all future modifications and amendments thereto, and any termination thereof, and to any and all other present and future documents and agreements between or among the foregoing parties. Nothing herein shall in any way limit any of the terms or provisions of the Continuing Guaranty of the undersigned, all of which are hereby ratified and affirmed.

ODETICS EUROPE LIMITED

By: /s/
Title:

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements (Form S-3 Nos. 333-40555, 333-63911, 333-66717, 333-69677, 333-74509, 333-91903, 333-88185, 333-40726 and 333-46420) 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, 2001, except for Notes 1 and 16, as to which the date is May 29, 2001, 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, 2001.

/s/ Ernst & Young LLP

Orange County, California
July 13, 2001