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

FORM 10-K

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

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
 SECURITIES EXCHANGE ACT OF 1934
 FOR THE FISCAL YEAR ENDED MARCH 31, 1997

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 [X] No []

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

Based on the closing sale price on Nasdaq National Market on June 26, 1997,
 the aggregate market value of the voting stock held by nonaffiliates of the

registrant was \$66,746,740. 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.

As of June 26, 1997, there were 5,318,978 shares of Class A Common Stock and 1,064,241 shares of Class B Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the registrant's definitive proxy statement (the "Proxy Statement") for the Annual Meeting of the Stockholders scheduled to be held on September 5, 1997.

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FORM 10-K ANNUAL REPORT
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Note: When used in this Annual Report on Form 10-K and the information incorporated herein by reference, the words "expect(s)," "feel(s)," "believe(s)," "will," "may," "anticipate(s)," and similar expressions are intended to identify forward-looking statement. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. Odetics, Inc. undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by the Company which describe certain factors which affect the Company's business, including the risk factors set forth at the end of Part I, Item 1 of this Report and in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

PART I

ITEM 1. BUSINESS

GENERAL

Odetics, Inc. (the "Company") was founded in 1969 to supply digital recorders for use in the United States space program. The Company pioneered new designs and standards for digital magnetic tape recorders offering enhanced performance in the adverse environments attendant to space flight, high reliability and long product life. In the 1970s, the Company broadened its information automation product line to include time-lapse video cassette recorders for commercial and industrial security and surveillance applications. Through the Company's Gyr Division, it became a leading supplier of time-lapse videotape cassette recorders, digital image processing modules and related products used in security and surveillance systems.

In the early 1980s, the Company set out to develop the technical expertise to apply automation to new commercial applications. As part of its initial development efforts, the Company built ODEX, a prototype six-legged walking robot now part of the Smithsonian Institution's permanent collection of historically significant technology. The Company established the Broadcast Division which pioneered the use of large library cart machines in broadcast television stations and satellite uplink operations. The Broadcast Division is a leading supplier of broadcast automation control systems in the United States

The success of the Company's cart machines led the Company to pursue new applications for information automation technologies, and in 1990, the Company teamed with E-Systems, Inc. ("E-Systems") to develop and provide a 19mm automated tape cartridge handling subsystem for E-Systems' EMASS mainframe computer tape library for the United States Government. In 1991, in a strategic move to expand its business into new and potentially larger markets, the Company introduced an automated tape handling subsystem for integration into tape libraries designed for midrange computers and client/server networks employing IBM 3480 and similar industry standard tape cartridges. In January 1993, the Company formed a separate subsidiary, ATL Products Inc. ("ATL") to pursue the market for automated tape libraries.

On March 13, 1997, ATL completed an initial public offering of 1,650,000 shares of its Class A Common Stock. Upon completion of this offering, the Company beneficially owned 82.9% of the outstanding Class A Common Stock of ATL. The Company has announced that it intends to distribute (the "Distribution") to its stockholders, prior to December 31, 1997, all of its shares of Class A Common Stock of ATL, subject to certain conditions (including the receipt of a favorable letter ruling from the Internal Revenue Service concerning the tax-free nature of the Distribution).

The Company is a leading supplier of systems and subsystems to automate the collection, storage, distribution and management of information. The Company's business strategy is to focus on selected markets in which the Company may utilize its expertise in electromechanical design, real-time software control and highly reliable system implementations to produce superior products with a sustainable competitive advantage, and to capture major market shares. The Company's data storage products manage the vast amounts of data on computer systems, automate television and cable station operations, record video surveillance, store information gathered in space exploration and archive movies for video on demand systems.

ATL PRODUCTS, INC.

ATL designs, manufactures, markets and services automated magnetic tape libraries used to manage, store and transfer data in networked computing environments. ATL is a leading provider of Digital Linear Tape ("DLT") automated tape libraries for the high end of the networked computing market (one terabyte capacity and above). ATL's products provide a high performance, reliable, cost

effective and scalable storage solution for organizations requiring the backup, archival and recovery of critical computer data.

ATL's products incorporate DLT tape drives as well as ATL's proprietary IntelliGrip cartridge handling system, providing end users with rapid and reliable access to computer data across a wide variety of networks. ATL's proprietary robotics system within each automated tape library provides additional speed and reliability due to the accurate and timely manner in which tape cartridges are loaded and unloaded into the DLT drives. ATL's products are compatible with commonly used network operating systems, protocols and topologies as well as with a broad range of storage management software. In addition, these products are highly scalable and permit flexible configuration. For example, ATL's 2640 Series is capable of storing 9.2 terabytes of data as a standalone unit or up to 46 terabytes of data with the SystemLink Option, which links up to five 2640 units together for larger storage requirements.

ATL was established in 1990 as a division of the Company, was incorporated in California in February 1993 as a wholly-owned subsidiary of the Company and was reincorporated in Delaware in December 1996. ATL's executive offices are located at 2801 Kelvin Avenue, Irvine, California 92614, and its telephone number at that location is (714) 774-6900.

Sales, Marketing and Principal Customers

ATL markets and sells its products through indirect sales channels comprised primarily of VARs and OEMs pursuant to strategic arrangements and individual purchase agreements. Sales of new technological advancements are often initially made through VARs who generally evaluate, integrate and adopt new technology more quickly than OEMs. As a technology achieves greater market acceptance, OEM sales generally have represented an increased portion of the sales of the products incorporating that technology. During the year ended March 31, 1997, direct sales to VARs and OEMs accounted for approximately 67% and 33%, respectively, of ATL's net sales. No single customer accounted for 10% of the Company's total net sales and contract revenues.

ATL has entered into agreements with several major OEMs, including, among others, DEC, EMC and Sun Microsystems, who incorporate ATL's products into systems sold by the OEMs. ATL has entered into strategic relationships with certain of these OEMs which has enabled ATL to work with OEMs early in their product development cycle thereby providing valuable development feedback to ATL. The sales cycle for OEMs often encompasses a long lead time and generally involves extensive product and system qualification, evaluation, integration and verification. ATL believes the OEM channel is also critical to ATL's success because OEMs have traditionally taken a more active role in the development, support and servicing of ATL's products.

From 1990 through the third quarter of fiscal 1995, ATL manufactured certain automation subsystems utilizing 19mm technology exclusively for E-Systems. In the third quarter of fiscal 1995, ATL announced that its contractual relationship with E-Systems was deteriorating and it would incur charges related to the loss of E-Systems business. On November 15, 1994, ATL initiated an action against E-Systems alleging breach of contract. On May 22, 1996, the Company announced that it and ATL Products settled all pending litigation with E-Systems, Inc. and EMASS, Inc. See "Item 3. Legal Proceedings" for a further discussion of this litigation.

Manufacturing and Materials

ATL manufactures all of its tape libraries at its facility in Irvine, California. ATL recently relocated its corporate headquarters and manufacturing facilities to a new 120,000 square foot facility, of which

approximately 50,000 square feet is attributed to manufacturing space. ATL currently operates four assembly lines during one daily eight hour shift.

ATL manufactures the robotics subassemblies used in its automated tape libraries and performs final assembly and testing of purchased components. ATL's manufacturing processes consist primarily of final systems integration and quality assurance. ATL depends, to a large degree, on outside suppliers to provide most of the components incorporated in ATL's products including the DLT drives, circuit boards, moldings and chassis. While many of the parts and components used in ATL's products are available from a number of fabricators in California, the DLT drives are available only from a single supplier, Quantum Corporation. Quantum may terminate its agreement with the Company for any reason upon 90 days notice. Any disruption in ATL's relationship with such supplier or any of ATL's other sole source suppliers would have a material adverse effect on the Company's business, financial condition and results of operations.

BROADCAST DIVISION

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

The Broadcast Division's earliest commercial success in the manufacture of video tape libraries was with the TCS2000 followed by the TCS90. The recent market trend toward smaller libraries, coupled with digital hard disk recording devices was led by the Company with the introduction of highly integrated caching systems employing the Company's newest cart machine, the TCS45. The TCS45 can be coupled with hard drive recorders available from several recognized suppliers to the broadcast community. The Company now offers software to form powerful integrated systems, including the MicroSpot(TM) and the SpotBank(TM).

Multi-channel presentation systems, which integrate the complete line of the Company's hardware with commonly available broadcast quality video disk recorders, are quickly becoming the core business of the Broadcast Division.

Sales, Marketing and Principal Customers

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

Customers include major television networks such as the British Broadcasting Corporation, Canadian Broadcasting Corporation, CNBC/FNN, Euronews, Televisa, Measat Broadcast Network Systems, NBC, the PBS Network, Group W Satellite Communications (for the Arts & Entertainment Network and Discovery Channel), Asia Broadcast Centre, Univision and over 100 independent and network-affiliated television stations. The Broadcast Division has systems installed in over 30 countries.

Manufacturing and Materials

The Broadcast Division maintains a dedicated manufacturing area located within the Company's Anaheim, California facilities. The Company's SpotBank(TM) and MicroSpot(TM) products are manufactured primarily on a lot assembly/module build basis. At the Anaheim facility, the Broadcast Division and Gyyr

Division share common infrastructure support in the areas of production and inventory control, purchasing, quality assurance, manufacturing and engineering. A single management structure oversees these operations.

The Broadcast Division purchases cabinets and other fabricated parts and components. The Broadcast Division purchases video servers from Tektronix, ASC and Hewlett Packard along with video switching, conversion and monitoring equipment from Tektronix and Leitch for installation in the Company's automated video management systems.

GYR, INC.

During fiscal 1997, the Company formed a wholly-owned subsidiary, Gyr Inc., a California corporation ("Gyr") to operate the business of its former Gyr Division. Time-lapse VCRs are employed extensively in area monitoring by banks, convenience stores, retailers and other businesses. Time-lapse VCRs are frequently installed at automated teller machine ("ATM") and retail computerized payment machine locations to record pictures of individuals making transactions while simultaneously recording transaction information in an effort to deter and address incidents of theft and other crimes at these locations. Customer demand for more sophisticated capabilities, such as computer interfaces to record transaction information simultaneously with video images, electronic processors to record multiple cameras on one VCR and digital image processing and enhancement, also have contributed to recent growth of the market for Gyr's products. The Company believes that many of the same market forces at work in the United States exist in certain foreign markets as well and that, generally, the international markets are growing as fast as in the United States. During fiscal 1996, the Gyr Division introduced a new line of time-lapse VCR's and a new high performance FasTrans product family for communicating video and control signals over telephone and newer broadband communication channels.

Sales, Marketing and Principal Customers

Gyr markets and sells its products directly to its private label OEM accounts. Gyr personnel located at the Company's principal facilities also oversee a network of approximately 2,500 security equipment dealers and distributors throughout the United States and Canada who sell the Gyr's products to end users. Gyr utilizes foreign representatives in South America, Mexico and Asia and employs a business development and service staff through Odetics Europe, Ltd., a wholly-owned United Kingdom subsidiary of the Company. Odetics Europe, Ltd. assists Gyr in its sales and marketing activities in European markets. Gyr also utilizes Odetics Asia Pacific Pte Ltd. to assist in sales to the Asian markets. Gyr's principal customers include major security equipment companies such as Diebold, Inc., ADT Security Systems, Inc., Honeywell, Inc., Mosler, Inc., Hamilton Safe and other OEMs.

Manufacturing and Materials

Gyr maintains a dedicated manufacturing area located within the Company's principal facilities. Gyr primarily uses continuous unit flow assembly lines. Gyr and the Broadcast Division share common infrastructure support in the areas of production and inventory control, purchasing, quality assurance and manufacturing engineering. A single management structure oversees these operations.

Gyr purchases VCRs modified to the Company's specifications exclusively through Nissei Sangyo America, the United States distribution affiliate of Hitachi, Ltd., into which the Company incorporates certain value-added features. The Company is vulnerable to changes in Hitachi, Ltd.'s basic VCR model, which might necessitate changes in the design or manufacturing of Gyr's products. There are numerous other suppliers of VCRs suitable for use in Gyr's products, although certain changes in product design or manufacturing methods may be required to accommodate such VCRs, and Gyr could experience temporary delays or interruptions in supply while such changes are incorporated or a new supplier is procured.

COMMUNICATIONS DIVISION

The Communications Division includes both telecommunications related products and space borne digital data recorders. The telecommunications business unit supplies products that synchronize telecommuni-

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cation and computer systems and products that provide an interface between the public (WAN) network and private (LAN) networks.

Odetics telecom synchronization products are sold for new applications in cellular telephone systems and the new PCS networks being implemented throughout the world. The principal customer of the Communications Division is LGIC of Korea. The synchronization products are based on leading edge G.P.S. technologies. Most product applications are in the latest CDMA networks.

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

The space business unit manufactures digital data recorders that are used in manned and unmanned space vehicles to store data gathered by onboard sensors prior to transmission of the data to ground receiving stations. These recorders are employed in satellite programs for space research, earth resource and environmental observation and weather monitoring, as well as global surveillance and classified government programs.

Sales, Marketing and Principal Customers

The Communications Division conducts its selling and marketing activities worldwide directly from the Company's principal facilities. During the fiscal year ended March 31, 1997 approximately 38% of the Communications Division's sales were derived from contracts with domestic or foreign governmental agencies and prime government contractors.

Manufacturing and Materials

The Communications Division production capabilities fall into two categories: commercial and space. The telecom business unit manufactures to best commercial practices. The group became ISO certified in February 1997. Most of the manufacturing operations are final assembly and test. Board assembly and some preliminary fabrication processes are outsourced.

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

ODETICS CUSTOMER SERVICE DIVISION

Prior to fiscal 1997, the Company's Customer Service Division ("OCS") provided third party, on-site computer maintenance services as well as maintenance and support services for ATL and Gyyr. The market for third party, on-site computer maintenance services includes certain United States Government installations and commercial businesses with large scale automated or electronic document storage and retrieval systems. Effective December 31, 1996, the Company reorganized its service operations. As part of this reorganization, OCS' operations were divided between ATL and Gyyr, and merged into each respective corporation.

CUSTOMER SUPPORT AND SERVICES

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

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BACKLOG

The Company's backlog of unfulfilled firm orders was approximately \$23.6 million as of March 31, 1997 and approximately \$24.1 million at March 31, 1996. Approximately 84.9% of the Company's backlog at March 31, 1996 was recognized as revenues in fiscal 1997 and approximately 95.1% of the Company's backlog at March 31, 1997 is expected to be recognized as revenues in fiscal 1998. Pursuant to the customary terms of the Company's agreements with government contractors and other customers, orders generally may be cancelled or rescheduled by the customer. Lead times for the release of purchase orders depend upon the scheduling and forecasting practices of the Company's individual customers, which also can affect the timing of the conversion of the Company's backlog into revenues. For these reasons, among others, the Company's backlog at a particular date may not be indicative of its future revenues.

PRODUCT DEVELOPMENT

The Company's business requires substantial ongoing research and development expenditures and other product development activities. For fiscal years 1995, 1996 and 1997, the Company incurred approximately \$9.3 million, \$7.0 million and \$13.4 million, respectively, of Company sponsored research and development costs and expenses, including reimbursable research and development expenses of the Company allowed in the Company's negotiated general and administrative rates on cost contracts with the United States Government. In addition to the foregoing expenditures, the Company also conducts customer-sponsored product development, principally for the United States Government, under long-term contracts. The Company typically retains the right to utilize resulting technological developments for its commercial markets. Customer sponsored product development expenditures totalled approximately \$900,000, \$0 and \$0 during fiscal years ended March 31, 1995, 1996 and 1997, respectively.

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

COMPETITION

The Company faces significant competition in each of its targeted markets. Certain of the Company's competitors have substantially greater financial, technical, marketing and customer service resources than the Company. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, all of which could have a material adverse effect on the Company's business, financial condition and results of operations. The principal competitive factors in the markets in which the Company participates are product quality and performance, price, reliability, upgradeability, service and technical support.

ATL competes directly, both domestically and internationally, with a number of companies offering data storage products using various technologies, including Sun Microsystems, Silicon Graphics, Compaq, Hewlett Packard and others. The Company believes eight tape library manufacturers currently provide

DLT based products, including ATL's principal competitors, ADIC, Breece Hill Technologies, Hewlett-Packard and StorageTek. ATL competes indirectly with a large number of manufacturers offering tape storage systems using formats other than DLT including 8mm, 4mm (DAT), 3480 and QIC that have larger installed bases and may be expected to continue to provide intense competition for the DLT format. These competitors include ADIC, Exabyte, Fujitsu, Hitachi, IBM, Spectra Logic and StorageTek. ATL anticipates these competitors will expand the functionality and performance of their selected storage technologies to compete effectively with DLT.

The Broadcast Division's primary competitors include Sony, Panasonic, Avid, Louth and Pro-bel. Sony and Panasonic are large, international suppliers of extensive professional quality products, including cart machines, for the broadcast television market. Avid competes in the area of disk based video server products, principally against the Broadcast Division's SpotBank products. Louth and Probel principally provide automation control for video libraries and disk recorders. The Broadcast Division's products compete primarily

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on the basis of product features, including their capacity to accommodate broadcast quality VCRs from all manufacturers, which is unique among product offerings in this market.

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

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

The market for the Company's products is highly competitive and is characterized by rapidly changing technology and evolving standards. The Company believes that its ability to compete depends on a number of factors, including the success and timing of new product development by the Company and its competitors, compatibility of the Company's products with a broad range of computing systems, product performance, reliability and price, and customer support. The Company believes that the principal competitive factors in the networked computing market are storage capacity, data transfer rate, low cost of ownership, price, product quality and reliability, timing of new product introductions and ability to meet customer volume needs.

INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

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

In addition to patent laws, the Company relies on copyright and trade secret laws to protect its proprietary rights. The Company attempts to protect its trade secrets and other proprietary information through agreements with customers and suppliers, proprietary information agreements with the Company's

Associates (as hereinafter defined) and consultants and other similar measures. There can be no assurance, however, that the Company will be successful in protecting its proprietary rights.

While management believes its patents, patent applications, software and other proprietary know-how have value, changing technology makes the Company's future success dependent principally upon its Associates' technical competence and creative skills for continuing innovation. Litigation may be necessary in the future to enforce the Company's proprietary rights, to determine the validity and scope of the proprietary rights of others, or to defend the Company against claims of infringement or invalidity by others. An adverse outcome in such litigation or similar proceedings could subject the Company to significant liabilities to third parties, require disputed rights to be licensed from others or require the Company to cease marketing or using certain products, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the cost of addressing any intellectual property litigation claim, both in legal fees and expenses and the diversion of management resources, regardless of whether the claim is valid, could be significant and could have a material adverse effect on the Company's results of operations.

ASSOCIATES

The Company refers to its employees as Associates. As of June 10, 1997, the Company employed 630 Associates, including 115 Associates in general management, administration and finance; 67 Associates in

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sales and marketing; 180 Associates in product development; 213 Associates in operations, manufacturing and quality; and 55 Associates in customer service. None of the Company's Associates is represented by a labor union and the Company has not experienced a work stoppage.

GOVERNMENT REGULATION

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

From time to time, a portion of the Company's work relating to the Odetics' digital data recorders may constitute classified United States government information or may be used in classified programs of the United States Government. For this purpose, the Company and certain Associates possess relevant security clearances. The Company's affected facilities and operations are subject to security regulations of the United States Government. The Company believes it is in full compliance with these regulations.

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RISK FACTORS

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

Fluctuations in Quarterly Operating Results. The Company has experienced

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

Dependence on Sole Source Suppliers. The Company purchases numerous parts, supplies and other components used in its products from various independent suppliers, some of whom are the sole supplier for certain parts and components. ATL currently derives substantially all of its revenues from the sale of its DLT based products and related services. Quantum Corporation, which has the exclusive worldwide manufacturing rights for the DLT technology, is the sole supplier of the DLT tape drives used in ATL's products. Quantum has informed ATL that the growth in the demand for the DLT7000 drives will result in continued limitations in the availability of these drives. ATL does not expect that its indicated allocation of DLT7000 drives will have a material adverse effect on its results of operations in the near future. The foregoing statement is intended to be a forward-looking statement and actual results may differ as a result of the factors set forth in this paragraph. There can be no assurance that Quantum will not revise its allocation to ATL or that Quantum will otherwise continue to provide an adequate supply of the DLT7000 drives. The Company also currently relies on single supplier for the principal component of the GYR's time-lapse videotape cassette recorders. The Company has not been able to secure any guarantee of the future supply of its sole sourced components. The disruption or termination of the supply of any of the Company's source sourced components for any reason would have a material adverse effect on the Company's business, financial condition and results of operations.

Rapid Technological Change; Effect of New Product Introductions. The markets served by the Company are characterized by rapid technological advances, downward price pressure in the marketplace as technologies mature, changes in customer requirements, frequent new product introductions and enhancements, and evolving industry standards. The Company's business requires substantial ongoing research and development efforts and expenditures, and its future success will depend on its ability to enhance its current products, reduce product costs and develop and introduce new products which incorporate the latest technological advancements in hardware, storage media, operating system software and applications software in response to

evolving customer requirements. The Company's failure to anticipate or respond adequately to technological developments and changing customer requirements, the occurrence of significant delays in new product development or introduction or the failure of any new products to gain market acceptance could impair the Company's competitiveness and could materially and adversely affect the Company's business, financial condition and results of operations. There can be no assurance that the Company will be able to introduce new products or enhancements to existing products on a timely basis, if at all, or the effect to which such introductions will have on sales of existing products. To the extent new products are introduced, they may contain undetected design faults and software errors, or "bugs," when first released by the Company that, despite testing by the Company, are discovered only after a product has been installed and used by customers. Although the Company has not experienced any material adverse effect resulting from any such faults or errors to date, there can be no assurance that faults or errors in the Company's existing products or in new products introduced by the Company will not be discovered in the future, causing delays in product introduction and shipments or requiring design modifications that could adversely affect the Company's competitive position and results of operations.

Competition. The Company competes in each of its markets with numerous other companies, many of which have far greater name recognition and financial, technological, marketing and customer service resources than the Company and may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or devote greater resources to the development, promotion, sale and support of their products than the Company. The principal competitive factors in the markets in which the Company participates are product quality and performance, price, reliability, upgradeability, service and technical support. There can be no assurance that the Company will be able to compete effectively in the markets for its products. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, any of which could have a material adverse affect upon the Company's business, operating results and financial condition.

Risks Associated with International Sales. International product sales represented approximately 12% and 17% of the Company's total net sales and contract revenues during fiscal 1996 and 1997, respectively. The Company believes that international sales will continue to represent a significant portion of its revenues, and that continued growth and profitability will require further expansion of its international operations. The Company's international sales are currently denominated primarily in U.S. dollars, and an increase in the relative value of the dollar could make the Company's products more expensive and, therefore, potentially less price competitive in international markets. Additional risks inherent in international business activities generally include unexpected changes in regulatory requirements, tariffs and other trade barriers, longer accounts receivable payment cycles, difficulties in managing and staffing international operations, potentially adverse tax consequences including restrictions on the repatriation of earnings, the burdens of compliance with a wide variety of foreign laws, currency fluctuations and political and economical instability. The Company does not engage in any transactions as a hedge against risks of loss due to foreign currency fluctuations. There can be no assurance that such factors will not have a material adverse effect on the Company's future international sales and, consequently, the Company's business, operating results and financial condition. Furthermore, as the Company increases its international sales, its total revenues may also be affected to a greater extent by seasonal fluctuations resulting from lower sales that typically occur during the summer months in Europe and other parts of the world.

Dependence on Key Personnel. The Company's future performance depends to a significant extent on its senior management and other key employees, in particular Joel Slutzky, the Company's Chief Executive Officer, and Kevin C. Daly, Ph.D., the Chief Executive Officer of ATL. The loss of the services of either Mr. Slutzky or Dr. Daly would have a material adverse effect on the Company's development and marketing efforts. The Company's future success will also depend in large part upon its ability to attract, retain and motivate highly skilled employees. In addition, the Company is actively seeking to retain a successor chief financial officer for ATL. Competition for such employees,

particularly development engineers and an experienced chief financial officer, is intense, and there can be no assurance that the Company will be able to continue to attract and retain sufficient numbers of such highly skilled employees. The Company's inability to

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attract and retain additional key employees or the loss of one or more of its current key employees could have a material adverse effect upon the Company's business, financial condition and results of operations.

Dependence on Proprietary Technology; Risks of Infringement. The Company's ability to compete effectively depends in part on its ability to develop and maintain proprietary aspects of its technology which the Company attempts to protect with a combination of patent, copyright, trademark and trade secret laws, employee and third party nondisclosure agreements and similar means. Such rights may not preclude competitors from developing substantially equivalent or superior products to the Company's products. In addition, the laws of some foreign countries do not protect the Company's proprietary rights as fully as do the laws of the United States. There can be no assurance that the Company's means of protecting its proprietary rights in the United States or abroad will be adequate, that future patents will be issued, or that competitors will not independently develop technologies that are similar or superior to the Company's technology, duplicate the Company's technology, or design around any patent of the Company. Moreover, litigation may be necessary in the future to enforce the Company's intellectual property rights, to determine the validity and scope of the proprietary rights of others, or to defend the Company against claims of infringement or invalidity by others. An adverse outcome in such litigation or similar proceedings could subject the Company to significant liabilities to third parties, require disputed rights to be licensed from others or require the Company to cease marketing or using certain products, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. If the Company is required to obtain licenses under patents or proprietary rights of others, there can be no assurance that any required licenses would be made available on terms acceptable to the Company, if at all. In addition, the cost of addressing any intellectual property litigation claim, both in legal fees and expenses and the diversion of management resources, regardless of whether the claim is valid, could be significant and could have a material adverse effect on the Company's results of operations.

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

Concentration of Ownership. As of June 26, 1997, the Company's officers and directors beneficially owned a majority of the total combined voting power of the outstanding shares of Class A Common Stock and Class B Common Stock. As a result of their stock ownership, management will be able to significantly influence the election of the Company's directors and the outcome of corporate actions requiring stockholder approval, such as mergers and acquisitions, regardless of how other stockholders of the Company may vote. This concentration of voting control may have a significant effect in delaying, deferring or preventing a change in management or change in control of the Company and may adversely affect the voting or other rights of other holders of Common Stock.

Pending Distribution. The Company has announced its intention to distribute to its stockholders all of its shares of ATL Class A Common Stock prior to December 31, 1997, subject to the satisfaction or waiver of certain conditions (including the receipt by the Company of a favorable tax ruling from the

Internal Revenue Service confirming the tax-free nature of the Distribution). No assurance can be given, however, that such conditions will be satisfied or waived, or that the Distribution will occur. For the Distribution to occur, the Board of Directors of the Company must conclude, at the time of the Distribution, that the Distribution is in the best interest of the stockholders of the Company. Failure to undertake the Distribution could materially and adversely affect the market price of the Company's securities.

Anti-Takeover Effect of Charter Provisions, Bylaws and Stock Structure. The Company has two classes of Common Stock which are substantially identical other than with respect to voting power. The Class A Common Stock offered hereby entitles the holder to 1/10th vote per share and Class B Common Stock

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entitles the holder to one vote per share, with concentration of ownership of the Class B Common Stock in the Company's officers and directors and their affiliates. In addition, the Company's Board of Directors is elected annually on a split vote basis, with the holders of Class A Common Stock currently being entitled to elect two of the directors and holders of the Class B Common Stock currently being entitled to elect the remaining six directors. These provisions could have the effect of discouraging a proxy contest or making it more difficult for a third party acquiring a substantial block of the Company's Common Stock to effect a change in management and control of the Company. Such provisions also could limit the price that investors might be willing to pay in the future for shares of the Company's Common Stock.

The Board of Directors of the Company is authorized to issue, without stockholder approval, up to 2,000,000 shares of Preferred Stock with voting, conversion and other rights and preferences, as well as additional shares of Common Stock, which could adversely affect the voting power or other rights of the holders of Class A Common Stock. Although the Company has no current plans to issue any shares of Preferred Stock or additional shares of Common Stock other than the Class A Common Stock offered hereby, the future issuance of Preferred Stock or Common Stock or of rights to purchase Preferred Stock or Common Stock could be used to discourage an unsolicited acquisition proposal.

ITEM 2. PROPERTIES.

The Company's headquarters and principal operations are located in Anaheim, California. In 1984, the Company purchased and renovated a three building complex containing approximately 250,000 square feet situated on approximately 14.1 acres adjacent to the Interstate 5 freeway one block from Disneyland. These Company-owned facilities house the Company's corporate and administrative offices (approximately 43,000 dedicated square feet), as well as Gyyr and the Broadcast Division, (approximately 87,000 dedicated square feet), the Communications Division (approximately 67,000 dedicated square feet), OCS Division (approximately 15,000 dedicated square feet), until March 1997 ATL (approximately 50,000 dedicated square feet). Commencing in March 1997, ATL leased an additional 120,000 square foot facility in Irvine, California under a lease which expires in October 2003. ATL has an option to extend the lease for an additional five year period. The base rent for ATL's new facility is \$65,000 per month.

The Communications Division leases approximately 4,500 square feet of space in a manufacturing facility located on 0.62 acre in El Paso, Texas. The Broadcast Division leases approximately 5,000 square feet in Austin, Texas to manufacture certain product families. Odetics Europe Limited's offices are located in leased space near London, England. Odetics Asia Pacific Pte. Ltd. offices are located in leased space in Singapore.

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

ITEM 3. LEGAL PROCEEDINGS.

On May 22, 1996, the Company announced that it and ATL Products settled all pending litigation with E-Systems, Inc. and EMASS, Inc. (collectively, "E-Systems"). The settlement was effected pursuant to a written Settlement Agreement and General Release between the parties, under which E-Systems paid the Company approximately \$6.1 million, including an amount designated as a royalty payment on library systems sold by E-Systems which the Company alleged infringed on its patented technology. See "Management's Discussion of Financial Condition and Results of Operations." For its part, the Company agreed for a period of five years to provide spare parts and certain other customer support services for the installed base of DataTowers that the Company previously sold to E-Systems. The parts and services generally will be provided in accordance with Odetics' general terms and conditions, less a specified discount. The Company also has agreed to refurbish nine ATL 2640 Series in E-Systems' possession and to pay to E-Systems any profits (net of refurbishment and sales costs) realized by the Company from the sale of the refurbished units and to deliver to E-Systems certain inventories of parts and supplies.

The Company brought an action against Storage Technology Corporation ("StorageTek") in the Eastern District Court of Virginia alleging that StorageTek had infringed the Company's patent covering robotics tape

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cassette handling systems (United States Patent No. 4,779,151). StorageTek counterclaimed alleging that the Company infringed several of StorageTek's patents. Prior to trial, the court dismissed two of the infringement claims against the Company and the third claim was resolved between the parties. In January 1996, the jury determined that the patent claims were not infringed under the doctrine of equivalents based upon a claim construction defined by the court prior to the trial. The jury also concluded that the Company's patent was not invalid. In June 1997, the United States Court of Appeals for the Federal Circuit vacated the lower court's claim construction and findings of noninfringement of the Company's patent. The appellate court remanded the case for consideration of infringement under a proper claim construction.

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 1997.

PART II

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

The Company's Class A Common Stock and Class B Common Stock are traded on the Nasdaq National Market under the symbols "ODETA" and "ODETB," respectively. The following table sets forth for the fiscal periods indicated the high and low sale prices for the Class A Common Stock and Class B Common Stock as reported by the Nasdaq National Market:

| | CLASS A COMMON STOCK | | CLASS B COMMON STOCK | |
|----------------------------------|-------------------------|-------|-------------------------|----------|
| | HIGH | LOW | HIGH | LOW |
| Fiscal Year Ended March 31, 1996 | | | | |
| First Quarter..... | \$ 5 1/2 | \$ 4 | \$ 5 3/4 | \$ 4 3/4 |
| Second Quarter..... | 6 7/8 | 4 1/2 | 6 1/2 | 5 |
| Third Quarter..... | 10 | 6 1/2 | 10 1/4 | 6 1/2 |
| Fourth Quarter..... | 10 1/8 | 6 3/4 | 10 | 6 3/8 |
| Fiscal Year Ended March 31, 1997 | | | | |

| | | | | |
|---------------------|--------|--------|--------|--------|
| First Quarter..... | \$21 | 6 1/4 | 20 | 6 5/8 |
| Second Quarter..... | 16 1/4 | 6 3/4 | 16 1/2 | 8 1/4 |
| Third Quarter..... | 17 3/4 | 11 1/2 | 17 1/2 | 12 |
| Fourth Quarter..... | 23 1/4 | 11 3/4 | 22 1/4 | 13 3/4 |

As of June 26, 1997, the Company had 670 holders of record of Class A Common Stock and 195 holders of record of Class B Common Stock according to information furnished by the Company's transfer agent.

DIVIDEND POLICY

Pursuant to the terms of the Company's Loan and Security Agreement with its banks, the Company is restricted in declaring cash dividends on its Common Stock in an amount not to exceed in any fiscal year 10% of the Company's consolidated net income for the prior fiscal year. The Company never paid or declared cash dividends on its Common Stock, and has no current plans to pay such dividends in the foreseeable future. The Company currently intends to retain any earnings for working capital and general corporate purposes. The payment of any future dividends will be at the discretion of the Company's Board of directors, and will depend upon a number of factors, including, but not limited to, future earnings, the success of the Company's business, activities, its capital requirements, the general financial condition and future prospects of the Company, general business conditions, the consent of the Company's principal lender and such other factors as the Board may deem relevant.

RECENT SALES OF UNREGISTERED SECURITIES

Since April 1, 1994, the Company has not sold any unregistered securities.

ITEM 6. SELECTED FINANCIAL DATA.

The following selected consolidated financial data with respect to the Company's consolidated statement of operations for each of the five fiscal years in the period ended March 31, 1997 and the consolidated balance sheet data at March 31, 1993, 1994, 1995, 1996 and 1997 are derived from the audited consolidated financial statements of the Company. The consolidated financial statements and the related report of independent auditors for the fiscal years ended March 31, 1993 and 1994 and the Company's consolidated balance sheet at March 31, 1995 are not included in this Report. The following information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with the Consolidated Financial Statements of the Company and the related notes thereto included elsewhere in this Report.

| | FISCAL YEAR ENDED MARCH 31, | | | | |
|---|---------------------------------------|----------|-----------|-----------|-----------|
| | 1993 | 1994 | 1995 | 1996 | 1997 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | |
| CONSOLIDATED STATEMENT OF OPERATIONS DATA: | | | | | |
| Net sales..... | \$48,487 | \$66,063 | \$74,465 | \$ 94,466 | \$131,776 |
| Contract revenues..... | 20,825 | 18,099 | 13,280 | 10,161 | 9,032 |
| Total net sales and contract revenues..... | 69,312 | 84,162 | 87,745 | 104,627 | 140,808 |
| Cost of sales..... | 33,668 | 44,281 | 51,148 | 63,398 | 84,096 |
| Cost of contract revenues..... | 13,967 | 11,114 | 6,633 | 4,374 | 4,907 |
| Selling, general and administrative expense.... | 14,169 | 17,162 | 20,899 | 23,678 | 30,293 |
| Research and development expense..... | 5,187 | 7,268 | 9,309 | 6,973 | 13,420 |
| Nonrecurring charge..... | -- | -- | 4,809 | -- | -- |
| Interest expense..... | 2,125 | 1,772 | 1,925 | 2,247 | 1,890 |
| Minority interest..... | -- | -- | -- | -- | 53 |
| Income (loss) before income taxes..... | 196 | 2,565 | (6,978) | 3,957 | 6,149 |
| Income tax expense (benefit)..... | 55 | 743 | \$(2,300) | 1,504 | 2,419 |

| | | | | | |
|---|--------|----------|------------|----------|----------|
| New income (loss)..... | \$ 141 | \$ 1,822 | \$ (4,678) | \$ 2,453 | \$ 3,730 |
| | ===== | ===== | ===== | ===== | ===== |
| Net income (loss) per common share..... | \$.03 | \$.34 | \$ (.80) | \$.40 | \$.55 |
| | ===== | ===== | ===== | ===== | ===== |
| Weighted average number of common shares..... | 4,529 | 5,326 | 5,872 | 6,179 | 6,627 |
| | ===== | ===== | ===== | ===== | ===== |

AS OF MARCH 31,

| | 1993 | 1994 | 1995 | 1996 | 1997 |
|--|------|------|------|------|------|
|--|------|------|------|------|------|

(IN THOUSANDS)

CONSOLIDATED BALANCE SHEET DATA:

| | | | | | |
|--|----------|----------|----------|-----------|-----------|
| Working capital..... | \$23,636 | \$29,062 | \$32,733 | \$ 30,390 | \$ 39,176 |
| Total assets..... | 55,124 | 65,928 | 72,358 | 78,811 | 100,938 |
| Long term debt (less current portion)..... | 24,413 | 16,723 | 25,757 | 22,019 | 11,860 |
| Retained earnings..... | 8,884 | 10,706 | 6,027 | 8,481 | 12,211 |
| Total stockholders' equity..... | 19,213 | 31,239 | 27,736 | 30,985 | 51,828 |

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

RESULTS OF OPERATIONS

The Company specializes in the design and manufacture of systems and subsystems to automate the collection, storage, distribution and management of information. The Company is organized into separate divisions or subsidiaries, each having primary responsibility for product development, manufacturing and marketing of one or more of the Company's principal product lines or services. The Company has four distinct manufacturing operations each tailored to the requirements of its principal product divisions.

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

| | YEAR ENDED MARCH 31, | | |
|--|----------------------|-------|-------|
| | 1995 | 1996 | 1997 |
| Net sales..... | 84.9% | 90.3% | 93.6% |
| Contract revenues..... | 15.1 | 9.7 | 6.4 |
| | 100.0 | 100.0 | 100.0 |
| Gross profit..... | 34.2 | 35.2 | 36.8 |
| Expenses: | | | |
| Selling, general and administrative..... | 23.8 | 22.6 | 21.5 |
| Research and development..... | 10.6 | 6.7 | 9.5 |
| Nonrecurring charge..... | 5.5 | -- | -- |
| Interest expense..... | 2.2 | 2.1 | 1.4 |
| Minority interest..... | -- | -- | -- |
| Total expenses..... | 42.1 | 31.4 | 32.4 |
| Income (loss) before income taxes..... | (7.9) | 3.8 | 4.4 |
| Income taxes (benefit)..... | (2.6) | 1.5 | 1.7 |
| Net income (loss)..... | (5.3)% | 2.3% | 2.7% |

Net Sales and Contract Revenues. Total net sales and contract revenues increased 34.6% to \$140.8 million for the fiscal year ended March 31, 1997

("fiscal 1997") as compared to \$104.6 million for the fiscal year ended March 31, 1996 ("fiscal 1996"), and increased 19.3% in fiscal 1996 from \$87.7 million for the fiscal year ended March 31, 1995 ("fiscal 1995"). Net sales increased 39.5% to \$131.8 million in fiscal 1997 from \$94.5 million in fiscal 1996 primarily due to an increase in ATL's net sales which reflected continued growth in its DLT based products and included the initial shipments in the fourth quarter of fiscal 1997 of its new 7100 Series tape libraries. The Company also experienced growth in sales of its telecommunication products in fiscal 1997 largely due to increased unit sales of its synchronization products for cellular telephone systems and sales of its LIMO family of products for telecommunication interfaces. Gyyr experienced a 12.5% increase in net sales in fiscal 1997 as compared to fiscal 1996 while the Company's Broadcast Division's net sales decreased 15% as compared to the prior fiscal year.

The Company's net sales in increased 26.9% to \$94.5 million in fiscal 1996 from \$74.5 million in fiscal 1995 due in large part to sales growth in all divisions involved in commercial product sales, particularly in the Company's Broadcast Division. The Broadcast Division's 59.9% increase in net sales from fiscal 1996 as compared to fiscal 1995 reflected an increase in shipments of its SpotBank(TM), Cache Machine(TM) and TCS 45(TM) systems, as well as additional revenue attributable to upgrades for previously sold systems. ATL's 29.9% increase in net sales in fiscal 1996 as compared to fiscal 1995 was primarily due to an increase in sales of its 520 Series and 2640 Series product lines in both the domestic and European markets through Odetics Europe Limited, a wholly-owned subsidiary of the Company which more than offset the loss of 19mm tape library products that were discontinued in fiscal 1995.

The Company's contract revenues are comprised of revenues from government contracts and declined 11.8% to \$9.0 million in fiscal 1997 from \$10.2 million in fiscal 1996, and declined 23.5% in fiscal 1996 from

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\$13.3 million in fiscal 1995. The declines in fiscal 1997 and fiscal 1996 are primarily due to changes in government spending patterns and a transition by the Company from certain government markets to commercial activities.

Gross Profit. Total gross profit increased to 36.8% in fiscal 1997 as compared to 35.2% in fiscal 1996 and 34.2% in fiscal 1995. The increase in total gross profit in fiscal 1997 as compared to fiscal 1996 reflects ATL's improved gross profit margin which was primarily attributable to improved absorption of manufacturing overhead over continued increases in sales of DLT based products as well as reductions in materials for ATL's products. The increase in total gross profit in fiscal 1996 as compared to fiscal 1995 is due in large part to an increase in ATL's gross profit on product sales to 36.8% in fiscal 1996 from 22.8% in fiscal 1995 as ATL completed its first fiscal year selling primarily DLT based products which generated improved margins as compared to the margins on 19mm products which accounted for approximately one-third of ATL's sales revenues in fiscal 1995. The increase in gross profit in fiscal 1997 was partially offset by reduced margins on certain large international sales to a single customer in the Broadcast Division. The Company's increase in gross profit in fiscal 1996 also reflected an overall commercial products sales mix that favored new products with higher gross profits.

Selling, General and Administrative Expense. Selling, general and administrative expense increased 27.9% to \$30.3 million in fiscal 1997 (or 21.5% of total net sales and contract revenues) from \$23.7 million (or 22.6% of total net sales and contract revenues) and increased 13.3% in fiscal 1996 as compared to \$20.9 million (or 23.8% of total net sales and contract revenues) in fiscal 1995. The dollar increase in fiscal 1997 primarily reflects the Company's efforts to expand its sales and marketing capabilities through infrastructure growth which included higher sales commissions associated with increased sales, as well as increased expenditures for advertising, promotion and labor costs associated with the Company's increased commercial sales and marketing activities. The dollar increase in selling, general and administrative expense in fiscal 1996 was due in large part to professional fees related to the

E-Systems litigation and increased expenses related to expanding foreign operations in Odetics Europe, Limited, and Odetics Asia Pacific, Pte., Ltd.

Research and Development Expense. Research and development expense increased 91.4% to \$13.4 million (or 9.5% of total net sales and contract revenues) in fiscal 1997 as compared to \$7.0 million in fiscal 1996 (or 6.7% of total net sales and contract revenues), and declined 25.1% in fiscal 1996 as compared to \$9.3 million (or 10.6% of total net sales and contract revenues) in fiscal 1995. The increase in research and development expense in fiscal 1997 primarily reflects additional engineering and labor costs, consulting fees, prototype materials costs and other costs associated with the development, testing and preproduction activities for ATL's 7100 Series and Prism products and the incorporation of the new DLT7000 tape drive into ATL's current products. The increase in research and development expense in fiscal 1997 also reflected additional expenditures related to new product development in Gyyr and the Communications Division. The decline in research and development expense in fiscal 1996 as compared to fiscal 1995, both in terms of absolute dollars and as a percentage of total net sales and contract revenues, reflects the effect of the completion of certain major research and development programs in fiscal 1995 and certain cost reduction measures implemented during the second half of fiscal 1995. The Company expects expenditures for research and development generally to increase over time and to be higher during periods of new product development when significant expenditures are incurred in preproduction activities and increased testing. These expenditures may, therefore, continue to fluctuate as a percentage of total net sales and contract revenues from period to period.

Minority Interest. On March 13, 1997, the Company completed an initial public offering of 1,650,000 shares of Class A Common Stock of ATL, which reduced the Company's beneficial ownership of ATL to 82.9%. The \$53,000 minority interest represents the ATL stockholders' portion of ATL's net income for the period of time their shares were outstanding during fiscal 1997. The Company intends to effect the Distribution prior to December 31, 1997, subject to the satisfaction or waiver of certain conditions (including the receipt of a favorable letter ruling from the Internal Revenue Service concerning the tax-free nature of the Distribution).

Interest Expense. Interest expense decreased approximately 15.9% to \$1.9 million in fiscal 1997 as compared to \$2.2 million in fiscal 1996, and increased 16.7% from \$1.9 million in fiscal 1995. The decrease in

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fiscal 1997 as compared to fiscal 1996 was primarily due to overall lower average borrowings, while the increase in interest expense in fiscal 1996 as compared to fiscal 1995 reflected an overall higher average borrowings under the Company's line of credit and increased cost of borrowings.

Income Taxes. The Company's effective income tax rate was 39.3%, 38.0% and 33.0% in fiscal 1997, 1996 and 1995, respectively. The Company's recognition of general business credits reduced the Company's effective tax rates below the statutory rates. The increase in the effective tax rate for fiscal 1997 is due to a reduction in the effect of general business tax credits on total income tax expense.

The Company entered into a Tax Allocation Agreement with ATL effective April 1, 1996, pursuant to which ATL will make a payment to the Company, or the Company will make a payment to ATL, as appropriate, in an amount equal to the taxes attributable to the operations of the Company on its consolidated federal income tax returns and consolidated or combined state tax returns. In addition, the Tax Allocation Agreement provides that members of the Company's consolidated group generating tax losses after April 1, 1996 will be paid by other members of the group which utilize such tax losses to reduce such other members' tax liability.

LIQUIDITY AND CAPITAL RESOURCES

The Company's net income of \$3.7 million in fiscal 1997, as adjusted for noncash charges of depreciation and amortization and a net reduction in operating assets and liabilities, contributed to \$7.8 million net cash provided by operating activities during the year. The cash flow provided by operating activities was primarily used for the purchase of fixed assets and payments for the reduction of long term borrowings. During fiscal 1997, the Company settled its litigation with E-Systems (see "Item 3. Legal Proceedings"), pursuant to which E-Systems paid \$6.2 million to the Company.

The Company has a \$17.0 million bank line of credit with Imperial Bank and Comerica Bank-California which provides for borrowings generally at the lessor of the bank's prime rate (8.5% at March 31, 1997) or the bank's LIBOR rate plus 2.25%. Borrowings are available for general working capital purposes, and at March 31, 1997, approximately \$14.6 million was available for borrowing under the line. The Company's borrowings under the line of credit are secured by substantially all of the Company's assets, other than the assets of ATL. At March 31, 1997, \$2.1 million was outstanding under this line of credit.

In March 1997, ATL entered into a separate \$5.0 million line of credit with Imperial Bank which provides for borrowings generally at the lessor of the bank's prime rate (8.5% at March 31, 1997) or the bank's LIBOR rate plus 2.25%. No amounts were outstanding under this line of credit as of March 31, 1997. ATL's borrowings under the line of credit are secured by substantially all of the ATL's assets.

In April 1997, ATL entered into a promissory note payable to the Company in the original principal amount of \$13.0 million representing the aggregate balance of ATL's interest bearing advances from the Company. This note bears interest at a rate equal to the Company's cost of borrowing (8.5% at March 31, 1997). Principal and interest on this note are payable to the Company in sixteen equal quarterly installments at the end of each calendar quarter commencing June 30, 1997.

ATL entered into a lease for new facilities in Irvine, California during the first calendar quarter of 1997. ATL began to relocate to its new facility at the end of fiscal 1997 and completed its move in the first quarter of fiscal 1998. The Company anticipates that ATL will incur expenditures of approximately \$500,000 for relocation costs, leasehold improvements and capital equipment for this new facility.

The Company anticipates that net cash flow generated by operating activities, together with the net proceeds of ATL's initial public offering and funds available under the Company's line of credit will be adequate to enable the Company to execute its operating plans and meet its obligations on a timely basis for at least the next twelve months.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

(a) Identification of Directors. The information under the caption "Election of Directors," appearing in the Proxy Statement, is incorporated herein by reference.

(b) Identification of Executive Officers. The information under the headings "Executive Officers," appearing in the Proxy Statement, is incorporated herein by reference.

(c) Compliance with Section 16(a) of the Exchange Act. The information under the caption "Section 16(a) Beneficial Ownership Reporting Compliance," appearing in the Proxy Statement, is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

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

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

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

PART IV

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

(a) Documents filed as part of this Report:

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

| | PAGE |
|---|------|
| | ---- |
| Index to Consolidated Financial Statements..... | F-1 |
| Report of Ernst & Young LLP, Independent Auditors..... | F-2 |
| Consolidated Balance Sheets as of March 31, 1997 and 1996..... | F-3 |
| Consolidated Statements of Operations for the years ended March 31, 1997, 1996 and 1995..... | F-5 |
| Consolidated Statements of Stockholders' Equity for the years ended March 31, 1997, 1996 and 1995..... | F-6 |
| Consolidated Statements of Cash Flows for the years ended March 31, 1997, 1996 and 1995..... | F-7 |
| Notes to Consolidated Financial Statements..... | F-8 |

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

| | Page |
|--|------|
| | ---- |
| Schedule II -- Consolidated Valuation and Qualifying Accounts..... | S-1 |

3. EXHIBITS.

- 3.1 Certificate of Incorporation of the Company filed as Exhibit 19.2 to the September 30, 1987 Form 10-Q and incorporated herein by reference.
- 3.2 Bylaws of the Company, as amended, filed as Exhibit 4.2 to Form S-1 filed July 6, 1993 and incorporated herein by reference.
- 4.1 Specimen of Class A Common Stock and Class B Common Stock certificates filed as Exhibit 4.3 to Amendment No. 1 filed September 30, 1993 to Form S-1 filed July 6, 1993 and incorporated herein by reference.
- 10.1 1981 Incentive Stock Option Plan and form of Stock Option Agreement, filed as Exhibit 4.1 to the Company's Form S-8 filed June 27, 1985 (Reg. No. 2-98656) (the "1985 Form S-8") and incorporated herein by reference.
- 10.2 1982 Nonstatutory Stock Option and Stock Appreciation Rights Plan and forms of Nonstatutory Stock Option and Stock Appreciation Rights Agreement, filed as Exhibit 4.2 to the 1985 Form S-8 and incorporated herein by reference.
- 10.3 1992 Incentive Stock Option Plan and forms of Incentive Stock Option Agreement and Nonstatutory Stock Option Agreement filed as Exhibit 4.1, 4.2 and 4.3, respectively, to the Company's Form S-8 filed March 10, 1993 (Reg. No. 33-59274) and incorporated herein by reference.
- 10.4 Profit Sharing Plan and Trust, filed as Exhibit 4.3 to Amendment No. 2 to the 1985 Form S-8 filed May 5, 1988 (Reg. No. 2-98656) and incorporated herein by reference.
- 10.5 Form of Executive Deferral Plan between the Company and certain employees of the Company, filed as Exhibit 10.4 to the 1988 Form 10-K and incorporated herein by reference.

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- 10.6 Second Amended and Restated Loan Agreement between Bank of the West and the Company entered into as of September 30, 1992, filed as Exhibit 10.6 to Form S-1 filed July 6, 1993 and incorporated herein by reference.
- 10.7 Loan and Security Agreement between ATL Products, Inc. and Bank of the West entered into as of February 26, 1993, filed as Exhibit 10.6 to Form S-1 filed July 6, 1993 and incorporated herein by reference.
- 10.8 Modification Agreement regarding the agreements referenced in Exhibits 10.6 and 10.7, as modified by the First Amendments to Modification Agreement from Bank of the West dated as of February 26, 1993 and August 9, 1993 filed as Exhibit 10.6 to Form S-1 filed July 6, 1993 and incorporated herein by reference.
- 10.9.1 Form of Indemnity Agreement entered into by the Company, and certain officers and directors, filed as Exhibit 19.4 to the September 30, 1988 Form 10-Q and incorporated herein by reference.
- 10.9.2 Schedule of officers and directors covered by Indemnity Agreement filed as Exhibit 10.9.2 to Amendment No. 1 filed September 30, 1993 to Form S-1 filed July 6, 1993 and incorporated herein by reference.
- 10.10 Amendment Nos. 3 and 4 to the Profit Sharing Plan and Trust, filed as Exhibits 4.3.1 and 4.3.2 respectively, to Amendment No. 3 to the 1983 Form S-8 (Reg. No. 2-86220) filed June 13, 1990 and incorporated herein by reference.
- 10.11 Lease between the Company and Roths Properties entered into as of November 1, 1990 filed as Exhibit 10.11 to Form S-1 filed July 6, 1993 and incorporated herein by reference.
- 10.12 Promissory Note in the original principal amount of \$15,000,000 payable to The Northwestern Mutual Life Insurance Company ("NMLI") dated October 31, 1989 and related Deed of Trust, Security Agreement and Financing Statement between Odetics, Inc. and NMLI dated October 31, 1989 filed as Exhibit 10.12 to Form S-1 filed July 6, 1993 and incorporated herein by reference.
- 10.13 Separation and Distribution Agreement between the Company and ATL dated March 1, 1997.
- 10.14 Tax Allocation Agreement between the Company and ATL dated March 1, 1997.
- 10.15 Services Agreement between the Company and ATL dated March 21, 1997.
- 10.16 Promissory Note between the Company and ATL dated April 1, 1997.
- 10.17 Amendment Number Six to Loan and Security Agreement dated March 31, 1997 between the Company, Gyrr, Imperial Bank and Comerica Bank-California.
- 10.18 Note, Security Agreement and Letter Agreement between ATL and Imperial Bank dated March 15, 1997.
- 21 Subsidiaries of the Company.
- 23.1 Consent of Ernst & Young LLP.
- 27 Financial Data Schedule.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Anaheim, State of California, on June 27, 1997.

ODETICS, INC.

By: /s/ JOEL SLUTZKY

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

POWER OF ATTORNEY

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

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

| SIGNATURE | TITLE | DATE |
|---|--|---------------|
| /s/ JOEL SLUTZKY ----- Joel Slutzky | Chief Executive Officer, President and Chairman of the Board (principal executive officer) | June 27, 1997 |
| /s/ CRANDALL GUDMUNDSON ----- Crandall Gudmundson | President and Director | June 27, 1997 |
| /s/ JERRY MUENCH ----- Jerry Muench | Vice President and Director | June 27, 1997 |
| /s/ KEVIN C. DALY ----- Kevin C. Daly, Ph.D. | Director of the Registrant Chief Executive Officer, President and Chairman of the Board of ATL Products, Inc. | June 27, 1997 |
| /s/ GARY SMITH ----- Gary Smith | Vice President and Controller | June 27, 1997 |
| /s/ RALPH R. MICKELSON ----- Ralph R. Mickelson | Director | June 27, 1997 |

| SIGNATURE | TITLE | DATE |
|--|--|---------------|
| /s/ STANLEY MOLASKY Stanley Molasky | Director | June 27, 1997 |
| /s/ LEO WEXLER Leo Wexler | Director | June 27, 1997 |
| /s/ PAUL E. WRIGHT Paul E. Wright | Director | June 27, 1997 |
| /s/ GREGORY A. MINER Gregory A. Miner | Vice President and Chief Financial Officer of the Registrant and Chief Financial Officer of ATL Products, Inc. (principal accounting officer) | June 27, 1997 |

ODETICS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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| Report of Ernst & Young LLP, Independent Auditors..... | F-2 |
| Consolidated Balance Sheets as of March 31, 1996 and 1997..... | F-3 |
| Consolidated Statements of Operations for the years ended March 31, 1995, 1996 and 1997..... | F-4 |
| Consolidated Statements of Stockholders' Equity for the years ended March 31, 1995, 1996 and 1997..... | F-5 |
| Consolidated Statements of Cash Flows for the years ended March 31, 1995, 1996 and 1997..... | F-6 |
| Notes to Consolidated Financial Statements..... | F-7 |

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, 1996 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 1997. Our audits also included the financial statement schedule listed in Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Odetics, Inc. at March 31, 1996 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 1997, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Orange County, California
April 29, 1997

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ODETICS, INC.

CONSOLIDATED BALANCE SHEETS

ASSETS

| | MARCH 31, | |
|---|----------------|-----------|
| | 1996 | 1997 |
| | (IN THOUSANDS) | |
| Current assets: | | |
| Cash and cash equivalents..... | \$ 1,142 | \$ 11,359 |
| Trade accounts receivable, net of allowance for doubtful accounts of \$988,000 in 1996 and \$669,000 in 1997..... | 24,772 | 29,424 |
| Costs and estimated earnings in excess of billings on uncompleted contracts (Note 3)..... | 3,428 | 1,922 |
| Inventories: | | |
| Finished goods..... | 3,717 | 3,435 |
| Work in process..... | 2,927 | 3,987 |
| Materials and supplies..... | 16,076 | 20,855 |
| Prepaid expenses and other..... | 1,122 | 1,333 |
| Deferred income taxes..... | 2,516 | 2,056 |
| | ----- | ----- |
| Total current assets..... | 55,700 | 74,371 |
| Property, plant and equipment: | | |
| Land..... | 2,090 | 2,090 |
| Buildings and improvements..... | 17,553 | 18,238 |
| Equipment..... | 23,964 | 28,201 |
| Furniture and fixtures..... | 950 | 968 |
| Allowances for depreciation..... | (22,950) | (25,668) |
| | ----- | ----- |
| Other assets..... | 21,607 | 23,829 |
| | 1,504 | 2,738 |
| | ----- | ----- |
| Total assets..... | \$ 78,811 | \$100,938 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|-----------|-----------|
| Current Liabilities: | | |
| Trade accounts payable..... | \$ 11,519 | \$ 18,478 |
| Accrued payroll and related..... | 4,611 | 6,851 |
| Accrued expenses..... | 563 | 4,179 |
| Income taxes payable..... | 1,412 | 1,276 |
| Billings in excess of costs and estimated earnings on uncompleted contracts (Note 3)..... | 5,414 | 2,690 |
| Current portion of long-term debt (Note 4)..... | 1,791 | 1,721 |
| | ----- | ----- |
| Total current liabilities..... | 25,310 | 35,195 |
| Long-term debt, less current portion (Note 4)..... | 22,019 | 11,860 |
| Deferred income taxes (Note 6)..... | 497 | 540 |
| Minority interest..... | -- | 1,515 |
| Commitments and contingencies (Notes 4 and 9) | | |
| Stockholders' equity (Notes 7 and 8): | | |
| 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 -- 4,935,359 of Class A and 1,160,931 of Class B at March 31, 1996; 5,315,653 of Class A and 1,064,241 of Class B at March 31, 1997..... | 610 | 638 |
| Paid-in capital..... | 21,904 | 38,927 |
| Foreign currency translation..... | (10) | 52 |
| Retained earnings..... | 8,481 | 12,211 |
| | ----- | ----- |
| Total stockholders' equity..... | 30,985 | 51,828 |
| | ----- | ----- |
| Total liabilities and stockholders' equity..... | \$ 78,811 | \$100,938 |
| | ===== | ===== |

See accompanying notes.

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ODETICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

| | YEAR ENDED MARCH 31, | | |
|---|---------------------------------------|----------|-----------|
| | 1995 | 1996 | 1997 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | |
| Net sales and contract revenues: | | | |
| Net sales..... | \$74,465 | \$94,466 | \$131,776 |
| Contract revenues..... | 13,280 | 10,161 | 9,032 |
| | ----- | ----- | ----- |
| | 87,745 | 104,627 | 140,808 |
| Costs and expenses: | | | |
| Cost of sales..... | 51,148 | 63,398 | 84,096 |
| Cost of contract revenues..... | 6,633 | 4,374 | 4,907 |
| Selling, general and administrative expenses..... | 20,899 | 23,678 | 30,293 |
| Research and development expenses..... | 9,309 | 6,973 | 13,420 |
| Nonrecurring charge (Note 5)..... | 4,809 | -- | -- |
| Interest expense..... | 1,925 | 2,247 | 1,890 |
| Minority interest in earnings of subsidiary..... | -- | -- | 53 |
| | ----- | ----- | ----- |
| | 94,723 | 100,670 | 134,659 |
| | ----- | ----- | ----- |
| Income (loss) before income taxes..... | (6,978) | 3,957 | 6,149 |
| Income taxes (benefit) (Note 6)..... | (2,300) | 1,504 | 2,419 |
| | ----- | ----- | ----- |
| Net income (loss)..... | \$ (4,678) | \$ 2,453 | \$ 3,730 |
| | ===== | ===== | ===== |
| Net income (loss) per share of common stock..... | \$ (.80) | \$.40 | \$.55 |
| | ===== | ===== | ===== |

See accompanying notes.

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ODETICS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| COMMON STOCK | | | | |
|--------------|--------|---------|----------|----------|
| ----- | | | | |
| SHARES | | | | |
| OUTSTANDING | | | | |
| ----- | | | | |
| CLASS | CLASS | | FOREIGN | |
| A | B | | CURRENCY | |
| COMMON | COMMON | PAID-IN | | RETAINED |

| | STOCK | STOCK | AMOUNT | CAPITAL | TRANSLATION | EARNINGS | TOTAL |
|---|----------------|-------|--------|----------|-------------|-----------|----------|
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | (IN THOUSANDS) | | | | | | |
| Balance at March 31, 1994..... | 4,585 | 1,193 | \$578 | \$19,922 | \$33 | \$ 10,706 | \$31,239 |
| Issuances of common stock (Notes 7 and 8)..... | 170 | -- | 17 | 1,145 | -- | -- | 1,162 |
| Conversion of Class B common stock..... | 32 | (32) | -- | -- | -- | -- | -- |
| Foreign currency translation adjustments..... | -- | -- | -- | -- | 13 | -- | 13 |
| Net loss..... | -- | -- | -- | -- | -- | (4,678) | (4,678) |
| Balance at March 31, 1995..... | 4,787 | 1,161 | 595 | 21,067 | 46 | 6,028 | 27,736 |
| Issuances of common stock (Notes 7 and 8)..... | 148 | -- | 15 | 837 | -- | -- | 852 |
| Foreign currency translation adjustments..... | -- | -- | -- | -- | (56) | -- | (56) |
| Net income..... | -- | -- | -- | -- | -- | 2,453 | 2,453 |
| Balance at March 31, 1996..... | 4,935 | 1,161 | 610 | 21,904 | (10) | 8,481 | 30,985 |
| Issuances of common stock (Notes 7 and 8)..... | 284 | -- | 28 | 2,567 | -- | -- | 2,595 |
| Conversion of Class B common stock..... | 97 | (97) | -- | -- | -- | -- | -- |
| Issuance of ATL Products, Inc. common stock (Note 2)..... | -- | -- | -- | 14,456 | -- | -- | 14,456 |
| Foreign currency translation adjustments..... | -- | -- | -- | -- | 62 | -- | 62 |
| Net income..... | -- | -- | -- | -- | -- | 3,730 | 3,730 |
| Balance at March 31, 1997..... | 5,316 | 1,064 | \$638 | \$38,927 | \$52 | \$ 12,211 | \$51,828 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

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ODETICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | YEAR ENDED MARCH 31 | | |
|--|---------------------|----------|----------|
| | 1995 | 1996 | 1997 |
| | ----- | ----- | ----- |
| | (IN THOUSANDS) | | |
| OPERATING ACTIVITIES | | | |
| Net income (loss)..... | \$ (4,678) | \$ 2,453 | \$ 3,730 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization..... | 2,442 | 2,694 | 3,622 |
| Minority interest in earnings of subsidiary..... | -- | -- | 53 |
| Provision for losses on accounts receivable..... | 827 | 170 | 277 |
| Provision for deferred income taxes..... | (2,337) | 76 | 503 |
| Gain on sale of assets..... | (37) | (28) | (177) |
| Net proceeds from settlement of litigation (Note 9)..... | -- | -- | 5,860 |
| Changes in operating assets and liabilities (Note 11).... | (2,606) | 1,395 | (6,065) |
| Net cash provided by (used in) operating activities..... | (6,389) | 6,760 | 7,803 |
| INVESTING ACTIVITIES | | | |
| Purchases of property, plant and equipment..... | (3,670) | (3,536) | (5,329) |
| Proceeds from sale of equipment..... | 73 | 74 | 12 |
| Net cash used in investing activities..... | (3,597) | (3,462) | (5,317) |
| FINANCING ACTIVITIES | | | |
| Proceeds from line of credit and long-term borrowings..... | 40,263 | 36,152 | 54,840 |
| Principal payments on line of credit, long-term debt, and capital lease obligations..... | (31,222) | (39,395) | (65,069) |
| Net proceeds from issuance of ATL Products, Inc. common stock..... | -- | -- | 15,918 |
| Proceeds from issuance of common stock..... | 1,151 | 709 | 2,042 |
| Net cash provided by (used in) financing activities..... | 10,192 | (2,534) | 7,731 |
| Increase in cash..... | 206 | 764 | 10,217 |

| | | | |
|---|--------|----------|-----------|
| Cash and cash equivalents at beginning of year..... | 172 | 378 | 1,142 |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of year..... | \$ 378 | \$ 1,142 | \$ 11,359 |
| | ===== | ===== | ===== |

See accompanying notes.

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ODETICS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements of Odetics, Inc. (the Company) include the accounts of the Company and its active subsidiaries Odetics Europe, Ltd., Odetics Asia Pacific Pte Ltd. and ATL Products, Inc. During fiscal 1990, the Company incorporated Odetics Europe, Ltd. to develop European commercial sales. During fiscal 1993, the ATL Division was incorporated as ATL Products, Inc. During fiscal 1995, the Company incorporated Odetics Asia Pacific Pte Ltd. to develop commercial sales for the Asian Market. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

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

Revenue Recognition

Contract revenues and earnings on long-term cost-reimbursement and fixed-price contracts of the Company's Communication Division are recognized on the percentage-of-completion method of accounting as costs are incurred (cost-to-cost basis). Contract revenues include costs incurred plus a portion of estimated fees or profits based on the relationship of costs incurred to total estimated costs. Any anticipated losses on contracts are charged to earnings when identified. Certain contracts contain incentive and/or penalty provisions which provide for increased or decreased revenues based upon performance in relation to established targets. Incentive fees are recorded when earned and penalty provisions are recorded when incurred, as long as the amounts can reasonably be determined.

For all other divisions, sales and related cost of sales are recognized on the date of shipment or, if required, upon acceptance by the customer.

Cash and Cash Equivalents

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

Fair Values of Financial Instruments

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

Long-Lived Assets

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of

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ODETICS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 1997

1. Summary of Significant Accounting Policies (continued)
(SFAS No. 121), in March 1995. In accordance with SFAS No. 121, long-lived assets and certain intangibles held and used by the Company will be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability test is to be performed at the lowest level at which undiscounted net cash flows can be directly attributable to long-lived assets. SFAS No. 121 is effective for fiscal years beginning after December 15, 1995. The Company adopted SFAS No. 121 in fiscal 1997 and has determined that there is no material effect on the Company's financial statements upon adoption.

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.

Research and Development Expenditures

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

During fiscal 1995, 1996 and 1997, software development costs were amortized to cost of sales totaling \$42,000, \$212,000 and \$473,000 respectively. The net unamortized balances of \$1,105,000 and \$1,843,000 are classified in other assets at March 31, 1996 and 1997, respectively.

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

Foreign Currency Translation

The balance sheet accounts of Odetics Europe, Ltd. are translated at the current year-end exchange rate and income statement items are translated at the average exchange rate for the year. Resulting translation adjustments are made directly to a separate component of stockholders' equity. Gains and losses resulting from transactions of the Company and its subsidiaries which are made

in currencies different from their own are immaterial and are included in income as they occur.

Income Taxes

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

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ODETICS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) MARCH 31, 1997

1. Summary of Significant Accounting Policies (continued) Earnings (Loss) Per Share

Earnings (loss) per share were computed using the weighted average number of Class A and Class B common shares outstanding during the periods. Dilutive employee stock options (Note 8) were considered in earnings per share computations for 1996 and 1997. The weighted average number of common shares and common equivalent shares used in the calculation of earnings per share was approximately 5,872,000, 6,179,000 and 6,627,000 in 1995, 1996 and 1997, respectively.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings per Share (Statement No. 128), which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The impact is expected to result in an increase in primary earnings per share for the years ended March 31, 1996 and March 31, 1997 of \$.01 and \$.03 per share, respectively. The impact of Statement 128 on the calculation of fully diluted earnings per share for these years is not expected to be material.

Stock Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, Accounting for Stock-Based Compensation, requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

To calculate the pro forma information required by Statement 123, the Company uses the Black-Scholes option pricing model. The Black-Scholes model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, 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 \$630,000, \$578,000 and \$1,020,000 in the years ended March 31, 1995, 1996 and 1997, respectively.

Reclassifications

Certain amounts in the 1995 and 1996 consolidated financial statements have been reclassified to conform with the 1997 presentation.

2. SALE OF STOCK OF ATL PRODUCTS, INC.

On March 13, 1997, ATL Products, Inc. (ATL), a subsidiary of the Company, completed an initial public offering of 1,650,000 shares of its common stock, at an offering price of \$11 per share (the Offering).

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ODETICS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) MARCH 31, 1997

2. SALE OF STOCK OF ATL PRODUCTS, INC. (CONTINUED)

Following the Offering, the Company's beneficial ownership interest in ATL totals 82.9%. The Company has announced its intention to pursue a tax-free spinoff of its remaining interest in ATL to the Company's stockholders by December 31, 1997, subject to approval by the Company's Board of Directors and to obtaining a letter ruling from the Internal Revenue Service concerning the tax-free nature of the spinoff.

3. COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

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

| | MARCH 31 | |
|--|----------------|-----------|
| | 1996 | 1997 |
| | (IN THOUSANDS) | |
| Costs incurred on uncompleted contracts..... | \$ 12,622 | \$ 17,483 |
| Estimated earnings..... | 721 | 1,848 |
| | ----- | ----- |
| | 13,343 | 19,331 |
| Less billings to date..... | 15,329 | 20,099 |
| | ----- | ----- |
| | \$ (1,986) | \$ (768) |
| Included in accompanying balance sheets: | | |
| Costs and estimated earnings in excess of billings on uncompleted contracts..... | \$ 3,428 | \$ 1,922 |
| Billings in excess of costs and estimated earnings on uncompleted contracts..... | (5,414) | (2,690) |
| | ----- | ----- |
| | \$ (1,986) | \$ (768) |
| | ===== | ===== |

Costs and estimated earnings in excess of billings at March 31, 1996 and 1997 include \$557,000 and \$279,000, respectively, that were not billable as certain milestone objectives specified in the contracts had not been attained. Substantially all costs and estimated earnings in excess of billings at March 31, 1997 are expected to be billed and collected during the year ending March 31, 1998.

4. LONG-TERM DEBT

Long-term debt consisted of the following:

| | MARCH 31 | |
|--|----------------|----------|
| | 1996 | 1997 |
| | (IN THOUSANDS) | |
| Note payable, collateralized by deed of trust on land and buildings with a net book value of approximately \$15,000,000, payable in monthly installments through the year 2004, including interest at 9.36%..... | \$11,040 | \$10,171 |
| Secured revolving credit agreement under which the Company may borrow up to \$17,000,000 with interest at the prime rate (8.5% as of March 31, 1997). The agreement expires on August 31, 1998..... | 10,700 | 2,100 |
| Notes payable, collateralized by equipment, payable in monthly installments through March 1999, including interest at 6.95% to 9.0%..... | 2,070 | 1,310 |
| | ----- | ----- |
| | 23,810 | 13,581 |
| Less current portion..... | 1,791 | 1,721 |
| | ----- | ----- |
| | \$22,019 | \$11,860 |
| | ===== | ===== |

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ODETICS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 1997

4. LONG-TERM DEBT (CONTINUED)

The revolving credit agreement is collateralized by substantially all of the Company's assets, excluding the Company's property and plant and ATL's assets. Under the terms of the agreement, the Company is required to comply with certain covenants, maintain certain debt to net worth ratios, current ratios and minimum net worth requirements.

Included within the borrowing limits of the agreement, the Company has available approximately \$14,900,000 in letters of credit and approximately \$300,000 has been reserved for standby letters of credit at March 31, 1997.

In March 1997, ATL entered into a separate \$5.0 million line of credit with Imperial Bank which provides for borrowings generally at the lessor of the bank's prime rate (8.5% at March 31, 1997) or the bank's LIBOR rate plus 2.25%. No amounts were outstanding under this line of credit as of March 31, 1997. ATL's borrowings under the line of credit are secured by substantially all of ATL's assets.

The annual maturities of long-term debt for the five years ending March 31, 2002 and thereafter are as follows:

| | (IN THOUSANDS) |
|-----------|----------------|
| | ----- |
| 1998..... | \$ 1,721 |
| 1999..... | 3,643 |
| 2000..... | 1,146 |

| | |
|-----------------|-----------|
| 2001..... | 1,261 |
| 2002..... | 1,383 |
| Thereafter..... | 4,427 |
| | ----- |
| | \$ 13,581 |
| | ===== |

5. NONRECURRING CHARGES

In December 1994, the Company recorded a nonrecurring charge of \$4,393,000 related to downsizing and restructuring in response to a deterioration in the Company's contractual relationship with E-Systems, Inc., a major customer of ATL Products, Inc. (see Note 9). The charge consisted of a \$3,716,000 write-down of inventories and accounts receivable to net realizable value and \$677,000 of severance costs and other charges associated with the E-Systems dispute. The Company's restructuring plan also called for the implementation of an early retirement incentive program effective for the period January 1, 1995 through March 31, 1995 which resulted in a nonrecurring charge of \$416,000 during the fourth quarter of fiscal 1995. Approximately 100 associates, primarily in operations, manufacturing, general management and administrative functions, received severance pay based on the number of years of service plus early retirees received HMO coverage for one year. All amounts accrued under the early retirement incentive program were paid by March 31, 1996.

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ODETICS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 1997

6. INCOME TAXES

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

| | YEAR ENDED MARCH 31 | | |
|--|---------------------|----------|----------|
| | 1995 | 1996 | 1997 |
| | ----- | ----- | ----- |
| | (IN THOUSANDS) | | |
| Income tax (benefit) at statutory rates..... | \$ (2,442) | \$ 1,385 | \$ 2,091 |
| State income taxes, net of federal tax benefit..... | 27 | 310 | 318 |
| Decrease of valuation allowance associated with federal deferred tax assets..... | -- | (326) | (99) |
| Foreign losses recorded without benefit..... | -- | 80 | -- |
| Other..... | 115 | 55 | 109 |
| | ----- | ----- | ----- |
| | \$ (2,300) | \$ 1,504 | \$ 2,419 |
| | ===== | ===== | ===== |

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

| | YEAR ENDED MARCH 31 | | |
|-----------------------|---------------------|----------|----------|
| | 1995 | 1996 | 1997 |
| | ----- | ----- | ----- |
| | (IN THOUSANDS) | | |
| Pretax income (loss): | | | |
| Domestic..... | \$ (7,384) | \$ 2,194 | \$ 5,930 |

| | | | |
|--------------|------------|---------|---------|
| Foreign..... | 406 | 1,763 | 219 |
| | ----- | ----- | ----- |
| | \$ (6,978) | \$3,957 | \$6,149 |
| | ===== | ===== | ===== |

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

| | YEAR ENDED MARCH 31 | | |
|---|---------------------|---------|---------|
| | 1995 | 1996 | 1997 |
| | (IN THOUSANDS) | | |
| Current: | | | |
| Federal..... | \$ (139) | \$ 293 | \$1,662 |
| State..... | 40 | 476 | 209 |
| Tax benefit from stock option exercises..... | (24) | (31) | (801) |
| Foreign..... | 136 | 659 | 45 |
| | ----- | ----- | ----- |
| | 13 | 1,397 | 1,115 |
| Deferred: | | | |
| Federal..... | (2,337) | 194 | 551 |
| State..... | -- | (118) | (48) |
| | ----- | ----- | ----- |
| Total deferred..... | (2,337) | 76 | 503 |
| Charge in lieu: | | | |
| Credit to additional paid-in capital attributable to stock option exercises..... | 24 | 31 | 801 |
| | ----- | ----- | ----- |
| | \$ (2,300) | \$1,504 | \$2,419 |
| | ===== | ===== | ===== |

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ODETICS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 1997

6. INCOME TAXES (CONTINUED)

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

| | 1996 | 1997 |
|---|----------------|----------|
| | ----- | ----- |
| | (In thousands) | |
| Deferred tax assets: | | |
| Inventory reserves..... | \$ 1,915 | \$ 1,521 |
| Deferred compensation and other payroll accruals..... | 1,904 | 2,095 |
| General business tax credit carryforwards..... | 1,035 | 322 |
| Alternative minimum tax credit carryforwards..... | 883 | 883 |
| Bad debt reserve..... | 397 | 286 |
| Other reserves..... | -- | 831 |
| Other, net..... | 377 | 123 |
| | ----- | ----- |
| Total deferred tax assets..... | 6,511 | 6,061 |
| Valuation allowance for deferred tax assets..... | (1,450) | (1,351) |
| | ----- | ----- |
| Net deferred tax assets..... | 5,061 | 4,710 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Tax over book depreciation..... | 2,557 | 2,696 |
| Capitalized interest and taxes..... | 485 | 468 |
| Other, net..... | -- | 30 |
| | ----- | ----- |
| Total deferred tax liabilities..... | 3,042 | 3,194 |

| | | |
|------------------------------|----------------------------|----------------------------|
| Net deferred tax assets..... | ----- \$ 2,019 ===== | ----- \$ 1,516 ===== |
|------------------------------|----------------------------|----------------------------|

At March 31, 1997, the Company had approximately \$322,000 in general business credit carryforwards, and \$883,000 of alternative minimum tax credit carryforwards for federal income tax purposes. For financial reporting purposes, of the \$1,351,000 valuation allowance \$1,205,000 has been recorded to offset the deferred tax asset related to these credits. Any future benefits recognized from the reduction of the valuation allowance will result in a reduction of income tax expense. These credit carryforwards expire at various dates beginning in 2005.

7. 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 1995, 1996 or 1997.

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 \$376,000, \$580,000 and \$525,000 in 1995, 1996 and 1997, 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. No contributions were made in 1995. The Company contributions to the ASOP were

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ODETICS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 1997

7. ASSOCIATE INCENTIVE PROGRAMS (CONTINUED)
approximately \$430,000 and \$513,000 in 1996 and 1997, respectively. Shares distributed through the ASOP Plan were included in total outstanding shares used in the earnings per share calculation.

8. STOCK OPTION AND DEFERRED COMPENSATION PLANS

The Company has adopted an Associate Stock Option Plan which provides that options for shares of the Company's unissued Class A common stock may be granted to directors and associates of the Company. Options granted enable the option holder to purchase one share of Class A common stock at prices which are equal to or greater than the fair market value of the shares at the date of grant. Options for shares have been granted at prices ranging from \$4.25 to \$9.90 for one share of Class A common stock. Options expire ten years after date of grant or 90 days after termination of employment and vest ratably at 33% or 25% on each of the first three or four anniversaries of the grant date, respectively, depending on the date of grant. Options for shares of both the Company's unissued Class A and Class B common stock had been granted to directors and associates of the Company and such options expired in 1994.

YEAR ENDED MARCH 31

| | 1995 | | 1996 | | 1997 | |
|---|------------------|--|-------------------|--|------------------|--|
| | OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE | OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE | OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE |
| (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | | | |
| Options outstanding at beginning of year... | 655 | 6.72 | 627 | 6.85 | 691 | 5.32 |
| Granted..... | 27 | 7.12 | 381 | 4.72 | 183 | 9.17 |
| Exercised..... | (40) | 4.34 | (70) | 4.76 | (217) | 5.41 |
| Canceled..... | (15) | 6.43 | (247) | 8.43 | (17) | 4.43 |
| Options outstanding at end of year..... | 627 | 6.85 | 691 | 5.32 | 640 | 6.41 |
| Exercisable at end of year..... | 357 | | 288 | | 308 | |
| Available for grant at end of year..... | 437 | | 520 | | 164 | |
| Option price range for exercised shares:... | \$4.38 to \$6.13 | | \$4.25 to \$6.625 | | \$4.25 to \$9.00 | |

Exercise prices for options outstanding as of March 31, 1997 ranged from \$4.00 to \$9.90. The weighted-average remaining contractual life and exercise price of those options is 7.63 years and \$5.53, respectively.

In calculating pro forma information regarding net income and earnings per share, as required by Statement 123, the fair value was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the options on the Company's Class A common stock: risk-free interest rate of 6.5%; a dividend yield of 0%; volatility of the expected market price of the Company's common stock of .40; and a weighted-average expected life of the option of 7 years.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information for the years ended March 31, 1996 and 1997 follows:

| | 1996 | 1997 |
|-------------------------------------|-------------|-------------|
| Pro forma net income..... | \$2,252,000 | \$3,341,000 |
| Pro forma net income per share..... | \$.36 | \$.50 |

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

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ODETICS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 1997

8. STOCK OPTION AND DEFERRED COMPENSATION PLANS (CONTINUED)
rate of return. Compensation charged to operations and deferred under the plan totaled \$364,000, \$302,000 and \$410,000 for 1995, 1996 and 1997, respectively.

9. COMMITMENTS AND CONTINGENCIES

In November 1994 and February 1995, the Company and E-Systems, Inc. (E-Systems), respectively filed legal actions related to E-Systems' cancellation of purchase orders for ATL Products' DataLibrary and DataTower products. In May 1996, the parties entered into a settlement agreement under which, among other

things, E-Systems agreed to pay the Company \$6,160,000, all claims asserted by the parties were released and the litigation dismissed. In addition, the parties agreed to an equitable disposition of disputed inventory and entered into a five year service agreement for Odetics to service units that had been sold to E-Systems at agreed upon prices. The Company has not recorded any material gain or loss based on the terms of the settlement agreement.

ATL has leased and began to relocate to a new facility in Irvine, California during the first calendar quarter of 1997. The annual commitment under this noncancelable operation lease at March 31, 1997 is as follows (in thousands):

| FISCAL YEAR | |
|-----------------|--------|
| ----- | |
| 1998..... | \$ 800 |
| 1999..... | 844 |
| 2000..... | 889 |
| 2001..... | 933 |
| 2002..... | 977 |
| Thereafter..... | 1,723 |

10. SEGMENT AND SIGNIFICANT CUSTOMER INFORMATION

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

The Company manufactures and sells its products to commercial customers in diversified industries as well as to prime government contractors under long-term contracts. The percentage of the Company's total net sales and contract revenues contributed by direct and indirect sales to the United States and foreign governments were approximately 19%, 10% and 11% during 1995, 1996 and 1997, respectively.

The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Credit losses have been within management's expectations and within amounts provided through the allowances for doubtful accounts. At March 31, 1996 and 1997, accounts receivable from governmental agencies and prime government contractors were approximately \$970,000 and \$1,034,000, respectively.

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ODETICS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 1997

10. SEGMENT AND SIGNIFICANT CUSTOMER INFORMATION (CONTINUED)

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

| | YEAR ENDED MARCH 31, | | |
|---|----------------------|------------------|------------------|
| | 1995 | 1996 | 1997 |
| Sales to unaffiliated customers: | | | |
| United States(a)..... | \$ 77,955 | \$ 87,007 | \$123,428 |
| Europe -- Odetics Europe, Ltd. | 5,627 | 14,553 | 13,874 |
| Asia Pacific -- Odetics Asia Pacific Pte Ltd. | 4,163 | 3,067 | 3,506 |
| | <u>\$ 87,745</u> | <u>\$104,627</u> | <u>\$140,808</u> |
| Sales between geographic areas (based on invoiced prices): | | | |
| United States..... | \$ 10,452 | \$ 9,563 | \$ 4,418 |
| Europe..... | -- | -- | -- |
| Asia Pacific..... | -- | -- | -- |
| Intercompany eliminations..... | (10,452) | (9,563) | (4,418) |
| | <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u> |
| Income (loss) before taxes: | | | |
| United States..... | \$ (7,019) | \$ 2,744 | \$ 5,930 |
| Europe..... | 29 | 1,998 | (215) |
| Asia Pacific..... | 377 | (235) | 434 |
| Intercompany eliminations..... | (365) | (550) | -- |
| | <u>\$ (6,978)</u> | <u>\$ 3,957</u> | <u>\$ 6,149</u> |
| Assets: | | | |
| United States..... | \$ 76,620 | \$ 78,543 | \$110,170 |
| Europe..... | 3,367 | 5,002 | 5,092 |
| Asia Pacific..... | 1,934 | 740 | 1,976 |
| Intercompany eliminations..... | (9,563) | (5,474) | (16,300) |
| | <u>\$ 72,358</u> | <u>\$ 78,811</u> | <u>\$100,938</u> |

(a) Export sales from the United States to all unaffiliated foreign customers (which excludes sales to and by Odetics Europe, Ltd. and Odetics Asia Pacific Pte Ltd.) were approximately \$10,000,000, \$13,000,000 and \$24,000,000 during 1995, 1996 and 1997, respectively. These sales were principally made to customers in Europe and the Pacific Rim.

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ODETICS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 1997

11. SUPPLEMENTAL CASH FLOW INFORMATION

| | YEAR ENDED MARCH 31, | | |
|--|----------------------|------------|------------|
| | 1995 | 1996 | 1997 |
| (IN THOUSANDS) | | | |
| Net cash used in changes in operating assets and liabilities, net of litigation settlement: | | | |
| Increase in accounts receivable..... | \$ (435) | \$ (7,129) | \$ (6,649) |
| (Increase) decrease in net costs and estimated earnings in excess of billings..... | 2,064 | 1,167 | (1,217) |
| (Increase) decrease in inventories..... | (3,102) | 2,747 | (6,909) |

| | | | |
|--|------------|----------|------------|
| Increase in prepaids and other assets..... | (1,109) | (556) | (1,996) |
| Increase (decrease) in accounts payable and accrued expenses..... | (24) | 5,166 | 10,706 |
| | ----- | ----- | ----- |
| Net cash used in changes in operating assets and liabilities..... | \$ (2,606) | \$ 1,395 | \$ (6,065) |
| | ===== | ===== | ===== |
| Cash paid during the year: | | | |
| Interest..... | \$ 2,006 | \$ 2,415 | \$ 1,888 |
| Income taxes paid (refunded)..... | 292 | (133) | 975 |
| Noncash transactions during the year: | | | |
| Issuances of common stock to satisfy associate incentive program obligation... | 140 | 143 | 615 |
| Equity of subsidiary allocable to minority interest..... | \$ -- | \$ -- | \$ 1,462 |

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SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

ODETICS, INC.

| COLUMN A | COLUMN B | COLUMN C | | COLUMN D | COLUMN E |
|---|--------------------------------|-------------------------------|---------------------------------|------------------------|--------------------------|
| DESCRIPTION | BALANCE AT BEGINNING OF PERIOD | CHARGED TO COSTS AND EXPENSES | CHARGED TO ACCOUNTS -- DESCRIBE | DEDUCTIONS -- DESCRIBE | BALANCE AT END OF PERIOD |
| Year ended March 31, 1995: | | | | | |
| Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts..... | \$ 337,000 | \$ 827,000 | \$ -- | \$ (210,000) (1) | \$ 954,000 |
| Reserve for inventory obsolescence..... | 861,000 | 5,381,000 | \$ -- | (161,000) | 6,081,000 |
| Total..... | \$ 1,198,000 | \$ 6,208,000 | \$ -- | \$ (371,000) | \$ 7,035,000 |
| Year ended March 31, 1996: | | | | | |
| Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts..... | \$ 954,000 | \$ 170,000 | \$ -- | \$ (136,000) (1) | \$ 988,000 |
| Reserve for inventory obsolescence..... | 6,081,000 | 462,000 | -- | -- | 6,543,000 |
| Total..... | \$ 7,035,000 | \$ 632,000 | \$ -- | \$ (136,000) | \$ 7,531,000 |
| Year ended March 31, 1997: | | | | | |
| Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts..... | \$ 988,000 | \$ 277,000 | \$ -- | \$ (596,000) (2) | \$ 669,000 |
| Reserve for inventory obsolescence..... | 6,543,000 | 2,076,000 | -- | (2,546,000) (2) | 6,073,000 |
| Total..... | \$ 7,531,000 | 2,353,000 | \$ -- | \$ (3,142,000) | \$ 6,742,000 |

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

(2) Consists of additional write-offs in connection with settlement of litigation with E-Systems, Inc. See Note 9 of Notes to Consolidated Financial Statements.

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INDEX TO EXHIBITS

| EXHIBIT NO. | DESCRIPTION | SEQUENTIAL PAGE NO. |
|-------------|---|---------------------|
| 3.1 | Certificate of Incorporation of the Company filed as Exhibit 19.2 to the September 30, 1987 Form 10-Q and incorporated herein by reference..... | |
| 3.2 | Bylaws of the Company, as amended, filed as Exhibit 4.2 to Form S-1 filed July 6, 1993 and incorporated herein by reference..... | |

| | |
|--------|---|
| 4.1 | Specimen of Class A Common Stock and Class B Common Stock certificates filed as Exhibit 4.3 to Amendment No. 1 filed September 30, 1993 to Form S-1 filed July 6, 1993 and incorporated herein by reference..... |
| 10.1 | 1981 Incentive Stock Option Plan and form of Stock Option Agreement, filed as Exhibit 4.1 to the Company's Form S-8 filed June 27, 1985 (No. 2-98656) (the "1985 Form S-8") and incorporated herein by reference..... |
| 10.2 | 1982 Nonstatutory Stock Option and Stock Appreciation Rights Plan and forms of Nonstatutory Stock Option and Stock Appreciation Rights Agreement, filed as Exhibit 4.2 to the 1985 Form S-8 and incorporated herein by reference..... |
| 10.3 | 1992 Incentive Stock Option Plan and forms of Incentive Stock Option Agreement and Nonstatutory Stock Option Agreement filed as Exhibit 4.1, 4.2 and 4.3, respectively, to the Company's Form S-8 filed March 10, 1993 (Reg. No. 33-59274) and incorporated herein by reference..... |
| 10.4 | Profit Sharing Plan and Trust, filed as Exhibit 4.3 to Amendment No. 2 to the 1985 Form S-8 filed May 5, 1988 (Reg. No. 2-98656) and incorporated herein by reference..... |
| 10.5 | Form of Executive Deferral Plan between the Company and certain employees of the Company, filed as Exhibit 10.4 to the 1988 Form 10-K and incorporated herein by reference..... |
| 10.6 | Second Amended and Restated Loan Agreement between Bank of the West and the Company entered into as of September 30, 1992, filed as Exhibit 10.6 to Form S-1 filed July 6, 1993 and incorporated herein by reference..... |
| 10.7 | Loan and Security Agreement between ATL Products, Inc. and Bank of the West entered into as of February 26, 1993, filed as Exhibit 10.6 to Form S-1 filed July 6, 1993 and incorporated herein by reference..... |
| 10.8 | Modification Agreement regarding the agreements referenced in Exhibits 10.6 and 10.7, as modified by the First Amendments to Modification Agreement from Bank of the West dated as of February 26, 1993 and August 9, 1993 filed as Exhibit 10.6 to Form S-1 filed July 6, 1993 and incorporated herein by reference..... |
| 10.9.1 | Form of Indemnity Agreement entered into by the Company, and certain officers and directors, filed as Exhibit 19.4 to the September 30, 1988 Form 10-Q and incorporated herein by reference..... |
| 10.9.2 | Schedule of officers and directors covered by Indemnity Agreement filed as Exhibit 10.9.2 to Amendment No. 1 filed September 30, 1993 to Form S-1 filed July 6, 1993 and incorporated herein by reference..... |

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| EXHIBIT NO. | DESCRIPTION | SEQUENTIAL PAGE NO. |
|----------------|--|------------------------|
| ----- | | |
| 10.10 | Amendment Nos. 3 and 4 to the Profit Sharing Plan and Trust, filed as Exhibits 4.3.1 and 4.3.2 respectively, to Amendment No. 3 to the 1983 Form S-8 (Reg. No. 2-86220) filed June 13, 1990 and incorporated herein by reference..... | |
| 10.11 | Lease between the Company and Roths Properties entered into as of November 1, 1990 filed as Exhibit 10.11 to Form S-1 filed July 6, 1993 and incorporated herein by reference..... | |
| 10.12 | Promissory Note in the original principal amount of \$15,000,000 payable to The Northwestern Mutual Life Insurance Company ("NMLI") dated October 31, 1989 and related Deed of Trust, Security Agreement and Financing Statement between Odetics, Inc. and NMLI dated October 31, 1989 filed as Exhibit 10.12 to Form S-1 filed July 6, 1993 and incorporated herein by reference..... | |
| 10.13 | Separation and Distribution Agreement between the Company and ATL dated March 1, 1997..... | |
| 10.14 | Tax Allocation Agreement between the Company and ATL dated March 1, 1997..... | |
| 10.15 | Services Agreement between the Company and ATL dated March 21, 1997..... | |
| 10.16 | Promissory Note between the Company and ATL dated April 1, 1997.... | |
| 10.17 | Amendment Number Six to Loan and Security Agreement dated March 31, 1997 between the Company, Gyrr, Imperial Bank and Comerica Bank-California..... | |
| 10.18 | Note, Security Agreement and Letter Agreement between ATL and Imperial Bank dated March 15, 1997. | |
| 21 | Subsidiaries of the Company..... | |
| 23.1 | Consent of Ernst & Young LLP..... | |
| 27 | Financial Data Schedule..... | |

SEPARATION AND DISTRIBUTION AGREEMENT

THIS AGREEMENT is made and entered into this 1st day of March, 1997, by and between ODETICS, INC., a Delaware corporation ("Odetics"), and ATL PRODUCTS, INC., a Delaware corporation ("ATL").

PRELIMINARY STATEMENT

Odetics is the sole stockholder of ATL.

Odetics, through ATL and ATL's wholly owned subsidiary, ATL Products Limited, a United Kingdom private limited liability company, is engaged in the manufacture and sale of automated tape libraries, and related services (the "ATL Business").

Odetics' Board of Directors has determined that Odetics will cause ATL to make an initial public offering of up to 1,897,500 shares of its Class A Common Stock (the "IPO"), and subsequent to the IPO and subject to certain conditions, distribute to Odetics' stockholders all of the outstanding stock of ATL owned by Odetics through a spinoff (the "Distribution"). The IPO and the Distribution are together referred to herein as the "Separation" and will result in the total and complete separation of the Business and ATL from Odetics at the time of the Distribution (the "Separation Date"); provided, however, that Odetics may continue to provide services to ATL pursuant to services agreements after the Separation Date.

The parties hereto have determined that it is necessary and desirable to set forth in this Agreement and in a services agreement (the "Services Agreement"), a Promissory Note and a Tax Allocation Agreement (the "Tax Allocation Agreement") between ATL and Odetics (the Services Agreement and the Tax Allocation Agreement are collectively referred to herein as the "Ancillary Agreements"), the principal corporate transactions determined by Odetics and ATL to be appropriate to effect the Separation and to set forth other agreements and undertakings by and between Odetics and ATL that will govern certain other matters between the date hereof and the Distribution and following the Distribution.

Simultaneously with the execution of this Agreement, Odetics and ATL are entering into the Ancillary Agreements.

NOW, THEREFORE, in consideration of the promises and the mutual representations, warranties, covenants and agreements, and upon the terms and subject to the conditions hereinafter set forth, the parties do hereby agree as follows:

ARTICLE I.

THE TRANSFER

1.1 Transfer of Assets. On the terms and subject to the conditions set forth in this Agreement, and the other agreements and instruments of conveyance contemplated hereunder, simultaneously with the execution and delivery of this Agreement, Odetics has heretofore transferred, assigned and conveyed to ATL all of Odetics' right, title, and interest in and to all of the assets, tangible and

intangible, related to the Business (the "ATL Assets") for a purchase price equal to the book value thereof, as calculated in accordance with generally accepted accounting principles. The parties hereto believe that such purchase price constitutes fair market value of the ATL Assets.

1.2 Payment of Purchase Price. The purchase price of the ATL Assets will be included in the principal amount of a Promissory Note (the "Note") in substantially the form attached hereto as Exhibit A, which will be completed at the consummation of the IPO, and executed and delivered in connection therewith, and such purchase price shall be payable in accordance with the terms of the Note.

ARTICLE II.

REPRESENTATIONS AND WARRANTIES OF ODETICS

Odetics represents and warrants to ATL as follows:

2.1 Power and Authority; Effect of Agreement. Odetics is a corporation duly organized, validly existing and in good standing under the laws of Delaware, has requisite corporate power and authority to execute, deliver and perform this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by it of this Agreement and the consummation by it of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Odetics. This Agreement has been duly and validly executed and delivered by Odetics and constitutes its legal, valid and binding obligation. enforceable against it in accordance with its terms, except to the extent that such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to creditors' rights generally. The execution, delivery and performance by it of this Agreement and the consummation by Odetics of the transactions contemplated by the Transfer does not, and will not, with or without the giving of notice or the lapse of time, or both: (i) violate any provision of law, rule or regulation to which it is subject; (ii) violate any order, judgment or decree applicable to it; (iii) conflict with, or result in a breach or default under, its Certificate of Incorporation or its Bylaws; or (iv) conflict with, or result in a breach or default under, any contract to which it is a party; except, in each case, for violations, conflicts, breaches or defaults which in the aggregate would not materially hinder or impair the consummation of the transactions contemplated hereby or have a material adverse effect on the Business.

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2.2 Stock of Transferred Subsidiaries. Odetics is the owner, beneficially and of record of all of the issued and outstanding stock of the assets referred to in Section 1.1 hereof, free and clear of all liens, encumbrances, security agreements, options, claims, charges and restrictions.

2.3 Government Consents. No consent, approval or authorization of, or exemption from, or filing with. any governmental or regulatory authority is required in connection with the execution, delivery or performance by Odetics of the terms of this Article II or the taking by it of any other action required to effectuate the Transfer.

ARTICLE III.

REPRESENTATIONS AND WARRANTIES OF ATL

ATL represents and warrants to Odetics as follows:

3.1 ATL's Power and Authority. ATL is a corporation duly organized validly existing and in good standing under the laws of Delaware, and has all

requisite corporate power and authority to carry on the Business as it is now being conducted and as proposed to be conducted.

3.2 Due Authorization, Execution and Delivery; Effect of Agreement. ATL has all requisite corporate power and authority to execute, deliver and perform this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by ATL of this Agreement and the consummation by ATL of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of ATL. This Agreement has been duly and validly executed and delivered by ATL and constitutes the legal, valid and binding obligation of ATL, enforceable against ATL in accordance with its terms, except to the extent that such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to creditors' rights generally. The execution, delivery and performance by ATL of this Agreement and the consummation by ATL of the transactions contemplated by the Transfer does not, and will not, with or without the giving of notice or the lapse of time, or both: (i) violate any provision of law, rule or regulation to which ATL is subject; (ii) violate any order, judgment or decree applicable to ATL; (iii) conflict with, or result in a breach or default under, the Certificate of Incorporation or Bylaws of ATL; or (iv) conflict with, or result in a breach or default under, any contract to which it is a party; except, in each case, for violations, conflicts, breaches or defaults which in the aggregate would not materially hinder or impair the consummation of the transactions contemplated hereby or have a material adverse effect on the Business.

3.3 Consents. No consent, approval or authorization of, or exemption from, or filing with, any governmental or regulatory authority or any other third party is required in connection with the execution, delivery or performance by ATL of this Agreement or the taking by of any other action required to effectuate the Transfer.

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ARTICLE IV.

COVENANTS OF ODETICS

4.1 Books and Records; Personnel. For a period of six years after the Separation Date (or such longer period as maybe required by any law or regulation, any governmental agency, any ongoing litigation or class of connection with any administrative proceeding):

(a) Odetics shall not dispose of or destroy any of the business records and files of the Business retained by it or any of its subsidiaries (the "Retained Records"). If Odetics wishes to dispose of or destroy such records and files after such six year period, it shall use reasonable efforts to first give 30 days' prior written notice to ATL and ATL shall have the right, at its option and expense, upon prior written notice to Odetics within such 30 day period, to take possession of the Retained Records within 60 days after the date of ATL's notice to Odetics.

(b) Odetics shall allow ATL and its representatives reasonable access to all Retained Records during regular business hours and upon reasonable notice. Odetics shall maintain the Retained Records in a manner and at locations that reasonably facilitates retrieval and review by ATL. ATL shall have the right, at its own expense, to make copies of any such records and files and Odetics shall provide convenient duplication facilities for such purpose, provided, however, that any such access or copying shall be had or done in such manner so as not to unreasonably interfere with the normal conduct of Odetics' business or operations; and

(c) Odetics shall make reasonably available to ATL, upon written request and at ATL's expense: (i) personnel to assist in locating and obtaining records and files maintained by it (including those created after the date hereof, to the extent necessary and appropriate in connection with pending and future claims against ATL relating to the Business) and (ii) any of its personnel whose assistance or participation (including as a witness during depositions or at trial) is reasonably required by ATL in anticipation of, or preparation for or during, existing or future litigation or other matters in which ATL or any of its affiliates is involved and which is related to the Business.

4.2 Supply Agreements. For a period of three years from the consummation of the IPO, Odetics shall not unilaterally terminate or assign its guarantee obligation with respect to any supply agreement pursuant to which it has guaranteed the performance by ATL of ATL's obligations, unless such suppliers have consented to the termination or assignment of such guarantee.

4.3 Cooperation. Odetics agrees to cooperate with ATL, both before and after the Separation Date, to enable both parties to implement the Separation, including but not limited to performing the obligations undertaken by the parties hereunder. Such cooperation will include but not be limited to preparing and submitting required financial reports after the Separation Date, which may relate to periods before or after the Separation Date, and executing such

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documents and doing such other acts and things as may be necessary to carry out the intent of this Agreement as it relates to the Separation.

ARTICLE V.

COVENANTS OF ATL

5.1 Cooperation. ATL agrees to cooperate with Odetics, both before and after the Separation Date, to enable both parties to implement the Separation, including but not limited to performing the obligations undertaken by the parties hereunder. Such cooperation will include but not be limited to preparing and submitting required financial reports after the Separation Date, which may relate to periods before or after the Separation Date, and executing such documents and doing such other acts and things as may be necessary to carry out the intent of this Agreement as it relates to the Separation.

5.2 Books and Records; Personnel. For a period of six years after the Separation Date (or such longer period as may be required by any law or regulation, any governmental agency, any ongoing litigation or class of litigation, or in connection with any administrative proceeding):

(a) ATL shall not dispose of or destroy the business records and files of the Business that are transferred to it or any of its subsidiaries in carrying out the transactions contemplated hereby (the "Transferred Records"). If ATL wishes to dispose of or destroy such records and files after that time, it shall use reasonable efforts to first give 30 days' prior written notice to Odetics and Odetics shall have the right, at its option and expense, upon prior written notice to ATL within such 30 day period, to take possession of the Transferred Records within 60 days after the date of Odetics' notice to ATL;

(b) ATL shall allow Odetics and its representatives reasonable access to all Transferred Records during regular business hours and upon reasonable notice. ATL shall maintain the Transferred Records in a manner and at locations that reasonably facilitates retrieval and review by Odetics. Odetics shall have the right, at its own expense, to make copies of any such records and files and ATL shall provide convenient duplication facilities for such purposes provided, however, that any such access or copying shall be had or done in such

a manner so as not to unreasonably interfere with the normal conduct of ATL's business or operations; and

(c) ATL shall make reasonably available to Odetics upon written request and at Odetics' expense: (1) ATL's personnel to assist in locating and obtaining records and files maintained by it (including those created after the date hereof, to the extent necessary and appropriate in connection with pending and future claims against Odetics relating to the Business), and (ii) any of its personnel whose assistance or participation (including as a witness during depositions or at trial) is reasonably required by Odetics in anticipation of, or preparation for or during, existing or future litigation or other matters in which Odetics or any of its affiliates is involved.

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ARTICLE VI.

THE IPO AND ACTIONS PENDING THE IPO

6.1 Transactions Prior to the IPO.

(a) Subject to the conditions specified in Section 6.3 hereof, Odetics and ATL shall use their reasonable best efforts to consummate the IPO. Such actions shall include, but shall not necessarily be limited to, those specified in this Section 6.1

(b) ATL shall file the IPO Registration Statement, and such amendments or supplements thereto, as may be necessary in order to cause the same to become and remain effective as required by law or by the Underwriters, including, but not limited to, filing such amendments to ATL's Registration Statement on Form S-1 as may be required by the Underwriting Agreement, the Commission or federal, state or foreign securities laws. Odetics and ATL shall also cooperate in preparing, filing with the Securities and Exchange Commission (the "Commission") and causing to become effective a registration statement registering the ATL Common Stock under the Exchange Act, and any registration statements or amendments thereof which are required to reflect the establishment of, or amendments to, any employee benefit and other plans necessary or appropriate in connection with the IPO, the Separation, the Distribution or the other transactions contemplated by this Agreement and the Ancillary Agreements.

(c) ATL and Odetics shall enter into the Underwriting Agreement, in form and substance reasonably satisfactory to ATL and Odetics, and shall comply with their respective obligations thereunder.

(d) Odetics and ATL shall consult with each other and the Underwriters regarding the timing, pricing and other material matters with respect to the IPO.

(e) ATL shall use its reasonable best efforts to take all such action as may be necessary or appropriate under state securities laws of the United States (and any comparable laws under any foreign jurisdictions) in connection with the IPO.

(f) ATL shall prepare, file and use reasonable best efforts to seek to make effective, an application for listing of the Class A Common Stock of ATL (the "ATL Common Stock") issued in the IPO on the Nasdaq National Market, subject to official notice of issuance.

(g) ATL and Odetics shall participate in the preparation of materials and presentations as the Underwriters shall deem necessary or desirable.

(h) ATL shall pay all third party costs, fees and expenses relating to the IPO, all of the reimbursable expenses of the Underwriters pursuant to the Underwriting

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Agreement, all of the costs of producing, printing, mailing and otherwise distributing the Prospectus, as well as the Underwriters' discount as provided in the Underwriting Agreement.

6.2 Proceeds of the IPO. The IPO will be a primary offering of ATL Common Stock and the net proceeds of the IPO will be retained by ATL, subject to its obligation to pay certain amounts to Odetics pursuant to the Note.

6.3 Conditions Precedent to Consummation of the IPO. As soon as practicable after the date of this Agreement, the parties hereto shall use their reasonable best efforts to satisfy the following conditions to the consummation of the IPO. The obligations of the parties to consummate the IPO shall be conditioned on the satisfaction, or waiver by Odetics, of the following conditions:

(a) The IPO Registration Statement shall have been declared effective by the Commission, and there shall be no stop-order in effect with respect thereto.

(b) The actions and filings with regard to state securities laws of the United States (and any comparable laws under any foreign jurisdictions) described in Section 6.1 shall have been taken and, where applicable, have become effective or been accepted.

(c) The ATL Common Stock to be issued in the IPO shall have been accepted for listing on the Nasdaq National Market, on official notice of issuance.

(d) ATL shall have entered into the Underwriting Agreement and all conditions to the obligations of ATL and the Underwriters shall have been satisfied or waived.

(e) Odetics shall be satisfied in its sole discretion that it will own at least 80.0% of the outstanding ATL voting stock following the IPO, and all other conditions to permit the Distribution to qualify as a tax free distribution to Odetics' stockholders shall, to the extent applicable as of the time of the IPO, be satisfied and there shall be no event or condition that is likely to cause any of such conditions not to be satisfied as of the time of the Distribution or thereafter.

(f) No order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Separation or the IPO or any of the other transactions contemplated by this Agreement or any Ancillary Agreement shall be in effect.

(g) Such other actions as the parties hereto may, based upon the advice of counsel, reasonably request to be taken prior to the Separation and the IPO in order to assure the successful completion of the Separation and the IPO and the other transactions contemplated by this Agreement shall have been taken.

(h) This Agreement shall not have been terminated.

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(i) A pricing committee of Odetics directors designated by the Board of Directors of Odetics shall have determined that the terms of the IPO are acceptable to Odetics.

ARTICLE VII.

THE DISTRIBUTION

7.1 The Distribution.

(a) Subject to the conditions specified in Section 7.3 hereof, on or prior to the Distribution Date, Odetics will deliver to First National Bank of Boston (the "Agent") for the benefit of holders of record of Odetics' Class A Common Stock and Class B Common Stock on the record date established by the Board of Directors of Odetics, a single stock certificate, endorsed by Odetics in blank, representing all of the outstanding shares of ATL Common Stock then owned by Odetics, and shall cause the transfer agent for the shares of Odetics Common Stock to instruct the Agent to distribute on the Distribution Date the appropriate number of such shares of ATL Common Stock to each such holder or designated transferee or transferees of such holder.

(b) Subject to Section 7.4, each holder of Odetics Common Stock on the Record Date (or such holder's designated transferee or transferees) will be entitled to receive in the Distribution a number of shares of ATL Common Stock equal to the number of shares of Odetics Common Stock held by such holder on the Record Date multiplied by a fraction the numerator of which is the number of shares of ATL Common Stock beneficially owned by Odetics on the Record Date and the denominator of which is the number of shares of Odetics Common Stock outstanding on the Record Date.

(c) ATL and Odetics, as the case may be, will provide to the Agent all share certificates and any information required in order to complete the Distribution on the basis specified above.

7.2 Actions Prior to the Distribution.

(a) Odetics and ATL shall prepare and mail, prior to the Distribution Date, to the holders of Odetics Common Stock, such information concerning ATL, its business, operations and management, the Distribution and such other matters as Odetics and ATL shall reasonably determine and as may be required by law. Odetics and ATL will prepare, and ATL will, to the extent required under applicable law, file with the Commission any such documentation and any requisite no action letters which Odetics determines are necessary or desirable to effectuate the Distribution and Odetics and ATL shall each use its reasonable best efforts to obtain all necessary approvals from the Commission with respect thereto as soon as practicable.

(b) Odetics and ATL shall take all such action as may be necessary or appropriate under the state securities laws of the United States (and any comparable laws under any foreign jurisdiction) in connection with the Distribution.

(c) Odetics and ATL shall take all reasonable steps necessary and appropriate to cause the conditions set forth in Section 7.3(d) (subject to Sections 7.3(d)) to be satisfied and to effect the Distribution on the Distribution Date.

(d) ATL shall prepare and file, and shall use its reasonable best efforts to have approved, an application for the listing of the ATL Common Stock to be distributed in the Distribution on the Nasdaq National Market, subject to official notice of distribution.

7.3 Conditions to Distribution. The Odetics Board currently intends to effect the Distribution by December 31, 1997. Subject to any restrictions contained in the Underwriting Agreement, the Odetics Board shall have the sole discretion to determine the date of consummation of the Distribution at any time after the Closing Date and on or prior to December 31, 1997. Odetics shall be obligated to consummate the Distribution no later than December 31, 1997, subject to the satisfaction, or waiver by the Odetics Board in its sole discretion, of the conditions set forth below. In the event that any such condition shall not have been satisfied or waived on or before December 31, 1997, Odetics shall consummate the Distribution as promptly as practicable following the satisfaction or waiver of all such conditions.

(a) a private letter ruling from the Internal Revenue Service shall have been obtained, and shall continue in effect, to the effect that, among other things, the Distribution will qualify as a tax free distribution for federal income tax purposes under Section 355 of the Code and will not result in the recognition of any gain to Odetics or Odetics' stockholders, and such ruling shall be in form and substance satisfactory to Odetics in its sole discretion;

(b) any material governmental approvals and consents necessary to consummate the Distribution shall have been obtained and be in full force and effect;

(c) no order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Distribution shall be in effect and no other event outside the control of Odetics shall have occurred or failed to occur that prevents the consummation of the Distribution; and

(d) no other events or developments shall have occurred subsequent to the date hereof that, in the judgment of the Board of Directors of Odetics, would result in the Distribution having a material adverse effect on Odetics or on the stockholders of Odetics.

The foregoing conditions are for the sole benefit of Odetics and shall not give rise to or create any duty on the part of Odetics or the Odetics Board of Directors to waive or not waive any such condition.

7.4 Fractional Shares. As soon as practicable after the Distribution Date, Odetics shall direct the Agent to determine the number of whole shares and fractional shares of ATL Common Stock allocable to each holder of record or beneficial owner of Odetics Common Stock as of the Record Date, to aggregate all such fractional shares and sell the whole shares obtained thereby at the direction of Odetics either to Odetics, in open market transactions or otherwise, in each case at then prevailing trading prices, and to cause to be distributed to each such holder or for the benefit of each such beneficial owner, in lieu of any fractional share, such holder's or owner's ratable share of the proceeds of such sale, after making appropriate deductions of any amount required to be withheld for federal income tax purposes and after deducting an amount equal to all brokerage charges, commissions and transfer taxes attributed to such sale. Odetics and the Agent shall use their reasonable best efforts to aggregate the shares of Odetics Common Stock that may be held by any beneficial owner thereof through more than one account in determining the fractional share allocable to such beneficial owner.

7.5 The ATL Board of Directors. Odetics and ATL shall each take all

actions which may be required to elect or otherwise appoint as directors of ATL, on or prior to the Distribution Date, persons to be designated by a nominating committee of ATL's Board of Directors as additional or substitute members of the Board of Directors of ATL on the Distribution Date.

ARTICLE VIII.

MUTUAL RELEASES; INDEMNIFICATION

8.1 Release of Pre-closing Claims.

(a) Except as provided in Section 8.1(c), effective as of the date of consummation of the IPO (the "Closing Date"), ATL does hereby, for itself and each of its affiliates, successors and assigns, and all persons who at any time prior to the Closing Date have been stockholders, directors, officers, agents or employees of ATL (in each case, in their respective capacities as such), remise, release and forever discharge each of Odetics and its affiliates, successors and assigns, and all persons who at any time prior to the Closing Date have been stockholders, directors, officers, agents or employees of Odetics (in each case, in their respective capacities as such), and their respective heirs, executors, administrators, successors and assigns, from any and all losses, claims, actions, damages, expenses or liabilities whatsoever (collectively, the "Liabilities"), whether at law or in equity (including any right of contribution), whether arising under any contract or agreement, by operation of law or otherwise, existing or arising from any acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur or any conditions existing or alleged to have existed on or before the Closing Date.

(b) Except as provided in Section 8.1(c), effective as of the Closing Date, Odetics does hereby, for itself and its affiliates, successors and assigns, and all persons who at any time prior to the Closing Date have been stockholders, directors, officers, agents or

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employees of Odetics (in each case, in their respective capacities as such), remise, release and forever discharge ATL, and its affiliates, successors and assigns, and all persons who at any time prior to the Closing Date have been stockholders, directors, officers, agents or employees of ATL (in each case, in their respective capacities as such), and their respective heirs, executors, administrators, successors and assigns, from any and all Liabilities whatsoever, whether at law or in equity (including any right of contribution), whether arising under any contract or agreement, by operation of law or otherwise, existing or arising from any acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur or any conditions existing or alleged to have existed on or before the Closing Date, including in connection with the transactions and all other activities to implement any of the Separation, the IPO and the Distribution.

(c) Nothing contained in Section 8.1(a) or (b) shall impair any right of any person to enforce this Agreement, any Ancillary Agreement or any agreements, arrangements, commitments or understandings that are specified herein or in the Schedules and Exhibits hereto not to terminate as of the Closing Date, in each case in accordance with its terms. Nothing contained in Section 8.1(a) or (b) shall release any person from:

(i) any liability provided in or resulting from any agreement between Odetics and ATL that is specified herein or the Schedules and Exhibits hereto as not to terminate as of the Closing Date, or any other liability specified as not to terminate as of the Closing Date;

(ii) any liability, contingent or otherwise, assumed, transferred, assigned or allocated to such person;

(iii) any liability that the parties may have with respect to indemnification or contribution pursuant to this Agreement for claims brought against the parties by third Persons, which liability shall be governed by this Article VIII and, if applicable, the appropriate provisions of the Ancillary Agreements.

(d) ATL shall not make any claim or demand or commence any action asserting any claim or demand, including any claim of contribution or any indemnification, against Odetics or any other person released pursuant to Section 8.1(a), with respect to any liabilities released pursuant to Section 8.1(a). Odetics shall not make any claim or demand, or commence any action asserting any claim or demand, including any claim of contribution or any indemnification, against ATL or any other person released pursuant to Section 8.1(b), with respect to any liabilities released pursuant to Section 8.1(b).

(e) It is the intent of each of Odetics and ATL by virtue of the provisions of this Section 8.1 to provide for a full and complete release and discharge of all liabilities existing or arising from all acts and events occurring or failing to occur or alleged to have occurred or to have failed to occur and all conditions existing or alleged to have existed on or before the Closing Date, between or among ATL and its affiliates on the one hand, and Odetics and its affiliates on the other hand (including any contractual agreements or arrangements existing or alleged to exist between or among any such persons on or before the

Closing Date), except as expressly set forth in Section 8.1(c). At any time, at the request of any other party, each party shall execute and deliver releases reflecting the provisions hereof.

8.2 Indemnification by ATL. Except as provided in Section 8.4, ATL shall indemnify, defend and hold harmless Odetics, and each of its directors, officers and employees, and each of the heirs, executors, successors and assigns of any of the foregoing (collectively, the "Odetics Indemnitees"), from and against any and all Liabilities of the Odetics Indemnitees relating to, arising out of or resulting from any of the following items (collectively, the ATL Liabilities"):

(a) the operation of the ATL Business, as conducted at any time prior to, on or after the Closing Date (including any Liability relating to, arising out of or from any act or failure to act by any director, officer, employee, agent or representative of ATL, whether or not such act or failure to act is or was within such person's authority); provided however, that ATL shall not be responsible for and shall not indemnify, defend or hold harmless Odetics for any tax liability resulting from the reorganization of ATL's international operations occurring prior to the Closing Date;

8.2.1 the ownership, leasing or use of any assets of ATL, including, without limitation, the ATL Assets, any personal property, real property and leasehold interests of ATL;

(a) the failure of ATL or any other person to pay, perform or otherwise promptly discharge any liabilities of ATL or any material contract or agreement of ATL in accordance with their respective terms, whether prior to or after the Closing Date or the date hereof;

(b) any breach by ATL or its affiliates of this Agreement or any of the Ancillary Agreements; or

(c) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be

stated therein or necessary to make the statements therein not misleading, with respect to all information contained in any IPO Registration Statement or Prospectus made by ATL or any of its directors, officers, employees, agents or representatives.

8.3 Indemnification by Odetics. Odetics shall indemnify, defend and hold harmless ATL, and each of its directors, officers and employees, and each of the heirs, executors, successors and assigns of any of the foregoing (collectively, the "ATL Indemnitees"), from and against any and all Liabilities of the ATL Indemnitees relating to, arising out of or resulting from any of the following items:

(a) the operation of the business of Odetics (other than the ATL Business), as conducted at any time prior to, on or after the Closing Date (including any Liability relating to, arising out of or from any act or failure to act by any director, officer, employee, agent or representative of Odetics, whether or not such act or failure to act is or was within such person's authority);

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8.3.1 the ownership, leasing or use of any assets of Odetics, including, without limitation, any personal property, real property and leasehold interests of Odetics;

(a) the failure of Odetics or any other person to pay, perform or otherwise promptly discharge any liabilities of Odetics (other than the ATL Liabilities) or any material contract or agreement of Odetics in accordance with their respective terms, whether prior to or after the Closing Date or the date hereof;

(b) any breach by Odetics or its affiliates (other than ATL) of this Agreement or any of the Ancillary Agreements; or

(c) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in any IPO Registration Statement or Prospectus made by Odetics or any of its directors, officers, employees, agents or representatives.

8.4 Indemnification Obligations Net of Insurance Proceeds and Other Amounts.

(a) The parties intend that any liability subject to indemnification or reimbursement pursuant to this Article VIII will be net of insurance proceeds that actually reduce the amount of the liability. Accordingly, the amount which any party (an "Indemnifying Party") is required to pay to any person entitled to indemnification hereunder (an "Indemnitee") will be reduced by any insurance proceeds theretofore actually recovered by or on behalf of the Indemnitee in reduction of the related liability. If an Indemnitee receives a payment (an "Indemnity Payment") required by this Agreement from an Indemnifying Party in respect of any liability and subsequently receives insurance proceeds, then the Indemnitee will pay to the Indemnifying Party an amount equal to the excess of the Indemnity Payment received over the amount of the Indemnity Payment that would have been due if the insurance proceeds recovery had been received, realized or recovered before the Indemnity Payment was made.

(b) An insurer who would otherwise be obligated to pay any claim shall not be relieved of the responsibility with respect thereto or, solely by virtue of the indemnification provisions hereof, have any subrogation rights with respect thereto, it being expressly understood and agreed that no insurer

or any other third party shall be entitled to a benefit such insurer or other third party would not be entitled to receive in the absence of the indemnification provisions by virtue of the indemnification provisions hereof.

8.5 Procedures for Indemnification of Third Party Claims.

(a) If an Indemnitee shall receive notice or otherwise learn of the assertion by any person other than the parties hereto of a claim (a "Third Party Claim") with respect to which an Indemnifying Party may be obligated to provide indemnification to such Indemnitee pursuant to Section 8.2 or 8.3, or any other Section of this Agreement or any Ancillary Agreement, such Indemnitee shall give such Indemnifying Party written notice thereof

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within 20 days after becoming aware of such Third Party Claim. Any such notice shall describe the Third Party Claim in reasonable detail. Notwithstanding the foregoing, the failure of any Indemnitee or other Person to give notice as provided in this Section 8.5(a) shall not relieve the related Indemnifying Party of its obligations under this Article VIII, except to the extent that such Indemnifying Party is actually prejudiced by such failure to give notice.

(b) An Indemnifying Party may elect to defend (and, unless the Indemnifying Party has specified any reservations or exceptions, to seek to settle or compromise), at such Indemnifying Party's own expense and by such Indemnifying Party's own counsel, any Third Party Claim. Within 30 days after the receipt of notice from an Indemnitee in accordance with Section 8.5(a), the Indemnifying Party shall notify the Indemnitee of its election whether the Indemnifying Party will assume responsibility for defending such Third Party Claim, which election shall specify any reservations or exceptions. After notice from an Indemnifying Party to an Indemnitee of its election to assume the defense of a Third Party Claim, such Indemnitee shall have the right to employ separate counsel and to participate in (but not control) the defense, compromise, or settlement thereof, but the fees and expenses of such counsel shall be the expense of such Indemnitee except as set forth in the next sentence. In the event that the Indemnifying Party has elected to assume the defense of the Third Party Claim but has specified, and continues to assert, any reservations or exceptions in such notice, then, in any such case, the reasonable fees and expenses of one separate counsel for all Indemnitees shall be borne by the Indemnifying Party.

(c) If an Indemnifying Party elects not to assume responsibility for defending a Third Party Claim, or fails to notify an Indemnitee of its election as provided in Section 8.5(b), such Indemnitee may defend such Third Party Claim at the cost and expense of the Indemnifying Party.

(d) Unless the Indemnifying Party has failed to assume the defense of the Third Party Claim in accordance with the terms of this Agreement, no Indemnitee may settle or compromise any Third Party Claim without the consent of the Indemnifying Party.

(e) No Indemnifying Party shall consent to entry of any judgment or enter into any settlement of the Third Party Claim without the consent of the Indemnitee if the effect thereof is to permit any injunction, declaratory judgment, other order or other nonmonetary relief to be entered, directly or indirectly, against any Indemnitee.

(f) The provisions of this Section 8.5 shall not apply to Taxes (which are covered by the Tax Allocation Agreement).

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ARTICLE IX.

INTERIM OPERATIONS AND CERTAIN OTHER MATTERS

9.1 Insurance Matters.

(a) ATL agrees that it will reimburse Odetics for its proportionate share of premiums paid or accrued, from the date hereof until the Distribution Date, in respect of Insurance Policies under which ATL will continue to have coverage following the date hereof. Odetics and ATL agree to cooperate in good faith to provide for an orderly transition of insurance coverage from the date hereof through the Distribution Date and for the treatment of any Insurance Policies that will remain in effect following the Closing Date on a mutually agreeable basis. In no event shall Odetics, or any Odetics Indemnitee have any liability or obligation whatsoever to ATL in the event that any Insurance Policy or other contract or policy of insurance shall be terminated or otherwise cease to be in effect for any reason, shall be unavailable or inadequate to cover any liability of ATL for any reason whatsoever or shall not be renewed or extended beyond the current expiration date.

(b) (i) Except as otherwise provided in any Ancillary Agreement, the parties intend by this Agreement that ATL and its affiliates be successor-in-interest to all rights that any may have as of the Closing Date as a subsidiary or affiliate of Odetics prior to the Closing Date under any policy of insurance issued to Odetics by any insurance carrier or under any agreements related to such policies executed and delivered prior to the Closing Date, including any rights ATL and its affiliates may have, as an insured or additional named insured, subsidiary or affiliate to avail itself of any such policy of insurance or any such agreements related to such policies as in effect prior to the Closing Date. At the request of ATL, Odetics shall take all reasonable steps, including the execution and delivery of any instruments, to effect the foregoing; provided however that Odetics shall not be required to pay any amounts, waive any rights or incur any liabilities in connection therewith.

(ii) Except as otherwise contemplated by any Ancillary Agreement, after the Closing Date, neither of Odetics or ATL shall, without the consent of the other, provide any such insurance carrier with a release, or amend, modify or waive any rights under any such policy or agreement, if such release, amendment, modification or waiver would adversely affect any rights or potential rights of the other hereunder; provided, however, that the foregoing shall not (A) preclude either from presenting any claim or from exhausting any policy limit, (B) require either to pay any premium or other amount or to incur any liability, or (C) require either to renew, extend or continue any policy in force. Each of ATL and Odetics will share such information as is reasonably necessary in order to permit the other to manage and conduct its insurance matters in an orderly fashion.

(c) This Agreement shall not be considered as an attempted assignment of any policy of insurance or as a contract of insurance and shall not be construed to waive any right or remedy of either Odetics or ATL in respect of any insurance policy or any other contract or policy of insurance.

(d) ATL does hereby, for itself and its affiliates, agree that Odetics or any Odetics Indemnitee shall have any liability whatsoever as a result of the insurance policies and practices of Odetics and its affiliates as

in effect at any time prior to the Closing Date, including as a result of the level or scope of any such insurance, the creditworthiness of any insurance carrier, the terms and conditions of any policy, the adequacy or timeliness of any notice to any insurance carrier with respect to any claim or potential claim or otherwise.

ARTICLE X.

MISCELLANEOUS

10.1 Counterparts; Entire Agreement; Corporate Power.

(a) This Agreement and each Ancillary Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party.

(b) This Agreement, and the Ancillary Agreements and the Exhibits, Schedules and Appendices hereto and thereto contain the entire agreement between the parties with respect to the subject matter hereof, supersede all previous agreements, negotiations, discussions, writings, understandings, commitments and conversations with respect to such subject matter and there are no agreements or understandings between the parties other than those set forth or referred to herein or therein.

10.2 Governing Law. This Agreement and, unless expressly provided therein, each Ancillary Agreement, shall be governed by and construed and interpreted in accordance with the laws of the State of California without regard to principles of conflicts of law.

10.3 Assignability.

(a) Except as set forth in any Ancillary Agreement, this Agreement and each Ancillary Agreement shall be binding upon and inure to the benefit of the parties hereto and thereto, respectively, and their respective successors and assigns; provided, however, that no party hereto or thereto may assign its respective rights or delegate its respective obligations under this Agreement or any Ancillary Agreement without the express prior written consent of the other parties hereto or thereto.

10.4 Third Party Beneficiaries. Except for the indemnification rights under this Agreement of any Odetics Indemnitee or ATL Indemnitee in their respective capacities as such, (a) the provisions of this Agreement and each Ancillary Agreement are solely for the benefit of the parties and are not intended to confer upon any person except the parties any rights or remedies hereunder, and (b) there are no third party beneficiaries of this Agreement or any Ancillary Agreement and neither this Agreement nor any Ancillary Agreement shall provide any

third person with any remedy, claim, liability, reimbursement, claim of action or other right in excess of those existing without reference to this Agreement or any Ancillary Agreement. No party hereto shall have any right, remedy or claim with respect to any provision of this Agreement or any Ancillary Agreement to the extent such provision relates solely to the other two parties hereto or the members of such other two parties' respective Groups. No party shall be required to deliver any notice under this Agreement or under any Ancillary Agreement to any other party with respect to any matter in which such other party has no right, remedy or claim.

10.5 Notices. All notices or other communications under this Agreement or any Ancillary Agreement shall be in writing and shall be deemed to be duly

given when (a) delivered in person or (b) deposited in the United States mail or private express mail, postage prepaid, addressed as follows:

If to Odetics, to: Odetics, Inc.
1515 South Manchester Avenue
Anaheim, California 92802-2907
Attn: Joel Slutzky

If to ATL, to: ATL Products, Inc.
2801 Kelvin Avenue
Irvine, California 92614
Attn: Kevin C. Daly, Ph.D.

Any party may, by notice to the other party, change the address to which such notices are to be given.

10.6 Severability. If any provision of this Agreement or any Ancillary Agreement or the application thereof to any Person or circumstance is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof or thereof, or the application of such provision to Persons or circumstances or in jurisdictions other than those as to which it has been held invalid or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby or thereby, as the case may be, is not affected in any manner adverse to any party. Upon such determination, the parties shall negotiate in good faith in an effort to agree upon such a suitable and equitable provision to effect the original intent of the parties.

10.7 Force Majeure. No party shall be deemed in default of this Agreement or any Ancillary Agreement to the extent that any delay or failure in the performance of its obligations under this Agreement or any Ancillary Agreement results from any cause beyond its reasonable control and without its fault or negligence, such as acts of God, acts of civil or military authority, embargoes, epidemics, war, riots, insurrections, fires, explosions, earthquakes, floods, unusually severe weather conditions, labor problems or unavailability of parts, or, in the case of computer systems, any failure in electrical or air conditioning equipment. In the event of any such excused delay, the time for performance shall be extended for a period equal to the time lost by reason of the delay.

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10.8 Publicity. Prior to the Distribution, each of ATL and Odetics shall consult with the other prior to issuing any press releases or otherwise making public statements with respect to the IPO, the Distribution or any of the other transactions contemplated hereby and prior to making any filings with any governmental authority with respect thereto.

10.9 Headings. The article, section and paragraph headings contained in this Agreement and in the Ancillary Agreements are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement or any Ancillary Agreement.

10.10 Survival of Covenants and Representations and Warranties. Except as expressly set forth in any Ancillary Agreement, the covenants, representations and warranties contained in this Agreement and each Ancillary Agreement, and liability for the breach of any obligations contained herein, shall survive each of the Separation, the IPO and the Distribution and shall remain in full force and effect regardless of whether Odetics shall consummate, delay, modify or abandon the Distribution.

10.11 Waivers of Default. Waiver by any party of any default by the other party of any provision of this Agreement or any Ancillary Agreement shall

not be deemed a waiver by the waiving party of any subsequent or other default, nor shall it prejudice the rights of the other party.

10.12 Specific Performance. In the event of any actual or threatened default in, or breach of, any of the terms, conditions and provisions of this Agreement or any Ancillary Agreement, the party or parties who are or are to be thereby aggrieved shall have the right to specific performance and injunctive or other equitable relief of its rights under this Agreement or such Ancillary Agreement, in addition to any and all other rights and remedies at law or in equity, and all such rights and remedies shall be cumulative. The parties agree that the remedies at law for any breach or threatened breach, including monetary damages, are inadequate compensation for any loss and that any defense in any action for specific performance that a remedy at law would be adequate is waived. Any requirements for the securing or posting of any bond with such remedy are waived.

10.13 Amendments.

(a) No provisions of this Agreement or any Ancillary Agreement shall be deemed waived, amended, supplemented or modified by any party, unless such waiver, amendment, supplement or modification is in writing and signed by the authorized representative of the party against whom it is sought to enforce such waiver, amendment, supplement or modification. Without limiting the foregoing, the parties agree that any waiver, amendment, supplement or modification of this Agreement or any Ancillary Agreement that solely relates to and affects only two of the three parties hereto shall not require the consent of the third party hereto.

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(b) Without limiting the foregoing, the parties anticipate that, prior to the Closing Date, some or all of the Schedules to this Agreement may be amended or supplemented and, in such event, such amended or supplemented Schedules shall be attached hereto in lieu of the original Schedules.

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IN WITNESS WHEREOF, the parties have caused this Separation and Distribution Agreement to be executed by their duly authorized representatives.

ODETICS, INC.
a Delaware corporation

By: /s/ Joel Slutzky

Joel Slutzky, Chief Executive Officer

ATL PRODUCTS, INC.
a Delaware corporation

By: /s/ Kevin C. Daly

Kevin C. Daly, Chief Executive Officer

TAX ALLOCATION AGREEMENT

BY AND BETWEEN

ODETICS, INC.

AND

ATL PRODUCTS, INC.

TAX ALLOCATION AGREEMENT

THIS TAX ALLOCATION AGREEMENT (the "Agreement"), dated as of March 1, 1997, by and between ODETICS, INC., a Delaware corporation ("Odetics"), and ATL PRODUCTS, INC., a Delaware corporation ("ATL"), is entered into in connection with the initial public offering ("IPO") of ATL. For purposes of this Agreement, ATL shall also be deemed to refer to ATL Products, Inc., a California corporation, as predecessor of ATL.

WHEREAS, Odetics on behalf of itself and its present and future subsidiaries other than ATL and its subsidiaries (the "Odetics Group"), and ATL on behalf of itself and its subsidiaries (the "ATL Group") have determined that it is necessary and desirable to provide for allocation between the Odetics Group and the ATL Group of all responsibilities, liabilities and benefits relating to taxes paid or payable by either group for all taxable periods, whether beginning before, on or after the IPO, and to provide for certain other matters;

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained in this Agreement, the parties hereby agree as follows:

ARTICLE I
DEFINITIONS

1.1 Code: The Internal Revenue Code of 1986, as amended.

1.2 Effective Date: April 1, 1996.

1.3 Post-Spinoff Period: Any taxable period of ATL ending after the distribution by Odetics of all of its ATL stock.

1.4 Pre-Spinoff Period: Any taxable period of ATL ending on or before the distribution by Odetics of all of its ATL stock.

1.5 Spinoff: The distribution by Odetics of all of its ATL stock.

1.6 Tax or Taxes: All taxes of the Odetics Group and the ATL Group, including any additions to tax, interest and penalties relating to such taxes.

1.7 Tax Benefit: The tax effect of any loss, deduction, credit or other item that decreases taxes paid or payable.

1.8 Tax Detriment: The tax effect of any income, gain, recapture of credit or other item that increases taxes paid or payable.

ARTICLE II
FILING OF TAX RETURNS

2.1 Pre-Spinoff Period Income Tax Returns

(a) Federal Income Tax Returns. The income and other tax items of ATL for any Pre-Spinoff Period shall be included in the Odetics consolidated federal income tax return; provided that ATL is a member of the Odetics "affiliated group" within the meaning of Section 1504 of the Code. Odetics shall prepare and timely file all consolidated federal income tax returns for all such periods.

(b) State Income Tax Returns. Odetics shall prepare and timely file any consolidated or combined state income tax return that includes an Odetics Group member and an ATL Group member for all Pre-Spinoff Periods.

2.2 Other Tax Returns. All tax reports or returns for Pre-Spinoff Periods not covered by Section 2.1 and all tax reports or returns for Post-Spinoff Periods shall be prepared and filed by ATL for the ATL Group and by Odetics for the Odetics Group unless otherwise mutually agreed to by them.

ARTICLE III
PAYMENT OF TAXES

3.1 Payment of Taxes in General

(a) Except as otherwise provided in this Article III, Odetics shall pay, and shall indemnify and hold harmless ATL and each other member of the ATL Group from and against, all Taxes attributable to the Odetics Group and the ATL Group (including any Taxes arising to any member of the ATL Group by virtue of Section 1.1502-6 of the Treasury Regulations), whether heretofore or hereafter arising or incurred. Odetics shall be entitled to any reduction in or refund of Taxes for which it is responsible pursuant to the preceding sentence (except any reduction in or refund of Taxes resulting from carrybacks of ATL as described in Section 3.4).

(b) ATL shall pay, and shall indemnify and hold harmless each Odetics Group member from and against, (i) all Taxes attributable to the ATL Group (in the case of income or franchise Taxes, as determined under Section 3.2) for any Pre-Spinoff Period commencing on or after the Effective Date and (ii) all Taxes for any Post-Spinoff

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Period that are attributable to the ATL Group. ATL shall be entitled to any reduction in or refund of Taxes for which it is responsible pursuant to the preceding sentence.

(c) Notwithstanding anything to the contrary herein, Odetics shall be responsible for, and shall indemnify the ATL Group against any Taxes resulting from the reorganization of the international operations of Odetics and ATL prior to the IPO.

(d) If a member of the Odetics Group or the ATL Group, as the case may be, receives a refund of Taxes to which the other group is entitled under this Article III, then such member shall remit such refund to the other group by promptly sending such refund to Odetics or ATL, as the case may be.

3.2 Allocation and Payment of Income and Franchise Taxes

(a) The consolidated Tax liability of the Odetics consolidated group for each year commencing on or after the Effective Date shall be apportioned among the Odetics Group and ATL Group members in accordance with this paragraph. For purposes of this Agreement, the consolidated Tax liability shall include any liability for alternative minimum Tax. The Tax liability for a taxable year shall be apportioned only among the members of the Odetics consolidated group with separate company taxable income for that year (the "Profit Members"). The Tax liability will be allocated to the Profit Members in the same ratio as each Profit Member's separate company taxable income bears to the total of the separate company taxable incomes of all Profit Members. No Tax liability will be allocated to members of the affiliated group with a taxable loss computed on a separate return basis ("Loss Members"). The Profit Members will make payments to Loss Members for Tax Benefits to the Profit Members as a result of losses or credits generated by the Loss Members. For purposes of allocating alternative minimum Tax, alternative minimum taxable income amounts shall be substituted for taxable income amounts in the foregoing calculation.

(b) The principles set forth in Section 3.2(a) shall be applied for the allocation of state income Taxes in states where the Odetics affiliated group files consolidated or combined returns, with appropriate modifications, to account for differences in the tax laws of the United States and individual states. As a general rule, the amount of the consolidated or combined Tax liability to a particular state shall be allocated among the profitable members of a combined or consolidated group filing in such state based on the relative amounts of their deemed taxable income in that state. For this purpose, each member of the consolidated or combined group of corporations filing in a particular state shall generally be treated as having an amount of deemed taxable income in that state which that member would be required to report to the state if the member were filing a separate franchise or income tax return for the state, but applying the combined apportionment factors which are in effect for the subject consolidated or combined group of corporations (rather than the member's individual factors).

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(c) Payment of the consolidated or combined income or franchise Tax liability for a taxable period shall be made according to the schedule of estimated tax installments and final payments prescribed in the Code or applicable state law. ATL shall pay to Odetics the ATL Group members' share of each Tax payment within five (5) days of receiving notice from Odetics, but in no event more than ten (10) days prior to the due date for each such payment and no later than such due date. Any overpayment of estimated Tax shall be promptly refunded to the member which made such overpayment.

3.3 Adjustments to Tax Liability and Tax Attributes

(a) Odetics shall be responsible for, and shall indemnify and hold harmless each member of the ATL Group from and against, all adjustments to Taxes attributable to the Odetics Group, whether heretofore or hereafter arising or incurred, except Taxes for which the members of the ATL Group are liable pursuant to Section 3.1(b).

(b) Except as provided in Section 3.3(c), Odetics shall be entitled to any Tax Benefit and shall bear any Tax Detriment resulting from adjustments to Taxes attributable to the Odetics Group or the ATL Group (except adjustments resulting from carrybacks of ATL from a Post-Spinoff Period). If an adjustment to a tax item attributable to the Odetics Group increases the Tax liability of the Odetics Group and correspondingly reduces a Tax liability for which the ATL Group is responsible under this Agreement, ATL shall pay promptly to Odetics the amount of the Tax Benefit realized by the ATL Group. If an adjustment to a tax

item attributable to the Odetics Group reduces the Tax liability of the Odetics Group and correspondingly increases a Tax liability for which the ATL Group is responsible under this Agreement, Odetics shall pay promptly to ATL the amount of the Tax Detriment realized by the ATL Group.

(c) ATL shall be responsible for, and shall indemnify and hold harmless each Odetics Group member from and against, all adjustments to Taxes (i) for any Pre-Spinoff Period commencing on or after the Effective Date with respect to the ATL Group and (ii) for any Post-Spinoff Period with respect to the ATL Group. If an adjustment to a tax item for which ATL is responsible under this Section 3.3 increases the Tax liability of the ATL Group and correspondingly reduces the Tax liability of the Odetics Group, Odetics shall pay promptly to ATL the amount of the Tax Benefit realized by the Odetics Group. If an adjustment to a tax item for which ATL is responsible under this Section 3.3 reduces the Tax liability of the ATL Group and correspondingly increases the Tax liability of the Odetics Group, ATL shall pay promptly to Odetics the amount of the Tax Detriment incurred by the Odetics Group.

3.4 Carrybacks from Post-Spinoff Periods to Pre-Spinoff Periods. Any loss, credit or other item attributable to the ATL Group and arising in a Post-Spinoff Period may be carried back to a consolidated or combined return of the Odetics affiliated group for a

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Pre-Spinoff Period as permitted under applicable law. Odetics shall cooperate with any ATL Group member to the extent reasonably necessary (including, without limitation, amending any return and filing any claim for refund) for such member to realize the Tax Benefit of carrying such loss, credit or other item back to such Pre-Spinoff Period. Odetics shall remit promptly to ATL any refund or reduction in Tax resulting from such carryback; provided, however, that the amount payable in respect of any such refund shall be reduced by the amount of any Tax incurred by any Odetics Group member as a result of the accrual or receipt of the refund.

ARTICLE IV COOPERATION

4.1 Cooperation in General

(a) Each of Odetics and ATL agrees to make available to the other party documents and records in its custody and in the custody of any member of its group, to furnish other information and otherwise to cooperate to the extent reasonably required for the filing of tax returns and the handling of audits of such other party.

(b) So long as the ATL Group is included in the consolidated financial statements of Odetics, ATL shall timely provide the necessary financial information of the ATL Group to Odetics so that Odetics may prepare a consolidated tax provision to meet its deadlines.

4.2 Notice, Defense and Settlement of Tax Claims

(a) If a member of the Odetics Group or ATL Group receives written notice of a deficiency, contest, audit or other proceeding with respect to a proposed Tax liability for which a member of the other group is or may be liable under this Agreement (including liability hereunder to indemnify or reimburse a member of the other group), then the recipient shall notify the other group of such matter by promptly sending written notice thereof to Odetics or ATL, as the case may be. Odetics and ATL shall cooperate to contest and defend any such proposed Tax liability, with each party bearing its own expenses relating to such proceeding. The corporation that is liable under applicable law for such proposed Tax liability (without regard to this Agreement) shall not settle,

compromise or otherwise agree to pay such liability without the consent of the party that is liable for such Tax under this Agreement. Such consent shall not be unreasonably withheld.

(b) Odetics shall be responsible for responding to any notice of deficiency, contest, audit or other proceedings with respect to a proposed Tax liability of a consolidated or combined federal or state tax return of the Odetics Group or the ATL Group for a Pre-Spinoff Period. ATL shall be responsible for responding to any notice

of deficiency, contest, audit or other proceedings with respect to a proposed Tax liability of a stand-alone tax return of ATL or any member of the ATL Group for a Pre-Spinoff Period. In addition, ATL shall be responsible for responding to any proposed claims for Taxes other than income or franchise taxes, including but not limited to sales, property and payroll Taxes, attributable to the ATL Group for a Pre-Spinoff Period. Odetics shall bear the expense of and have control of such proceedings relating to the ATL Group except in cases involving Taxes for which the ATL Group is responsible under this Agreement.

4.3 Confidentiality. The members of both the Odetics Group and the ATL Group understand the confidential nature of financial information disclosed in tax returns and the related supporting documentation. Each of Odetics and ATL (on behalf of themselves and the members of their respective groups) hereby agrees not to release any tax and supporting documentation or information with respect to the other party to any outside party (including taxing authorities) without the consent of the other party, which consent shall not be unreasonably withheld.

ARTICLE V
RESOLUTION OF DISPUTES

Any dispute or ambiguity concerning the amount of any payment provided for under this Agreement shall be resolved, in a manner consistent with the principles and procedures set forth in this Agreement, by an internationally recognized accounting firm (a so-called "Big-Six" accounting firm) jointly selected by Odetics and ATL. The judgment of such accounting firm shall be conclusive and binding upon each of the parties to this Agreement. The accounting firm's fee shall be borne equally by Odetics and ATL.

ARTICLE VI
GENERAL

6.1 Waiver. Any waiver by any party of any default by the other party hereunder shall not be deemed to be a continuing waiver of such default or a waiver of any other default or of any of the terms and conditions of this Agreement.

6.2 Amendments. The terms and conditions of this Agreement may not be superseded, modified or amended except in writing stating that it is such a modification and signed by an authorized representative of each party hereto.

6.3 Governing Law; Forum Selection. This Agreement shall be governed by the laws of the State of California, without reference to conflict of laws principles. All disputes arising out of this Agreement shall be subject to the exclusive jurisdiction and venue of the California state courts of Orange County (or, if there is exclusive federal

jurisdiction, the United States District Court for the Southern District of California), and the parties consent to the personal and exclusive jurisdiction and venue of these courts.

6.4 Attorneys' Fees. The prevailing party in any legal action brought by one party against the other shall be entitled, in addition to any other rights and remedies it may have, to reimbursement for its expenses incurred thereby, including court costs and reasonable attorneys' fees.

6.5 Complete Agreement. This Agreement constitutes the entire agreement between the parties as to the subject matter hereof, and supersedes and replaces all prior or contemporaneous agreements, written or oral, regarding such subject matter, including any prior tax sharing or tax allocation agreements.

6.6 Binding Agreement. This Agreement shall be binding upon and inure to the benefit of each party hereto, its respective successors and assigns, and each member of the Odetics Group and the ATL Group not a party hereto.

6.7 Notices. Any notice which any party desires or is obligated to give to the other shall be given in writing or by facsimile or telex and sent to the chief financial officer of the other party. Except as otherwise expressly provided herein, notice shall be deemed to have been received on the earlier of the date when actually received or ten (10) days after being deposited in the mail, postage prepaid, registered or certified mail, or within one (1) day if by facsimile or telex, promptly confirmed in writing, properly addressed to the other party.

6.8 Headings; Counterparts. Headings to sections of this Agreement are to facilitate reference only, do not form a part of this Agreement and shall not in any way affect the interpretation hereof. This Agreement may be executed in two (2) or more counterparts or duplicate originals, all of which shall be regarded as one and the same instrument, and which shall be the official and governing version in the interpretation of this Agreement.

6.9 Partial Invalidity. If any provision in this Agreement shall be found or be held to be invalid or unenforceable in any jurisdiction in which this Agreement is being performed, then the meaning of said provision shall be construed, to the extent feasible, so as to render the provision enforceable, and if no feasible interpretation would save such provision, it shall be severed from the remainder of this Agreement which shall remain in full force and effect. In such event, the parties shall negotiate, in good faith, a substitute, valid and enforceable provision which most nearly effects the parties' intent in entering this Agreement.

6.10 Additional Members. If during a Pre-Spinoff Period any other corporation becomes a member of the Odetics Group or the ATL Group, then such corporation shall join in and be bound by this Agreement.

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6.11 Effect of Prior Tax Allocation Agreement. The parties are parties to an existing tax allocation agreement. Such prior allocation agreement is superseded by this Agreement retroactive to the Effective Date.

IN WITNESS WHEREOF, Odetics and ATL have caused this Agreement to be duly executed by their respective officers, each of whom is duly authorized, as of the date first above written.

ODETICS, INC.

By /s/ JOEL SLUTZKY

Title CEO

ATL PRODUCTS, INC.

By /s/ KEVIN C. DALY

Title CEO

SERVICES AGREEMENT

This SERVICES AGREEMENT is made and entered into as of this 21st day of March, 1997, by and between ODETICS, INC., a Delaware corporation ("Odetics") and ATL PRODUCTS, INC., a Delaware corporation ("ATL").

R E C I T A L S

WHEREAS, Odetics and ATL have entered into a Separation and Distribution Agreement which sets forth the principal transactions between Odetics and ATL as a result of ATL's recent issuance of additional shares of its authorized but unissued Class A Common Stock in a registered and underwritten initial public offering of less than 20% of its outstanding shares and Odetics' proposed distribution to its stockholders pursuant to a tax free spinoff under Internal Revenue Code ss. 355 of the Class A Common Stock of ATL which it owns (the "Distribution"); and

WHEREAS, ATL desires Odetics to perform certain business, information and facilities services on ATL's behalf following the Distribution;

NOW, THEREFORE, the parties hereto do hereby agree as follows:

1. Business Services. During the term of this Agreement, Odetics shall provide to ATL the services set forth in Exhibit A attached hereto (the "Services") in substantially the same manner and to the same extent as currently and heretofore provided.

2. Performance of Services.

2.1 Services to be provided by Odetics may, at Odetics's sole discretion, be provided, in whole or in part, by affiliates of Odetics. Odetics shall not be obligated to acquire new or additional assets, or hire new or additional employees, to perform the Services. In addition, Odetics may contract with one or more third parties for the performance of all or any part of the Services provided (i) the costs to ATL for the services to be provided by the third party do not exceed the amounts that would have been charged by Odetics, (ii) the level of service provided by the third party is at least substantially equivalent to that provided by Odetics hereunder, and (iii) such third party is reasonably acceptable to ATL. It is currently contemplated that the Services will generally continue to be provided by the organization that is providing such Services as of the date hereof. ATL agrees that all third parties currently providing any Services are acceptable third parties to provide Services.

2.2 The Services to be provided by Odetics shall be provided to ATL as appropriate to reflect the organizational and operational structure of ATL; provided,

however, that Odetics shall not be required to provide any Services to the extent that the performance of such Services becomes more expensive for Odetics as a result of an organizational or operations change by ATL.

2.3 ATL shall provide to Odetics on a timely basis any and all information which is reasonably necessary for Odetics to provide the Services. ATL shall be solely responsible for the timely delivery of such information, and the accuracy and completeness thereof. ATL shall have no right to obtain any confidential or proprietary information of Odetics, and any such information so obtained by ATL shall be deemed to be confidential and treated in accordance with the provisions of Section 7 hereof.

3. Limitation of Services.

3.1 Odetics shall not be required to provide a level of service which is higher than that provided currently, at the date of this Agreement.

3.2 Odetics shall not be required to perform any information system services to the extent such services would result in the breach of any software license or other applicable contract. If Odetics believes it is unable to provide any information systems services pursuant to the foregoing, Odetics shall promptly notify ATL. If requested by ATL, Odetics shall use reasonable efforts to obtain the rights necessary to provide such information system services, including obtaining any appropriate consents from third parties. ATL shall be responsible for all additional costs and expenses incurred by Odetics in order to allow Odetics to provide such information system services.

3.3 Odetics shall not be required to provide any Services to the extent the performance of such Services becomes impractical as a result of a cause or causes outside the reasonable control of Odetics or to the extent the performance of such Services would require Odetics to violate any applicable laws, rules or regulations.

3.4 ODETICS MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, AND ODETICS SPECIFICALLY DISCLAIMS ANY IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE WITH RESPECT TO THE SERVICES TO BE PROVIDED HEREUNDER.

4. Fees.

4.1 ATL shall pay to Odetics, as fees for the Services performed by Odetics pursuant to this Agreement, the amounts set forth in Exhibit A, which amounts are intended to represent the fair market value of such services. Such fees shall be adjusted throughout the term of this Agreement, so that they will reflect fair market value at all times. In addition, ATL shall reimburse Odetics for all direct third party costs incurred by Odetics in connection with providing the Services, provided that such third party costs have been approved in advance by ATL.

4.2 Odetics shall submit to ATL, on a monthly basis, Odetics's invoice for Services performed under this Agreement in the preceding month. Each invoice shall be payable net thirty (30) days after the date of the invoice; however, in the event that ATL, in good faith, questions any invoiced item, payment of that item shall be made only after the satisfactory resolution of those questions. ATL shall pay a service charge of 1% per month for all overdue amounts, other than amounts which ATL has, in good faith, questioned.

5. Term.

5.1 Unless terminated earlier as provided in this Section,

this Agreement shall terminate as of a date eighteen (18) months after the date of this Agreement.

5.2 ATL may terminate any of the Services, in whole or in part, upon 30 days written notice to Odetics.

5.3 This Agreement may be terminated at any time upon the mutual consent of the parties.

5.4 Either party may terminate this Agreement if the other party is in material default under this Agreement and fails to correct such default within 30 days after receiving written notice of such default.

5.5 The parties acknowledge that the purpose of this Agreement is to provide the Services on an interim basis to permit ATL to obtain alternative sources for the Services. ATL shall use its best efforts to obtain alternative sources for the Services as soon as practicable.

6. Indemnification.

6.1 ATL shall indemnify and hold harmless Odetics, its affiliates, and their officers, directors, employees, and agents from and against all claims, liabilities, obligations, suits, causes of action, or expenses (including reasonable attorneys fees) (collectively "Claims") claimed to have resulted, directly or indirectly, in connection with the performance of Services by Odetics, provided, however, that ATL shall not be required to indemnify or hold harmless any indemnitee to the extent the Claims are caused by the gross negligence or willful misconduct of such indemnitee.

6.2 An indemnitee shall provide written notice to ATL of any Claims with respect to which it seeks indemnification, and ATL shall assume the defense of such Claims with counsel reasonably satisfactory to the indemnitee. If such defense is assumed by ATL with counsel so selected, ATL will not be subject to any liability for

any settlement of such Claims made by an indemnified party without ATL's consent (such consent to not be unreasonably withheld or delayed). No indemnified party will be subject to any liability for any settlement of such Claims made by ATL without such party's consent (which consent is not to be unreasonably withheld), and such settlement shall include an unconditional release of all indemnitees from all liability on such Claims. If an indemnified party desires to retain separate counsel, such indemnified party shall have the right to do so, but ATL will not be obligated to pay the fees and expenses of such separate counsel. The parties hereto agree to cooperate fully with each other in connection with the defense, negotiation or settlement of any legal proceeding, claim or demand and to engage in no action that would result in or increase liability on the part of another party.

6.3 The provisions of this Section 6 shall survive termination of the Agreement.

7. Confidentiality.

7.1 In the course of performance of this Agreement, either party ("Receiving Party") may acquire information the other party ("Disclosing Party") deems confidential, including trade secrets and unpublished technical or business related information and data to which the Disclosing Party (or companies affiliated with the Disclosing

Party) has proprietary rights. Confidential information shall also include information of a third party which the Disclosing Party is under an obligation to maintain in confidence. All such information is referred to hereinafter as "Disclosed Information."

7.2 The Receiving Party shall retain Disclosed Information in strict confidence and shall not communicate it to others without the Disclosing Party's prior written agreement. Notwithstanding the foregoing, Odetics shall be allowed to disclose Disclosed Information of ATL to third parties as necessary to perform the Services, provided such third parties have undertaken confidentiality obligations substantially similar to those set forth in this Section 7.

7.3 Nothing in this Agreement shall prevent the communication to others of any Disclosed Information which the Receiving Party can show was known to it or its representatives prior to its receipt hereunder, was lawfully received by the Receiving party and its representatives other than directly or indirectly from the Disclosing Party or became public knowledge through no fault of the Receiving Party.

7.4 The provisions of this Section 7 shall survive termination of this Agreement for a period of three years.

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8. Miscellaneous.

8.1 Notices. All notices required or permitted to be given under this Agreement shall be in writing and shall be sent by facsimile transmission or mailed by registered or certified mail addressed to the party to whom such notice is required or permitted to be given. All notices shall be deemed to have been given when transmitted if given by facsimile and confirmation of receipt is received or, if mailed, 48 hours after mailed as evidenced by the postmark at the point of mailing.

All notices to Odetics shall be addressed as follows:

Odetics, Inc.
1515 South Manchester Avenue
Anaheim, California 92802-2907
Attn: Joel Slutzky

All notices to ATL shall be addressed as follows:

ATL Products, Inc.
2801 Kelvin Avenue
Irvine, California 92614
Attn: Kevin C. Daly, Ph.D.

Either party may, by written notice to the other, designate a new address to which notices to the party giving the notice shall thereafter be mailed.

8.2 Force Majeure. Odetics shall not be liable for any delay or failure of performance to the extent such delay or failure is caused by circumstances beyond its reasonable control and that by the exercise of due diligence it is unable to prevent, provided that the party claiming excuse use its best efforts to overcome the same.

8.3 Limitation of Liability. In no event shall Odetics be

liable to ATL for indirect, consequential, incidental or special damages, including but not limited to lost profits, arising from or relating to any breach of this Agreement, regardless of any notice of such damages. Nothing in this Section is intended to limit or restrict the indemnification rights or obligations of either party.

8.4 Entirety of Agreement. This Agreement sets forth the entire agreement and understanding of the parties relating to the subject matter contained herein and merges all prior discussions between them, and neither party shall be bound by any representation other than as expressly stated in this Agreement, or by a written amendment to this Agreement signed by authorized representatives of both parties.

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8.5 Waiver. The failure of either party in any one or more instances to insist upon strict performance of any of the terms and conditions of this Agreement shall not be construed as a waiver or relinquishment, to any extent, of the right to assert or rely upon any such terms or conditions on any future occasion.

8.6 Disclaimer of Agency. This Agreement shall not constitute either party the legal representative or agent of the other, nor shall either party have the right or authority to assume, create, or incur any third-party liability or obligation of any kind, express or implied, against or in the name of or on behalf of the other party except as expressly set forth in this Agreement. The relationship of Odetics and ATL shall be solely that of contracting parties and no partnership, joint venture or other arrangement of any nature shall be deemed to be created hereby.

8.7 Severability. In the event any term of this Agreement is or becomes or is declared to be invalid or void by any court of competent jurisdiction, such term or terms shall be null and void and shall be deemed deleted from this Agreement, and all the remaining terms of the Agreement shall remain in full force and effect.

8.8 Governing Law. The validity, performance and construction of this Agreement shall be governed by the laws of California without regard to principles of conflicts of laws.

8.9 Assignment. Except as provided in Section 2, neither party shall delegate duties of performance or assign, in whole or in part, rights or obligations under this Agreement without the prior written consent of the other party, and any attempted delegation or assignment without such written consent shall be of no force or effect. Subject to the restrictions contained in the preceding sentence, this Agreement shall be binding upon the successors and assigns of both parties.

8.10 Amendment. This Agreement shall be amended as mutually agreed by Odetics and ATL in order to comply with any requirements imposed by the Internal Revenue Service in order to issue a ruling pursuant to Section 355 of the Internal Revenue Service Code of 1986, as amended.

This Agreement is executed by the parties as of the date indicated above.

ATL PRODUCTS, INC.

ODETICS, INC.

By: /s/ Kevin C. Daly

By: /s/ Joel Slutzky

EXHIBIT A

ATL PRODUCTS, INC.
ODETICS CORPORATE SERVICES TO BE PROVIDED TO ATL
FOR THE PERIOD 4/1/97 - 3/31/98

| | AMOUNT | | | | | ASSUMPTIONS | | | |
|---------------------------------|---------|---------|--------|--------|---------|------------------|------------------|------------------|------------------|
| | QTR | QTR | QTR | QTR | FYE | QTR | QTR | QTR | QTR |
| | Jun-97 | Sep-97 | Dec-97 | Mar-98 | Mar-98 | Jun-97 | Sep-97 | Dec-97 | Mar-98 |
| RENT @ 1515 S Manchester | 32,000 | 3,000 | 3,000 | 3,000 | 41,000 | 40k sq ft apr | 1.3k sq ft mo | 1.3k sq ft mo | 1.3k sq ft mo |
| | | | | | | 1.3 sq ft mo | | | |
| Payroll preparation | 16,600 | 16,600 | 16,600 | 16,600 | 66,400 | .75MM | .75MM | .75MM | .75MM |
| All other accounting support | 10,800 | 10,800 | 10,800 | 10,800 | 43,200 | .25MM | .25MM | .25MM | .25MM |
| MIS Support | | | | | | | | | |
| MRP | 8,150 | 8,150 | 8,150 | 8,150 | 32,600 | .25MM | .25MM | .25MM | .25MM |
| Network security | 8,150 | 8,150 | 8,150 | 8,150 | 32,600 | .25MM | .25MM | .25MM | .25MM |
| Alpha HW/SW maintenance support | 11,550 | 11,550 | 11,550 | 11,550 | 46,200 | 35% | 35% | 35% | 35% |
| Alpha lease payment | 2,993 | 2,993 | 2,993 | 2,993 | 11,972 | 35% | 35% | 35% | 35% |
| Sun H/S Support | 2,100 | 2,100 | 2,100 | 2,100 | 8,400 | 35% | 35% | 35% | 35% |
| Phone Switch | 0 | 0 | 0 | 0 | 0 | 25% | 25% | 0 | 0 |
| Facilities management | 6,500 | 6,500 | 0 | 0 | 13,000 | .25MM | .25MM | 0 | 0 |
| Associate Relations | 30,000 | 30,000 | 0 | 0 | 60,000 | 1MM | 1MM | 0 | 0 |
| Health/Insurance Benefits | 7,700 | 7,700 | 7,700 | 7,700 | 30,800 | .25MM | .25MM | .25MM | .25MM |
| CFO | 25,000 | 25,000 | 0 | 0 | 50,000 | .5MM | .5MM | 0 | 0 |
| CEO Support | 22,250 | 22,250 | | | 44,500 | .25MM | .25MM | 0 | 0 |
| TOTAL | 183,793 | 154,793 | 71,043 | 71,043 | 480,672 | | | | |

ATL PRODUCTS LIMITED
OEL FACILITY COSTS AND SERVICES TO BE PROVIDED TO APL
FOR THE PERIOD 1/4/97 - 12/31/97

| | AMOUNT | | | | | ASSUMPTIONS | | | |
|---------------------|--------|--------|--------|--------|---------|---------------------------------------|------------|------------|--------|
| | QTR | QTR | QTR | QTR | FYE | QTR | QTR | QTR | QTR |
| | Jun-97 | Sep-97 | Dec-97 | Mar-98 | Mar-98 | Jun-97 | Sep-97 | Dec-97 | Mar-98 |
| RENT & RATES | 23,822 | 23,822 | 23,822 | 0 | 71,466 | 1.5k sq ft | 1.5k sq ft | 1.5k sq ft | N/A |
| Utilities | 2,616 | 2,616 | 2,616 | 0 | 7,848 | Water, Light, Heat, Cleaning | | | N/A |
| Office equipment | 2,450 | 2,450 | 2,450 | 0 | 7,350 | fire, phone, copier, s/w, pc spt, etc | | | N/A |
| Depreciation on Tls | 11,550 | 11,550 | 11,550 | 0 | 34,650 | Ref: Seymour memo 3/26/97 | | | N/A |
| Support | | | | | | | | | |
| Warehousing | 2,549 | 2,549 | 2,549 | 0 | 7,647 | 1/3 MM | 1/3 MM | 1/3 MM | N/A |
| Accounting | 5,821 | 5,821 | 5,821 | 0 | 17,463 | 1/3 MM | 1/2 MM | 1/2 MM | N/A |
| TOTAL | 48,808 | 48,808 | 48,808 | 0 | 146,424 | | | | |

PROMISSORY NOTE

\$12,997,444

April 1, 1997
Anaheim, California

FOR VALUE RECEIVED, ATL Products, Inc., a Delaware corporation (the "Borrower"), promises to pay to the order of Odetics, Inc., a Delaware corporation (the "Lender"), at Anaheim, California, or at such other place as the holder of this Note may from time to time designate in writing, the principal amount of \$12,997,444.00 dollars, with interest on the principal amount from the date of disbursement of the principal amount at the rate per annum set forth in this Note, to be paid as set forth in this Note.

The principal amount of this Note shall bear interest at the rate per annum equal to Lender's cost of borrowing from the lesser of either of Lender's primary banks, or Lender's principal bank, as the case may be during the term of the Note, but shall not exceed the maximum rate of interest permitted by applicable law.

The Borrower shall pay the principal amount of this Note and interest in sixteen (16) equal quarterly installments at the end of each calendar quarter commencing June 30, 1997 and continuing until all principal and interest have been fully paid. Each payment of principal shall be accompanied by a payment equal to all interest accrued on the outstanding principal amount of the Note.

The Borrower shall have the right to prepay the principal sum of this Note, or any part thereof or interest thereon, at any time without penalty or prepayment charge.

Both principal and interest shall be paid by Borrower in lawful money of the United States of America in cash or in the form of a cashier's or certified check.

If the Borrower shall default in the timely making of any payment of principal and/or interest due hereunder and if the same remains unpaid for fifteen (15) days following receipt by Borrower of written notice of such default the Lender may declare the entire remaining indebtedness owing hereunder, including any accrued interest, to become immediately due and payable.

Notwithstanding anything to the contrary in this Note, the total liability of the Borrower for payments in the nature of interest shall not exceed the limits applicable to this Note, if any, imposed by the usury laws, if any, of the United States of America or the State of California. If any payment in the nature of interest made by the Borrower or received by the holder of this Note is determined to be in excess of any limit applicable to this Note imposed by such usury laws, then the amount of such excess shall constitute and be considered a payment of principal, not interest, and such amount shall be applied to reduce the principal sum so that the total liability of the Borrower for payments in the nature of interest does not exceed the

applicable limits, if any, imposed by such usury laws. In the event and to the extent such excess amount of interest exceeds the outstanding unpaid principal balance hereunder, any such excess amount shall be immediately returned to Borrower by Lender.

No delay or omission on the part of the Lender hereof in exercising any

right hereunder shall operate as a waiver of such right or of any other right under this Note.

Neither this Note nor any term hereof may be waived, amended, discharged, modified, changed, or terminated orally, nor shall any waiver of any provision hereof be effective except by an instrument in writing signed by Borrower and the Lender thereof.

Whenever used herein, the words "Borrower" and "Lender" shall be deemed to include their respective heirs, personal representatives, successors and assigns.

All notices to be given under this Note shall be deemed served upon receipt by the addressee or, if mailed, upon the expiration of seventy-two (72) hours after deposit in the United States Postal Service, certified mail, postage prepaid, addressed to the address of Borrower or Lender as hereinafter set forth:

Borrower's Address: 2801 Kelvin Avenue
Irvine, California 92715
Attention: Chief Executive Officer

Lender's Address: 1515 South Manchester Avenue
Anaheim, California 92802-2907
Attention: Chief Executive Officer

This Note may from time to time be extended or renewed, with or without notice to Borrower or any guarantor hereon and any related right may be waived, exchanged, surrendered or otherwise dealt with, all without affecting the liability of Borrower or any guarantor hereon.

There are no oral agreements between the Lender and the Borrower relating to this Note. If any provision of this Note is held to be invalid or unenforceable, it shall not affect the validity and enforceability of the other provisions of this Note. This Note has been executed and delivered in the State of California and is to be governed by and construed according to the laws thereof.

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IN WITNESS WHEREOF, the Borrower has executed this Note as of the date first hereinabove written.

ATL Products, Inc.

By: /s/ Kevin C. Daly

Kevin C. Daly, Ph.D.
Chief Executive Officer

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AMENDMENT NUMBER SIX TO LOAN AND SECURITY AGREEMENT

THIS AMENDMENT NUMBER SIX TO LOAN AND SECURITY AGREEMENT (this "Amendment"), dated as of March 31, 1997, is entered into by and among IMPERIAL BANK, a California banking corporation, in its individual capacity and in its capacity as agent for Banks (as hereinafter defined), and COMERICA BANK-CALIFORNIA, a California banking corporation (collectively, "Banks"), on the one hand, and ODETICS, INC., a Delaware corporation ("Parent Borrower"), ATL PRODUCTS, INC., a California corporation ("ATL"), and GYYR INCORPORATED, a California corporation ("Gyyr"), on the other hand, with reference to the following facts:

A. Banks, Parent Borrower, ATL and Gyyr have previously entered into that certain Loan and Security Agreement, dated as of August 30, 1994, as amended by that certain letter agreement, dated as of December 6, 1994, that certain Amendment Number One to Loan and Security Agreement, dated as of March 1, 1995, that certain Amendment Number Two to Loan and Security Agreement, dated as of June 27, 1995, that certain Amendment Number Three to Loan and Security Agreement, dated as of December 1, 1995, that certain Amendment Number Four to Loan and Security Agreement, dated as of February 26, 1996, and that certain Amendment Number Five to Loan and Security Agreement, dated as of December 4, 1996 (the "Agreement"); and

B. The parties hereto desire to make certain modifications to the Agreement, including, but not limited to, (i) the release of ATL as a co-borrower under the Agreement, (ii) the release by Banks of their security interest in the Assets of ATL, (iii) the termination of the Subsidiary Borrower Guaranty and (iv) certain modifications to the financial covenants.

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. DEFINED TERMS. All initially capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Agreement. In addition, Section 1.1 of the Agreement is hereby amended by:

(a) amending the definitions of "Borrowers", "Debt", "Guaranties", and "Parent Borrower Guaranty" in their entirety as follows:

"`Borrowers' means and refers jointly and severally to Parent Borrower and Gyyr (each a `Borrower')."

"`Debt' means, as of the date of determination, the sum (but without duplication) of any and all of a Person's (i) Capitalized Lease Obligations, (ii) indebtedness heretofore or hereafter created, issued, incurred or assumed by such

Person (directly or indirectly) for or in respect of borrowed money (including, in the case of Borrowers, the Loans), (iii) notes payable and drafts accepted representing extensions of credit to such Person, whether or not representing obligations for borrowed money, (iv) obligations owed by such Person for all or any part of the deferred purchase price of property or services, (v) indebtedness secured by any Lien on any Asset owned or held by such Person regardless of whether the indebtedness secured thereby shall have been assumed by such Person or is nonrecourse to the credit of such Person, and (vi) all reimbursement or other obligations of such Person under or in respect of letters of credit, bankers acceptances, interest rate swaps, caps,

floors and collars, currency swaps, or other similar financial products."

"`Guaranties' means the Parent Borrower Guaranty, the Gyyr Guaranty, and any other guaranty of the Obligations executed by any Person in favor of Banks."

"`Gyyr Guaranty' means that certain Continuing Guaranty, executed by Gyyr, dated as of December 4, 1996, as amended March 31, 1997, and as may be further amended from time to time, executed by Gyyr, for the benefit of Banks, Agent, and Issuing Bank, respecting the Obligations of Parent Borrower."

"`Parent Borrower Guaranty' means that certain Continuing Guaranty, dated as of even date herewith, as amended December 4, 1996 and March 31, 1997, and as may be further amended from time to time, executed by Parent Borrower, for the benefit of Banks, Agent, and Issuing Bank, respecting the Obligations of Gyyr."

(b) deleting the definitions of "Subsidiary Borrower" and "Subsidiary Borrower Guaranty" in their entirety.

(c) adding the following new definitions in appropriate alphabetical order:

"`ATL' means ATL Products, Inc., a California corporation.

"`ATL Note' means that certain Promissory Note, dated April 1, 1997, executed by ATL, as maker, in favor of Odetics, in the original principal amount of \$12,997,444.

2. CONSTRUCTION. All references to "any Borrower" in the Agreement shall be construed to be a reference to "either Borrower."

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3. ATL AS BORROWER AND GUARANTOR. Upon the effectiveness of this Amendment as set forth in Section 8 below, (i) ATL shall cease to be a signatory to, and "Borrower" under, the Agreement, and shall no longer be bound by any of the terms and provisions thereof, except for such provisions which by their terms survive termination of the Agreement, (ii) that certain Continuing Guaranty, dated as of August 30, 1994, as amended December 4, 1996, executed by ATL, shall be terminated, and (iii) Agent and Banks shall execute and deliver to ATL any and all UCC Financing Statement Amendments and/or Terminations as ATL shall reasonably request in order to release Agent's and Banks' Liens upon the Assets of ATL.

4. AMENDMENT TO SECTION 9.12. Section 9.12 of the Agreement is hereby amended in its entirety as follows:

"9.12 INDEBTEDNESS. Incur any Debt outside the ordinary course of such Borrower's business, or permit any Subsidiary to do so, except for (i) Permitted Debt, and (ii) in the case of ATL, a line of credit in a maximum principal amount (exclusive of interest and fees) not to exceed Five Million Dollars (\$5,000,000) from Imperial."

5. AMENDMENT TO SECTION 10.16. Section 10.16 of the Agreement is hereby amended in its entirety as follows:

"10.16 FINANCIAL COVENANTS. Borrowers shall:

"(a) as of the last day of each fiscal quarter of Borrowers, maintain on a consolidated basis with the Subsidiaries (including ATL), on an operating and after-tax basis (excluding extraordinary income or gains), profitability;

"(b) as of the last day of each fiscal quarter of Borrowers, maintain on a consolidated basis with the Subsidiaries (including ATL), a Tangible Net Worth (including minority interests in ATL) in an amount not less than the sum of (i) Fifty Million Five Hundred Thousand Dollars (\$50,500,000) plus (ii) eighty percent (80%) of the cumulative consolidated net income (but without any offset for net losses) commencing with the fiscal quarter commencing April 1, 1997, and (iii) one hundred percent (100%) of the amount of all net cash proceeds received upon the issuance of any of each Borrower's or any of their Subsidiaries' capital stock after March 31, 1997;

"(c) maintain on a consolidated basis with the Subsidiaries (including ATL), a ratio of (i) Total Liabilities (excluding minority interests in ATL) to (ii) Tangible Net Worth (including minority

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interests in ATL), of not greater than 1.1:1.0 as of the last day of each fiscal quarter of Borrowers;

"(d) maintain on a consolidated basis with the Subsidiaries (including ATL), a ratio of (i) Quick Assets to (ii) the sum of Current Liabilities plus the Revolving Loans Daily Balance, of not less than 0.9:1.0 as of the last day of each fiscal quarter of Borrowers.

"(e) [Intentionally Deleted]; and

"(f) as of the last day of each fiscal quarter of Borrowers, maintain on a consolidated basis with the Subsidiaries (including ATL), a ratio of (i) the sum of their net income after taxes for such quarter plus their interest expense (exclusive of interest income) for such quarter plus their depreciation and amortization expense for such quarter, to (ii) the sum of their interest expense (exclusive of interest income) for such quarter plus one fourth (1/4th) of the current portion of their long-term Debt outstanding as of the end of such fiscal quarter, of not less than 1.50:1.0.

6. REPLACEMENT OF EXHIBIT AND SCHEDULE. Schedule 8.19 and Exhibit 10.12 to the Agreement are hereby deleted in their entirety and replaced, respectively, with Schedule 8.19 and Exhibit 10.12 attached to this Amendment.

7. REPRESENTATIONS AND WARRANTIES. In order to induce Banks to enter into this Amendment, each of Parent Borrower, ATL and Gyyr represents and warrants to Banks that:

(a) as of the date hereof, no Event of Default, Unmatured Event of Default or Material Adverse Effect is continuing;

(b) all of the representations and warranties set forth in the Agreement are true, complete and accurate in all respects as of the date hereof (except for representations and warranties which are expressly stated to be true and correct as of the Closing Date);

(c) this Amendment has been duly executed and delivered by Parent Borrower, ATL and Gyyr, and after giving effect to this Amendment, the Agreement continues to constitute the legal, valid and binding agreements and obligations of each of Parent Borrower and Gyyr, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, and similar laws and equitable principles affecting the enforcement of creditors' rights generally; and

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(d) ATL has completed a public offering of its common stock yielding

at least \$16,879,000 in proceeds, net of underwriting discounts and commissions, of which ATL has paid \$6,750,000 to Parent Borrower as a principal reduction on an intercompany obligation which is currently evidenced by the ATL Note.

8. CONDITIONS PRECEDENT TO EFFECTIVENESS OF AMENDMENT. The effectiveness of this Amendment is subject to and contingent upon the fulfillment of each and every one of the following conditions on or before the date of this Amendment:

(a) Agent, on behalf of Banks and Issuing Bank, shall have received the following agreements, instruments and documents, in each case in form and content satisfactory to Agent:

- (i) this Amendment, duly executed by Borrowers and Banks; and
- (ii) each Consent of Guarantor and Amendment to Guaranty attached to this Amendment, duly executed by Parent Borrower and Gyr, as applicable.

(b) Agent shall have received all outstanding and unpaid Bank Expenses, including but not limited to the legal fees of Buchalter, Nemer, Fields & Younger and of Gray, Cary, Ware & Freidenrich, and the Bank Expenses relating to the negotiation preparation and documentation of this Amendment.

(c) Agent shall have received an executed copy of the ATL Note, in form and substance satisfactory to Agent.

(d) No Event of Default, Unmatured Event of Default or Material Adverse Effect shall be continuing.

(e) All of the representations and warranties set forth herein and in the Agreement shall be true, complete and accurate in all respects as of the date hereof (except for representations and warranties which are expressly stated to be true and correct as of Closing Date).

9. COUNTERPARTS; TELEFACSIMILE EXECUTION. This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Amendment. Delivery of an executed counterpart of this Amendment by telefacsimile shall be equally as effective as delivery of a manually executed counterpart of this Amendment. Any party delivering an executed counterpart of this Amendment by telefacsimile also shall deliver a manually

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executed counterpart of this Amendment but the failure to deliver a manually executed counterpart shall not affect the validity, enforceability, and binding effect of this Amendment.

10. REAFFIRMATION OF THE AGREEMENT. Except as expressly modified by this Amendment, the Agreement and the Credit Documents shall remain in full force and effect.

[Remainder of this page intentionally left blank]

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IN WITNESS WHEREOF, the parties hereto have executed and delivered this Amendment as of the date first hereinabove written.

ODETICS, INC., a Delaware corporation

By: _____
Title: _____

ATL PRODUCTS, INC., a California corporation

By: _____
Title: _____

GYR INCORPORATED, a California corporation

By: _____
Title: _____

IMPERIAL BANK, a California banking corporation, in its individual capacity and in its capacity as agent for Banks

By: _____
Title: _____

COMERICA BANK-CALIFORNIA, a California banking corporation

By: _____
Title: _____

CONSENT OF GUARANTOR AND AMENDMENT TO GUARANTY

The undersigned, as "Guarantor" under that certain Continuing Guaranty, dated as of August 30, 1994 ("Guaranty"), executed in favor of IMPERIAL BANK, a California banking corporation, in its individual capacity and in its capacity as agent for Banks (as hereinafter defined), and COMERICA BANK-CALIFORNIA, a California banking corporation (collectively, "Banks"), as amended by that certain Consent of Guarantor and Amendment to Guaranty, dated as of December 4, 1996, with respect to the obligations of ODETICS, INC., a Delaware corporation, GYR INCORPORATED, a California corporation, and ATL PRODUCTS, INC., a California corporation (collectively, "Borrowers"), owing to Bank, hereby acknowledges notice of the foregoing Amendment Number Six to Loan and Security Agreement, dated as of March 31, 1997, among Borrowers, on the one hand, and Banks, on the other hand, consents to the terms contained therein, and agrees that the Guaranty shall remain in full force and effect.

The undersigned further agrees that the first sentence of the first paragraph of the Guaranty shall be amended in its entirety as follows:

"Reference is hereby made to that certain Loan and Security Agreement, dated as of even date herewith (as amended, supplemented, restated, replaced, modified, or extended from time to time, the 'Loan Agreement'), among Gyr Incorporated, a California corporation ('Gyr'), and Odetics, Inc., a Delaware corporation ('Guarantor'), as borrowers, and Imperial Bank, a California banking corporation, and Comerica Bank-California, a California banking corporation (hereinafter, together with their successors and assigns, 'Banks'), as banks, Imperial Bank, a California banking corporation, as Issuing Bank

(as that term is defined in the Loan Agreement), and Imperial Bank, a California corporation, as Agent (as that term is defined in the Loan Agreement) (Banks, Issuing Bank, and Agent are hereinafter collectively referred to as 'Guaranteed Parties' and individually as, a 'Guaranteed Party')."

ODETICS, INC., a Delaware corporation

By: _____
Title: _____

CONSENT OF GUARANTOR AND AMENDMENT TO GUARANTY

The undersigned, as "Guarantor" under that certain Continuing Guaranty, dated as of December 4, 1996 ("Guaranty"), executed in favor of IMPERIAL BANK, a California banking corporation, in its individual capacity and in its capacity as agent for Banks (as hereinafter defined), and COMERICA BANK-CALIFORNIA, a California banking corporation (collectively, "Banks"), with respect to the obligations of ODETICS, INC., a Delaware corporation, GYYR INCORPORATED, a California corporation, and ATL PRODUCTS, INC., a California corporation (collectively, "Borrowers"), owing to Bank, hereby acknowledges notice of the foregoing Amendment Number Six to Loan and Security Agreement, dated as of March 31, 1997, among Borrowers, on the one hand, and Banks, on the other hand, consents to the terms contained therein, and agrees that the Guaranty shall remain in full force and effect.

The undersigned further agrees that the first sentence of the first paragraph of the Guaranty shall be amended in its entirety as follows:

"Reference is hereby made to that certain Loan and Security Agreement, dated as of even date herewith (as amended, supplemented, restated, replaced, modified, or extended from time to time, the 'Loan Agreement'), among Gyyr Incorporated, a California corporation ('Guarantor'), and Odetics, Inc., a Delaware corporation ('Borrower'), as borrowers, and Imperial Bank, a California banking corporation, and Comerica Bank-California, a California banking corporation (hereinafter, together with their successors and assigns, 'Banks'), as banks, Imperial Bank, a California banking corporation, as Issuing Bank (as that term is defined in the Loan Agreement), and Imperial Bank, a California corporation, as Agent (as that term is defined in the Loan Agreement) (Banks, Issuing Bank, and Agent are hereinafter collectively referred to as 'Guaranteed Parties' and individually as, a 'Guaranteed Party')."

GYYR INCORPORATED,
a California corporation

By: /s/

Title: _____

SUBSIDIARIES

| SUBSIDIARIES ----- | PARENT ----- | |
|---|-----------------|--|
| ATL PRODUCTS, INC. | ODETICS, INC. | 82.9% OWNED SUBSIDIARY, INCORPORATED IN CALIFORNIA |
| ODETICS EUROPE, LTD. | ODETICS, INC. | ORGANIZED AND EXISTING UNDER THE LAWS OF THE UNITED KINGDOM |
| ODETICS, ASIA PACIFIC | ODETICS, INC. | ORGANIZED AND EXISTING UNDER THE LAWS OF THE REPUBLIC OF SINGAPORE |
| CENTRO CORPORATION | ODETICS, INC. | AN INACTIVE CORP., INCORPORATED IN CALIFORNIA |
| ODETICS INTERNATIONAL SALES CORPORATION | ODETICS, INC. | AN INACTIVE CORP., INCORPORATED IN CALIFORNIA |
| GYR INCORPORATED | ODETICS, INC. | WHOLLY-OWNED SUBSIDIARY, INCORPORATED IN CALIFORNIA |

Schedule 8.19
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FORM OF COMPLIANCE CERTIFICATE

This Compliance Certificate (this "Compliance Certificate") is delivered by Odetics, Inc., a Delaware corporation, and Gyr Incorporated, a California corporation (individually, a "Borrower" and collectively, the "Borrowers") to Imperial Bank and Comerica Bank-California pursuant to Section 10.12 of the Loan and Security Agreement dated as of August 30, 1994, as amended, among the Borrowers, Imperial Bank and Comerica Bank-California (as amended or modified from time to time, the "Agreement"). Initially capitalized terms used herein and not defined herein shall have the meanings defined in the Agreement.

The undersigned hereby certifies and warrants to each Bank that he is the _____ of each Borrower and that, as such, he is authorized to execute this Compliance Certificate on behalf of each Borrower and further certifies and warrants to each Bank that as of _____, 19__ (the "Computation Date") the following is a true and correct computation of the ratios and financial tests contained in the Agreement:

11. Section 10.16(a) - Profitability

- | | |
|---|----------|
| (a) Consolidated operating income of the Borrowers and their Subsidiaries during the fiscal quarter ending on the Computation Date (excluding extraordinary income or gains): | \$ _____ |
| (b) The amount set forth in Item 1(a) may not be less than: | \$0 |
| (c) Consolidated net income of the Borrowers and their Subsidiaries during the fiscal quarter ending on the Computation Date (excluding extraordinary income or gains): | \$ _____ |
| (d) The amount set forth in Item 1(c) may not be less than: | \$0 |
| (e) Fiscal year to date cumulative consolidated net income of the Borrowers and their Subsidiaries (excluding extraordinary income or gains): | \$ _____ |
| (f) The amount set forth in Item 1(e) may not be less than: | \$0 |

Exhibit 10.12
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12. Section 10.16(b) - Tangible Net Worth

- (a) Base amount: \$ 50,500,000
- (b) Cumulative consolidated net income of the Borrowers and their Subsidiaries (but without any offset for net losses) from April 1, 1997 through the Computation Date: \$ _____
- (c) 80% of Item 2(b): \$ _____
- (d) 100% of the aggregate net proceeds received by the Borrowers or their Subsidiaries upon the issuance of capital stock after March 31, 1997: \$ _____
- (e) Item 2(a) plus Item 2(c) plus Item 2(d): \$ _____
- (f) Consolidated net book value of all Assets of the Borrowers and their Subsidiaries as of the Computation Date: \$ _____
- (g) Consolidated Intangible Assets of the Borrowers and their Subsidiaries as of the Computation Date: \$ _____
- (h) Consolidated Total Liabilities of the Borrowers and their Subsidiaries as of the Computation Date (excluding minority interests in ATL): \$ _____
- (i) Item 2(f) minus Item 2(g) minus Item 2(h):

| | | |
|-------|-------|-------|
| ----- | ----- | ----- |
|-------|-------|-------|

\$ _____
- (j) The amount in Item 2(i) may not be less than the amount in Item 2(e).

13. Section 10.16(c) - Leverage Ratio

- (a) Consolidated Total Liabilities of the Borrowers and their Subsidiaries as of the Computation Date (excluding minority interests in ATL) (Item 2(h) above): \$ _____

Exhibit 10.12

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- (c) The ratio of Item 3(a) to Item 3(b): _____:1.00
- (d) The ratio in Item 3(c) may not be greater than: 1.10:1.00

14. Section 10.16(d) - Quick Ratio

- (a) Consolidated unrestricted cash of the Borrowers and their Subsidiaries as of the Computation Date: \$ _____
- (b) Consolidated unrestricted Cash Equivalent Investments of the Borrowers and their Subsidiaries as of the Computation Date: \$ _____
- (c) Consolidated gross non-affiliated accounts receivable net of applicable reserves therefor of the Borrowers and their Subsidiaries as of the Computation Date (excluding costs and estimated earnings in excess of billings on uncompleted contracts): \$ _____
- (d) Item 4(a) plus Item 4(b) plus Item 4(c): \$ _____
- (e) Consolidated Current Liabilities of the Borrowers and their Subsidiaries as of the Computation Date: \$ _____
- (f) Revolving Loans Daily Balance as of the Computation Date: \$ _____
- (g) Item 4(e) plus Item 4(f): \$ _____
- (h) The ratio of Item 4(d) to Item 4(g): _____:1.00

(i) The ratio in Item 4(h) may not be less than:

0.90:1.00

Exhibit 10.12

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15. Section 10.16(f) - Fixed Charge Coverage Ratio

- (a) Consolidated net income of the Borrowers and their Subsidiaries for the fiscal quarter ending on the Computation Date: \$ _____
- (b) Consolidated interest expense (exclusive of interest income) of the Borrowers and their Subsidiaries for the fiscal quarter ending on the Computation Date: \$ _____
- (c) Consolidated depreciation and amortization expense of the Borrowers and their Subsidiaries for the fiscal quarter ending on the Computation Date: \$ _____
- (d) Item 5(a) plus Item 5(b) plus Item 5(c): \$ _____
- (e) Consolidated interest expense (exclusive of interest income) of the Borrowers and their Subsidiaries for the fiscal quarter ending on the Computation Date: \$ _____
- (f) Consolidated current portion of long-term Debt of the Borrowers and their Subsidiaries as of the Computation Date: \$ _____
- (g) 25% of Item 5(f): \$ _____
- (h) Item 5(e) plus Item 5(g): \$ _____
- (i) The ratio of Item 5(d) to Item 5(h): _____:1.00
- (j) The ratio in Item 5(i) may not be less than: 1.50:1.00

Exhibit 10.12

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The undersigned has reviewed the terms of the Agreement and has made, or caused to be made under his or her supervision, a review in reasonable detail of the transactions and condition of the Borrowers and their Subsidiaries during the fiscal period covered by this Compliance Certificate. The undersigned does not (either as a result of such review or otherwise) have any knowledge of the existence as of the date of this Compliance Certificate of any condition or event that constitutes an Event of Default or an Unmatured Event of Default, with the exceptions set forth below in response to which the Borrowers are taking or propose to take the following actions (if none, so state):

IN WITNESS WHEREOF, each Borrower has caused this Compliance Certificate to be executed and delivered, and the certifications and warranties contained herein to be made, by its _____ on this _____ day of _____, 19____.

ODETICS, INC.

By: _____

Its: _____

GYR INCORPORATED

By: _____
Its: _____

Exhibit 10.12

NOTE

\$ 5,000,000.00

Costa Mesa, California, March 15, 1997

On July 31, 1998 , and as hereinafter provided, for value received, the undersigned promises to pay to IMPERIAL BANK ("Bank"), a California banking corporation, or order, at its ORANGE CO. REGIONAL office, the principal sum of \$5,000,000.00 MAXIMUM or such sums up to the maximum if so stated, as the Bank may now or hereafter advance to or for the benefit of the undersigned in accordance with the terms hereof, together with interest from date of disbursement or N/A , whichever is later, on the unpaid principal balance [] at the rate of 0.000 % per year in excess of the rate of interest which Bank has announced as its prime lending rate (the "Prime Rate"), which shall vary concurrently with any change in such Prime Rate, or \$250.00 , whichever is greater. Interest shall be computed at the above rate on the basis of the actual number of days during which the principal balance is outstanding, divided by 360, which shall, interest shall [] monthly [] quarterly [] included with principal [] in addition to principal [] beginning April 30, 1997 , and if not so paid shall become a part of the principal. All payments shall be applied first to any late charges owing, then to interest and the remainder, if any, to principal. [] (If checked), Principal shall be payable in installments of \$, or more, each installment on the day of each , beginning Advances not to exceed any unpaid balance owing at any one time equal to the maximum amount specified above, may be made at the option of Bank.

Any partial prepayment shall be applied to the installments, if any, in inverse order of maturity. Should default be made in the payment of principal or interest when due, or in the performance or observance, when due, of any item, covenant or condition of any deed of trust, security agreement or other agreement (including amendments or extensions thereof) securing or pertaining to this note, at the option of the holder hereof and without notice or demand, the entire balance of principal and accrued interest then remaining unpaid shall (a) become immediately due and payable, and (b) thereafter bear interest, until paid in full, at the increased rate of 5% per year in excess of the rate provided for above, as it may vary from time to time.

Defaults shall include, but not be limited to, the failure of the maker(s) to pay principal or interest when due; the filing as to each person obligated hereon, whether as maker, co-maker, endorser or guarantor (individually or collectively referred to as the "Obligor") of a voluntary or involuntary petition under the provisions of the Federal Bankruptcy Act; the issuance of any attachment or execution against any asset of any Obligor; the death of any Obligor; or any deterioration of the financial condition of any Obligor which results in the holder hereof considering itself, in good faith, insecure.

If any installment payment, interest payment, principal payment or principal balance payment due hereunder is delinquent ten or more days, Obligor agrees to pay Bank a late charge in the amount of 5% of the payment so due and unpaid, in addition to the payment; but nothing in this paragraph is to be construed as any obligation on the part of the holder of this note to accept payment of any payment past due or less than the total unpaid principal balance after maturity.

If this note is not paid when due, each Obligor promises to pay all costs and expenses of collection and reasonable attorneys fees incurred by the holder hereof on account of such collection, plus interest at the rate applicable to principal, whether or not suit is filed hereon. Each Obligor shall be jointly and severally liable hereon and consents to renewals, replacements and extensions of time for payment hereof, before, at, or after maturity; consents to the acceptance, release or substitution of security for this note; and waives demand and protest and the right to assert any statute of limitations. Any married person who signs this note agrees that recourse may be had against

separate property for any obligations hereunder. The indebtedness evidenced hereby shall be payable in lawful money of the United States. In any action brought under or arising out of this note, each Obligor, including successor(s) or assign(s) hereby consents to the application of California law, to the jurisdiction of any competent court within the State of California, and to service or process by any means authorized by California law.

No single or partial exercise of any power hereunder, or under any deed of trust, security agreement or other agreement in connection herewith shall preclude other or further exercises thereof or the exercise of any other such

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power. The holder hereof shall at all times have the right to proceed against any portion of the security for this note in such order and in such manner as such holder may consider appropriate, without waiving any rights with respect to any of the security. Any delay or omission on the part of the holder hereof in exercising any right hereunder, or under any deed of trust, security agreement or other agreement, shall not operate as a waiver of such right, or of any other right, under this note or any deed of trust, security agreement or other agreement in connection herewith.

See LIBOR Addendum attached

ATL PRODUCTS, INC.

By

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GENERAL SECURITY AGREEMENT
(TANGIBLE AND INTANGIBLE PERSONAL PROPERTY)

This Agreement is executed on March 15, 1997, by ATL PRODUCTS, INC. (hereinafter called "Obligor"). In consideration of financial accommodations given, to be given or continued, the Obligor grants to IMPERIAL BANK (hereinafter called "Bank") a security interest in (a) all property (i) delivered to Bank by Obligor, (ii) which shall be in Bank's possession or control in any matter or for any purpose, (iii) described below, (iv) now owned or hereafter acquired by Obligor of the type or class described below and/or in any supplementary schedule hereto, or in any financing statement filed by Bank and executed by or on behalf of Obligor; (b) the proceeds, increase and products of such property, all accessions thereto, and all property which Obligor may receive on account of such collateral which Obligor will immediately deliver to Bank (collectively referred to as "Collateral") to secure payment and performance of all of Obligor's present or future debts or obligations to Bank, whether absolute or contingent (hereafter referred to as "Debt"). Unless otherwise defined, words used herein have the meanings given them in the California Uniform Commercial Code.

Collateral:

A. VEHICLE, VESSEL, AIRCRAFT:

| Year | Make/Manufacturer | Model | Identification and Serial No. | License or Registration No. | New or Used |
|------|-------------------|-------|-------------------------------|-----------------------------|-------------|
|------|-------------------|-------|-------------------------------|-----------------------------|-------------|

Engine or other equipment:

(For aircraft - original ink signature on copy to FAA)

B. DEPOSIT ACCOUNTS:

| Type | Account Number | Amount \$ |
|------|----------------|-----------|
|------|----------------|-----------|

In name of _____ Depository _____

AND ALL EXTENSIONS OR RENEWALS THEREOF:

C. ACCOUNTS, INTANGIBLES AND OTHER: (Describe)

All personal property, whether presently existing or hereafter created or acquired, including but not limited to: All accounts, chattel paper, documents, instruments, money, deposit accounts and general intangibles including returns, repossessions, books and records relating thereto, and equipment containing said books and records. All goods including equipment and inventory. All proceeds including, without limitation, insurance proceeds. All guarantees and other security therefor.

The collateral not in Bank's possession will be located at: see Addendum attached

[] If checked, the Obligor is executing this Agreement as an Accommodation Debtor only and the Obligor's liability is limited to the security interest granted in the Collateral described herein. The party being accommodated is

("Borrower").

All the terms and provisions on the reverse side hereof are incorporated herein as though set forth in full, and constitute a part of this Agreement.

| Name | Signature (Indicate title, if applicable) | Address |
|--------------------|--|---------|
| ATL PRODUCTS, INC. | _____ | _____ |
| | BY _____ | _____ |
| | _____ | _____ |
| | _____ | _____ |

Obligor represents, warrants and agrees:

1. Obligor will immediately pay (a) any Debt when due, (b) Bank's costs of collecting the Debt, of protecting, insuring or realizing on Collateral, and any expenditure of Bank pursuant hereto, including attorneys' fees and expenses, with interest at the rate of 24% per year, or the rate applicable to the Debt, whichever is less, from the date of expenditure, and (c) any deficiency after realization of Collateral.

2. Obligor will use the proceeds of any loan that becomes Debt hereunder for the purpose indicated on the application therefore, and will promptly contract to purchase and pay the purchase price of any property which becomes Collateral hereunder from the proceeds of any loan made for that purpose.

3. As to all Collateral in Obligor's possession (unless specifically otherwise agreed to by Bank in writing), Obligor will:

(a) Have, or has, possession of the Collateral at the location disclosed to Bank and will not remove the Collateral from the location.

(b) Keep the Collateral separate and identifiable.

(c) Maintain the Collateral in good and saleable condition, repair it if necessary, clean, feed, shelter, water, medicate, fertilize, cultivate, irrigate, prune and otherwise deal with the Collateral in all such ways as are considered good practice by owners of like property, use it lawfully and only as permitted by insurance policies, and permit Bank to inspect the Collateral at any reasonable time.

(d) Not sell, contract to sell, lease, encumber or transfer the Collateral (other than inventory Collateral) until the Debt has been paid, even though Bank has a security interest in proceeds of such Collateral.

4. As to Collateral which is inventory and accounts, Obligor:

(a) May, until notice from Bank, sell, lease or otherwise dispose of inventory Collateral in the ordinary course of business only, and collect the cash proceeds thereof.

(b) Will, upon notice from Bank, deposit all cash proceeds as received in a demand deposit account with Bank, containing only such proceeds and deliver statements identifying units of inventory disposed of, accounts which gave rise to proceeds, and all acquisitions and returns of inventory as required by Bank.

(c) Will receive in trust, schedule on forms satisfactory to the Bank and deliver to Bank all non-cash proceeds other than inventory received in trade.

(d) If not in default, may obtain release of Bank's interest in individual units of inventory upon request, therefore, payment to Bank of the release price of such units shown on any Collateral schedule supplementary hereto, and compliance herewith as to proceeds thereof.

5. As to Collateral which are accounts, chattel paper, general intangibles and proceeds described in 4(c) above, Obligor warrants, represents and agrees:

(a) All such Collateral is genuine, enforceable in accordance with its terms, free from default, prepayment, defense and conditions precedent (except as disclosed to and accepted by Bank in writing), and is supported by consecutively numbered invoices to, or rights against, the debtors thereon. Obligor will supply Bank with duplicate invoices or other evidence of Obligor's rights on Bank's request;

(b) All persons appearing to be obligated on such Collateral have authority and capacity to contract;

(c) All chattel paper is in compliance with law as to form, content and manner of preparation and execution and has been properly registered, recorded, and/or filed to protect Obligor's interest thereunder;

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(d) If an account debtor shall also be indebted to Obligor on another obligation, any payment made by him not specifically designated to be applied on any particular obligation shall be considered to be a payment on the account in which Bank has a security interest. Should any remittance include a payment not on an account, it shall be delivered to Bank and, if no event of default has occurred, Bank shall pay Obligor the amount of such payment;

(e) Obligor agrees not to compromise, settle or adjust any account or renew or extend the time of payment thereof without Bank's prior written consent.

6. Obligor owns all Collateral absolutely, and no other person has or claims any interest in any Collateral, except as disclosed to and accepted by Bank in writing. Obligor will defend any proceeding which may affect title to or Bank's security interest in any Collateral, and will indemnify and hold Bank free and harmless from all costs and expenses of Bank's defense.

7. Obligor will pay when due all existing or future charges, liens or encumbrances on and all taxes and assessments now or hereafter imposed on or affecting the Collateral and, if the Collateral is in Obligor's possession, the realty on which the Collateral is located.

8. Obligor will insure the Collateral with Bank as loss payee in form and amounts with companies, and against risks and liability satisfactory to Bank, and hereby assigns such policies to Bank, agrees to deliver them to Bank at Bank's request, and authorizes Bank to make any claim thereunder, to cancel the insurance on Obligor's default, and to receive payment of any endorse any instrument in payment of any loss or return premium. If Obligor should fail to deliver the required policy or policies to the Bank, Bank may, at Obligor's cost and expense, without any duty to do so, get and pay for insurance naming as the insured, at Bank's option, either both Obligor and Bank, or only Bank, and the cost thereof shall be secured by this Security Agreement, and shall be repayable as provided in Paragraph 1 above.

9. Obligor will give Bank any information it requires. All information at any time supplied to Bank by Obligor (including, but not limited to, the value and condition of Collateral, financial statements, financing statements, and statements made in documentary Collateral) is correct and complete, and Obligor will notify Bank of any adverse change in such information. Obligor will promptly notify Bank of any change or Obligor's residence, chief executive office or mailing address.

10. Bank is irrevocably appointed Obligor's attorney-in-fact to do any act which Obligor is obligated hereby to do, to exercise such rights as Obligor may exercise, to use such equipment as Obligor might use, to enter Obligor's premises to give notice of Bank's security interest, and to collect Collateral and proceeds and to execute and file in Obligor's name any financing statements and amendments thereto required to perfect Bank's security interest hereunder, all to protect and preserve the Collateral and Bank's rights hereunder. Bank may:

(a) Endorse, collect and receive delivery or payment of instruments and documents constituting Collateral;

(b) Make extension agreements with respect to or affecting Collateral, exchange it for other Collateral, release persons liable thereon or take

security for the payment thereof, and compromise disputes in connection therewith;

(c) Use or operate Collateral for the purpose of preserving Collateral or its value and for preserving or liquidating Collateral.

11. If more than one signs this Agreement, their liability is joint and several. Any Obligor who is married agrees that recourse may be had against separate property for the Debt. Discharge of any Obligor except for full payment, or any extension, forbearance, change of rate of interest, or acceptance, release or substitution of Collateral or any impairment or suspension of Bank's rights against an Obligor, or any transfer of an Obligor's interest to another shall not affect the liability of

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any other Obligor. Until the Debt shall have been paid or performed in full, Bank's rights shall continue even if the Debt is outlawed. All Obligors waive: (a) any right to require Bank to proceed against any Obligor before any other, or to pursue any other remedy; (b) presentment, protest and notice of protest, demand and notice of nonpayment, demand or performance, notice of sale, and advertisement of sale; (c) any right to the benefit of or to direct the application of any Collateral until the Debt shall have been paid; (d) and any right of subrogation to Bank until Debt shall have been paid or performed in full.

12. Upon default, at Bank's option, without demand or notice, all or any part of the Debt shall immediately become due. Bank shall have all rights given by law, and may sell, in one or more sales, Collateral in any county where Bank has an office. Bank may purchase at such sale. Sales for cash or on credit to a wholesaler, retailer or user of the Collateral, or at public or private auction, are all to be considered commercially reasonable. Bank may require Obligor to assemble the Collateral and make it available to Bank at the entrance to the location of the Collateral, or a place designated by Bank.

Defaults shall include:

(a) Obligor's failure to pay or perform this or any agreement with Bank or breach of any warranty herein, or Borrower's failure to pay or perform any agreement with Bank.

(b) Any change in Obligor's or Borrower's financial condition which in Bank's judgment impairs the prospect of Borrower's payment or performance.

(c) Any actual or reasonably anticipated deterioration of the Collateral or in the market price thereof which causes it, in Bank's judgment, to become unsatisfactory as security.

(d) Any levy or seizure against Borrower or any of the Collateral.

(e) Death, termination of business, assignment for creditors, insolvency, appointment of receiver, or the filing of any petition under bankruptcy or debtor's relief laws of, by or against Obligor or Borrower or any guarantor of the Debt.

(f) Any warranty or representation which is false or is believed in good faith by Bank to be false.

13. Bank's acceptance of partial or delinquent payments or the failure of Bank to exercise any right or remedy shall not waive any obligation to Obligor or Borrower or right of Bank to modify this Agreement, or waive any other similar default.

14. On transfer of all or any part of the Debt, Bank may transfer all or any part of the Collateral. Bank may deliver all or any part of the Collateral to any Obligor at any time. Any such transfer or delivery shall discharge Bank from all liability and responsibility with respect to such Collateral transferred or delivered. This Agreement benefits Bank's successors and assigns and binds Obligor's heirs, legatees, personal representatives, successors and assigns. Obligor agrees not to assert against any assignee of Bank any claim or defense that may exist against Bank. Time is of the essence. This Agreement and supplementary schedules hereto contain the entire security agreement between Bank and Obligor. Obligor will execute any additional agreements, assignments or documents reasonably required by Bank to carry this Agreement into effect.

15. This Agreement shall be governed by and construed in accordance with the laws of the State of California, to the jurisdiction of whose courts the Obligor hereby agrees to submit. Obligor agrees that service of process may be accomplished by any means authorized by California law. All words used herein in the singular shall be considered to have been used in to plural where the context and construction so require.

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March 15, 1997

IMPERIAL BANK ("Bank")
695 Town Center Drive
Costa Mesa, California 92626

Borrower: ATL Products, Inc.

Subject: Credit Terms and Conditions (the "Agreement")

Gentlemen:

Subject to the terms and conditions of the Loan Documents (as defined below), IMPERIAL BANK ("Bank" or "you") shall make loans to ATL Products, Inc. ("Borrower") from time to time as advances are requested by Borrower until July 31, 1998, not to exceed, in the aggregate, \$5,000,000. To induce Bank to make loans to Borrower and in consideration of any loan or loans Bank may make to Borrower, Borrower warrants and agrees as follows:

A. Borrower Represents and Warrants that:

1. EXISTENCE AND RIGHTS. Borrower is a corporation and is duly organized, existing and in good standing under the laws of the State of Delaware and is authorized and in good standing to do business in the State of California; Borrower has powers and adequate authority, rights and franchises to own its property and to carry on its business as now conducted, and is duly qualified and in good standing in each State where failure to so qualify would have a material adverse effect on the operations of Borrower and Borrower has the power and adequate authority to make and carry out this Agreement. Borrower has no investment in any other business entity.

2. AGREEMENT AUTHORIZED. The execution, delivery and performance of this Agreement are duly authorized and do not require the consent or approval of any governmental body or other regulatory authority; are not in contravention of or in conflict with any law or regulation or any term or provision of Borrower's articles of incorporation, by-laws, or Articles of Association, as the case may be, and this Agreement is the valid, binding and legally enforceable obligation of Borrower in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency or other similar laws of general application relating to or affecting the enforcement of creditors' rights or by general principals of equity.

3. NO CONFLICT. The execution, delivery and performance of this Agreement are not in contravention of or in conflict with any agreement, indenture or

undertaking to which Borrower is a party or by which it or any of its property may be bound or affected, and do not cause any lien, charge or other encumbrance to be created or imposed upon any such property by reason thereof.

4. LITIGATION. There is no litigation or other proceeding pending or threatened against or affecting Borrower, and Borrower is not in default with respect to any order, writ, injunction, decree or demand of any court or other governmental or regulatory authority

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(involving in excess of \$100,000). Borrower also agrees to notify you in writing of any future litigation threatened against or affecting borrower that is reasonably likely to result in damages or costs to Borrower in excess of \$100,000.

5. FINANCIAL CONDITION. The balance sheet of Borrower as of December 31, 1996, and the related profit and loss statement for the nine (9) months ended on that date, a copy of which has heretofore been delivered to you by Borrower, and all other statements and data submitted in writing by Borrower to you in connection with this request for credit are materially true and correct, and said balance sheet and profit and loss statement fairly present the financial condition of Borrower as of the date thereof and the results of operations for the period covered thereby, and has been prepared in accordance with generally accepted accounting principles on a basis consistently maintained. Since such date there have been no material adverse changes in the financial condition or business of Borrower. Borrower has no knowledge of any liabilities, contingent or otherwise, at such date not reflected in said balance sheet, and Borrower has not entered into any special commitments or substantial contracts which are not reflected in said balance sheet, other than in the ordinary and normal course of its business, which may have a materially adverse effect upon its financial condition, operations or business as not conducted.

6. TITLE TO ASSETS. Borrower has good title to its assets, and the same are not subject to any liens or encumbrances other than those permitted by Section C.3 hereof.

7. TAX STATUS. Borrower has no liability for any delinquent state, local or federal taxes, and, if Borrower has contracted with any government agency, Borrower has no liability for renegotiation of profits.

8. TRADEMARKS, PATENTS. Borrower, as of the date hereof, possesses all necessary trademarks, trade names, copyrights, patents, patent rights, and licenses to conduct its business as now operated, without any known conflict with the valid trademarks, trade names, copyrights, patents and license rights of others.

9. REGULATION U. The proceeds of the notes have not been used to purchase or carry margin stock (as defined within Regulation U of the Board of Governors of the Federal Reserve system).

B. Borrower agrees that so long as it is indebted to you, under borrowings, or other indebtedness, it will, unless you shall otherwise consent in writing:

1. RIGHTS AND FACILITIES. Maintain and preserve all rights, franchises and other authority adequate for the conduct of its business; maintain its properties, equipment and facilities in good order and repair; conduct its business in an orderly manner without voluntary interruption and, if a corporation or partnership, maintain and preserve its existence.

2. INSURANCE. Maintain public liability, property damage and workers' compensation insurance and insurance on all its insurable property against fire and other hazards with responsible insurance carriers to the extent usually maintained by similar businesses

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and/or in the exercise of good business judgment and as to property insurance have Bank named in a Lenders Loss Payee Endorsement form 438BFU or equivalent

3. TAXES AND OTHER LIABILITIES. Pay and discharge, before the same become delinquent and before penalties accrue thereon, all taxes, assessments and governmental charges upon or against it or any of its properties, and all its other liabilities at any time existing, except to the extent and so long as:

(a) The same are being contested in good faith and by appropriate proceedings in such manner as not to cause any materially adverse effect upon its financial condition or the loss of any right of redemption from any sale thereunder; and

(b) It shall have set aside on its books reserves (segregated to the extent required by generally accepted accounting practice) deemed by it adequate with respect thereto.

4. FINANCIAL COVENANTS. Maintain the following financial covenants, to be tested on a quarterly basis, for the periods set forth below, all as computed and determined in accordance with generally accepted accounting principles on a basis consistently maintained by Borrower:

(a) Maintain a minimum TANGIBLE NET WORTH, defined as the excess of all tangible assets (excluding any value for goodwill, trademarks, patents, copyrights, organization expenses and other similar intangible items), less its liabilities, of not less than \$8,750,000 for the period ending March 31, 1997, and increasing by (i) 90% of net profit after taxes for each reporting period thereafter, and with no offset for losses, and (ii) 100% of the aggregate net proceeds received by Borrower or their Subsidiaries upon issuance of capital stock after March 31, 1997.

(b) Maintain a maximum LEVERAGE RATIO, defined as its total liabilities to its Tangible Net Worth, of not more than 4.00 to 1, beginning with the period ending March 31, 1997, and thereafter.

(c) Maintain a minimum QUICK RATIO, defined as the ratio of Borrower's cash and cash equivalents plus accounts receivables to its current liabilities, of not less than 1.05 to 1, beginning with the period ending March 31, 1997, and thereafter.

(d) Maintain NET PROFITABILITY AFTER TAXES of not less than \$1.00 per fiscal quarter, beginning with the period ending March 31, 1997, and thereafter.

5. RECORDS AND REPORTS. Maintain a standard and modern system of accounting in accordance with generally accepted accounting principles on a basis consistently maintained; permit your representatives to have access to, and to examine its properties, books and records, upon reasonable notice and at all reasonable times during normal business hours; and furnish you:

(a) As soon as available, and in any event within thirty (30) days after the close of each month of each fiscal year of Borrower, commencing with the month next ending, a balance sheet, profit and loss statement and reconciliation of Borrower's

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capital accounts as of the close of such period and covering operations for the portion of Borrower's fiscal year ending on the last day of such period,

all in reasonable detail and stating in comparative form the figures for the corresponding date and period in the previous fiscal year, prepared in accordance with generally accepted accounting principles on a basis consistently maintained by Borrower and certified by an appropriate officer of Borrower, subject, however, to year-end audit adjustments. When the month end is a fiscal quarter end, Borrower to provide the financial information listed above in Form 10-Q, along with a covenant compliance worksheet certified by an officer of Borrower, within 45 days of quarter-end;

(b) As soon as available, and in any event within ninety (90) days after the close of each fiscal year of Borrower, a report of audit of Company as of the close of and for such fiscal year, all in reasonable detail and stating in comparative form the figures as of the close of and for the previous fiscal year, with the unqualified opinion of independent certified public accountants satisfactory to you, accompanied by a covenant compliance worksheet certified by an officer of Borrower;

(c) Promptly after the receipt thereof by Borrower, copies of any detailed audit reports submitted to Borrower by independent accountants in connection with each annual or interim audit of the accounts of Borrower made by such accountants;

(d) Budgets, operating plans, and such other information relating to the affairs of Borrower as you reasonably may request from time to time.

6. NOTICE OF DEFAULT. Promptly notify Bank in writing of the occurrence of any Event of Default hereunder or any event which upon notice and lapse of time would be an Event of Default.

7. BUSINESS ACCOUNTS. Maintain all primary business deposit accounts at Bank.

C. Borrower agrees that so long as it is indebted to you, it will not, without your written consent:

1. TYPE OF BUSINESS; MANAGEMENT. Make any substantial change in the character of its business; or make any change in its executive management.

2. OUTSIDE INDEBTEDNESS. Create, incur, assume or permit to exist any indebtedness for borrowed moneys other than loans from you except obligations now existing as shown in the financial statement dated December 31, 1996, excluding those being refinanced by Bank; or sell or transfer, either with or without recourse, any accounts or notes receivable or any moneys due to become due, or in the financial statement dated 12/31/96, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon Borrower.

3. LIENS AND ENCUMBRANCES. Create, incur, or assume any mortgage, pledge, encumbrance, lien or charge of any kind (including the charge upon property at any time purchased or acquired under conditional sale or other title retention agreement) upon any asset now owned or hereafter acquired by it, other than liens for taxes not delinquent and liens in your favor.

4. LOANS, INVESTMENTS, SECONDARY LIABILITIES. Make any loans or advances to any person or other entity other than in the ordinary course and normal course of its business as now conducted or make any investment in the securities of any person or other entity other than the United States Government; or guarantee or otherwise become liable upon the obligation of any person or other entity, except by endorsement of negotiable instruments for deposit or collection in the ordinary and normal course of its business, provided, however, that the following loans and investments shall be permitted under this Section C.4:

a. (i) commercial paper maturing no more that one (1) year from the date of

creation thereof and currently having the highest rating obtainable from either Standard & Poor's Corporation or Moody's Investors Service, Inc., and (ii) certificates of deposit maturing more than one (1) year from the date of investment therein issued by Bank;

b. extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business;

c. investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business;

d. investments consisting of (i) travel advances, employee relocation loans and other employee loans and advances in the ordinary course of business, (ii) loans to employees, officers or directors relating to the purchase of equity securities of Borrower, (iii) other loans to officers and employees approved by the Board of Directors in an amount not to exceed in any one fiscal year \$50,000 per officer or director or \$200,000 in the aggregate for all such employees or directors; and

e. investments of Borrower not otherwise permitted hereunder, aggregating not in excess of \$50,000 at any one time.

5. ACQUISITION OR SALE OF BUSINESS; MERGER OR CONSOLIDATION. Purchase or otherwise acquire the assets or business of any person or other entity; or liquidate, dissolve, merge or consolidate, or commence any proceedings therefor; or sell any assets except in the ordinary and normal course of its business as now conducted; or sell, lease, assign, or transfer any substantial part of its business or fixed assets, or any property or other assets necessary for the continuance of its business as now conducted, including without limitation the selling of any property or other asset accompanied by the leasing back of the same.

6. DIVIDENDS, STOCK PAYMENTS. Declare or pay any dividend (other than dividends payable in common stock of Borrower) or make any other distribution on any of its capital stock now outstanding or hereafter issued or purchase, redeem or retire any of such stock.

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7. CAPITAL EXPENDITURES. Make or incur obligations for capital expenditures in excess of \$2,200,000 for the fiscal year ending March 31, 1998 or \$2,000,000 for the fiscal year ending March 31, 1999.

D. The occurrence of any of the following events of default (individually an "Event of Default") shall, at your option, terminate your commitment to lend and make all sums of principal and interest then remaining unpaid on all Borrower's indebtedness to you immediately due and payable, all without demand, presentment or notice, all of which are hereby expressly waived:

1. FAILURE TO PAY NOTE. Failure to pay any installment of principal of or interest on any indebtedness of Borrower to you.

2. BREACH OF COVENANT. Failure of Borrower to perform any material term or condition of this Agreement binding upon Borrower.

3. BREACH OF WARRANTY. Any of Borrower's representations or warranties made herein or any statement or certificate at any time given in writing pursuant hereto or in connection herewith shall be false or misleading in any material respect.

4. INSOLVENCY; RECEIVER OR TRUSTEE. Borrower shall become insolvent; or admit

its inability to pay its debts as they mature; or make an assignment for the benefit of creditors; or apply for or consent to the appointment of a receiver or trustee for it or for a substantial part of its property or business.

5. JUDGMENTS, ATTACHMENTS. Any money judgment, writ or warrant of attachment, or similar process shall be entered or filed against Borrower or any of its assets and shall remain unvacated, unbonded or unstayed for a period of 10 days or in any event later than five days prior to the date of any proposed sale thereunder.

6. BANKRUPTCY. Bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings for relief under any bankruptcy law or any law for the relief of debtors shall be instituted by or against Borrower and, if instituted against it, shall be consented to; provided, however, with respect to an involuntary petition in bankruptcy such petition shall not have been dismissed within 60 days after the filing thereof.

E. Miscellaneous Provisions.

1. FAILURE OR INDULGENCE NOT WAIVER. No failure or delay on the part of imperial Bank or any holder of Notes issued hereunder, in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege. All rights and remedies existing under this agreement or any note issued in connection with a loan that Imperial Bank may make hereunder, are cumulative to, and not exclusive of, any rights or remedies otherwise available.

2. CONFLICTS. In the event of a conflict between this Agreement and any other related document, including but not limited to the General Security Agreement, Note, Agreement to Provide insurance and Disbursement Instructions, each dated of even

date herewith (together with this Agreement, the "Loan Documents"), the terms and conditions of this Agreement shall prevail.

3. CURE. Upon the occurrence of an Event of Default other than non-payment of amounts due to Bank under the Loan Documents, the Borrower shall have 30 days from notice from Bank within which to cure any such default. Borrower shall have five days from the due date of any payment within which to cure such payment default.

ATL Products, Inc.

BY: _____

ITS: _____

Accepted and Agreed to:
IMPERIAL BANK

BY: _____

ITS: _____

LIBOR ADDENDUM

This Libor Addendum ("Addendum") is dated as of March 15, 1997, and is by and between ATL PRODUCTS, INC. ("Borrower") and Imperial Bank ("Bank"). This Addendum amends and supplements the Note to which it is attached (the "Note") and forms a part of and is incorporated into the Note.

In the event of any inconsistency between the terms herein and the terms of the Note, the terms herein shall in all cases govern and control. All capitalized terms herein, unless otherwise defined herein, shall have the meanings set forth in the Note.

1. ADVANCES

1.1 Prime Loans. Advances permitted pursuant to the terms of the Note or this Addendum which bear interest in relation to Bank's Prime Rate shall be referred to herein as "Prime Loans" and each such advance shall be a "Prime Loan." Each Prime Loan shall bear interest at an annual rate equal to the sum of 0.000 % plus the Bank's Prime Rate. "Prime Rate" shall mean the rate of interest publicly announced by Bank from time to time in Inglewood, California, as its prime rate for lending. The Prime Rate is not intended to be the lowest rate of interest charged by Bank in connection with extensions of credit to borrowers.

1.2 Libor Loans. Advances permitted pursuant to the terms of the Note or this Addendum which bear interest in relation to the Libor Rate shall be referred to herein as "Libor Loans" and each such advance shall be a "Libor Loan." Each Libor Loan shall bear interest at the Libor Rate, as defined below. A Libor Loan shall be in the minimum amount of One Million Dollars (\$1,000,000) or such greater amount which is an integral multiple of Fifty Thousand Dollars (\$50,000). No Libor Loan shall be made after the last Business Day that is at least three (3) months prior to the Maturity Date described in the Note.

2. INTEREST ON LIBOR LOANS.

2.1 Rate of Interest. Each Libor Loan shall bear interest on the unpaid principal amount thereof from the Loan Date through the date paid (whether by acceleration or otherwise) at a rate equal to the sum of 2.250% per annum plus the Libor Rate for the Interest Period.

(a) "Loan Date" shall mean the date on which (i) a Libor Loan is made, a Libor Loan is continued, or a Prime Loan is converted to a Libor Loan.

(b) "Interest Period" shall mean a period of thirty (30), sixty (60), or ninety (90) days, commencing on the applicable Loan Date, as selected by Borrower pursuant to Section 2.2; provided, however, that Borrower may not select an Interest Period that would otherwise extend beyond the Maturity Date of the Loan. Borrower may also select a twelve (12) month Interest Period if and when Bank notifies Borrower that such Interest Period is available, as determined by Bank in its sole discretion.

(c) "Libor Rate" shall mean, for the applicable Interest Period for a Libor Loan, a rate per annum (rounded upwards, if necessary, to the nearest 1/16 of 1%) equal to (i) the Libor Base Rate for such Interest Period divided by (ii) 1.00 minus the Reserve Requirement Rate (expressed as a decimal fraction) for such Interest Period.

(d) "Libor Base Rate" shall mean with respect to any Interest Period, the rate equal to the arithmetic mean (rounded upwards, if necessary, to the nearest 1/16 of 1%) of:

(i) the offered rates per annum for deposits in U.S. Dollars for a period equal to such Interest Period which appears at 11:00 a.m., London time, on the Reuters Screen LIBOR Page on

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the Business Day that is two (2) Business Days before the first day of such Interest Period, in each case if at least four (4) such offered rates appear on such page, or

(ii) if clause (i) is inapplicable, (x) the offered rate per annum for deposits in U.S. Dollars for a period equal to such Interest Period which appears as of 11:00 a.m., London time on the Telerate Monitor on Telerate Screen 3750 on the Business Day which is two (2) Business Days before the first day of such Interest Period; or (y) if clause (x) above is inapplicable, the arithmetic mean (rounded upwards, if necessary, to the nearest 1/16 of 1%) of the interest rates per annum offered by at least three (3) prime banks selected by Bank at approximately 11:00 a.m. London time, on the Business Day which is two (2) Business Days before such date for deposits in U.S. Dollars to prime banks in the London interbank market, in each case for a period equal to such Interest Period in an amount equal to the amount to which the Libor Rate applies.

(e) "Business Day" means any day on which Bank is open for business in the State of California.

(f) "Reuters Screen LIBOR Page" means the display designated as page LIBOR on the Reuters Monitor Money Rates Service or such other page as may replace the LIBOR page on that service for the purpose of displaying London interbank offered rates of major banks.

(g) "Reserve Requirement Rate" means, for any Interest Period, the aggregate of the rates, effective as of the Business Day which is two (2) Business Days before the first day of the Interest Period, at which:

(i) reserves (including any marginal, supplemental or emergency reserves) are required to be maintained during such Interest Period under Regulation D against "Eurocurrency liabilities" (as such term is used in Regulation D) by member banks of the Federal Reserve System; and

(ii) any additional reserves are required to be maintained by Bank by reason of any Regulatory Change against (x) any category of liabilities which includes deposits by reference to which the Libor Rate is to be determined as provided in the definition of "Libor Base Rate;" or (y) any category of extensions of credit or other assets which include Libor Loans.

(h) "Regulatory Change" means, with respect to Bank, any change on or after the date of the Note and this Addendum in any Governmental Regulation, including the introduction of any new Governmental Regulation or the rescission of any existing Governmental Regulation.

(i) "Governmental Regulation" means any (i) United States Federal, state or foreign law or regulation (including without limitation Regulation D); and (ii) the adoption or making or any interpretation, application, directive or request applying to a class of lenders, including Bank, of or under any United States Federal, state, or any foreign law or regulation (whether or not having the force of law) by any court or by any governmental, central banking, monetary or taxing authority charged with the interpretation or administration of such law or regulation.

2.2 Determination of Interest Rates. Subject to the terms and conditions of the Note and this Addendum, Borrower, at its option, may request an advance in the form of a Libor Loan, a continuation of a Libor Loan, or a conversion of a Prime Loan into a Libor Loan, only upon delivery to Bank of an irrevocable written notice received by Bank at least three (3) Business Days prior to the requested Loan Date, specifying (i) the principal amount of such Libor Loan, (ii) the requested Loan Date, and (iii) the selected Interest Period. Upon

receiving such notice, Bank shall determine (which determination shall be in accordance with Section 2.1 and shall, absent manifest error, be final, conclusive and binding upon all parties hereto) the Libor Rate applicable to such Libor Loan two (2) Business Days prior to the Loan Date, and shall promptly give notice thereof (in writing or

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by telephone confirmed in writing) to Borrower. If Borrower shall fail to notify Bank of its selected Interest Period for a Libor Loan (including the continuation of an existing Libor Loan or the conversion of a Prime Loan into a Libor Loan), the Borrower shall be deemed to have selected an Interest Period of three (3) months.

2.3 Computation of Interest and Fees. All computations of interest and fees payable pursuant to the Note shall be calculated on the basis of a three hundred sixty (360) day year for the actual number of days elapsed (less the date of repayment).

2.4 Recordation by Bank. Bank is hereby authorized to record the Loan Date, the applicable Interest Period, the principal amount, and the interest rate of each Libor Loan made (or continued or converted) by Bank, and the date and amount of each payment or prepayment of principal thereof, in Bank's records. Any such recordation shall constitute prima facie evidence of the accuracy of the information recorded; provided that the failure to make any such recordation shall not in any way affect the Borrower's obligations hereunder.

3. CONVERSION TO PRIME LOANS.

3.1 Election by Borrower. Subject to all the terms and conditions of this Addendum, Borrower may elect from time to time to convert a Libor Loan to a Prime Loan by giving Bank at least three (3) Business Days' prior irrevocable notice of such election, and any such conversion of a Libor Loan shall be made on the last day of the Interest Period with respect thereto.

3.2 Failure of Notice by Borrower. If Borrower otherwise fails to give notice specifying its requests with respect to any Libor Loans that are scheduled to become due, such failure shall be deemed, in the absence of any notice from Borrower to the contrary, to be notice of a requested advance in the form of a Prime Loan in a principal amount equal to the amount of said Libor Loan.

4. PREPAYMENTS.

4.1 Voluntary Prepayment by Borrower. Subject to the terms and conditions of the Note and this Addendum, Borrower may, upon at least three (3) Business Days' irrevocable notice to Bank as provided herein, at any time and from time to time on any Business Day prepay any Prime Loan or Libor Loan in whole or in part, without penalty or premium, other than customary actual "Breakage Fees" and "Prepayment Costs" as defined below, resulting from prepayment of any Libor Loan prior to the expiration of the Interest Period relating thereto. The notice of prepayment shall specify the date and amount of the prepayment, and the Loan to which the prepayment applies. Each partial prepayment of a Libor Loan shall be in an amount not less than Fifty Thousand Dollars (\$50,000) or such greater amount which is an integral multiple of Fifty Thousand Dollars (\$50,000); provided, that unless a Libor Loan is prepaid in full, no prepayment shall be made if, after giving effect to such prepayment, the aggregate principal amount of Libor Loans having the same Interest Period shall be less than One Million Dollars (\$1,000,000). Notice of prepayment having been delivered as aforesaid, the principal amount of the prepayment specified in such notice shall become due and payable on the prepayment date set forth in such notice. All payments of principal under this Section 4 shall be accompanied by accrued but unpaid

interest on the amount being prepaid through the date of such prepayment.

4.2 Breakage Fees. If for any reason (including voluntary or mandatory prepayment, voluntary or mandatory conversion of a Libor Loan into a Prime Loan, or acceleration), Bank receives all or part of the principal amount of a Libor Loan prior to the last day of the Interest Period for such Loan, Borrower shall immediately notify Borrower's account officer at Bank and, on demand by Bank, pay Bank the Breakage Fees, defined as the amount (if any) by which (i) the additional interest which would have been payable on the amount so received had it not been received until the last day of such Interest Period exceeds (ii) the interest which would have been

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recoverable by Bank (without regard to whether Bank actually so invests said funds) by placing the amount so received on the deposit in the certificate of deposit markets or the offshore currency interbank markets or United States Treasury investment products, as the case may be, for a period starting on the date on which it was so received and ending on the last day of such Interest Period at the interest rate determined by Bank in its reasonable discretion. Bank's determination as to such amount shall be conclusive and final, absent manifest error.

4.3 Prepayment Costs. Borrower shall pay to Bank, upon the demand of Bank, such other amount or amounts as shall be sufficient (in the sole good faith opinion of Bank) to compensate it for any loss, costs or expense incurred by it as a result of any prepayment by Borrower (including voluntary or mandatory prepayment, voluntary or mandatory conversion of a Libor Loan into a Prime Loan, or prepayment due to acceleration) of all or part of the principal amount of a Libor Loan prior to the last day of the Interest Period for such Loan (including without limitation any failure by Borrower to borrow a Libor Loan on the Loan Date for such borrowing specified in the relevant notice of borrowing hereunder). Such costs shall include, without limitation, any interest or fees payable by Bank to lenders of funds obtained by it in order to make or maintain its loans based on the London interbank eurodollar market. Bank's determination as to such costs shall be conclusive and final, absent manifest error.

5. REMEDIES UPON EVENTS OF DEFAULT.

5.1 Conversion to Prime Loans. If any Event of Default has occurred and is continuing under the Note or this Addendum, then in addition to all other remedies available to Bank under the Note, at the option of Bank and without demand or notice, all Libor Loans then outstanding shall be automatically converted to Prime Loans on the last day or each respective Interest Period for each Libor Loan.

5.2 Indemnity. Borrower agrees to pay and indemnify Bank for, and to hold Bank harmless from, any and all cost, loss or expense (including without limitation any such cost, loss or expense arising from interest or fees payable by Bank to lenders of funds obtained by it in order to maintain its Libor Loans hereunder, or in its reemployment of funds obtained in connection with the making or maintaining of Libor Loans) which Bank may sustain or incur as a consequence of any default by Borrower in connection with or related to: (a) payment of the principal amount of or interest on Libor Loans, (b) making a borrowing or conversion of a Libor Loan after Borrower has given a notice thereof in accordance with this Addendum, or (c) making a prepayment of a Libor Loan after Borrower has given a notice thereof in accordance with this Addendum, or any prepayment (whether optional or mandatory) of any Libor Loan prior to the end of the applicable Interest Period for such Loan.

6. ADDITIONAL PROVISIONS REGARDING LIBOR LOANS.

6.1 Libor Rate Taxes. All payments of principal, interest, fees, costs, expenses and all other amounts payable to Borrower pursuant to the Note and this Addendum shall be made free and clear of and without reduction by reason of all present and future income, stamp and other taxes or other charges whatsoever imposed, assessed, levied or collected by any national government or any political subdivision or taxing authority thereof or any organization of which it is a member (excluding (i) any taxes imposed on or measured by the overall net income or gross receipts of Bank by any such entity, and (ii) any taxes which would have been imposed even if no provisions for Libor Loans had appeared in this Addendum) (collectively, "Libor Taxes").

If any Libor Taxes are required to be withheld from any amounts payable to Bank, Borrower shall pay such additional amounts as may be necessary so as to yield to Bank a net amount equal to the total amount of the payments provided for in this Addendum or under the Note which Bank would have received if such amounts had not been subject to Libor Taxes.

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If any Libor Taxes are payable directly by Borrower, they shall be paid by Borrower prior to the date on which penalties attach for failure to timely pay such Libor Taxes. Within forty five (45) days after the date on which payment of any such Libor Taxes is due pursuant to applicable law, Borrower will furnish Bank the original receipt for the full payment of such Libor Taxes or, if such is not available, evidence of such payment satisfactory in form and substance to Bank. Borrower shall indemnify and hold Bank harmless against, and will reimburse to Bank, upon demand, any incremental taxes, interest or penalties that may become payable by Bank as a result of any failure by Borrower to pay any Libor Taxes when due.

6.2 Inability to Determine Fair Interest Rate. If at any time Bank, in its sole and absolute discretion, determines that: (i) the amount of the Libor Loans for periods equal to the corresponding Interest Periods are not available to Bank in the offshore currency interbank markets, (ii) the Libor Rate does not accurately reflect the cost to Bank of lending the Libor Loan, or (iii) by reason of any changes arising after the date of the Note affecting the London interbank eurodollar market, adequate and fair means do not exist for ascertaining the applicable interest rate on the basis provided for in Sections 2.1 and 2.2 above, then Bank shall promptly give notice thereof to Borrower. Upon the giving of such notice, Bank's obligation to make Libor Loans shall terminate, unless Bank and the Borrower agree in writing to a different interest rate applicable to Libor Loans, or until such time as Bank notifies Borrower that the circumstances giving rise to Bank's notice no longer exist. While such circumstances continue to exist, (x) any requested Libor Loan shall be treated as a request for a Prime Loan, (y) any Prime Loan that was to have been converted to a Libor Loan shall be continued as a Prime Loan, and (z) any outstanding Libor Loan shall be converted retroactively, on the first day of the then current Interest Period with respect thereto, to a Prime Loan.

6.3 Illegality or Impracticability. If (i) due to any Government Regulation it shall become unlawful for Bank to continue to fund or maintain any Libor Loans, or to perform its obligations hereunder, or (ii) due to any contingency occurring after the date of the Note which has a material adverse effect on the London interbank eurodollar market, it has become impracticable for Bank to continue to fund or maintain any Libor Loans, or to perform its obligations hereunder, then Bank shall promptly give notice thereof to Borrower. Upon the giving of such notice, Bank's obligation to make Libor Loans shall terminate, and in such event, (x) any requested Libor Loan shall be treated as a request for a Prime Loan, (y) any Prime Loan that was to have been converted to a Libor Loan shall be continued as a Prime Loan, and (z) any outstanding Libor Loan shall be converted retroactively, on the first date of the then current Interest Period with respect thereto, to a Prime Loan.

6.4 Governmental Regulations; Increased Costs. Borrower shall pay to Bank, within 15 days after demand by Bank, from time to time such amounts as Bank may determine to be necessary to compensate it for any increased costs incurred by Bank that Bank determines are attributable to its making or maintaining of any Libor Loans to Borrower (such increases in costs and reductions in amount receivable being herein called "Additional Costs"), in each case resulting from any Regulatory Change which:

(a) imposes a new tax or changes the basis of taxation of any amounts payable to Bank under the Note or this Addendum in respect of any Libor Loans (other than changes which affect taxes measured by or imposed on the overall net income of Bank by the jurisdiction in which such Bank has its principal office); or

(b) imposes or modifies any reserve, special deposit or similar requirements relating to any extensions of credit or other assets of, or any deposits or other liabilities with or for the account of Bank (including any Libor Loans or any deposits referred to in the definition of Libor Base Rate); or

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(c) imposes any other condition affecting the Note (or any of such extensions of credit or liabilities); or

(d) imposes or modifies a Governmental Regulation regarding capital adequacy which has or would have the effect of reducing the rate of return on capital of Bank or any person or entity controlling Bank ("Parent") as a consequence of its obligations hereunder to a level below that which Bank (or its Parent) could have achieved but for such adoption, change or compliance (taking into consideration its policies with respect to capital adequacy) by an amount deemed by Bank to be material.

Bank will notify Borrower of any event occurring after the date of the Note which will entitle Bank to Additional Costs pursuant to this Section 6.4 as promptly as practicable after it obtains knowledge thereof and determines to request such compensation. Bank will furnish Borrower with a statement setting forth the basis and amount of each request by Bank for Additional Costs under this Section 6.4. Determinations and allocations by Bank for purposes of this Section 6.4 of the effect of any Regulatory Change on its costs of maintaining its obligations to make Libor Loans or of making or maintaining Libor Loans or on amounts receivable by it in respect of Libor Loans, and of the additional amounts required to compensate Bank in respect of any Additional Costs, shall be conclusive and final, absent manifest error.

This Addendum is executed as of the date first written above.

BORROWER
ATL PRODUCTS, INC.
- - - - -

BANK
IMPERIAL BANK,
a California banking corporation,
- - - - -

a
- - - - -

By
- - - - -

By
- - - - -

Officer Name
Its OFFICER TITLE
- - - - -

Its
- - - - -

By

Its

EXHIBIT 21
LIST OF SUBSIDIARIES

| NAME OF ENTITY | STATE OF OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION | OWNERSHIP INFORMATION |
|--|---|------------------------|
| ATL Products, Inc. | Delaware | 82.9% owned by Odetics |
| ATL Products Limited | England and Wales | 100% owned by ATL |
| Centro Corporation | California | 100% owned by Odetics |
| Gyr, Inc. | California | 100% owned by Odetics |
| Odetics Europe Limited | England and Wales | 100% owned by Odetics |
| Odetics Asia Pacific Pte. Ltd. | Singapore | 100% owned by Odetics |
| Odetics International Sales Corporation | California | 100% owned by Odetics |

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 33-63983) of Odetics, Inc. and in the related Prospectus and in the Registration Statement (Form S-8 No. 333-05735) pertaining to the Amended and Restated Outside Director Stock Plan of Odetics, Inc. and the Odetics, Inc. Long-Term Incentive Equity Plan of Odetics, Inc. of our report dated April 29, 1997, 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, 1997.

/s/ ERNST & YOUNG LLP

Orange County, California
June 27, 1997

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