

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2000

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

For the transition period from _____ to _____

Commission File Number: 0-7445

DATRON SYSTEMS INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware 95-2582922
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

3030 Enterprise Court, Vista, California 92083-8347
(Address of principal executive offices) (zip code)

(760) 734-5454
(Registrant's telephone number, including area code)

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

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

Yes No

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

As of July 21, 2000, the Registrant had only one class of common stock, par value \$0.01, of which there were 2,730,199 shares outstanding.

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

**DATRON SYSTEMS INCORPORATED
CONSOLIDATED BALANCE SHEETS (In thousands)**

	June 30, 2000 (Unaudited)	March 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	\$7,278	\$12,183
Accounts receivable, net	11,340	12,658
Inventories	11,705	11,626
Deferred income taxes	2,603	2,603
Prepaid expenses and other current assets	589	343
Total current assets	33,515	39,413
Property, plant and equipment, net	9,141	9,427
Goodwill, net	5,186	5,237
Other assets	419	320
Total assets	\$48,261	\$54,397
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$2,353	\$2,921
Accrued expenses	6,155	9,632
Customer advances	615	1,408
Income taxes payable	371	1,433
Current portion of long-term debt	91	90
Total current liabilities	9,585	15,484
Long-term debt	3,056	3,080
Deferred income taxes	1,614	1,614
Deferred rent	118	103
Total liabilities	14,373	20,281
Stockholders' equity:		
Preferred stock -- par value \$0.01; authorized 2,000,000 shares, none issued or outstanding	---	---
Common stock -- par value \$0.01; authorized 10,000,000 shares, 3,106,881 and 3,098,943 shares issued in June and March, respectively	31	31
Additional paid-in capital	10,963	10,904
Retained earnings	25,133	25,460
Treasury stock, at cost; 376,682 and 387,303 shares in June and March, respectively	(2,075)	(2,115)
Stock option plan and stock purchase plan notes receivable	(164)	(164)
Total stockholders' equity	33,888	34,116
Total liabilities and stockholders' equity	\$48,261	\$54,397

See notes to consolidated financial statements.

DATRON SYSTEMS INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands, except per-share amounts)

	Three Months Ended	
	June 30,	
	2000	1999
	<u> </u>	<u> </u>
Net sales	\$13,354	\$13,523
Cost of sales	9,946	9,638
Gross profit	<u>3,408</u>	<u>3,885</u>
Selling, general and administrative	2,996	2,807
Research and development	1,023	996
Operating income (loss)	<u>(611)</u>	<u>82</u>
Interest expense	(53)	(55)
Interest income	130	69
Other expense	(8)	(9)
Income (loss) before income taxes	<u>(542)</u>	<u>87</u>
Income taxes (benefit)	<u>(215)</u>	<u>35</u>
Net income (loss)	<u><u>(\$327)</u></u>	<u><u>\$52</u></u>
Earnings (loss) per common share--basic	<u><u>(\$0.12)</u></u>	<u><u>\$0.02</u></u>
Weighted average number of common shares outstanding	<u><u>2,721</u></u>	<u><u>2,696</u></u>
Earnings (loss) per common share--diluted	<u><u>(\$0.12)</u></u>	<u><u>\$0.02</u></u>
Weighted average number of common and common equivalent shares outstanding	<u><u>2,721</u></u>	<u><u>2,701</u></u>

See notes to consolidated financial statements.

DATRON SYSTEMS INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Three Months Ended	
	June 30,	
	2000	1999
Cash Flows from Operating Activities		
Net income (loss)	(\$327)	\$52
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	482	535
Changes in operating assets and liabilities:		
Accounts receivable	1,318	(1,237)
Inventories	(79)	(248)
Prepaid expenses and other assets	(347)	314
Accounts payable and accrued expenses	(4,045)	(1,693)
Customer advances	(793)	1,210
Income taxes payable	(1,062)	35
Deferred rent	15	58
Other	14	13
<i>Net cash used in operating activities</i>	(4,824)	(961)
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(154)	(410)
Proceeds from sales of property, plant and equipment	---	384
<i>Net cash used in investing activities</i>	(154)	(26)
Cash Flows from Financing Activities		
Repayments of long-term debt	(23)	(21)
Stock options exercised	39	---
Issuance of common stock	57	36
<i>Net cash provided by financing activities</i>	73	15
Decrease in cash and cash equivalents	(4,905)	(972)
Cash and cash equivalents at beginning of period	12,183	5,548
Cash and cash equivalents at end of period	\$7,278	\$4,576

See notes to consolidated financial statements.

Datron Systems Incorporated
Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The unaudited consolidated financial statements included herein contain the accounts of Datron Systems Incorporated and its wholly owned subsidiaries (the "Company") and have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. It is suggested that these financial statements be read in connection with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended March 31, 2000.

In the opinion of the Company's management, the accompanying unaudited financial statements contain all adjustments, consisting only of normal recurring adjustments, unless otherwise stated, which are necessary to present fairly its financial position at June 30, 2000 and the results of its operations and its cash flows for the periods presented. Results of operations for the periods presented herein are not necessarily indicative of what results will be for the entire fiscal year. The balance sheet at March 31, 2000 has been derived from audited financial statements.

2. Earnings (Loss) per Share

Basic earnings per share ("EPS") is calculated based on the weighted average number of shares outstanding during the period. Diluted EPS is calculated based on the weighted average number of shares outstanding during the period plus equivalent shares issuable under the Company's stock option plans when such amounts are dilutive. Options to purchase 433,150 shares of common stock at prices ranging from \$5.10 to \$15.73 were not included in the computation of diluted EPS at June 30, 2000 because the effect of such options would be anti-dilutive. Such options expire at various dates from September 19, 2000 to May 16, 2010. At June 30, 1999, options to purchase 225,000 shares of common stock at prices ranging from \$7.23 to \$15.73 were not included in the computation of diluted EPS because the effect of such options would be anti-dilutive.

3. Accounts Receivable

At June 30, 2000 and March 31, 2000, accounts receivable were as follows:

	June 30, 2000	March 31, 2000
Billed	\$ 7,231,000	\$ 9,108,000
Unbilled	4,229,000	3,659,000
Subtotal	11,460,000	12,767,000
Allowance for doubtful accounts	(120,000)	(109,000)
Total	<u>\$11,340,000</u>	<u>\$12,658,000</u>

4. Inventories

At June 30, 2000 and March 31, 2000, inventories were as follows:

	June 30, 2000	March 31, 2000
Raw materials	\$ 7,410,000	\$ 7,587,000
Work-in-process	2,824,000	2,233,000
Finished goods	1,471,000	1,806,000
Total	<u>\$11,705,000</u>	<u>\$11,626,000</u>

Inventories are presented net of allowances for obsolescence of \$1,480,000 and \$1,572,000 at June 30, 2000 and March 31, 2000, respectively.

5. Property, Plant and Equipment

At June 30, 2000 and March 31, 2000, property, plant and equipment was as follows:

	June 30, 2000	March 31, 2000
Land and buildings	\$ 8,902,000	\$ 8,901,000
Machinery and equipment	15,370,000	15,298,000
Furniture and office equipment	1,542,000	1,548,000
Leasehold improvements	748,000	726,000
Construction-in-process	19,000	---
Subtotal	26,581,000	26,473,000
Accumulated depreciation and amortization	(17,440,000)	(17,046,000)
Total	<u>\$ 9,141,000</u>	<u>\$ 9,427,000</u>

6. Segment Information

Segment information was as follows for the periods shown:

	Three Months Ended June 30,	
	2000	1999
Net sales:		
Antenna and Imaging Systems	\$ 9,848,000	\$ 9,862,000
Communication Products	3,506,000	3,661,000
Consolidated net sales	<u>\$13,354,000</u>	<u>\$13,523,000</u>
Operating income (loss):		
Antenna and Imaging Systems	\$ 206,000	\$ 850,000
Communication Products	(464,000)	(438,000)
General corporate expenses	(353,000)	(330,000)
Consolidated operating income (loss)	(611,000)	82,000
Interest income, net	77,000	14,000
Other expense	(8,000)	(9,000)
Income (loss) before income taxes	<u>\$(542,000)</u>	<u>\$ 87,000</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Datron Systems Incorporated and its wholly owned subsidiaries (the "Company") report operations in two business segments: Antenna and Imaging Systems, and Communication Products. The Antenna and Imaging Systems business segment designs and manufactures satellite communication systems, subsystems and antennas that are sold worldwide to commercial and governmental customers. Its major product lines are remote sensing satellite earth stations, tracking antennas and systems for U.S. and foreign governmental agencies (including the U.S. Department of Defense ("DoD")) and commercial satellite service providers, and mobile direct broadcast satellite ("DBS") television reception systems for recreational vehicles, boats and large business jets. The Communication Products business segment designs, manufactures and distributes high frequency and very high frequency radios and accessories for worldwide military and civilian purposes.

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. A variety of factors could cause the Company's actual results to differ from the anticipated results expressed in such forward-looking statements. These include, among others, uncertainties stemming from the dependence of the Company on foreign sales and on large orders from a relatively small number of customers, risks relating to the decline in the Company's traditional defense business and the Company's efforts to develop and market consumer products, lack of timely development or customer acceptance of new products, changes in or unavailability of products and services offered by satellite service providers and their related suppliers, worldwide economic downturns and currency devaluations, restrictions imposed by the U.S. government on the export of Company products, and the impact of competition. Investors are referred to the Company's periodic reports under the Securities Exchange Act of 1934, including without limitation the Investment Considerations set forth in the Company's Annual Report on Form 10-K.

Results of Operations

Net loss for the first quarter of fiscal 2001 was \$327,000, or \$0.12 per diluted share, compared with net income of \$52,000, or \$0.02 per diluted share, in the first quarter of fiscal 2000. Net sales in the first quarter of fiscal 2001 were \$13,354,000, a 1% decrease from first quarter sales last fiscal year of \$13,523,000. The decline from net income to a net loss was primarily due to lower gross margins in the recent quarter.

Operating results for each business segment were as follows:

Antenna and Imaging Systems

	Three Months Ended June 30,	
	2000	1999
Net sales	<u>\$9,848,000</u>	<u>\$9,862,000</u>
Gross profit	<u>\$2,540,000</u>	<u>\$2,863,000</u>
Operating income	<u>\$206,000</u>	<u>\$850,000</u>

Sales of Antenna and Imaging Systems products in the first quarter of fiscal 2001 were essentially flat compared with the first quarter of fiscal 2000. Higher sales of tracking antenna systems for military and commercial customers and higher sales of DBS antenna products were partially offset by lower sales of remote sensing satellite earth stations.

Gross profit percentage on sales of Antenna and Imaging Systems products was 25.8% in the first quarter of fiscal 2001 compared with 29.0% in the first quarter last fiscal year. The decrease was primarily due to a less favorable product mix.

Operating income percentage from sales of Antenna and Imaging Systems products was 2.1% in the first quarter of fiscal 2001 compared with 8.6% in the first quarter last fiscal year. The decrease resulted primarily from lower gross profits and higher selling and new product development expenses.

Communication Products

	Three Months Ended June 30,	
	2000	1999
Net sales	<u>\$3,506,000</u>	<u>\$3,661,000</u>
Gross profit	<u>\$868,000</u>	<u>\$1,022,000</u>
Operating loss	<u>(\$464,000)</u>	<u>(\$438,000)</u>

Sales of Communication Products decreased 4% in the first quarter of fiscal 2001 compared with the first quarter of fiscal 2000. The decrease in sales was due to a lower order backlog at March 31, 2000 than at March 31, 1999. Order bookings of radio products in the first quarter of fiscal 2001 were strong, and the Company expects sales of those products to improve in the second and third quarters of fiscal 2001.

Gross profit percentage on sales of Communication Products was 24.8% in the first quarter of fiscal 2001 compared with 27.9% in the first quarter last fiscal year. The decrease was primarily due to a less favorable product mix and to production inefficiencies.

Operating loss percentage from sales of Communication Products was 13.2% in the first quarter of fiscal 2001 compared with an operating loss percentage of 12.0% in the first quarter last fiscal year. The increase resulted primarily from lower gross profits, partially offset by lower new product development and administrative expenses.

Consolidated expenses

Selling, general and administrative expenses were \$2,996,000 in the first quarter of fiscal 2001, a 7% increase compared with first quarter of fiscal 2000 expenses of \$2,807,000. The increase was primarily due to higher selling and administrative expenses at the Antenna and Imaging Systems business segment, partially offset by lower administrative expenses at the Communication Products business segment.

Research and development expenses were \$1,023,000 in the first quarter of fiscal 2001 compared with \$996,000 in the first quarter last fiscal year. The 3% increase was primarily due to programs to improve mobile DBS antenna products.

Order backlog at June 30

	2000	1999
Antenna and Imaging Systems	\$19,361,000	\$21,758,000
Communication Products	<u>7,609,000</u>	<u>2,033,000</u>
Total	<u>\$26,970,000</u>	<u>\$23,791,000</u>

The 11% decrease in Antenna and Imaging Systems backlog at June 30, 2000 compared with June 30, 1999 resulted primarily from lower order bookings of remote sensing satellite earth stations in the recent quarter.

The 274% increase in Communication Products backlog at June 30, 2000 compared with June 30, 1999 was due to receipt of an \$8 million order for tactical radios near the end of the recent quarter. The Company expects the improved backlog of Communication Products will result in smoother production flow and manufacturing efficiencies during the next two quarters.

Liquidity and Capital Resources

At June 30, 2000, working capital was \$23,930,000, essentially unchanged compared with \$23,929,000 at March 31, 2000. Major changes affecting working capital during this period were as follows: accounts receivable decreased \$1,318,000 primarily due to low sales during the recent quarter; inventories increased \$79,000; accounts payable and accrued expenses decreased \$4,045,000 primarily due to payment of expenses associated with a large sale of radio products in the previous quarter; customer advances decreased \$793,000; and income taxes payable decreased \$1,062,000. The Company's cash position at June 30, 2000 was \$7,278,000 compared with \$12,183,000 at March 31, 2000, a decrease of 40%. At June 30, 2000, the Company had no borrowings against its revolving line of credit.

Capital equipment expenditures were \$154,000 in the first quarter of fiscal 2001 compared with \$410,000 in the first quarter last fiscal year. Although capital expenditures in the first quarter of fiscal 2001 were lower than in the first quarter of fiscal 2000, the Company anticipates total capital expenditures in fiscal 2001 will be greater than the fiscal 2000 total of \$1,289,000 due to anticipated tooling requirements for new products.

At June 30, 2000, the Company had a \$13,000,000 revolving line of credit with a bank. The line may be used for the issuance of letters of credit and for direct working capital advances, of which \$2,000,000 is restricted to working capital and letters of credit required to finance non-military international business. That portion of the line of credit expires on April 1, 2001 and is subject to a borrowing base formula. The remaining \$11,000,000 credit facility expires on April 1, 2002 and is not subject to a borrowing base formula. At June 30, 2000, there were no borrowings under the line of credit and the bank had issued letters of credit against the line totaling \$3,809,000. The Company believes its existing working capital, anticipated future cash flows from operations and available credit with its bank are sufficient to finance presently planned capital and working capital requirements.

Recently Issued Accounting Pronouncements

In December, 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," which summarizes the SEC's interpretation of applying generally accepted accounting principles to revenue recognition in the financial statements. SAB No. 101 was subsequently amended in June 2000 and becomes effective for the fourth fiscal quarter of fiscal years beginning after December 15, 1999. Based on the Company's current revenue recognition policies, the Company does not believe the adoption of SAB No. 101, as amended, will have a material affect on the Company's consolidated financial position or its results of operations.

PART II -- OTHER INFORMATION

Item 2. Changes in Securities.

Pursuant to a business loan agreement with a bank, the Company must comply with certain financial covenants. The agreement also prohibits the Company from declaration or payment of dividends or other distributions on the Company's stock, except under certain conditions specified in the agreement. The Company is in compliance with both requirements.

Item 3. Legal Proceedings.

In August 1992, Trans World Communications, Inc. ("Trans World"), a wholly owned subsidiary of the Company and which was renamed Datron World Communications Inc. on March 31, 1995, was named as defendant in a lawsuit filed by ATACS Corporation ("ATACS") and AIRTACS Corporation ("AIRTACS") relating to a contract to provide radio communication shelters. ATACS and AIRTACS contend that Trans World entered into an agreement to team with them on the contract and then wrongfully failed to use them as subcontractors. They seek damages in excess of \$2,000,000. In rulings on May 28, 1997 and September 3, 1997, the court found Trans World in breach of a teaming agreement and awarded ATACS and AIRTACS one dollar (\$1.00) in damages. On September 8, 1998, the appeal court affirmed the district court's decision except as to the award of nominal damages, and remanded the matter to the district court for further hearing on damages. On June 14, 2000, the district court issued an order awarding ATACS and AIRTACS damages of \$30,075.01 including prejudgment interest. On July 12, 2000, ATACS and AIRTACS appealed the district court's judgment to the U.S. Court of Appeals. The Company believes that final resolution of this matter will not materially affect the consolidated financial position of the Company or its results of operations.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

27.1 Financial Data Schedule

(b) Reports on Form 8-K:

No reports on Form 8-K were filed during the quarter.

SIGNATURES

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

DATRON SYSTEMS INCORPORATED

Date July 28, 2000

By: /s/William L. Stephan
William L. Stephan
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)