

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, 2021

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: 001-08762



ITERIS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

1700 Carnegie Avenue, Suite 100
Santa Ana, California

(Address of principal executive office)

95-2588496

(I.R.S. Employer
Identification No.)

92705

(Zip Code)

(949) 270-9400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.10 par value	ITI	The Nasdaq Stock Market LLC

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, as amended (the "Exchange Act"), 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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☒
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No x

As of July 30, 2021, there were 42,281,621 shares of our common stock outstanding.

ITERIS, INC.
Quarterly Report on Form 10-Q

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Unless otherwise indicated in this report, the "Company," "we," "us" and "our" refer to Iteris, Inc. and its wholly-owned subsidiaries, including ClearAg, Inc., and Albeck Gerken, Inc., ClearGuide®, ClearMobility™, Iteris®, Vantage® and VantageLive!® are among, but not all of, the trademarks of Iteris, Inc. Any other trademarks or trade names mentioned herein are the property of their respective owners.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Iteris, Inc.
Unaudited Condensed Consolidated Balance Sheets
(In thousands, except par values)

	June 30, 2021	March 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 31,111	\$ 25,205
Restricted cash	263	263
Short-term investments	—	3,100
Trade accounts receivable, net of allowance for doubtful accounts of \$1,171 and \$1,019 at June 30, 2021 and March 31, 2021, respectively	22,826	19,020
Unbilled accounts receivable	10,390	11,541
Inventories	5,181	5,066
Prepaid expenses and other current assets	4,048	5,445
Total current assets	73,819	69,640
Property and equipment, net	1,751	1,923
Right-of-use assets	11,346	11,353
Intangible assets, net	14,570	14,297
Goodwill	28,340	28,340
Other assets	1,370	1,238
Assets held for sale	60	78
Total assets	\$ 131,256	\$ 126,869
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	\$ 9,386	\$ 8,935
Accrued payroll and related expenses	13,692	11,734
Accrued liabilities	4,129	4,921
Deferred revenue	7,156	7,349
Liabilities held for sale, current portion	2	94
Total current liabilities	34,365	33,033
Lease liabilities	10,532	10,146
Deferred income taxes	637	808
Unrecognized tax benefits	120	119
Other long-term liabilities	3,590	3,523
Liabilities held for sale, noncurrent portion	253	261
Total liabilities	49,497	47,890
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, \$1.00 par value:		
Authorized shares — 2,000		
Issued and outstanding shares — none	—	—
Common stock, \$0.10 par value:		
Authorized shares - 70,000 at June 30, 2021 and March 31, 2021		
Issued and outstanding shares — 42,160 at June 30, 2021 and 41,687 at March 31, 2021	4,217	4,170
Additional paid-in capital	183,950	181,828
Accumulated deficit	(106,408)	(107,019)
Total stockholders' equity	81,759	78,979
Total liabilities and stockholders' equity	\$ 131,256	\$ 126,869

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Iteris, Inc.
Unaudited Condensed Consolidated Statements of Operations
(In thousands, except per share amounts)

	Three Months Ended June 30,	
	2021	2020
Product revenues	\$ 18,026	\$ 14,394
Service revenues	16,059	13,606
Total revenues	<u>34,085</u>	<u>28,000</u>
Cost of product revenues	9,557	8,081
Cost of service revenues	<u>10,435</u>	<u>9,051</u>
Cost of revenues	<u>19,992</u>	<u>17,132</u>
Gross profit	14,093	10,868
Operating expenses:		
General and administrative	6,390	5,368
Sales and marketing	4,587	3,355
Research and development	1,765	914
Amortization of intangible assets	668	230
Restructuring charges	—	619
Total operating expenses	<u>13,410</u>	<u>10,486</u>
Operating income	683	382
Non-operating income:		
Other income, net	18	16
Interest income, net	3	54
Income from continuing operations before income taxes	704	452
Provision for income taxes	(75)	(34)
Net income from continuing operations	629	418
Loss from discontinued operations before gain on sale, net of tax	(18)	(1,358)
Gain on sale of discontinued operations, net of tax	—	11,288
Net income (loss) from discontinued operations, net of tax	(18)	9,930
Net income	<u>\$ 611</u>	<u>\$ 10,348</u>
Income per share - basic:		
Income per share from continuing operations	\$ 0.02	\$ 0.01
Income per share from discontinued operations	\$ 0.00	\$ 0.24
Net income per share	<u>\$ 0.02</u>	<u>\$ 0.25</u>
Income per share - diluted:		
Income per share from continuing operations	\$ 0.01	\$ 0.01
Income per share from discontinued operations	\$ 0.00	\$ 0.24
Net income per share	<u>\$ 0.01</u>	<u>\$ 0.25</u>
Shares used in basic per share calculations	<u>41,875</u>	<u>40,732</u>
Shares used in diluted per share calculations	<u>43,380</u>	<u>41,507</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Iteris, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows
(In thousands)

	Three Months Ended June 30,	
	2021	2020
Cash flows from operating activities		
Net income	\$ 611	\$ 10,348
Less: Net income (loss) from discontinued operations	(18)	9,930
Net income from continuing operations	629	418
Adjustments to reconcile net income from continuing operations to net cash provided by (used in) operating activities:		
Right-of-use asset non-cash expense	7	361
Deferred income taxes	(170)	11
Depreciation of property and equipment	232	185
Stock-based compensation	794	664
Amortization of intangible assets	803	361
Other	—	13
Loss on disposal of equipment	7	—
Changes in operating assets and liabilities, net of effects of discontinued operation and acquisition:		
Trade accounts receivable	(3,806)	(4,157)
Unbilled accounts receivable and deferred revenue	1,025	1,258
Inventories	(115)	271
Prepaid expenses and other assets	(185)	(771)
Trade accounts payable and accrued expenses	2,055	3,505
Operating lease liabilities	(52)	(349)
Net cash provided by operating activities - continuing operations	1,224	1,770
Net cash used in operating activities - discontinued operations	(100)	(2,072)
Net cash provided by (used in) operating activities	1,124	(302)
Cash flows from investing activities		
Purchases of property and equipment	(67)	(252)
Purchase of short-term investments	—	(19,456)
Maturities of investments	3,100	6,700
Capitalized software development costs	(1,076)	(206)
Net cash provided by (used in) investing activities - continuing operations	1,957	(13,214)
Net cash provided by investing activities - discontinued operations	1,450	9,440
Net cash provided by (used in) investing activities	3,407	(3,774)
Cash flows from financing activities		
Proceeds from stock option exercises	1,375	74
Net cash provided by financing activities - continuing operations	1,375	74
Net cash provided by financing activities - discontinued operations	—	—
Net cash provided by financing activities	1,375	74
Increase (decrease) in cash, cash equivalents and restricted cash	5,906	(4,002)
Cash, cash equivalents and restricted cash at beginning of period	25,468	14,363
Cash, cash equivalents and restricted cash at end of period	\$ 31,374	\$ 10,361
Supplemental cash flow information:		
Cash paid during the year for:		
Income taxes	\$ 1	\$ 25
Supplemental schedule of non-cash investing and financing activities:		
Deferred purchase price receivable	\$ 50	\$ 1,500
Closing working capital receivable	\$ —	\$ 250

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Iteris, Inc.
Unaudited Condensed Consolidated Statements of Stockholders' Equity
(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at March 31, 2021	41,687	\$ 4,170	\$ 181,828	\$ (107,019)	\$ 78,979
Stock option exercises	473	47	1,328	—	1,375
Stock-based compensation	—	—	794	—	794
Net income	—	—	—	611	611
Balance at June 30, 2021	42,160	\$ 4,217	\$ 183,950	\$ (106,408)	\$ 81,759

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at March 31, 2020	40,713	\$ 4,071	\$ 176,209	\$ (117,153)	\$ 63,127
Stock option exercises	27	3	71	—	74
Stock-based compensation	—	—	607	—	607
Issuance of shares pursuant to vesting of restricted stock units, net of payroll withholding taxes	12	1	(1)	—	—
Net loss	—	—	—	10,348	10,348
Balance at June 30, 2020	40,752	\$ 4,075	\$ 176,886	\$ (106,805)	\$ 74,156

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Iteris, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
June 30, 2021

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Iteris, Inc. (referred to collectively with its wholly-owned subsidiaries, ClearAg, Inc., and Albeck Gerken, Inc. ("AGI"), in this report as "Iteris," the "Company," "we," "our," and "us") is a provider of smart mobility infrastructure management solutions. Our solutions enable municipalities, transportation agencies, and other transportation infrastructure providers to monitor, visualize, and optimize mobility infrastructure to help ensure roads are safe, travel is efficient, and communities thrive. Additionally, we provide mobility data to automobile OEMs, media companies, insurance companies, and other commercial entities, whose products and services have a high dependency on the performance and/or condition of mobility infrastructure. As a pioneer in intelligent transportation systems ("ITS") technology, our intellectual property, products and software-as-a-service ("SaaS") offerings represent a comprehensive range of ITS solutions that we distribute to customers throughout the U.S. and internationally. We believe our products, solutions and services increase safety and decrease congestion within our communities, while also minimizing environmental impact. We continue to make significant investments to leverage our existing technologies and further expand both our advanced detection sensors and performance analytics systems in the transportation infrastructure market and we are always exploring strategic alternatives intended to optimize the value of our Company. Iteris was incorporated in Delaware in 1987 and has operated in its current form since 2004.

Recent Developments

COVID-19 Update

The COVID-19 pandemic (the "Pandemic") has materially adversely impacted global economic conditions. More than fifteen months into the Pandemic, COVID-19 continues to have an unpredictable and unprecedented impact on the U.S. economy as federal, state and local governments react to this public health crisis with travel restrictions, quarantines and "stay-at-home" orders. The uncertainties caused by the Pandemic include, but are not limited to, supply chain disruptions, workplace dislocations, economic contraction, and downward pressure on some customer budgets and customer sentiment in general. While there has been no material impact to our business during the Pandemic, we did experience some supply chain and work delays in the prior quarters on certain projects. Should such conditions become protracted or worsen or should longer term budgets or priorities of our clients be impacted, the Pandemic could negatively affect our business, results of operations and financial condition. The extent of the impact of the Pandemic on our business and financial results, and the volatility of our stock price will depend largely on future developments, including the duration of the spread of the outbreak, the impact on capital and financial markets, the distribution, rate of adoption and efficacy of vaccines, and the related impact on the budgets and financial circumstances of our customers, all of which are highly uncertain and cannot be reasonably estimated as of the date of this report.

Given the uncertainties surrounding the impacts of the Pandemic on the Company's future financial condition and results of operations, the Company has taken certain actions to preserve its liquidity, manage cash flow and strengthen its financial flexibility. Such actions include, but are not limited to, reducing discretionary spending, reducing capital expenditures, implementing restructuring activities, and reducing payroll costs, including employee furloughs, pay freezes and pay cuts. Refer to Note 4, Restructuring Activities, for more information.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law in the United States. The CARES Act provides relief to U.S. corporations through financial assistance programs and modifications to certain income tax provisions. The Company is applying certain beneficial provisions of the CARES Act, including the payroll tax deferral and the alternative minimum tax acceleration. Refer to Note 6, Income Taxes, for more information.

The Company assessed the impacts of the Pandemic on the estimates and assumptions used in preparing these unaudited condensed consolidated financial statements. The estimates and assumptions used in these assessments were based on management's judgment and may be subject to change as new events occur and additional information is obtained. In particular, there is significant uncertainty about the duration and extent of the impact of the Pandemic and its resulting impact on global economic conditions. If economic conditions caused by the Pandemic do not recover as currently estimated by management, the Company's financial condition, cash flows and results of operations may be materially impacted. See below for areas that required more judgments and estimates as a result of the Pandemic. The Company will continue to assess the effect on its operations by monitoring the spread of the Pandemic and the actions implemented to combat the virus throughout the world and its assessment of the impact of the Pandemic may change.

Sale of Agriculture and Weather Analytics Business

On May 5, 2020, the Company completed the sale of substantially all of our assets used in connection with our Agriculture and Weather Analytics business to DTN, LLC (“DTN”), an operating company of TBG AG, a Swiss-based holding company, pursuant to an Asset Purchase Agreement (the “DTN Purchase Agreement”) signed on May 2, 2020, in exchange for a total purchase consideration of \$12.0 million in cash, subject to working capital adjustments. Upon closing, the Company received \$10.5 million in cash and \$1.5 million of the payment deferred, DTN paid the Company \$1.45 million on the 12-month anniversary of the closing date, and \$0.05 million will be paid by DTN at the 18-month anniversary of the closing date, subject to satisfactions of the conditions set forth in the DTN Purchase Agreement relating to the transition of certain customers to DTN and the collection of certain receivables by DTN. See Note 3, Discontinued Operations, for further details on the sale of the Agriculture and Weather Analytics business.

Restructuring Activities

On April 30, 2020, in connection with the sale of the Agriculture and Weather Analytics business, the Board of Directors of Iteris, Inc. (the “Board”) approved restructuring activities to better position the Company for increased profitability and growth. Restructuring charges of approximately \$1.5 million were incurred for separation costs for certain employees who did not transition to DTN, additional positions that were eliminated to right-size the cost structure of the Company, and the impairment of certain lease-related assets. See Note 4, Restructuring Activities, for further details on the restructuring activities.

Acquisition of the Assets of TrafficCast International, Inc.

On December 6, 2020, the Company entered into an Asset Purchase Agreement (the “TCI Purchase Agreement”) with TrafficCast International, Inc. (“TrafficCast”), a privately held company headquartered in Madison, Wisconsin that provides travel information technology, applications and content to customers throughout North America in the media, mobile technology, automotive and public sectors. Under the TCI Purchase Agreement, the Company agreed to purchase from TrafficCast substantially all of its assets, composed of its travel information technology, applications and content (the “Business”). The transaction closed on December 7, 2020.

Under the TCI Purchase Agreement, Iteris purchased from TrafficCast substantially all of the assets used in the conduct of the Business and assumed certain specified liabilities of the Business incurring \$1.7 million in certain obligations in addition to the total consideration of \$16 million, with \$15 million paid in cash on the closing date, \$1 million held back as security for certain post-closing adjustments and post-closing indemnity obligations of TrafficCast, and a \$1 million earn out, that if earned, will be paid over two years based on the Business’ achievement of certain revenue targets. The TCI Purchase Agreement also provides for customary post-closing adjustments to the purchase price tied to working capital balances of the Business at closing (see Note 11, Acquisitions).

The parties also entered into certain ancillary agreements that will provide Iteris with ongoing access to mapping and monitoring services that the Business uses to support its real-time and predictive travel data and associated content.

Basis of Presentation

Our unaudited condensed consolidated financial statements include the accounts of Iteris, Inc. and its subsidiaries, and have been prepared in accordance with the rules of the U.S. Securities and Exchange Commission (“SEC”) for interim reporting, which permit certain footnotes or other financial information that are normally required by generally accepted accounting principles in the U.S. (“GAAP”) to be condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and related notes included in its Annual Report on Form 10-K and Form 10-K/A for the fiscal year ended March 31, 2021 (“Fiscal 2021”), filed with the SEC on June 1, 2021 and June 7, 2021, respectively. All intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three month periods ended June 30, 2021 are not necessarily indicative of the results to be expected for Fiscal 2022 or any other periods.

As noted above, during the first quarter of Fiscal 2021, the Company completed the sale of its Agriculture and Weather Analytics segment. The Agriculture and Weather Analytics segment’s results of operations and related cash flows have been reclassified to net income (loss) from discontinued operations, respectively, for all periods presented. The assets and liabilities of the Agriculture and Weather Analytics segment have been reclassified to assets held for sale and liabilities held for sale, respectively, in the unaudited condensed consolidated balance sheet as of June 30, 2021. See Note 3, Discontinued Operations, for further information.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made in the preparation of the consolidated financial statements include the collectability of accounts receivable and related allowance for doubtful accounts, projections of taxable income used to assess realizability of deferred tax assets, warranty reserves and other contingencies, costs to complete long-term contracts, indirect cost rates used in cost plus contracts, the valuation of inventories, the valuation of purchased intangible assets and goodwill, the valuation of investments, estimates of future cash flows used to assess the recoverability of long-lived assets and the impairment of goodwill, and fair value of our stock option awards used to calculate stock-based compensation.

Revenue Recognition

Product revenue related contracts with customers begin when we acknowledge a purchase order for a specific customer order of product to be delivered in the near term. These purchase orders are short-term in nature. Product revenue is recognized at a point in time upon shipment or upon customer receipt of the product, depending on shipping terms. The Company determined that this method best represents the transfer of goods as transfer of control typically occurs upon shipment or upon customer receipt of the product.

Service revenues are primarily derived from long-term engineering and consulting service contracts with governmental agencies. These contracts generally include performance obligations in which control is transferred over time. We recognize revenue on fixed fee contracts, over time, using the proportion of actual costs incurred to the total costs expected to complete the contract performance obligation. The Company determined that this method best represents the transfer of services as the proportion closely depicts the efforts or inputs completed towards the satisfaction of a fixed fee contract performance obligation. Time & Materials (“T&M”) and Cost Plus Fixed Fee (“CPFF”) contracts are considered to involve variable consideration. However, contractual performance obligations with these fee types qualify for the “Right to Invoice” practical expedient. Under this practical expedient, the Company is allowed to recognize revenue, over time, in the amount to which the Company has a right to invoice. In addition, the Company is not required to estimate such variable consideration upon inception of the contract and reassess the estimate each reporting period. The Company determined that this method best represents the transfer of services as, upon billing, the Company has a right to consideration from a customer in an amount that directly corresponds with the value to the customer of the Company’s performance completed to date.

Service revenues also consist of revenues derived from maintenance support and the use of the Company’s service platforms and APIs on a subscription basis. We generate this revenue from fees for maintenance and support, monthly active user fees, SaaS fees, and hosting and storage fees. In most cases, the subscription or transaction arrangement is a single performance obligation comprised of a series of distinct services that are substantially the same and that have the same pattern of transfer (i.e., distinct days of service). The Company applies a time-based measure of progress to the total transaction price, which results in ratable recognition over the term of the contract. The Company determined that this method best represents the transfer of services as the customer obtains equal benefit from the service throughout the service period.

The Company accounts for individual goods and services separately if they are distinct performance obligations, which often requires significant judgment based upon knowledge of the products and/or services, the solution provided and the structure of the sales contract. In SaaS agreements, we provide a service to the customer that combines the software functionality, maintenance and hosting into a single performance obligation. In product-related contracts, a purchase order may cover different products, each constituting a separate performance obligation.

We generally estimate variable consideration at the most likely amount to which we expect to be entitled and in certain cases based on the expected value, which requires judgment. We include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available to us. We review and update these estimates on a quarterly basis.

The Company’s typical performance obligations include the following:

Performance Obligation	When Performance Obligation is Typically Satisfied	When Payment is Typically Due	How Standalone Selling Price is Typically Estimated
Product Revenues			
Standard purchase orders for delivery of a tangible product	Upon shipment (point in time)	Within 30 days of delivery	Observable transactions
Engineering services where the deliverable is considered a product	As work is performed (over time)	Within 30 days of services being invoiced	Estimated using a cost-plus margin approach
Service Revenues			
Engineering and consulting services	As work is performed (over time)	Within 30 days of services being invoiced	Estimated using a cost-plus margin approach
SaaS	Over the course of the SaaS service once the system is available for use (over time)	At the beginning of the contract period	Estimated using a cost-plus margin approach

Disaggregation of Revenue

The Company disaggregates revenue from contracts with customers into product revenues and services revenues.

Trade Accounts Receivable and Contract Balances

We classify our right to consideration in exchange for goods and services as either a receivable or a contract asset. A receivable is a right to consideration that is unconditional (i.e. only the passage of time is required before payment is due). We present such receivables in trade accounts receivable, net, in our unaudited condensed consolidated balance sheets at their net estimated realizable value.

The Company maintains an allowance for doubtful accounts to provide for the estimated amount of receivables that will not be collected. If warranted, the allowance is increased by the Company's provision for doubtful accounts, which is charged against income. All recoveries on receivables previously charged off are included in income, while direct charge-offs of receivables are deducted from the allowance.

A contract asset is a right to consideration that is conditional upon factors other than the passage of time. Contract assets are presented as unbilled accounts receivable on the accompanying unaudited condensed consolidated balance sheets. For example, we would record a contract asset if we record revenue on a professional services engagement, but are not entitled to bill until we achieve specified milestones.

Our contract assets and refund liabilities are reported in a net position on a contract basis at the end of each reporting period. Refund liabilities are consideration received in advance of the satisfaction of performance obligations.

Contract Fulfillment Costs

The Company evaluates whether or not we should capitalize the costs of fulfilling a contract. Such costs would be capitalized when they are not within the scope of other standards and: (1) are directly related to a contract; (2) generate or enhance resources that will be used to satisfy performance obligations; and (3) are expected to be recovered. As of June 30, 2021 and March 31, 2021, there was approximately \$2.8 million and \$3.2 million, respectively, of contract fulfillment costs, which are presented in the accompanying unaudited condensed consolidated balance sheets as prepaid and other current assets. These costs primarily relate to the satisfaction of performance obligations related to the set-up of SaaS platforms. These costs are amortized on a straight-line basis over the estimated useful life of the SaaS platform.

Transaction Price Allocated to the Remaining Performance Obligations

As of June 30, 2021 and March 31, 2021, the aggregate amount of transaction price allocated to remaining performance obligations was immaterial, primarily as a result of the termination provisions within our contracts, which make the duration of the accounting term of the contract one year or less.

Deferred Revenue

Deferred revenue in the accompanying unaudited condensed consolidated balance sheets is comprised of refund liabilities related to billings and consideration received in advance of the satisfaction of performance obligations.

Concentration of Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk consist principally of cash and cash equivalents and trade accounts receivable.

Cash and cash equivalents consist primarily of demand deposits and money market funds maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with high quality financial institutions, and therefore are believed to have minimal credit risk.

Our accounts receivable are primarily derived from billings with customers located throughout North America, as well as in Europe and South America. We generally do not require collateral or other security from our domestic customers. We maintain an allowance for doubtful accounts for potential credit losses, which losses have historically been within management's expectations.

We currently have, and historically have had, a diverse customer base. For the three month periods ended June 30, 2021 and 2020, no individual customer represented greater than 10% of our total revenues. As of June 30, 2021 and March 31, 2021, no individual customer represented greater than 10% of our total accounts receivable.

Fair Values of Financial Instruments

The fair value of cash equivalents, receivables, accounts payable and accrued expenses approximate carrying value because of the short period of time to maturity. Our investments are measured at fair value on a recurring basis.

The framework for measuring fair value and related disclosure requirements about fair value measurements are provided in Financial Accounting Standard Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurements* ("ASC 820"). This pronouncement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy prescribed by ASC 820 contains three levels as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than quoted prices in active markets for identical assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of cash and short-term investments with initial maturities of 90 days or less.

As of each of June 30, 2021 and March 31, 2021, restricted cash was \$0.3 million consisting of cash restricted for shares purchased under the Employee Stock Purchase Plan ("ESPP") (See Note 9, Stock-Based Compensation, for further details on the ESPP).

Cash, cash equivalents and restricted cash presented in the accompanying unaudited condensed consolidated statements of cash flows consist of the following (in thousands):

	June 30, 2021	March 31, 2021
Cash and cash equivalents	\$ 31,111	\$ 25,205
Restricted cash	263	263
	<u>\$ 31,374</u>	<u>\$ 25,468</u>

Investments

The Company's investments are classified as either held-to-maturity, available-for-sale or trading, in accordance with FASB ASC 320 – Investments – Debt and Equity Securities. Held-to-maturity securities are those securities that the Company has the positive intent and ability to hold until maturity. Trading securities are those securities that the Company intends to sell in the near term. All other securities not included in the held-to-maturity or trading category are classified as available-for-sale. Held-to-maturity securities are recorded at amortized cost, which approximates fair market value. Trading securities are carried at fair value with unrealized gains and losses charged to earnings. Available-for-sale securities are carried at fair value with unrealized gains and losses recorded within accumulated other comprehensive loss as a separate component of stockholders' equity. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs, where available (see Note 5, Fair Value Measurements). As of March 31, 2021, all of our investments were available-for-sale. Under FASB ASC 320-10-35, a security is considered to be other-than-temporarily impaired if the present value of cash flows expected to be collected are less than the security's amortized cost basis (the difference being defined as the "Credit Loss") or if the fair value of the security is less than the security's amortized cost basis and the investor intends, or will be required, to sell the security before recovery of the security's amortized cost basis. If an other-than-temporary impairment exists, the charge to earnings is limited to the amount of Credit Loss if the investor does not intend to sell the security, and will not be required to sell the security, before recovery of the security's amortized cost basis. Any remaining difference between fair value and amortized cost is recognized in other comprehensive loss, net of applicable taxes. The Company evaluates whether the decline in fair value of its investments is other-than-temporary at each quarter-end. This evaluation consists of a review by management, and includes market pricing information and maturity dates for the securities held, market and economic trends in the industry and information on the issuer's financial condition and, if applicable, information on the guarantors' financial condition. Factors considered in determining whether a loss is temporary include the length of time and extent to which the investment's fair value has been less than its cost basis, the financial condition and near-term prospects of the issuer and guarantors, including any specific events which may influence the operations of the issuer and the Company's intent and ability to retain the investment for a reasonable period of time sufficient to allow for any anticipated recovery of fair value.

Allowance for Doubtful Accounts

The collectability of our accounts receivable is evaluated through review of outstanding invoices and ongoing credit evaluations of our customers' financial condition. In cases where we are aware of circumstances that may impair a specific customer's ability to meet its financial obligations subsequent to the original sale, we will record an allowance against amounts due, and thereby reduce the net recognized accounts receivable to the amount we reasonably believe will be collected. We also maintain an allowance based on our historical collections experience. When we determine that collection is not likely, we write off accounts receivable against the allowance for doubtful accounts.

Inventories

Inventories consist of finished goods, work-in-process and raw materials and are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method.

Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful life ranging from three to eight years. Leasehold improvements are depreciated over the term of the related lease or the estimated useful life of the improvement, whichever is shorter.

Intangible Assets

Intangible assets with determinable economic lives are carried at cost, less accumulated amortization. Amortization is computed over the estimated useful life of each asset on a straight-line basis. The Company determines the useful lives of identifiable intangible assets after considering the specific facts and circumstances related to each intangible asset. Factors the Company considers when determining useful lives include the contractual term of any agreement related to the asset, the historical performance of the asset, the Company's long-term strategy for using the asset, any laws or other local regulations which could impact the useful life of the asset and other economic factors, including competition and specific market conditions.

Goodwill and Long-Lived Assets

We perform an annual qualitative assessment of our goodwill during the fourth fiscal quarter, or more frequently, to determine if any events or circumstances exist, such as an adverse change in business climate or a decline in overall industry demand, that would indicate that it would more likely than not reduce the fair value of a reporting unit below its carrying amount, including goodwill. If events or circumstances do not indicate that the fair value of a reporting unit is below its carrying amount, then goodwill is not considered to be impaired and no further testing is required; if otherwise, we compare the fair value of our reporting unit to its carrying value, including goodwill. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the amount by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss. We monitor the indicators for goodwill impairment testing between annual tests. In prior years the company had two operating and reportable segments, Roadway Sensors ("RWS") and Transportation Systems ("SYS"), which also represented the reporting units for purposes of goodwill impairment testing. In conjunction with the change in segments described in Note 12, Business Segments, the company also reassessed the reporting unit conclusion and determined that there are now three reporting units and a single operating and reportable segment.

We test long-lived assets and purchased intangible assets (other than goodwill) for impairment if we believe indicators of impairment exist. We determine whether the carrying value of an asset or asset group is recoverable, based on comparisons to undiscounted expected future cash flows the asset or asset group is expected to generate. If an asset is not recoverable, we record an impairment loss equal to the amount by which the carrying value of the asset exceeds its fair value. We primarily use the income valuation approach to determine the fair value of our long-lived assets and purchased intangible assets. During the three months ended June 30, 2020, we recorded \$0.3 million in impairment charges related to right-of-use assets and leasehold improvements directly resulting from the restructuring activities. There were no additional impairment or restructuring charges during the three months ended June 30, 2021. See Note 4, Restructuring Activities, for further details on the restructuring activities.

Income Taxes

We utilize the asset and liability method of accounting for income taxes, under which deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more-likely-than-not that some or all of the deferred tax assets will not be realized, which increases our income tax expense in the period such determination is made. As such, as of June 30, 2021, we determined it was appropriate to record a full valuation allowance against our deferred tax assets. We will continuously reassess the appropriateness of maintaining a valuation allowance.

Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. Income tax positions that previously failed to meet the more-likely-than-not threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

Stock-Based Compensation

We record stock-based compensation in our unaudited condensed consolidated statements of operations as an expense, based on the estimated grant date fair value of our stock-based awards, whereby such fair values are amortized over the requisite service period. Our stock-based awards are currently comprised of common stock options, restricted stock units and performance stock units. The fair value of our common stock option awards is estimated on the grant date using the Black-Scholes-Merton option-pricing formula. The fair value of our performance stock unit awards is estimated on the grant date using a Monte Carlo simulation model. While the use of these models meets established requirements, the estimated fair values generated by the models may not be indicative of the actual fair values of our awards as it does not consider certain factors important to those awards to employees, such as continued employment and periodic vesting requirements, as well as limited transferability. The fair value of our restricted stock units is based on the closing market price of our common stock on the grant date. If there are any modifications or cancellations of the underlying unvested stock-based awards, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense.

Research and Development Expenditures

Research and development expenditures are charged to expense in the period incurred.

Warranty

We generally provide a one- to three-year warranty from the original invoice date on all products, materials and workmanship. Products sold to various original equipment manufacturer customers sometimes carry longer warranties. Defective products will be either repaired or replaced, usually at our option, upon meeting certain criteria. We accrue a provision for the estimated costs that may be incurred for product warranties relating to a product as a component of cost of sales at the time revenue for that product is recognized. The accrued warranty reserve is included within accrued liabilities in the accompanying unaudited condensed consolidated balance sheets. We do not provide any service-type warranties.

Repair and Maintenance Costs

We incur repair and maintenance costs in the normal course of business. Should the repair or maintenance result in a permanent improvement to one of our leased facilities, the cost is capitalized as a leasehold improvement and amortized over its useful life or the remainder of the lease period, whichever is shorter. Non-permanent repair and maintenance costs are charged to expense as incurred.

Comprehensive Income (Loss)

The difference between net income (loss) and comprehensive income (loss) was de minimis for the three months ended June 30, 2021 and June 30, 2020.

Recent Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-13, Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. This standard update requires that certain financial assets be measured at amortized cost net of an allowance for estimated credit losses such that the net receivable represents the present value of expected cash collection. In addition, this standard update requires that certain financial assets be measured at amortized cost reflecting an allowance for estimated credit losses expected to occur over the life of the assets. The estimate of credit losses must be based on all relevant information including historical information, current conditions and reasonable and supportable forecasts that affect the collectability of the amounts. In November 2019, the FASB issued ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815) and Leases (Topic 842): Effective Dates, which defers the effective date of ASU 2016-13 to fiscal years beginning after December 15, 2022 for all entities except SEC reporting companies that are not smaller reporting companies. As a smaller reporting company, ASU 2016-13 will now be effective for our fiscal year 2024 beginning April 1, 2023, although, early adoption is permitted. We are currently evaluating the timing and impact of adopting ASU 2016-13 on our unaudited condensed consolidated financial statements.

2. Supplemental Financial Information

Inventories

The following table presents details of our inventories:

	June 30, 2021	March 31, 2021
	(In thousands)	
Materials and supplies	\$ 3,396	\$ 2,714
Work in process	248	435
Finished goods	1,537	1,917
	<u>\$ 5,181</u>	<u>\$ 5,066</u>

Property and Equipment.

The following table presents details of our property and equipment, net:

	June 30, 2021	March 31, 2021
	(In thousands)	
Equipment	\$ 6,856	\$ 6,806
Leasehold improvements	3,046	3,046
Accumulated depreciation	(8,151)	(7,929)
	<u>\$ 1,751</u>	<u>\$ 1,923</u>

Depreciation expense was approximately \$0.2 million for each of the three month periods ended June 30, 2021 and 2020. Approximately \$0.1 million of the depreciation expense was recorded to cost of revenues in each period, and approximately \$0.2 million and \$0.1 million was recorded to operating expenses, in the unaudited condensed consolidated statements of operations for the three month periods ended June 30, 2021 and 2020, respectively.

Intangible Assets

The following table presents details of our net intangible assets:

	June 30, 2021			March 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
	(In thousands)					
Technology	\$ 4,986	\$ (1,826)	\$ 3,160	\$ 4,986	\$ (1,594)	\$ 3,392
Customer contracts / relationships	9,550	(1,900)	7,650	9,550	(1,547)	8,003
Trade names and non-compete agreements	782	(700)	82	782	(683)	99
Capitalized software development costs	6,253	(2,575)	3,678	5,177	(2,374)	2,803
Total	<u>\$ 21,571</u>	<u>\$ (7,001)</u>	<u>\$ 14,570</u>	<u>\$ 20,495</u>	<u>\$ (6,198)</u>	<u>\$ 14,297</u>

Amortization expense for intangible assets subject to amortization was approximately \$0.8 million and \$0.4 million for the three month periods ended June 30, 2021 and 2020, respectively. Approximately \$0.1 million and \$0.1 million of the intangible asset amortization was recorded to cost of revenues and approximately \$0.7 million and \$0.2 million, was recorded to amortization expense for the three month periods ended June 30, 2021 and 2020, respectively, in the unaudited condensed consolidated statements of operations.

We have one indefinite useful life intangible asset, with de minimis carrying value, which was included in trade names and non-compete agreements.

As of June 30, 2021, future estimated amortization expense is as follows:

Year Ending March 31,	
(In thousands)	
2022	\$ 2,410
2023	3,254
2024	3,138
2025	2,683
2026	1,360
Thereafter	1,713
	<u>\$ 14,558</u>

The future estimated amortization expense does not include the indefinite useful life intangible asset described above.

Warranty Reserve Activity

Warranty reserve is recorded as accrued liabilities in the accompanying unaudited condensed consolidated balance sheets. The following table presents activity related to the warranty reserve:

	Three Months Ended June 30,	
	2021	2020
	(In thousands)	
Balance at beginning of fiscal year	\$ 569	\$ 416
Additions charged to cost of sales	125	65
Warranty claims	(34)	(100)
Balance at end of reporting period	<u>\$ 660</u>	<u>\$ 381</u>

Earnings Per Share

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

	Three Months Ended June 30,	
	2021	2020
	(In thousands, except per share amounts)	
Numerator:		
Net income from continuing operations	\$ 629	\$ 418
Net income (loss) from discontinued operations, net of tax	(18)	9,930
Net income	<u>\$ 611</u>	<u>\$ 10,348</u>
Denominator:		
Weighted average common shares used in basic computation	41,875	40,732
Dilutive stock options	1,505	775
Weighted average common shares used in diluted computation	<u>43,380</u>	<u>41,507</u>
Basic:		
Net income per share from continuing operations:	\$ 0.02	\$ 0.01
Net income per share from discontinued operations:	\$ 0.00	\$ 0.24
Net income per basic share	<u>\$ 0.02</u>	<u>\$ 0.25</u>
Diluted:		
Net income per share from continuing operations:	\$ 0.01	\$ 0.01
Net income per share from discontinued operations:	\$ 0.00	\$ 0.24
Net income per diluted share	<u>\$ 0.01</u>	<u>\$ 0.25</u>

The following instruments were excluded for purposes of calculating weighted average common share equivalents in the computation of diluted net income (loss) per share as their effect would have been anti-dilutive:

	Three Months Ended June 30,	
	2021	2020
	(In thousands)	
Stock options	25	2,890
Restricted stock units	—	210

3. Discontinued Operations

On May 5, 2020, the Company completed the sale of substantially all of our assets used in connection with our Agriculture and Weather Analytics business to DTN, an operating company of TBG AG, a Swiss-based holding company, pursuant to the DTN Purchase Agreement signed on May 2, 2020, in exchange for a total purchase consideration of \$12.0 million in cash, subject to working capital adjustments. Upon closing, the Company received \$10.5 million in cash, and \$1.5 million of the payment was deferred. DTN paid the Company \$1.45 million on the 12-month anniversary of the closing

date, and \$0.05 million will be paid by DTN at the 18-month anniversary of the closing date, subject to satisfaction of the conditions set forth in the DTN Purchase Agreement relating to the transition of certain customers to DTN and the collection of certain receivables by DTN. The DTN Purchase Agreement also provides for customary post-closing adjustments to the purchase price related to working capital at closing. The parties also entered into certain ancillary agreements at the closing of the transaction that will provide Iteris with ongoing access to weather and pavement data that it integrates into its transportation software products, and a joint development agreement under which the parties agreed to pursue future joint opportunities in the global transportation market.

The sale of the Agriculture and Weather Analytics business was a result of the Company's shift in strategy to focus on its smart mobility infrastructure management solutions and to capitalize on the potential for a future partnership upon the sale of this business component to DTN. We have determined that the Agriculture and Weather Analytics business, which constituted one of our operating segments prior to first quarter of fiscal 2021, qualifies as a discontinued operation in accordance with the criteria set forth in ASC 205-20, Presentation of Financial Statements – Discontinued Operations.

On May 5, 2020, the Company also entered into a transition services agreement ("TSA") with DTN, pursuant to which the Company agreed to support the information technology and accounting functions of the Agriculture and Weather Analytics business for a period up to 12 months and DTN agreed to provide the contract administration/account management services for certain contracts of the Company and other transition services. Either party may make any reasonable request to extend the period of time the other party shall provide a transition service beyond the initial service period or access to additional services that are necessary for the transition of the operations and business. The Company earned approximately \$0.03 million and incurred approximately \$0.0 million in costs associated with the TSA for the three month periods ended June 30, 2021 and 2020, respectively, which were included in income (loss) from discontinued operations on the unaudited condensed consolidated statement of operations.

The related assets and liabilities of the Agriculture and Weather Analytics business were reclassified to assets held for sale and liabilities held for sale, respectively, as of March 31, 2021 on the unaudited condensed consolidated balance sheets. The following table is a summary of major classes of assets and liabilities held for sale:

	March 31, 2021
Assets	
Right-of-use assets	78
Total assets held for sale, noncurrent	78
Total assets held for sale	\$ 78
Liabilities	
Current Lease Liabilities	94
Total liabilities held for sale, current position	94
Long Term Lease liabilities	261
Total liabilities held for sale	\$ 355

The results of operations for the Agriculture and Weather Analytics business were included in net income (loss) from discontinued operations on the Company's unaudited condensed consolidated statements of operations. The following table provides information regarding the results of discontinued operations:

	Three Months Ended June 30,	
	2021	2020
Service revenue	\$ —	\$ 695
Cost of service revenues	—	349
Gross profit	—	346
Operating expenses:		
Selling, general and administration	50	515
Research and development	—	407
Restructuring charges	—	837
Total operating expenses	50	1,759
Operating loss from discontinued operations	(50)	(1,413)
Other income, net	32	55
Loss from discontinued operation before income tax	(18)	(1,358)
Income tax (benefit) expense	—	—
Net Loss from discontinued operations	(18)	(1,358)
Gain on disposal of discontinued operations before income tax	—	11,315
Income tax benefit on gain on disposal	—	(27)
Gain on disposal of discontinued operations after income tax	—	11,288
Net income (loss) from discontinued operations	\$ (18)	\$ 9,930

The following table provides information on the gain recorded on the sale of the Agriculture and Weather Analytics business for the three month period ended June 30, 2020. These amounts reflect the closing balance sheet of the Agriculture and Weather Analytics business upon the closing of the sale on May 5, 2020 (in thousands).

Initial proceeds from sale, net of transaction costs	\$ 9,440
Closing working capital adjustment	250
Deferred payments of purchase price	1,500
Total consideration, net of transaction costs	11,190
Trade accounts receivable, net of allowance for doubtful accounts	1,060
Unbilled accounts receivable	488
Other classes of assets that are not major	194
Total Agriculture and Weather Analytics business assets	1,742
Trade accounts payable	349
Deferred revenue	1,518
Total Agriculture and Weather Analytics business liabilities	1,867
Gain on sale of Agriculture and Weather Analytics business	\$ 11,315

The initial proceeds were net of transaction costs of approximately \$1.1 million.

4. Restructuring Activities

On April 30, 2020, in connection with the sale of the Agriculture and Weather Analytics business, the Board approved restructuring activities to better position the Company for increased profitability and growth, and the Company incurred total restructuring charges of approximately \$1.5 million, primarily resulting from a separation for certain employees who did not transition to DTN, additional positions that were eliminated to right-size the cost structure of the Company and lease impairment related to our Grand Forks, North Dakota facility.

For the three months ended June 30, 2021 the Company did not incur any restructuring or severance costs.

The following table presents the restructuring and severance costs, for the three months ended June 30, 2020 (in thousands):

	Total
Severance and benefits	\$ 1,105
Lease impairment and other costs	351
Total restructuring and severance costs	\$ 1,456

During the three months ended June 30, 2020, approximately \$0.6 million of the restructuring costs were recorded to restructuring charges in the unaudited condensed consolidated statements of operations, and approximately \$0.8 million of the restructuring costs were recorded to loss from discontinued operations in the unaudited condensed consolidated statements of operations. There were no such costs during the three months ended June 30, 2021.

As of June 30, 2021, we did not accrue any amounts for severance and benefits related to the restructuring activities in accrued payroll and related expenses on the unaudited condensed consolidated balance sheet. Our restructuring activities during the three month period ended June 30, 2021 were as follows (in thousands):

Balance at March 31, 2021	\$ 100
Cash payments	\$ (79)
Balance at June 30, 2021	\$ 21

5. Fair Value Measurements

We measure fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value measurements are based on a three tier hierarchy that prioritizes the inputs used to measure fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets for identical assets and liabilities; Level 2, defined as observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities or prices quoted in inactive markets; and Level 3, defined as unobservable inputs that are significant to the fair value of the asset or liability, and for which little or no market data exists, therefore requiring management to utilize its own assumptions to provide its best estimate of what market participants would use in valuing the asset or liability.

We did not have any material financial assets or liabilities measured at fair value on a recurring basis using Level 3 inputs as of June 30, 2021 or March 31, 2021. Our non-financial assets, such as goodwill, intangible assets and property and equipment, are measured at fair value on a nonrecurring basis, generally when there is a transaction involving those assets such as a purchase transaction, a business combination or an adjustment for impairment. No non-financial assets were measured at fair value at June 30, 2021 and March 31, 2021. As a result of the reorganization during the three months ended June 30, 2021, the Company has engaged a third party valuation firm to reallocate goodwill to the three new reporting units discussed in Note 1, Description of Business and Summary of Significant Accounting Policies.

The following tables present the Company's financial assets that are recorded at fair value on a recurring basis, segregated among the appropriate levels within the fair value hierarchy:

As of June 30, 2021				
(In thousands)				
	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Estimated Fair Value
Assets:				
Level 1:				
Money market funds	\$ 11,212	\$ —	\$ —	\$ 11,212
Securities held in deferred compensation plan (1)	163	—	4	167
Subtotal	11,375	—	4	11,379
Level 2:				
Commercial paper	4,150	—	—	4,150
Subtotal	4,150	—	—	4,150
Total	\$ 15,525	\$ —	\$ 4	\$ 15,529
Liabilities:				
Level 1:				
Deferred compensation plan liabilities (2)	\$ 171	\$ —	\$ 6	\$ 177
Subtotal	171	0	6	177
Level 3:				
Contingent consideration (3)	600	—	—	600
Subtotal	600	—	—	600
Total	\$ 771	\$ —	\$ 6	\$ 777

As of March 31, 2021				
(In thousands)				
	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Estimated Fair Value
Assets:				
Level 1:				
Money market funds	\$ 4,676	\$ —	\$ —	\$ 4,676
Securities held in deferred compensation plan (1)	89	—	11	100
Subtotal	4,765	—	11	4,776
Level 2:				
Commercial paper	4,999	—	—	4,999
Corporate notes and bonds	1,085	—	—	1,085
US Treasuries	4,600	—	—	4,600
Subtotal	10,684	—	—	10,684
Total	\$ 15,449	\$ —	\$ 11	\$ 15,460
Liabilities:				
Level 1:				
Deferred compensation plan liabilities (2)	\$ 100	\$ —	\$ 11	\$ 111
Subtotal	100	—	11	111
Level 3:				
Contingent consideration (3)	600	—	—	600
Subtotal	600	—	—	600
Total	\$ 700	\$ —	\$ 11	\$ 711

(1) Included in prepaid expenses and other current assets on the Company's consolidated balance sheet.

(2) Included in accrued payroll and related expenses on the Company's consolidated balance sheet.

(3) Included short-term portion in accrued liabilities and long-term portion in other long-term liabilities on the Company's consolidated balance sheet.

Unrealized losses related to investments are due to interest rate fluctuations as opposed to credit quality. In addition, we do not intend to sell, and it is not more likely than not that, we would be required to sell, any of our investments before recovery of their cost basis. As a result, there is no other-than-temporary impairment for these investments as of June 30, 2021.

6. Income Taxes

The effective tax rate used for interim periods is the estimated annual effective tax rate, based on current estimate of full year results, except that taxes related to specific events, if any, are recorded in the interim period in which they occur.

Income tax expense for the three month period ended June 30, 2021 was approximately \$0.08 million, or 10.6% of pre-tax income as compared with an expense of approximately \$0.03 million, or 6.0% of pre-tax income for the three month period ended June 30, 2020.

In assessing the realizability of our deferred tax assets, we review all available positive and negative evidence, including reversal of deferred tax liabilities, potential carrybacks, projected future taxable income, tax planning strategies and recent financial performance. As we have experienced a cumulative pre-tax loss over the trailing three years, we continue to maintain a valuation allowance against our deferred tax assets. We intend to continue maintaining a full valuation allowance on our deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. However, given our current earnings and anticipated future earnings, we believe that there is a reasonable possibility that within the next 12 months, and potentially in the next few quarters, sufficient positive evidence may become available to allow us to reach a conclusion that a significant portion of the valuation allowance will no longer be needed. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change on the basis of the level of profitability that we are able to actually achieve.

On March 27, 2020, the CARES Act was enacted in response to the Pandemic. The CARES Act contains numerous income tax provisions, such as relaxing limitations on the deductibility of interest and the use of net operating losses arising in taxable years beginning after December 31, 2017. The income tax provisions of the CARES Act had an immaterial impact on our current taxes, deferred taxes, and uncertain tax positions of the Company in the year ended March 31, 2021. The CARES Act also allows for the deferral of payroll taxes, as well as the immediate refund of federal Alternative Minimum Tax credits, which had previously been made refundable over a period of four years by the Tax Cuts and Jobs Act of 2017. The Company is utilizing the provision of the CARES Act allowing for the deferral of payroll taxes as of June 30, 2021.

7. Commitments and Contingencies

Litigation and Other Contingencies

As a provider of traffic engineering services, hardware products, software and other various solutions for the traffic industry, the Company is, and may in the future from time to time, be involved in litigation relating to claims arising out of its operations in the normal course of business. While the Company cannot accurately predict the outcome of any such litigation, the Company is not a party to any legal proceeding, the outcome of which, in management's opinion, individually or in the aggregate, would have a material effect on the Company's unaudited condensed consolidated results of operations, financial position or cash flows.

8. Right-of-Use Assets and Lease Liabilities

We have various operating leases for our offices, office equipment and vehicles in the United States. These leases expire at various times through 2029. Certain lease agreements contain renewal options from 1 to 5 years, rent abatement, and escalation clauses that are factored into our determination of lease payments when appropriate.

As a result of the restructuring activities and the sale of Agriculture and Weather Analytics business, the Company vacated the Grand Forks lease facility and has subleased the space to DTN, which expires on May 4, 2021. The Company recorded an impairment of \$0.3 million during the quarter ended June 30, 2020, representing the total expected shortfall in sublease income and estimated lease buyout as compared to its required payments for the lease under the remainder of the original lease term. Sublease income will be recognized on a straight-line basis over the term of the sublease. The Company did not record any impairment for the three months ended June 30, 2021.

The table below presents lease-related assets and liabilities recorded on the unaudited condensed consolidated balance sheet as follows:

	Classification	June 30, 2021 (In thousands)
Assets		
Operating lease right-of-use-assets - continuing operations	Right-of-use assets	\$ 11,346
Operating lease right-of-use-assets - discontinued operation	Asset held for sales - noncurrent	60
Total operating lease right-of-use-assets		<u>\$ 11,406</u>
Liabilities		
Operating lease liabilities (short-term) - continuing operations	Accrued liabilities	\$ 1,651
Operating lease liabilities (short-term) - discontinued operation	Liabilities held for sales - current	60
		<u>\$ 1,711</u>
Operating lease liabilities (long-term) - continuing operations	Lease liabilities	10,532
Operating lease liabilities (long-term) - discontinued operation	Liabilities held for sales - noncurrent	253
		<u>10,785</u>
Total lease liabilities		<u>\$ 12,496</u>

Lease Costs

We recorded approximately \$0.7 million of lease costs in on our unaudited condensed consolidated statements of operations for each of the three month periods ended June 30, 2021 and 2020. The Company currently has no variable lease costs. The Company recorded \$0.01 million and \$0.02 million of sublease income for the three month periods ended June 30, 2021 and 2020, respectively, which was included in loss from discontinued operations on the unaudited condensed consolidated statement of operations.

Supplemental Information

The table below presents supplemental information related to operating leases during the three months ended June 30, 2021 (in thousands, except weighted average information):

Cash paid for amounts included in the measurement of operating lease liabilities	\$ 694,000
Weighted average remaining lease term (in years)	6.02
Weighted average discount rate	5.0 %

Maturities of Lease Liabilities

Maturities of lease liabilities as of June 30, 2021 were as follows:

Fiscal Year Ending March 31, (In thousands)	Operating Leases
2022	\$ 1,931
2023	1,965
2024	2,512
2025	2,242
2026	1,998
Thereafter	3,963
Total lease payments	14,611
Less imputed interest	(2,115)
Present value of future lease payments	12,496
Less current obligations under leases	(1,711)
Long-term lease obligations	\$ 10,785

9. Stock-Based Compensation

We currently maintain two stock incentive plans, the 2007 Omnibus Incentive Plan and the 2016 Omnibus Incentive Plan (the “2016 Plan”). Of these plans, we may only grant future awards from the 2016 Plan. The 2016 Plan allows for the issuance of stock options, stock appreciation rights, restricted stock, time-restricted stock units (“RSUs”), performance-based restricted stock units (“PSUs”), cash incentive awards and other stock-based awards. At June 30, 2021, there were approximately 776,492 shares of common stock available for grant or issuance under the 2016 Plan. Total stock options vested and expected to vest were approximately 5.1 million as of June 30, 2021.

Stock Options

A summary of activity with respect to our stock options for the three months ended June 30, 2021 is as follows:

	Options (In thousands)	Weighted Average Exercise Price Per Share
Options outstanding at March 31, 2021	5,623	\$ 4.10
Granted	25	7.05
Exercised	(473)	2.91
Forfeited	(59)	4.87
Options outstanding at June 30, 2021	5,116	4.22

Restricted Stock Units

A summary of activity with respect to our RSUs, which entitle the holder to receive one share of our common stock for each RSU upon vesting, for the three months ended June 30, 2021 is as follows:

	# of Shares (In thousands)	Weighted Average Price Per Share
RSUs outstanding at March 31, 2021	448	\$ 4.08
Granted	—	—
Vested	—	—
Forfeited	—	—
RSUs outstanding at June 30, 2021	<u>448</u>	<u>4.08</u>

Performance Stock Units

The Company has granted a total "target" number of 132,403 PSUs to our executive officers. Between 0% and 160% of the PSUs will be eligible to vest based on average annual performance during the three-year performance period relative to the revenues per share and cash flow from operations objectives to be established by the Compensation Committee at the beginning of each year. In addition, the final PSU vesting based on the revenues per share and cash flow from operations performance will be subject to a modifier between .75x-1.25x based on the Company's total shareholder return relative to the Russell 2000 during the performance period, for a maximum achievement percentage of 200% of the "target" number of PSUs. The PSUs are amortized over a derived service period of 3 years. The value and the derived service period of the PSUs were estimated using the Monte-Carlo simulation model. The following table summarizes the details of the performance stock units:

	# of Shares (In thousands)	Weighted Average Price Per Share
PSUs outstanding at March 31, 2021	68	\$ 5.47
Granted	64	7.26
PSUs outstanding at June 30, 2021	<u>132</u>	<u>6.34</u>

Stock-Based Compensation Expense

The following table presents stock-based compensation expense that is included in each line item on our unaudited condensed consolidated statements of operations:

	Three Months Ended June 30,	
	2021	2020
	(In thousands)	
Cost of revenues	\$ 57	\$ 46
General and administrative expense	616	533
Sales and marketing	70	19
Research and development expense	51	24
Restructuring costs	—	42
Income (loss) from discontinued operations before gain on sale, net of tax	—	(57)
Total stock-based compensation	\$ 794	\$ 607

As of June 30, 2021, there was approximately \$4.0 million, \$1.3 million and \$0.6 million of unrecognized compensation expense related to unvested stock options, RSUs and PSUs, respectively. This expense is currently expected to be recognized over a weighted average period of approximately 2.6 years for stock options, 1.1 years for RSUs and 2.6 years for PSUs. If there are any modifications or cancellations of the underlying unvested awards, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional stock options, RSUs or other stock-based awards.

Other Stock-Based Compensation Plans

We currently maintain an Employee Stock Purchase Plan (“ESPP”) which allows employees to have a percentage of their base compensation withheld to purchase the Company’s common stock at 95% of the lower of the fair market at the beginning of the offering period and on the last trading day of the offering period. There are two offering periods during a calendar year, which consist of the six months beginning each January 1 and July 1. Employees may contribute 1-15% of their eligible gross pay up to a \$25,000 annual stock value limit. During the three months ended June 30, 2021 and 2020, 0 and 0 shares were purchased, respectively. The ESPP is considered a non-compensatory plan and accordingly, no compensation expense is recorded in connection with this benefit.

Deferred Compensation Plan

Effective October 1, 2020, the Company adopted the Iteris, Inc. Deferred Compensation Plan (the “DC Plan”). The DC Plan consists of two plans, one that is intended to be an unfunded arrangement for eligible employees who are part of a select group of management or highly compensated employees of the Company within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, and one for the benefit of non-employee members of our board of directors. Key employees, including our executive officers, and our non-employee directors who are notified regarding their eligibility to participate and delivered the DC Plan enrollment materials are eligible to participate in the DC Plan. Under the DC Plan, we will provide participants with the opportunity to make annual elections to defer a percentage of their eligible cash compensation and equity awards. A participant is always 100% vested in his or her own elective cash deferrals and any earnings thereon. Elective deferrals of equity awards are credited to a bookkeeping account established in the name of the participant with respect to an equivalent number of shares of our common stock, and such credited shares are subject to the same vesting conditions as are applicable to the equity award subject to the election. The Company established a rabbi trust to finance our obligations under the DC Plan with corporate-owned life insurance policies on participants.

Employment Inducement Incentive Award Plan

On December 4, 2020, the Board approved the Iteris, Inc. 2020 Employment Inducement Incentive Award Plan (the “Inducement Plan”). The terms of the Inducement Plan are substantially similar to the terms of the Company’s 2016 Omnibus Incentive Plan with the exception that incentive stock options may not be granted under the Inducement Plan. The Inducement Plan was adopted by the Board without stockholder approval pursuant to Rule 5635(c)(4) of the Nasdaq Listing Rules.

The Board initially reserved 300,000 shares of the Company’s common stock for issuance pursuant to awards granted under the Inducement Plan. In accordance with Rule 5635(c)(4) of the Nasdaq Listing Rules, awards under the Inducement Plan may only be made to an employee who has not previously been an employee or member of the Board or any parent or subsidiary, or following a bona fide period of non-employment by the Company or a parent or subsidiary, and only if he or she

is granted such award in connection with his or her commencement of employment with the Company or a subsidiary and such grant is an inducement material to his or her entering into employment with the Company or such subsidiary.

There were no awards granted under the Inducement Plan during the three months ended June 30, 2021. No further awards will be granted under the Inducement Plan, although the outstanding awards under the Inducement Plan remain outstanding in accordance with their terms.

10. Stock Repurchase Program

On August 9, 2012, the Board approved a new stock repurchase program pursuant to which we may acquire up to \$3.0 million of our outstanding common stock for an unspecified length of time. Under the program, we may repurchase shares from time to time in the open market and privately negotiated transactions and block trades, and may also repurchase shares pursuant to a 10b5-1 trading plan during our closed trading windows, to the extent such a 10b5-1 plan is in place. There is no guarantee as to the exact number of shares that will be repurchased. We may modify or terminate the repurchase program at any time without prior notice. On November 6, 2014, the Board approved a \$3.0 million increase to the Company's existing stock repurchase program, pursuant to which the Company may continue to acquire shares of its outstanding common stock from time to time for an unspecified length of time. For the three month periods ended June 30, 2021 and 2020, we did not repurchase any shares. From inception of the 2012 stock repurchase program through June 30, 2021, we repurchased approximately 2,458,000 shares of our common stock for an aggregate price of approximately \$4.3 million, at an average price per share of \$1.73. As of June 30, 2021, all repurchased shares have been retired and resumed their status as authorized and unissued shares of our common stock. As of June 30, 2021, approximately \$1.7 million remains available for the repurchase of our common stock under our current program.

11. Acquisitions

TrafficCast Acquisition

On December 7, 2020, the Company completed the acquisition of the assets of TrafficCast, a privately held company headquartered in Madison, Wisconsin that provides travel information technology, applications and content to media, mobile technology, automotive and public sector customers throughout North America. Under the TCI Purchase Agreement, Iteris purchased from TrafficCast substantially all of the assets used in the conduct of the Business and assumed certain specified liabilities of the Business.

The aggregate acquisition-date fair value of the consideration transferred of \$16 million in addition to liabilities assumed of \$1.7 million totaled approximately \$17.7 million, which consisted of the following:

	Fair Value (in thousand)
Cash	\$ 15
Security hold back	1
Acquisition-related liabilities	1
Contingent consideration	
Total	<u>\$ 17</u>

The security hold back relates to amounts held back as security for certain post-closing adjustments and post-closing indemnity obligations of TrafficCast, and is included in other long-term liabilities on the unaudited condensed consolidated balance sheets. Acquisition-related liabilities include customary post-closing adjustments, as well as short term liabilities related to certain ancillary agreements that will provide Iteris with ongoing access to mapping and monitoring services. These items are included in accrued liabilities on the unaudited condensed consolidated balance sheets. Contingent consideration relates to a \$1 million earn out, that if earned, will be paid over two years based on the Business' achievement of certain revenue targets. This item is included in other long-term liabilities on the unaudited condensed consolidated balance sheets.

The acquisition of TrafficCast has been accounted for as a business combination. We estimated the fair values of net assets acquired, and the excess of the consideration transferred over the aggregate of such fair values was recorded as goodwill. The Company believes the goodwill related to the acquisition was a result of the ability of the Company to leverage its technology in the broader market, as well as offering cross-selling market exposure opportunities. Goodwill from the acquisition of TCI is included in the Company's consolidated balances and will be included in the annual review for

impairment. The goodwill is fully deductible for tax purposes. The significant intangible assets identified in the purchase price allocation include customer relationships and non-compete agreements, which are amortized over their respective useful lives on a straight line basis which approximates the underlying cash flows. To value the customer relationships, the Company utilized the income approach, specifically a discounted cash-flow method known as the excess earnings method. The earnout consideration was valued using a Monte Carlo simulation. The fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. We believe the assumptions are representative of those a market participant would use in estimating fair value.

The following tables summarize the purchase price allocation (in thousands) as of December 7, 2020:

Trade accounts receivable	\$	2,087
Unbilled accounts receivable		596
Inventories		941
Right-of-use assets		193
Property and equipment		233
Intangible assets		9,500
Goodwill		7,750
Other assets		242
Total assets acquired		21,542
Accounts payable		1,026
Deferred revenue		2,460
Lease liabilities		193
Other liabilities		132
Total liabilities assumed		3,811
Total purchase price	\$	17,731

The fair values of the TrafficCast assets and liabilities noted above approximate their carrying values at December 7, 2020. There was no difference between the fair value of trade accounts receivables and the gross contractual value of those receivables. There are no contractual cash flows related to these receivables that are not expected to be collected. The Company believes the goodwill related to the acquisition was a result of the ability of the Company to leverage its technology in the broader market, as well as offering cross-selling market exposure opportunities. Goodwill from the acquisition of TrafficCast was initially allocated to the Company's Roadway Sensors and Transportation Systems reporting units and upon the reorganization described in Note 12, Business Segments, the goodwill has been reallocated to the Company's three new reporting units and will be included in the annual review for impairment. The goodwill is fully deductible for tax purposes. The significant intangible assets identified in the purchase price allocation include customer relationship and developed technology, which are amortized over their respective useful lives on a straight line basis which approximates the underlying cash flows. To value the customer relationships, the Company utilized the income approach, specifically a discounted cash-flow method known as the excess earnings method. The Company used the replacement cost method with consideration of opportunity costs to estimate the fair value of the technology. The fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. We believe the assumptions are representative of those a market participant would use in estimating fair value.

The following table presents the fair values and useful lives of the identifiable intangible assets acquired:

	Amount (in thousands)	Weighted Average Useful Life (in years)
Customer relationships	\$ 5,800	7
Technology	3,700	4
Total intangible assets assumed	\$ 9,500	

12. Business Segments

In FY21, Company completed the sale of substantially all of the assets used in connection with the Agriculture and Weather Analytics segment to DTN in exchange for a total purchase consideration of \$12.0 million. On April 30, 2020, in

connection with the sale of the Agriculture and Weather Analytics segment, the Board approved restructuring activities to better position the Company for increased profitability and growth. Restructuring charges of approximately \$1.5 million were incurred in FY21 for separation costs for certain employees who did not transition to DTN, additional positions that were eliminated to right-size the cost structure of the Company, and the impairment of certain lease-related assets.

On December 6, 2020, the Company entered into an Asset Purchase Agreement with TrafficCast (“TrafficCast”), a privately held company headquartered in Madison, Wisconsin that provides travel information technology, applications and content to customers throughout North America in the media, mobile technology, automotive and public sectors. Under the TCI Purchase Agreement, the Company agreed to purchase from TrafficCast substantially all of its assets, composed of its travel information technology, applications and content. The transaction closed on December 7, 2020.

After these two significant transactions in FY21, the Company underwent a re-organization that was completed in April 2021. The purpose of this was to align the Company’s organization structure with its singular goal of providing best in class smart mobility infrastructure management solutions to the marketplace. As a result of the reorganization, the Company’s Chief Operating Decision Maker (“CODM”), which is our Chief Executive Officer, reviews the Company’s results on a consolidated basis and our financial results will be presented on a consolidated basis under a single reporting segment in order to provide the most accurate representation of Company’s performance.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report, including the following discussion and analysis, contains forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that are based on our current expectations, estimates and projections about our business and our industry, and reflect management's beliefs and certain assumptions made by us based upon information available to us as of the date of this report. When used in this report and the information incorporated herein by reference, the words "expect(s)," "feel(s)," "believe(s)," "intend(s)," "plan(s)," "should," "will," "may," "anticipate(s)," "estimate(s)," "could," "should," and similar expressions or variations of these words are intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements regarding our anticipated growth, sales, revenue, expenses, profitability, capital needs, backlog, manufacturing capabilities, the market acceptance of our products and services, competition, the impact of any current or future litigation, the impact of recent accounting pronouncements, the applications for and acceptance of our products and services, the status of our facilities and product development, the impact of the acquisition of Albeck Gerken, Inc., the impact of the sale of our Agriculture and Weather Analytics business, and the impact of the acquisition of substantially all of the assets of TrafficCast International, Inc. These statements are not guarantees of future performance and are subject to certain risks and uncertainties that could cause our actual results to differ materially from those projected. You should not place undue reliance on these forward-looking statements that speak only as of the date hereof. We encourage you to carefully review and consider the various disclosures made by us which describe certain factors which could affect our business, including in "Risk Factors" set forth in Part II. Item 1A of this report, before deciding to invest in our company or to maintain or increase your investment. We undertake no obligation to revise or update publicly any forward-looking statement for any reason, including to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Overview

General

We are a provider of smart mobility infrastructure management solutions. Municipalities, government agencies, and other transportation infrastructure providers use our solutions to monitor, visualize, and optimize mobility infrastructure to help ensure roads are safe, travel is efficient, and communities thrive. Additionally, we provide mobility data to automobile OEMs, media companies, insurance companies, and other commercial entities, whose products and services have a high dependency on the performance and/or condition of mobility infrastructure.

Recent Developments

Impact of COVID-19 on Our Business

The COVID-19 pandemic (the "Pandemic") has materially adversely impacted global economic conditions. More than nine months into the Pandemic, COVID-19 continues to have an unpredictable and unprecedented impact on the U.S. economy as federal, state and local governments react to this public health crisis with travel restrictions, quarantines and "stay-at-home" orders. The uncertainties caused by the Pandemic include, but are not limited to, supply chain disruptions, workplace dislocations, economic contraction, and downward pressure on some customer budgets and customer sentiment in general. While there has been no material impact to our business, nor any facility closures, we did experience some supply chain and work delays in prior quarters due to the Pandemic. Should such delays become protracted or worsen or should longer term budgets or priorities of our clients be impacted, the Pandemic could materially impact our business, results of operations and financial condition. The extent of the impact of the Pandemic on our business and financial results, and the volatility of our stock price will depend largely on future developments, including the duration of the spread of the outbreak, the impact on capital and financial markets, the distribution, rate of adoption and efficacy of vaccines, and the related impact on the budgets and financial circumstances of our customers, all of which are highly uncertain and cannot be reasonably estimated as of the date of this report.

Given the uncertainties surrounding the impacts of the Pandemic on our future financial condition and results of operations, we have taken certain actions to preserve our liquidity, manage cash flow and strengthen our financial flexibility. Such actions included, reducing our discretionary spending, reducing capital expenditures, implementing restructuring activities with the goal of reducing payroll costs, including employee furloughs, pay freezes and pay cuts.

On March 27, 2020, the CARES Act was signed into law in the United States. The CARES Act provides relief to U.S. corporations through financial assistance programs and modifications to certain income tax provisions. The Company is applying certain beneficial provisions of the CARES Act, including the payroll tax deferral and the alternative minimum tax acceleration. For more information, refer to Note 6, Income Taxes, to our Unaudited Condensed Consolidated Financial Statements, including in Part I, Item 1 of this report.

The Pandemic has had an impact on the Company's human capital. While our main Santa Ana facility has remained open, easing of pandemic restrictions imposed by local and state authorities have allowed a portion of our workforce to return to our various facilities while others continue to work remotely. The Company's information technology infrastructure has proven sufficiently flexible to minimize disruptions in required duties and responsibilities. We believe that our system of internal control over financial reporting has not been fundamentally altered and that the effectiveness of the design and operation of internal controls remained materially consistent during the three month period ended June 30, 2021. Additionally, we have been able to timely file financial reports. We believe we have the infrastructure to efficiently work remotely during the Pandemic. We do not expect to incur significant costs to safely reopen our facilities to all our employees.

Despite the Pandemic, we believe that the ITS industry in the US should continue to provide new opportunities for the Company although, in the near term, the pace of new opportunities emerging may be restrained and the start dates of awarded projects may be delayed. We believe that our expectations are valid and that our plans for the future continue to be based on reasonable assumptions.

Sale of Agriculture and Weather Analytics Business

On May 5, 2020, the Company completed the sale of substantially all of our assets used in connection with our Agriculture and Weather Analytics business to DTN, LLC ("DTN"), an operating company of TBG AG, a Swiss-based holding company, pursuant to the Purchase Agreement signed on May 2, 2020 (the "DTN Purchase Agreement"), in exchange for a total purchase consideration of \$12.0 million in cash, subject to working capital adjustments. Upon closing, the Company received \$10.5 million and \$1.5 million of payment was deferred. DTN paid the Company \$1.45 million on the 12-month anniversary of the closing date, and \$0.05 million will be paid by DTN at the 18-month anniversary of the closing date, subject to satisfaction of the conditions set forth in the DTN Purchase Agreement relating to the transition of certain customers to DTN and the collection of certain receivables by DTN. The DTN Purchase Agreement also provides for customary post-closing adjustments to the purchase price related to working capital at closing. The parties also entered into certain ancillary agreements at the closing of the transaction that will provide Iteris with ongoing access to weather and pavement data that it integrates into its transportation software products, and a joint development agreement under which the parties agreed to pursue future joint opportunities in the global transportation market.

The sale of the Agriculture and Weather Analytics business was a result of the Company's shift in strategy to focus on its mobility infrastructure management solutions and to capitalize on the potential for a future partnership upon the sale of this business component to DTN. We have determined that the Agriculture and Weather Analytics business, which constituted one of our operating segments prior to first quarter in fiscal 2021, qualifies as a discontinued operation in accordance with the criteria set forth in ASC 205-20, Presentation of Financial Statements – Discontinued Operations.

On May 5, 2020, the Company also entered into a transition services agreement ("TSA") with DTN, pursuant to which the Company agreed to support the information technology and accounting functions of the Agriculture and Weather Analytics business for a period up to 12 months and DTN agreed to provide the contract administration/account management services for certain contracts of the Company and other transition services. Either party may make any reasonable request to extend the period of time the other party shall provide a transition service beyond the initial service period or access to additional services that are necessary for the transition of the business operations. The Company earned approximately \$0.03 million and incurred approximately \$0.0 million in costs associated with the TSA for the three month periods ended June 30, 2021 and 2020, respectively, which were included in income (loss) from discontinued operations on the unaudited condensed consolidated statement of operations.

Acquisition of the Assets of TrafficCast International, Inc.

On December 6, 2020, the Company entered into an Asset Purchase Agreement (the "TCI Purchase Agreement") with TrafficCast International, Inc. ("TrafficCast"), a privately held company headquartered in Madison, Wisconsin that provides travel information technology, applications and content to customers throughout North America in the media, mobile technology, automotive and public sectors. Under the TCI Purchase Agreement, the Company agreed to purchase from

TrafficCast substantially all of its assets, composed of its travel information technology, applications and content (the “Business”). The transaction closed on December 7, 2020.

Under the TCI Purchase Agreement, Iteris purchased from TrafficCast substantially all of the assets used in the conduct of the Business and assumed certain specified liabilities of the Business in exchange for a total purchase price of up to \$17.7 million, with \$15 million paid in cash on the closing date, \$1 million held back as security for certain post-closing adjustments and post-closing indemnity obligations of TrafficCast, and a \$1 million earn out, that if earned, will be paid over two years based on the Business’ achievement of certain revenue targets. The TCI Purchase Agreement also provides for customary post-closing adjustments to the purchase price tied to working capital balances of the Business at closing (see Note 11, Acquisitions).

The parties also entered into certain ancillary agreements that will provide Iteris with ongoing access to mapping and monitoring services that the Business uses to support its real-time and predictive travel data and associated content.

TrafficCast operates two lines of business – commercial and public sector – each of which contributes about 50% of total revenue. Its commercial line of business develops software that collects, filters, and models real-time traveler information and traffic incident data for global media companies and other commercial customers. Its public sector line of business provides sensors and related software that help state and local agencies measure, visualize, and manage traffic flow. Once integrated in early fiscal year 2022, TrafficCast’s market-leading software and IoT devices, as well as its data ingestion, data science and analytics solutions, will enhance Iteris’ suite of smart mobility infrastructure management solutions.

Non-GAAP Financial Measures

Adjusted income (loss) from continuing operations before interest, taxes, depreciation, amortization, stock-based compensation expense, and restructuring charges (“Adjusted EBITDA”) was approximately \$2.5 million and \$2.3 million for the three month periods ended June 30, 2021 and 2020, respectively.

When viewed with our financial results prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”) and accompanying reconciliations, we believe Adjusted EBITDA provides additional useful information to clarify and enhance the understanding of the factors and trends affecting our past performance and future prospects. We define these measures, explain how they are calculated and provide reconciliations of these measures to the most comparable GAAP measure in the table below. Adjusted EBITDA and the related financial ratios, as presented in this Quarterly Report on Form 10-Q (“Form 10-Q”), are supplemental measures of our performance that are not required by or presented in accordance with GAAP. They are not a measurement of our financial performance under GAAP and should not be considered as alternatives to net income or any other performance measures derived in accordance with GAAP, or as an alternative to net cash provided by operating activities as measures of our liquidity. The presentation of these measures should not be interpreted to mean that our future results will be unaffected by unusual or nonrecurring items.

We use Adjusted EBITDA non-GAAP operating performance measures internally as complementary financial measures to evaluate the performance and trends of our businesses. We present Adjusted EBITDA and the related financial ratios, as applicable, because we believe that measures such as these provide useful information with respect to our ability to meet our operating commitments.

Adjusted EBITDA and the related financial ratios have limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations include:

- They do not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;
- They do not reflect changes in, or cash requirements for, our working capital needs;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- They are not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- They do not reflect the impact on earnings of charges resulting from matters unrelated to our ongoing operations; and
- Other companies in our industry may calculate Adjusted EBITDA differently than we do, whereby limiting its usefulness as comparative measures.

Because of these limitations, Adjusted EBITDA and the related financial ratios should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as a measure of cash that will be available to us to

meet our obligations. You should compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only as supplemental information. See our unaudited condensed consolidated financial statements contained in this Form 10-Q. However, in spite of the above limitations, we believe that Adjusted EBITDA and the related financial ratios are useful to an investor in evaluating our results of operations because these measures:

- Are widely used by investors to measure a company's operating performance without regard to items excluded from the calculation of such terms, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired, among other factors;
- Help investors to evaluate and compare the results of our operations from period to period by removing the effect of our capital structure from our operating performance; and
- Are used by our management team for various other purposes in presentations to our Board of Directors as a basis for strategic planning and forecasting.

The following financial items have been added back to or subtracted from our net income when calculating Adjusted EBITDA:

- *Interest expense.* Iteris excludes interest expense because it does not believe this item is reflective of ongoing business and operating results. This amount may be useful to investors for determining current cash flow.
- *Income tax.* This amount may be useful to investors because it represents the taxes which may be payable for the period and the change in deferred taxes during the period, and may reduce cash flow available for use in our business.
- *Depreciation.* Iteris excludes depreciation expense primarily because it is a non-cash expense. These amounts may be useful to investors because it generally represents the wear and tear on our property and equipment used in our operations.
- *Amortization.* Iteris incurs amortization of intangible assets in connection with acquisitions. Iteris also incurs amortization related to capitalized software development costs. Iteris excludes these items because it does not believe that these expenses are reflective of ongoing operating results in the period incurred. These amounts may be useful to investors because it represents the estimated attrition of our acquired customer base and the diminishing value of product rights.
- *Stock-based compensation.* These expenses consist primarily of expenses from employee and director equity based compensation plans Iteris excludes stock-based compensation primarily because they are non-cash expenses and Iteris believes that it is useful to investors to understand the impact of stock-based compensation to its results of operations and current cash flow.
- *Restructuring charges.* These expenses consist primarily of employee separation expenses, facility termination costs, and other expenses associated with Company restructuring activities. Iteris excludes these expenses as it does not believe that these expenses are reflective of ongoing operating results in the period incurred. These amounts may be useful to our investors in evaluating our core operating performance.

Reconciliations of net income (loss) from continuing operations to Adjusted EBITDA and the presentation of Adjusted EBITDA as a percentage of total revenues were as follows:

	Three Months Ended June 30,	
	2021	2020
	(In Thousands)	
Net income from continuing operations	\$ 629	\$ 418
Income tax expense	75	34
Depreciation expense	232	185
Amortization expense	803	361
Stock-based compensation	794	664
Other adjustments:		
Restructuring charges	—	619
Adjusted EBITDA	\$ 2,533	\$ 2,281
Percentage of total revenues	7.4 %	8.2 %

Critical Accounting Policies and Estimates

“Management’s Discussion and Analysis of Financial Condition and Results of Operations” is based on our unaudited condensed consolidated financial statements included herein, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate these estimates and assumptions, including those related to revenue recognition, the collectability of accounts receivable and related allowance for doubtful accounts, projections of taxable income used to assess realizability of deferred tax assets, warranty reserves and other contingencies, costs to complete long-term contracts, indirect cost rates used in cost plus contracts, the valuation of inventories, the valuation of purchased intangible assets and goodwill, the valuation of investments, estimates of future cash flows used to assess the recoverability of long-lived assets and the impairment of goodwill, and fair value of our stock option awards used to calculate stock-based compensation. We base these estimates on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions by their nature involve risks and uncertainties, and may prove to be inaccurate. In the event that any of our estimates or assumptions are inaccurate in any material respect, it could have a material adverse effect on our reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Recent Accounting Pronouncements

Refer to Note 1, Description of Business and Summary of Significant Accounting Policies, to our Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report for a discussion of applicable recent accounting pronouncements.

Analysis of Quarterly Results from Continuing Operations

The following table presents our total revenues for the three month periods ended June 30, 2021 and 2020:

	Three Months Ended June 30,		\$	%
	2021	2020	Increase (decrease)	Change
	(In thousands, except percentages)			
Product revenues	\$ 18,026	\$ 14,394	\$ 3,632	25.2 %
Service revenues	16,059	13,606	2,453	18.0 %
Total revenues	<u>\$ 34,085</u>	<u>\$ 28,000</u>	<u>\$ 6,085</u>	<u>21.7 %</u>

Product revenues primarily consist of product sales, but also includes OEM products for the traffic signal markets, as well as third-party product sales for installation under certain construction-type contracts. Product revenues for the three months ended June 30, 2021 increased 25.2% to \$18 million, as compared to \$14.4 million in the corresponding period in the prior year, primarily due to continued strong demand for our hardware solutions, further augmented by the addition of \$1.4 million of TrafficCast product sales.

Service revenues primarily consist of traffic study, design, engineering, and management services, but also includes service revenues generated from advanced sensor technologies product installation services and cloud-based application installation and support services. Service revenues for the three months ended June 30, 2021 increased 18% to \$16.1 million, compared to \$13.6 million in the corresponding period in the prior year. This increase was primarily due to the addition of \$2.1 million of TrafficCast SaaS revenue. Total annual recurring revenue, which we define as all software and managed services revenue was 24% of total revenue as of June 30, 2021 and 19% of total revenue as of June 30, 2020.

Total revenues for the three months ended June 30, 2021 increased 21.7% to \$34.1 million, compared to \$28.0 million in the corresponding period in the prior year. The increase in total revenues was primarily due to an approximate 25% increase in product revenues, and approximately 18% increase in services revenues.

Backlog is an operational measure representing future unearned revenue amounts believed to be firm that are to be earned under our existing agreements and are not included in deferred revenue on our unaudited condensed consolidated balance sheets. Backlog includes new bookings but does not include announced orders for which definitive contracts have not been executed. We believe backlog is a useful metric for investors, given its relevance to total orders, but there can be no

assurances we will recognize revenue from bookings or backlog timely or ever. Total backlog was \$79.9 million as of June 30, 2021 compared to approximately \$67.9 million as of June 30, 2020.

Gross Profit

The following tables present details of our gross profit for the three months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		\$	%
	2021	2020	Increase	Change
	(In thousands, except percentages)			
Product gross profit	\$ 8,469	\$ 6,313	\$ 2,156	34.2 %
Service gross profit	5,624	4,555	1,069	23.5 %
Total gross profit	<u>\$ 14,093</u>	<u>\$ 10,868</u>	<u>\$ 3,225</u>	<u>29.7 %</u>
Product gross margin as a % of product revenues	47.0 %	43.9 %		
Service gross margin as a % of service revenues	35.0 %	33.5 %		
Total gross margin as a % of total revenues	41.3 %	38.8 %		

Our product gross margin for the three months ended June 30, 2021 increased approximately 310 basis points, as compared to the corresponding period in the prior year. The increase in product gross margin was mainly due to favorable product mix and manufacturing volume. Our core product sales yield higher margins compared our third party products sales which typically yield lower gross margins.

Our service gross margin for the three months ended June 30, 2021 increased approximately 150 basis points as compared to the corresponding prior year period. The increase is due to higher sales in application and cloud based services, which generally result in higher gross margins than other services.

Our total gross margin for the three months ended June 30, 2021 increased approximately 250 basis points, as compared to the corresponding prior year period due to aforementioned reasons.

General and Administrative Expense

General and administrative expense for the three months ended June 30, 2021 increased approximately 19.0% to \$6.4 million, compared to \$5.4 million for the three months ended June 30, 2020. The increase is primarily due to the addition of TrafficCast, and additional professional services fees related to the companies review of strategic alternatives.

Sales and Marketing

Sales and marketing expense for the three months ended June 30, 2021 increased approximately 36.7% to \$4.6 million compared to \$3.4 million for the three months ended June 30, 2020. The increase is primarily due to the addition of TrafficCast, and higher sales commissions based on higher sales.

Research and Development Expense

Research and development expense for the three months ended June 30, 2021 increased approximately 100% to \$1.8 million, compared to \$0.9 million for the three months ended June 30, 2020. The overall increase was primarily due to the addition of TrafficCast and continued investment in research and development activities largely focused on improving our existing software related offerings.

We plan to continue to invest in the development of further enhancements and functionality of our Iteris ClearMobility Platform as well as our Vantage products family.

Certain development costs were capitalized into intangible assets in the unaudited condensed consolidated balance sheets; in both the current and prior year periods; however, certain costs did not meet the criteria for capitalization under GAAP and are included in research and development expense. Going forward, we expect to continue to invest in our software

solutions. This continued investment may result in increases in research and development costs, as well as additional capitalized software in future periods.

Amortization of Intangible Assets

Amortization of intangible assets was approximately \$0.7 million and \$0.2 million for the three months ended June 30, 2021 and 2020, respectively. The increase was primarily due to amortization related to intangible assets acquired as part of the AGI and TrafficCast acquisitions.

Income Taxes

The effective tax rate used for interim periods is the estimated annual effective tax rate, based on current estimate of full year results, except that taxes related to specific events, if any, are recorded in the interim period in which they occur.

Income tax expense for the three month period ended June 30, 2021 was approximately \$0.08 million, or 10.6% of pre-tax income as compared with an expense of approximately \$0.03 million, or 6.0% of pre-tax income for the three month period ended June 30, 2020.

In assessing the realizability of our deferred tax assets, we review all available positive and negative evidence, including reversal of deferred tax liabilities, potential carrybacks, projected future taxable income, tax planning strategies and recent financial performance. As we have experienced a cumulative pre-tax loss over the trailing three years, we continue to maintain a valuation allowance against our deferred tax assets. We intend to continue maintaining a full valuation allowance on our deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. However, given our current earnings and anticipated future earnings, we believe that there is a reasonable possibility that within the next 12 months, and potentially in the next few quarters, sufficient positive evidence may become available to allow us to reach a conclusion that a significant portion of the valuation allowance will no longer be needed. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change on the basis of the level of profitability that we are able to actually achieve.

On March 27, 2020, the CARES Act was enacted in response to the Pandemic. The CARES Act contains numerous income tax provisions, such as relaxing limitations on the deductibility of interest and the use of net operating losses arising in taxable years beginning after December 31, 2017. The income tax provisions of the CARES Act had an immaterial impact on our current taxes, deferred taxes, and uncertain tax positions of the Company in the year ended March 31, 2021. The CARES Act also allows for the deferral of payroll taxes, as well as the immediate refund of federal Alternative Minimum Tax credits, which had previously been made refundable over a period of four years by the Tax Cuts and Jobs Act of 2017. The Company is utilizing the provision of the CARES Act allowing for the deferral of payroll taxes as of June 30, 2021.

Liquidity and Capital Resources

Liquidity Outlook

We believe we will have adequate liquidity over the next 12 months to operate our business and to meet our cash requirements. As of June 30, 2021, we had cash and cash equivalents totaling approximately \$31.1 million. We do not have a revolving credit facility. Our cash position will also be impacted by any capital expenditures or acquisitions we complete in the future.

As a result of the Pandemic, we have taken and will continue to take action to reduce costs, preserve liquidity and manage our cash flow. Such actions include, but are not limited to reducing our discretionary spending, reducing capital expenditures, and reducing payroll costs, including employee furloughs, pay freezes and pay cuts as needed.

While the impact and duration of the Pandemic on our business is currently uncertain, the situation is expected to be temporary. In the longer term, we remain committed to increasing total shareholder returns through our investments in opportunities and initiatives to grow our business organically and through acquisitions that support our current strategies.

Cash Flows

We have historically financed our operations with a combination of cash flows from operations and the sale of equity securities. We expect to continue to rely on cash flows from operations and our cash reserves to fund our operations, which we

believe to be sufficient to fund our operations for at least the next twelve months. However, we may need or choose to raise additional capital to fund potential future acquisitions and our future growth. We may raise such funds by selling equity or debt securities to the public or to selected investors or by borrowing money from financial institutions. If we raise additional funds by issuing equity or convertible debt securities, our existing stockholders may experience significant dilution, and any equity securities that may be issued may have rights senior to our existing stockholders. There is no assurance that we will be able to secure additional funding on a timely basis, on terms acceptable to us, or at all.

At June 30, 2021, we had \$39.5 million in working capital, excluding current assets and liabilities held for sale, which included \$31.4 million in cash, cash equivalents, and restricted cash. This compares to working capital of \$36.7 million at March 31, 2021, excluding current assets and liabilities held for sale, which included \$25.5 million in cash, cash equivalents, and restricted cash as well as \$3.1 million in short-term investments.

Operating Activities. Net cash provided by operating activities of our continuing operations for the three months ended June 30, 2021 of approximately \$1.2 million was primarily the result of approximately \$1.7 million in non-cash items, primarily for noncash lease expense, deferred income taxes, depreciation, stock-based compensation, and amortization coupled with our net income from continuing operations of approximately \$0.6 million. This was offset by approximately \$1.1 million from changes in working capital. Net cash used in operating activities from discontinued operations was approximately \$0.1 million.

Net cash provided by operating activities of our continuing operations for the three months ended June 30, 2020 was primarily the result of our net income of approximately \$0.4 million, coupled with approximately \$0.2 million from changes in working capital, offset by approximately \$1.6 million in noncash items for noncash lease expense, deferred income taxes, depreciation, stock-based compensation, and amortization. Net cash used in operating activities from discontinued operations was approximately \$2.1 million.

Investing Activities. Net cash provided by investing activities of our continuing operations during the three months ended June 30, 2021 was primarily the result of approximately \$3.1 million in proceeds from the maturity of short-term investments offset by approximately \$0.1 million of property and equipment purchases, and approximately \$1.1 million of capitalized software development costs, of which \$0.9 million pertained to further development of our Commercial Vehicle Operations ("CVO") software platform. Net cash provided by investing activities from discontinued operations was approximately \$1.5 million.

Net cash used in investing activities of our continuing operations during the three months ended June 30, 2020 was primarily the result of approximately \$19.5 million in purchases of short-term investments and approximately \$0.3 million of property and equipment purchases, approximately \$0.2 million of capitalized software development costs, related to VantageLive! and ClearGuide. These investments were partially offset by approximately \$9.4 million in net proceeds from the sale of the Agriculture and Weather Analytics business and approximately \$6.7 million in proceeds from the sale and maturity of short-term investments.

Financing Activities. Net cash provided by financing activities of our continuing operations during the three months ended June 30, 2021 was the result of approximately \$1.4 million of cash proceeds from the exercises of stock options.

Net cash provided by financing activities of our continuing operations during the three months ended June 30, 2020 was the result of approximately \$0.1 million of cash proceeds from the exercises of stock options.

Off Balance Sheet Arrangements

We did not have any material off balance sheet arrangements at June 30, 2021.

Seasonality

We have historically experienced seasonality, which adversely affects product sales in our third and fourth fiscal quarters due to a reduction in intersection construction and repairs during the winter months due to inclement weather conditions, with the third fiscal quarter generally affected the most by inclement weather. We have also experienced seasonality, particularly with respect to our service revenues, especially in the third fiscal quarter due to the increased number of holidays, causing a reduction in available billable hours.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

As a smaller reporting company, we are not required to provide the information required by Item 305 of Regulations S-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q.

Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management was required to apply its judgment in evaluating the cost-benefit relationship of such controls and procedures.

Changes in Internal Controls

During the fiscal quarter covered by this report, there has been no change in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

The Company acquired TCI on December 7, 2020. During the fiscal quarter ended June 30, 2021, management began including TCI in its assessment of the effectiveness of the Company's internal control over financial reporting.

Inherent Limitations on Internal Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of management override or improper acts, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to management override, error or improper acts may occur and not be detected. Any resulting misstatement or loss may have an adverse and material effect on our business, financial condition and results of operations.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth in Note 7, Commitments and Contingencies, under the heading "Litigation and Other Contingencies" to our Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report, is incorporated herein by reference.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On August 9, 2012, our Board of Directors approved a new stock repurchase program pursuant to which we may acquire up to \$3 million of our outstanding common stock for an unspecified length of time. Under the program, we may repurchase shares from time to time in the open market and privately negotiated transactions and block trades, and may also repurchase shares pursuant to a 10b5-1 trading plan during our closed trading windows, to the extent such a 10b5-1 plan is in place. There is no guarantee as to the exact number of shares that will be repurchased. We may modify or terminate the repurchase program at any time without prior notice. On November 6, 2014, our Board of Directors approved a \$3.0 million increase to the Company's existing stock repurchase program, pursuant to which the Company may continue to acquire shares of its outstanding common stock from time to time for an unspecified length of time.

For the three month periods ended June 30, 2021, the Company did not repurchase any shares. From inception of the 2012 program in August 2012 through June 30, 2021, we repurchased approximately 2,458,000 shares of our common stock for an aggregate price of approximately \$4.3 million, at an average price per share of \$1.73. As of June 30, 2021, all repurchased shares have been retired and returned to their status as authorized and unissued shares of our common stock. As of June 30, 2021, approximately \$1.7 million remains available for the repurchase of our common stock under our current program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed or furnished herewith or are incorporated by reference to the location indicated.

Exhibit Number	Description	Where Located
31.1	Certification of the Principal Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of the Principal Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of the Chief Executive Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
32.2	Certification of the Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
101.INS	Inline XBRL Instance Document – The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.	Filed herewith

101.SCH	Inline XBRL Taxonomy Extension Schema Document	<i>Filed herewith</i>
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	<i>Filed herewith</i>
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	<i>Filed herewith</i>
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	<i>Filed herewith</i>
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	<i>Filed herewith</i>
104.1	Cover Page Interactive Data File – The cover page interactive data file does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document	<i>Filed herewith</i>

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.

Date: August 5, 2021

ITERIS, INC.
(Registrant)

By /s/ JOE BERGERA
Joe Bergera
Chief Executive Officer
(Principal Executive Officer)

By /s/ DOUGLAS L. GROVES
Douglas L. Groves
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joe Bergera, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Iteris, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2021

/s/ JOE BERGERA

Joe Bergera

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Douglas L. Groves, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Iteris, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2021

/s/ DOUGLAS L. GROVES

Douglas L. Groves

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Iteris, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joe Bergera, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2021

/s/ JOE BERGERA

Joe Bergera

Chief Executive Officer

A signed original of this written statement required by Section 906, or any other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Iteris, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Douglas L. Groves, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2021

/s/ DOUGLAS L. GROVES

Douglas L. Groves

Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906, or any other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.