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

**FORM 10-K**

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(Mark One)

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

For the fiscal year ended March 31, 2019

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<sup>®</sup>**

**ITERIS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**95-2588496**  
(I.R.S. Employer  
Identification No.)

**1700 Carnegie Ave., Santa Ana,  
California**  
(Address of Principal Executive Offices)

**92705**  
(Zip Code)

Registrant's Telephone Number, Including Area Code: **(949) 270-9400**

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

Securities registered pursuant to Section 12(g) of the Act. **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933, as amended (the "Securities Act"). Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☒ 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 ☒ 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 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	<input type="radio"/>	Accelerated filer	<input checked="" type="checkbox"/>	Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="checkbox"/>
						Emerging growth company	<input type="radio"/>

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 Exchange Act Rule 12b-2). Yes ☐ No ☒

The aggregate market value of the registrant's common stock held by nonaffiliates of the registrant as of September 30, 2018 was approximately \$132,700,000. For the purposes of this calculation, shares owned by officers, directors and 10% stockholders known to the registrant have been deemed to be owned by affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of May 31, 2019, there were 33,388,696 shares of our common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

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**ITERIS, INC.**  
**ANNUAL REPORT ON FORM 10-K**  
**FOR THE FISCAL YEAR ENDED MARCH 31, 2019**  
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Unless otherwise indicated in this report, the "Company," "we," "us" and "our" refer to Iteris, Inc. and its wholly-owned subsidiary, ClearAg, Inc. CheckPoint™, ClearAg®, ClearPath Weather®, CVIEW-Plus™, Edge®, EdgeConnect™, EMPower®, EvapoSmart™, IMFocus™, inspect™, iPeMS®, Iteris®, Iteris SPM™, Next®, P10™, P100™, PedTrax®, Pegasus™, Reverse 511®, SmartCycle®, SmartCycle Bike Indicator™, SmartSpan®, SPM™ (logo), TransitHelper®, UCRLink™, Vantage®, VantageLive!™, VantagePegasus®, VantageRadius®, Vantage Vector®, Velocity®, and VersiCam™ 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.

## Cautionary Statement

*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, 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, and the status of our facilities and product development. 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 I, 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.*

## PART I

### ITEM 1. BUSINESS

#### Overview

Iteris, Inc. (referred to collectively with its wholly-owned subsidiary, ClearAg, Inc., in this report as "Iteris," the "Company," "we," "our," and "us") is a provider of essential applied informatics that enable smart transportation and digital agriculture. Municipalities, government agencies, crop science companies, agriculture service providers and other agribusinesses use our solutions to make roads safer and travel more efficient, as well as farmlands more sustainable, healthy and productive.

As a pioneer in intelligent transportation systems ("ITS") technology for more than two decades, our intellectual property, products, software-as-a-service ("SaaS") offerings and weather forecasting systems offer a comprehensive range of ITS solutions to our customers throughout the U.S. and internationally.

In the digital agriculture market, we have combined our intellectual property with enhanced atmospheric, land surface and agronomic modeling techniques to offer smart content and analytic solutions that provide analytical support to large enterprises in the agriculture industry, such as seed and crop protection companies, integrated food companies, and agricultural equipment manufacturers and service providers.

We believe our products, solutions and services improve and safely optimize mobility within our communities, while minimizing environmental impact on the roads we travel and the lands we farm.

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, while supporting the agriculture market with our smart content and digital agriculture platform, and always exploring strategic alternatives intended to optimize the value of all of our businesses.

Iteris was incorporated in Delaware in 1987 and has operated in its current form since 2004. Our principal executive offices are located at 1700 Carnegie Avenue, Santa Ana, California 92705, and our telephone number at that location is (949) 270-9400. Our website address is [www.iteris.com](http://www.iteris.com). The inclusion of our website address in this report does not include or incorporate by reference into this report any information on, or accessible through, our website. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, together with amendments to these reports, are available on the "Investor Relations" section of our website, free of charge, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the U.S. Securities and Exchange Commission ("SEC").

#### Recent Developments

##### *ClearAg, Inc.*

In April 2017, Iteris, Inc. formed a wholly-owned subsidiary, ClearAg, Inc., a Delaware corporation, to provide ClearAg solutions to the agriculture markets.

#### Products and Services

We currently operate in three reporting segments: Roadway Sensors, Transportation Systems, and Agriculture and Weather Analytics.

The Roadway Sensors segment provides various advanced detection sensors and systems for traffic intersection management, communication systems and roadway traffic data collection applications. The Transportation Systems segment provides traffic engineering and consulting services, as well as

performance measurement, traffic analytics, traveler information and commercial vehicle operating software solutions. The Agriculture and Weather Analytics segment includes ClearPath Weather, our road maintenance applications, and ClearAg, our digital agriculture platform.

See Note 11 of Notes to Consolidated Financial Statements, included in Part II, Item 8 of this report for further details on our reporting segments.

#### *Roadway Sensors*

Our Roadway Sensors products include, among others, Vantage, VantageLive!, Vantage Next®, VantagePegasus, VantageRadius, Vantage Vector, Velocity, SmartCycle, SmartCycle Bike Indicator, SmartSpan, VersiCam, PedTrax and P-Series products.

- Our Vantage detection systems detect vehicle presence at intersections, as well as vehicle count, speed and other traffic data used in traffic management systems. Vantage detection systems typically include up to four of our advanced cameras or radar devices. Our Vantage systems give traffic managers the tools to mitigate roadway congestion by visualizing and analyzing traffic patterns allowing them to modify traffic signal timing to improve traffic flow. Our various software components complement our Vantage detection systems by providing integrated platforms to manage and view detection assets remotely over a network connection, as well as mobile application for viewing anywhere.
- Our Vantage Vector video/radar hybrid product is an all-in-one detection sensor with a wide range of capabilities, including stop bar and advanced zone detection, which enable advanced safety and adaptive control applications. Vantage Vector includes all of the benefits of Iteris video detection, including high accuracy, high-availability remote viewing of video images, bicycle and pedestrian detection capability, and dilemma-zone detection.
- VantageLive! is a cloud-based platform that allows users to collect, process and analyze advanced intersection data, as well as to view and understand intersection activity.
- All of our Vantage systems are available with SmartCycle capability, which can effectively differentiate between bicycles and other vehicles with a single video detection camera, enabling more efficient signalized intersections, improved traffic throughput and increased bicyclist safety. Agencies using bicycle timing can now benefit from bicycle-specific virtual detection zones that can be placed anywhere within the approaching traffic lanes, eliminating the need for separate bicycle-only detection systems.
- The SmartCycle Bike Indicator, which leverages the SmartCycle bicycle detection algorithm, is a device that mounts onto traffic signals and illuminates when cyclists waiting at an intersection have been detected, allowing cyclists to avoid interacting with vehicle traffic to push pole-mounted buttons.
- Our Vantage systems are also available with the PedTrax capability, which provides bi-directional counting and speed tracking of pedestrians within the crosswalk to help improve signal timing efficiency, as well as providing an additional data stream to existing vehicle and bicycle counts.
- VersiCam, our integrated camera and processor video detection system, is a cost-efficient video detection system for smaller intersections that require only a few detection points.

We believe that future growth domestically and internationally, will be dependent in part on the continued adoption of above-ground video detection technologies, instead of traditional in-pavement loop technology, to manage traffic.

In select territories, we also sell certain complementary original equipment manufacturer ("OEM") products for the traffic intersection market, which include, among other things, traffic signal controllers and traffic signal equipment cabinets.

### *Transportation Systems*

Our Transportation Systems segment includes engineering and consulting services focused on the planning, design, development and implementation of software and hardware-based ITS systems that integrate sensors, video surveillance, computers and advanced communications equipment to enable public agencies to monitor, control and direct traffic flow, assist in the quick dispatch of emergency crews, and distribute real-time information about traffic conditions. Our services include planning, design, implementation, operation and management of surface transportation infrastructure systems. We perform analysis and study goods movement, commercial vehicle operations, provide travel demand forecasting and systems engineering, and identify mitigation measures to reduce traffic congestion.

The Transportations Systems segment also includes our performance measurement and management solutions, Iteris Signal Performance Measures (SPM) and iPeMS—a state-of-the-art information management software suite that provides prescriptive data insights to help determine current and future traffic patterns, permitting the effective performance analysis and management of traffic infrastructure resources. iPeMS utilizes a wide range of data resources and analytical techniques to determine current and future traffic patterns, permitting the effective performance analysis and management of traffic infrastructure resources. This information can then be analyzed by traffic professionals to measure how a transportation network is performing and to identify potential areas of improvement. iPeMS is also capable of providing users with predictive traffic analytics, and easy-to-use visualization and animation features based on historical traffic conditions.

We recently launched our comprehensive signal performance measures solution offering, Iteris SPM, a cloud-based application that provides proactive operations and signal maintenance with business process outsourcing and managed services. This offering is expected to be priced on a per intersection per month basis.

This segment also includes our advanced traveler information system solutions, as well as our commercial vehicle operations and vehicle safety compliance platforms, known as "CVIEW-Plus," "CheckPoint," "UCRLink" and "inspect." These platforms support state-based commercial vehicle operations by storing and distributing intrastate and interstate commercial vehicle information for local, state and federal agencies' roadside and enforcement operations.

Our Transportation Systems segment is largely dependent upon state and local governmental funding, and to a lesser extent federal governmental funding. In addition, various other funding mechanisms exist to support transportation infrastructure and related projects, including, but not limited to, bonds, dedicated sales and gas tax measures, and other alternative funding sources. We believe the overall expansion of our Transportation Systems segment in the future will continue to be dependent at least in part on the federal and local government's use of funds, and as in the past, our Transportation Systems business has been, at times, adversely affected by governmental budgetary issues. Delays in the allocation of funds may prolong uncertainty regarding the allotment of transportation funds in federal, state and local budgets.

### *Agriculture and Weather Analytics*

Our Agriculture and Weather Analytics segment, which we formed during the first quarter of our fiscal year ended March 31, 2013, consists of our ClearPath Weather and ClearAg solutions.

Our ClearPath Weather is a web-based solution, which includes a suite of tools that apply data assimilation and modeling technologies to assess weather conditions for customizable route/site weather

and pavement forecasting, and render winter road maintenance recommendations for state agencies, municipalities and commercial companies to improve roadway maintenance decisions.

Our ClearPath Weather business is a market leader in performance management solutions for state organizations. We intend to use our strong brand and deep experience in the traffic management market, as well as our market-specific intellectual property, to expand our leadership in data aggregation and analytics in this market.

Beginning in late 2013, we undertook the development of "ClearAg solutions" for the digital agricultural market. These new products utilize and expand the intellectual property, technology base and product suites of our ClearPath Weather solutions. For our ClearAg solutions, we developed additional scientific and agronomic models and forecasts, expanded our computing infrastructure for additional big data acquisition and processing, and designed distributed delivery vehicles and products.

Our ClearAg solutions combine weather and agronomic data with proprietary land-surface modeling and analytics to solve complex agricultural problems and to increase the efficiency and sustainability of farmlands. The ClearAg Platform delivers validation tools for ag inputs, irrigation, field readiness, and harvest solutions giving growers, researchers and other agribusinesses access to a comprehensive database of historical, real-time and forecasted weather, soil and plant health information, as well as other information on crop growth. Companies use the ClearAg Platform to simulate field conditions and determine how new products may perform on a crop given certain weather and soil conditions. Growers and agribusinesses leverage the ClearAg Platform to determine the best times to plant, spray, fertilize, irrigate, and harvest crops.

Currently, we offer our ClearAg solutions on a subscription basis, with customers consuming ClearAg through our visualization component application programming interfaces ("APIs"). These APIs facilitate the integration of ClearAg's analytics and insights with the offerings of large enterprise customers in the agriculture market. We commenced commercial sales of the ClearAg solutions and related APIs in the first quarter of our fiscal year ended March 31, 2015 ("Fiscal 2015").

We expect market acceptance of our ClearAg solutions to continue to increase in upcoming quarters. We plan to continue to fund the investments in our ClearAg solutions, through cash flow generated from our Roadway Sensors and Transportation Systems operations, revenues from our Agriculture and Weather Analytics segment, and our available cash on hand, as needed. We may also elect to raise additional equity for these investments.

## **Sales and Marketing**

We currently sell our Roadway Sensors products through both direct and indirect sales channels. In the territories we sell through direct channels, we use a combination of our own sales personnel and outside sales organizations to sell, oversee installations, and support our products. Our indirect sales channel is comprised of a network of independent distributors in the U.S. and select international locations, which sell integrated systems and related products to the traffic management market. In the fourth quarter of our fiscal year ended March 31, 2018 ("Fiscal 2018"), we entered into a distribution agreement to expand our northern European sales coverage in the U.K. and Ireland. Our independent distributors are trained in, and primarily responsible for, sales, installation, set-up and support of our products, maintain an inventory of demonstration traffic products from various manufacturers, and sell directly to government agencies and installation contractors. These distributors often have long-term arrangements with local government agencies in their respective territories for the supply of various products for the construction and renovation of traffic intersections, and are generally well-known suppliers of various high-quality ITS products to the traffic management market. We periodically hold technical training classes for our distributors and end users, and maintain a full-time staff of customer support technicians throughout the U.S. to provide technical assistance when needed. When



appropriate, we have the ability to modify or make changes to our distributor network to accommodate the needs of the market and our customer base.

We market and sell our Transportation Systems services and solutions and our ClearPath Weather services primarily to government agencies pursuant to negotiated contracts that involve competitive bidding and specific qualification requirements. Most of our contracts are with federal, state and local municipal customers, and generally provide for cancellation or renegotiation at the option of the customer upon reasonable notice and fees paid for modification. We generally use selected members of our engineering, science and information technology teams on a regional basis to serve in sales and business development functions. Our Transportation Systems contracts generally involve long lead times and require extensive specification development, evaluation and price negotiations.

Currently, we market and sell our ClearAg solutions on a subscription basis, under a SaaS license, to seed and crop protection companies, agriculture equipment manufacturers, irrigation solution providers, allied providers and other agriculture service providers. Due to the recent consolidation of certain large companies in the agriculture market, sales to such companies typically involve long lead times. Although we sell directly to all of our customers, some of these customers include ClearAg into their solutions which are ultimately used by growers.

We have a small dedicated software solutions sales team that serves as an overlay to our regionally aligned customer management team.

We have historically had a diverse customer base. For the fiscal year ended March 31, 2019 ("Fiscal 2019") and Fiscal 2018, one individual customer represented greater than 10% of our total revenues.

## **Manufacturing and Materials**

We use contract manufacturers to build subassemblies that are used in our Roadway Sensors products. Additionally, we procure certain components for our Roadway Sensors products from qualified suppliers, both in the U.S. and internationally, and generally use multi-sourcing strategies when technically and economically feasible to mitigate supply risk. These subassemblies and components are typically delivered to our Santa Ana, California facility where they go through final assembly and testing prior to shipment to our customers. Our key suppliers include Veris Manufacturing, MoboTrex, Inc. and Sony Electronics, Inc. Our manufacturing activities are conducted in approximately 9,000 square feet of space at our Santa Ana, California facility. Production volume at our subcontractors is based upon quarterly forecasts that we generally adjust on a monthly basis to control inventory levels. Typically, we do not manufacture any of the hardware used in the transportation management and traveler information systems that we design and implement. Our production facility is currently ISO 9001 certified.

## **Customer Support and Services**

We provide warranty service and support for our products, as well as follow-up service and support for which we charge separately. Such service revenue was not a material portion of our total revenues for Fiscal 2019, Fiscal 2018 and the fiscal year ended March 31, 2017 ("Fiscal 2017"). We believe customer support is a key competitive factor for our company.

Our ClearAg solutions are primarily sold as annual subscription services with recurring monthly revenue. As an element of these services, we provide full-time support and customer service for such ClearAg solutions.

## Backlog

Our total backlog of unfulfilled firm orders was approximately \$55.4 million as of March 31, 2019, which included \$44.5 million related to Transportation Systems, \$6.2 million related to Roadway Sensors, and \$4.7 million related to Agriculture and Weather Analytics. Typically, we recognize approximately 70% of our Transportation Systems backlog as of the end of a fiscal year in the subsequent fiscal year, and currently expect that trend to continue for the near future. Substantially the entire backlog for Roadway Sensors and Agriculture and Weather Analytics as of March 31, 2019 is expected to be recognized as revenue in the fiscal year ending March 31, 2020 ("Fiscal 2020"). At March 31, 2018, we had backlog of approximately \$47.5 million, which included \$37.7 million related to Transportation Systems, \$5.6 million related to Roadway Sensors and \$4.2 million related to Agriculture and Weather Analytics. The increase in backlog in the current fiscal year was largely due to increased sales and marketing efforts in our Transportation Systems segment during the current fiscal year.

The timing and realization of our backlog is subject to the inherent uncertainties of doing business with federal, state and local governments, particularly in view of budgetary constraints, cut-backs and other delays or reallocations of funding that these entities typically face. In addition, pursuant to the customary terms of our agreements with government contractors and other customers, our customers can generally cancel or reschedule orders with little or no penalties. Lead times for the release of purchase orders often depend upon the scheduling and forecasting practices of our individual customers, which also can affect the timing of the conversion of our backlog into revenues. For these reasons, among others, our backlog at a particular date may not be indicative of our future revenues, in particular for our Roadway Sensors segment.

## Product Development

Our product development activities are mostly conducted at our principal facility in Santa Ana, California, as well as our facilities in Grand Forks, North Dakota and Oakland, California. Our research and development costs and expenses were approximately \$7.8 million for Fiscal 2019, \$7.9 million for Fiscal 2018, and \$6.9 million for Fiscal 2017. We expect to continue to pursue various product development programs and incur research and development expenditures, primarily in our Agriculture and Weather Analytics and Roadway Sensors segments, in future periods.

We believe our engineering and product development capabilities are a competitive strength. We strive to continuously develop new products, technologies, features and functionalities to meet the needs of our ever-changing markets, as well as to enhance, improve upon, and refine our existing product lines. We plan to continue to invest in the development of our ClearAg and ClearPath Weather solutions, and our Iteris SPM, iPeMS, and commercial vehicle operations software offerings. In addition, we intend to continue to invest in further enhancements and functionality in our Vantage products family. We believe that developing new and enhanced product offerings across our segments and enhancing, refining and marketing our existing products are key components for strong organic growth and profitability.

## Competition

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

The markets in which our Agriculture and Weather Analytics segment operates vary from the commercial sector customers for ClearAg solutions to public sector customers for ClearPath Weather solutions. Our competitors vary in number, scope and breadth of the products and services they offer. In the public sector, we compete with some of the same transportation engineering, planning and design firms that also compete with our Transportation Systems segment. In the commercial sector, we compete with a variety of entities that currently provide weather-related data to that market, such as IBM/The Weather Company and DTN.

In the market for our Roadway Sensors detection products, we compete with manufacturers and distributors of other above-ground video camera detection systems such as Econolite, and manufacturers and distributors of other non-intrusive detection devices, including microwave, infrared, radar, ultrasonic and magnetic detectors, as well as manufacturers and installers of in-pavement inductive loop products, which have historically been, and currently continue to be, the predominant vehicle detection system in this market. Additionally, products such as Velocity and VantagePegasus compete against various competitors in the travel-time and data communications markets, respectively.

The markets in which our Transportation Systems segment operates is highly fragmented and subject to evolving national and regional quality, operations and safety standards. Our competitors vary in number, scope and breadth of the products and services they offer. Our competitors in the managed services and consulting business lines include a mix of local, regional and international engineering services firms. Our competitors in the software business line, which includes performance measurement and management, advance traveler information systems, and our commercial vehicle operations and vehicle safety compliance platforms include university affiliated software organizations, venture backed software companies, as well as other multi-disciplinary hardware and software corporations.

In general, the markets for the products and services we offer are highly competitive and are characterized by rapidly changing technology and evolving standards. Many of our current and prospective competitors have longer operating histories, greater name recognition, access to larger customer bases, and significantly greater financial, technical, manufacturing, distribution and marketing resources than us. As a result, they may be able to adapt more quickly to new or emerging standards or technologies, or to devote greater resources to the promotion and sale of their products. It is also possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share. We believe that our ability to compete effectively in our target markets will depend on a number of factors, including the success and timing of our new product development, the compatibility of our products with a broad range of computing systems, product quality and performance, reliability, functionality, price and service, and technical support. Our failure to provide services and develop and market products that compete successfully with those of other suppliers and consultants in our target markets would have a material adverse effect on our business, financial condition and results of operations.

### **Intellectual Property and Proprietary Rights**

Our ability to compete effectively depends in part on our ability to develop and maintain the proprietary aspects of our technology. Our policy is to obtain appropriate proprietary rights protection for any potentially significant new technology acquired or developed by us. We currently have a total of 53 issued U.S. patents, including: (i) 10 relating to our Roadway Sensors technologies, two of which was issued in Fiscal 2019, (ii) 36 relating to our Agriculture and Weather Analytics technologies, ten of which were issued in Fiscal 2019, and (iii) 7 relating to our Transportation Systems technologies, one of which was issued in Fiscal 2019. We have a total of 14 pending patent applications in the U.S. and 15 pending foreign patent applications. The expiration dates of our patents range from 2026 to 2038. We intend to pursue additional patent protection to the extent we believe it would be beneficial and cost-effective.

In addition to patent laws, we rely on copyright and trade secret laws to protect our proprietary rights. We attempt to protect our trade secrets and other proprietary information through agreements with customers and suppliers, proprietary information agreements with our employees and consultants, and other similar measures. We do not have any material licenses or trademarks other than those relating to product names. We cannot be certain that we will be successful in protecting our proprietary rights. While we believe our patents, patent applications, software and other proprietary know-how have value, rapidly evolving technology makes our future success dependent largely upon our ability to successfully achieve continuing innovation.

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

## Employees

As of March 31, 2019, we employed 362 full-time employees and 31 part-time employees, for a total of 393 employees. None of our employees is represented by a labor union, and we have never experienced a work stoppage. We believe our relations with our employees are good.

## Government Regulation

Our manufacturing operations are subject to various federal, state and local laws and regulations, including those restricting the discharge of materials into the environment. We are not involved in any pending or, to our knowledge, threatened governmental proceedings, which would require curtailment of our operations because of such laws and regulations. We continue to expend funds in connection with our compliance with applicable environmental regulations. These expenditures have not, however, been significant in the past, and we do not expect any significant expenditure in the near future. Currently, compliance with foreign laws has not had a material impact on our business; however, as we expand internationally, foreign laws and regulations could have a material impact on our business in the future.

## ITEM 1A. RISK FACTORS

*Our business is subject to a number of risks, some of which are discussed below. Other risks are presented elsewhere in this report and in the information incorporated by reference into this report. You should consider the following risks carefully in addition to the other information contained in this report and our other filings with the SEC, including our subsequent reports on Forms 10-Q and 8-K, before deciding to buy, sell or hold our common stock. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. If any of these risks actually occurs, our business, financial condition, or results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose all or part of your investment.*

***Because we depend on government contracts and subcontracts, we face additional risks related to contracting with federal, state and local governments, including budgetary issues and fixed price contracts.***

A significant portion of our revenues is derived from contracts with governmental agencies, either as a general contractor, subcontractor or supplier. We anticipate that revenue from government contracts will continue to remain a significant portion of our revenues. Government business is, in general, subject to special risks and challenges, including:

- delays in funding and uncertainty regarding the allocation of funds to state and local agencies from the U.S. federal government, delays in the expenditures from the federal highway bill and delays or reductions in other state and local funding dedicated for transportation and ITS projects;

- other government budgetary constraints, cut-backs, delays or reallocation of government funding, including without limitation, changes in the new administration and repeal of government purchasing programs;
- long purchase cycles or approval processes;
- competitive bidding and qualification requirements, as well as our ability to replace large contracts once they have been completed;
- changes in government policies and political agendas;
- maintenance of relationships with key government entities from whom a substantial portion of our revenue is derived;
- milestone deliverable requirements and liquidated damage and/or contract termination provisions for failure to meet contract milestone requirements;
- performance bond requirements;
- adverse weather conditions may cause delays, such as, evacuations and flooding due to hurricanes can result in our inability to perform work in affected areas; and
- international relations and international conflicts or other military operations that could cause the temporary or permanent diversion of government funding from transportation or other infrastructure projects.

Governmental budgets and plans are subject to change without warning. Certain risks of selling to governmental entities include dependence on appropriations and administrative allocation of funds, changes in governmental procurement legislation and regulations and other policies that may reflect political developments or agendas, significant changes in contract scheduling, intense competition for government business and termination of purchase decisions for the convenience of the governmental entity. Substantial delays in purchase decisions by governmental entities, and the current constraints on government budgets at the federal, state and local level, and the ongoing uncertainty as to the timing and accessibility to government funding could cause our revenues and income to drop substantially or to fluctuate significantly between fiscal periods.

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

***We recently expanded our Agriculture and Weather Analytics capabilities to address a new market segment, the digital agricultural market, which might not broadly accept our technologies and new products.***

The application of data analytics to the agricultural market is a relatively new development that has required us to invest, and is expected to continue to require us to invest, in additional research and development, and sales and marketing without any guarantee of a commensurate increase in revenues. The introduction of any new Agriculture and Weather Analytics products and services could have longer than expected sales cycles, which could adversely impact our operating results. We cannot assure

you that growers or other agribusinesses in this market will appreciate the value proposition of our offering or that our new ClearAg products for this market will achieve broad market acceptance in the near future or at all. If the agricultural market fails to understand and appreciate the benefit of our offering or chooses not to adopt our technologies, the financial results of our Agriculture and Weather Analytics segment will be adversely affected.

***We may not be able to achieve profitability on a quarterly or annual basis in the future.***

For Fiscal 2019, Fiscal 2018, and Fiscal 2017, we had net losses of approximately \$7.8 million, \$3.5 million and \$4.8 million, respectively, and we cannot assure you that we will be profitable in the future. Our ability to become profitable in future periods could be impacted by governmental budgetary constraints, government and political agendas, economic instability and other items that are not in our control. Furthermore, we rely on operating profits from certain of our business segments to fund investments in sales and marketing and research and development initiatives. We cannot assure you that our financial performance will sustain a sufficient level to completely support those investments. Most of our expenses are fixed in advance. As such, we generally are unable to reduce our expenses significantly in the short-term to compensate for any unexpected delay or decrease in anticipated revenues or increases in planned investments. As a result, we may continue to experience operating losses and net losses in the future, which would make it difficult to fund our operations and achieve our business plan, and could cause the market price of our common stock to decline.

***Our profitability could be adversely affected if we are not able to maintain adequate utilization of our Transportation Systems workforce.***

The cost of providing our Transportation Systems engineering and consulting services, including the extent to which we utilize our workforce, affects our profitability. The rate at which we utilize our workforce is affected by a number of factors, including:

- our ability to transition employees from completed projects to new assignments and to hire and assimilate new employees;
- our ability to forecast demand for our services and thereby maintain an appropriate headcount in our various regions;
- the timing of new contract awards or the completion of large contract;
- availability of funding or other budget issues;
- our need to devote time and resources to training, business development, professional development and other non-chargeable activities; and
- our ability to match the skill sets of our employees to the needs of the marketplace.

An inability to properly and fully utilize our Transportation Systems workforce would reduce our profitability and could have an adverse effect on our results of operations.

***We may engage in acquisitions of companies or technologies that may require us to undertake significant capital infusions and could result in disruptions of our business and diversion of resources and management attention.***

We may acquire additional complementary businesses, products, services, and technologies. Acquisitions may require significant capital infusions and, in general, acquisitions also involve a number of special risks, including:

- potential disruption of our ongoing business and the diversion of our resources and management's attention;

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

Our competitors are also soliciting potential acquisition candidates, which could both increase the price of any acquisition targets and decrease the number of attractive companies available for acquisition. Acquisitions may also materially and adversely affect our operating results due to large write-offs, contingent liabilities, substantial depreciation, deferred compensation charges or intangible asset amortization, or other adverse tax or accounting consequences. We cannot assure you that we will be able to identify or consummate any additional acquisitions, successfully integrate any acquisitions or realize the benefits anticipated from any acquisition.

***We may need to raise additional capital in the future, which may not be available on terms acceptable to us, or at all.***

We have historically experienced volatility in our earnings and cash flows from operations from year to year. We have filed a registration statement on a Form S-3, utilizing a "shelf" registration process, and may consider a new equity financing in the future. Should the credit markets further tighten or our business declines, we may need or choose to raise additional capital to fund our operations, to repay indebtedness, pursue acquisitions or expand our operations. Such additional capital may be raised through bank borrowings, or other debt or equity financings. We cannot assure you that any additional capital will be available on a timely basis, on acceptable terms, or at all, and such additional financing may result in further dilution to our stockholders.

Our capital requirements will depend on many factors, including, but not limited to:

- market acceptance of our products and product enhancements, and the overall level of sales of our products;
- our ability to control costs and achieve profitability;
- the supply of key components for our products;
- our ability to increase revenue and net income;
- increased research and development expenses and sales and marketing expenses;
- our need to respond to technological advancements and our competitors' introductions of new products or technologies;
- capital improvements to new and existing facilities and enhancements to our infrastructure and systems;
- any acquisitions of businesses, technologies, product lines, or possible strategic transactions or dispositions;
- our relationships with customers and suppliers;

- government budgets, political agendas and other funding issues, including potential delays in government contract awards;
- our ability to successfully negotiate credit arrangements with our bank and the state of the financial markets in general; and
- general economic conditions, including the effects of the economic slowdowns and international conflicts.

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

***We participate in the software development market which may be subject to various technical and commercial challenges.***

We have only been in the business of software development for a few years and have in the past and may in the future experience development and technical challenges. Our business and results of operations could also be seriously harmed by any significant delays in our software development activities. Despite testing and quality control, we cannot be certain that errors will not be found in our software after its release. Any faults or errors in our existing products or in any new products may cause delays in product introduction and shipments, require design modifications, or harm customer relationships or our reputation, any of which could adversely affect our business and competitive position. In addition, software companies are subject to litigation concerning intellectual property disputes, which could be costly and distract our management.

***If we do not keep pace with rapid technological changes and evolving industry standards, we will not be able to remain competitive, and the demand for our products will likely decline.***

Our markets are in general characterized by the following factors:

- rapid technological advances;
- downward price pressures in our target markets as technologies mature;
- changes in customer requirements;
- additional qualification requirements related to new products or components;
- frequent new product introductions and enhancements;
- inventory issues related to transition to new or enhanced models; and
- evolving industry standards and changes in the regulatory environment.

Our future success will depend upon our ability to anticipate and adapt to changes in technology and industry standards, and to effectively develop, introduce, market and gain broad acceptance of new products and product enhancements incorporating the latest technological advancements.



***If we are unable to develop and introduce new products and product enhancements in a cost-effective and timely manner, or are unable to achieve market acceptance of our new products, our operating results would be adversely affected.***

We believe our revenue growth and future operating results will depend on our ability to complete development of new products and enhancements, introduce these products in a timely, cost-effective manner, achieve broad market acceptance of these products and enhancements, and reduce our production costs. During the past two fiscal years, we have introduced both new and enhanced products across all segments. We cannot guarantee the success of these products, and we may not be able to introduce any new products or any enhancements to our existing products on a timely basis, or at all. In addition, the introduction of any new products could adversely affect the sales of certain of our existing products.

We believe that we must continue to make substantial investments to support ongoing research and development in order to develop new or enhanced products and software to remain competitive. We need to continue to develop and introduce new products that incorporate the latest technological advancements in outdoor image processing hardware, camera technologies, software and analysis in response to evolving customer requirements. We cannot assure you that we will be able to adequately manage product transition issues. Our business and results of operations could be adversely affected if we do not anticipate or respond adequately to technological developments or changing customer requirements or if we cannot adequately manage inventory issues typically related to new product transitions and introductions. We cannot assure you that any such investments in research and development will lead to any corresponding increase in revenue.

***If our security measures are breached and unauthorized access is obtained to our customer's personal and/or proprietary data in connection with our web-based and mobile application services, we may suffer various negative impacts, including a loss of customer and market confidence, loss of customer loyalty, and significant liability to our customers and to individuals or businesses whose information was being stored.***

Because techniques used to obtain unauthorized access to, or to sabotage, systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose sales and customers.

***The markets in which we operate are highly competitive with many companies more established than Iteris.***

We compete with numerous other companies in our target markets including, but not limited to, large, multi-national corporations and many smaller regional engineering firms.

We compete with existing, well-established companies and technologies in our Roadway Sensors segment, both domestically and abroad. Only a portion of the traffic intersection market has adopted advanced above-ground detection technologies, and our future success will depend in part upon gaining broader market acceptance for such technologies. Certain technological barriers to entry make it difficult for new competitors to enter the market with competing video or other technologies; however, we are aware of new market entrants from time to time. Increased competition could result in loss of market share, price reductions and reduced gross margins, any of which could seriously harm our business, financial condition and results of operations.

The Transportation Systems market is highly fragmented and is subject to evolving national and regional quality and safety standards. Our competitors vary in size, number, scope and breadth of the products and services they offer, and include large multi-national engineering firms and smaller local or regional firms.

The markets in which our Agriculture and Weather Analytics segment operates vary from public sector customers who focus on snow and ice management for state and county roadways, to commercial sector customers who employ our environmental content and agronomic models. Our competitors include divisions of large, international weather companies, as well as a variety of small providers in the road weather market. In the commercial agriculture sector, we compete with a variety of public and private entities that currently market software, agronomic analytics and weather forecast capabilities to agribusinesses.

In each of our operating segments, many of our competitors have far greater name recognition and greater financial, technological, marketing and customer service resources than we do. This may allow our competitors to respond more quickly to new or emerging technologies and changes in customer requirements. It may also allow them to devote greater resources to the development, promotion, sale and support of their products and services than we can. Consolidations of end users, distributors and manufacturers in our target markets exacerbate this problem. As a result of the foregoing factors, we may not be able to compete effectively in our target markets and competitive pressures could adversely affect our business, financial condition and results of operations.

***We may not be able to adequately protect or enforce our intellectual property rights, which could harm our competitive position.***

If we are not able to adequately protect or enforce the proprietary aspects of our technology, competitors may be able to access our proprietary technology and our business, financial condition and results of operations will likely be seriously harmed. We currently attempt to protect our technology through a combination of patent, copyright, trademark and trade secret laws, employee and third party nondisclosure agreements and similar means. Despite our efforts, other parties may attempt to disclose, obtain or use our technologies or systems. Our competitors may also be able to independently develop products that are substantially equivalent or superior to our products or design around our patents. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the U.S. As a result, we may not be able to protect our proprietary rights adequately in the U.S. or internationally.

Litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation may also be necessary to defend against claims of infringement or invalidity by others. We have in the past, and may in the future, be subject to litigation regarding our intellectual property rights. An adverse outcome in litigation or any similar proceedings could subject us to significant liabilities to third parties, require us to license disputed rights from others or require us to cease marketing or using certain products or technologies. We may not be able to obtain any licenses on terms acceptable to us, or at all. We also may have to indemnify certain customers or strategic partners if it is determined that we have infringed upon or misappropriated another party's intellectual property. Our recent expansion into software development activities may subject us to increased possibility of litigation. Any of the foregoing could adversely affect our business, financial condition and results of operations. In addition, the cost of addressing any intellectual property litigation claim, including legal fees and expenses, and the diversion of management's attention and resources, regardless of whether the claim is valid, could be significant and could seriously harm our business, financial condition and results of operations.

***Our failure to successfully secure new contracts and renew existing contracts could reduce our revenues and profitability.***

Our business depends on our ability to successfully bid on new contracts and renew existing contracts with private and public sector customers. Contract proposals and negotiations are complex and frequently involve a lengthy bidding and selection process, which are affected by a number of factors, such as market conditions, financing arrangements and required governmental approvals. For

example, a customer may require us to provide a surety bond or letter of credit to protect the client should we fail to perform under the terms of the contract. If negative market conditions materialize, or if we fail to secure adequate financing arrangements or the required governmental approval or fail to meet other required conditions, we may not be able to pursue particular projects, which could reduce or eliminate our profitability

***We may continue to be subject to traffic related litigation.***

The traffic industry in general is subject to frequent litigation claims due to the nature of personal injuries that can result from traffic accidents. As a provider of traffic engineering services, products and solutions, we are, and could from time to time in the future continue to be, subject to litigation for traffic related accidents, even if our products or services did not cause the particular accident. While we generally carry insurance against these types of claims, some claims may not be covered by insurance or the damages resulting from such litigation could exceed our insurance coverage limits. In the event that we are required to pay significant damages as a result of one or more lawsuits that are not covered by insurance or exceed our coverage limits, it could materially harm our business, financial condition or cash flows. Even defending against unsuccessful claims could cause us to incur significant expenses and result in a diversion of management's attention.

***We may be unable to attract and retain key personnel, including senior management, which could seriously harm our business.***

Due to the specialized nature of our business, we are highly dependent on the continued service of our executive officers and other key management, engineering and technical personnel. We believe that our success will depend on the continued employment of a highly qualified and experienced senior management team to retain existing business and generate new business. The loss of any of our officers, or any of our other executives or key members of management could adversely affect our business, financial condition, or results of operations (e.g., loss of customers or loss of new business opportunities). Our success will also depend in large part upon our ability to continue to attract, retain and motivate qualified engineering and other highly skilled technical personnel. Particularly in highly specialized areas, it has become more difficult to retain employees and meet all of our needs for employees in a timely manner, which may adversely affect our growth in the current fiscal year and in future years. This situation is exacerbated by pressure from agency customers to contain our costs, while salaries for highly skilled employees are on the rise. Although we intend to continue to devote significant resources to recruit, train and retain qualified skilled personnel, we may not be able to attract and retain such employees, that could impair our ability to perform our contractual obligations, meet our customers' needs, win new business, and adversely affect our future results. Likewise, the future success of our Transportation Systems segment will depend on our ability to hire additional qualified engineers, planners and technical personnel. The future success of our Agriculture and Weather Analytics segment will depend on our ability to hire additional software developers, qualified engineers and technical personnel. Competition for qualified employees, particularly development engineers and software developers, is intense. We may not be able to continue to attract and retain sufficient numbers of such highly skilled employees. Our inability to attract and retain additional key employees or the loss of one or more of our current key employees could adversely affect our business, financial condition and results of operations.

***Our management information systems and databases could be disrupted by system security failures, cyber threats or by the failure of, or lack of access to, our Enterprise Resource Planning ("ERP") system. These disruptions could negatively impact our sales, increase our expenses and/or significantly harm our reputation.***

Internal users and computer programmers may be able to penetrate, aka "hack", our network security and create system disruptions, cause shutdowns and/or misappropriate our confidential

information or that of our employees and third parties. Therefore, we could incur significant expenses addressing problems created by security breaches to our network. We must, and do, take precautions to secure customer information and prevent unauthorized access to our databases and systems containing confidential information. Any data loss or information security lapses resulting in the compromise of personal information or the improper use or disclosure of confidential, sensitive or classified information could result in claims, remediation costs, regulatory sanctions against us, loss of current and future contracts and serious harm to our reputation. We operate our Enterprise Resource Planning system on a SaaS platform, and we use this system for reporting, planning, sales, audit, inventory control, loss prevention, purchase order management and business intelligence. Accordingly, we depend on this system, and the third-party provider of this service, for a number of aspects of our operations. If this service provider or this system fails, or if we are unable to continue to have access to this system on commercially reasonable terms, or at all, operations would be severely disrupted until an equivalent system could be identified, licensed or developed, and integrated into our operations. This disruption would have a material adverse effect on our business.

***If we experience declining or flat revenues and we fail to manage such declines effectively, we may be unable to execute our business plan and may experience future weaknesses in our operating results.***

Based on our business objectives, and in order to achieve future growth, we will need to continue to add additional qualified personnel, and invest in additional research and development and sales and marketing activities, which could lead to increases in our expenses and future declines in our operating results. In addition, our past expansion has placed, and future expansion is expected to place, a significant strain on our managerial, administrative, operational, financial and other resources. If we are unable to manage these activities or any revenue declines successfully, our growth, our business, our financial condition and our results of operations could continue to be adversely affected.

***Our use of estimates in conjunction with the input method of measuring progress to completion of performance obligations for our Transportation Systems revenues could result in a reduction or reversal of previously recorded revenues and profits.***

A portion of Transportation Systems revenues are measured and recognized over time using the input method of measuring progress to completion. Our use of this accounting method results in recognition of revenues and profits proportionally over the life of a contract, based generally on the proportion of costs incurred to date to total costs expected to be incurred for the entire project. The effects of revisions to revenues and estimated costs are recorded when the amounts are known or can be reasonably estimated. Such revisions could occur in any period and their effects could be material. Although we have historically made reasonably reliable estimates of the progress towards completion of long-term engineering, program management, construction management or construction contracts, the uncertainties inherent in the estimating process make it possible for actual costs to vary materially from estimates, including reductions or reversals of previously recorded revenues and profits.

***Declines in the value of securities held in our investment portfolio can affect us negatively.***

As of March 31, 2019, the value of securities available for sale within our investment portfolio was \$1.9 million, which is generally determined based upon market values available from third-party sources. The value of our investment portfolio may fluctuate as a result of market volatility and economic or financial market conditions. Declines in the value of securities held in our investment portfolio negatively impact our levels of capital and liquidity. Further, to the extent that we experience unrealized losses in our portfolio of investment securities from declines in securities values that management determines to be other than temporary, the book value of those securities will be adjusted to their estimated recovery value and we will recognize a charge to earnings in the quarter during which we make that determination. Although we have policies and procedures in place to assess and

mitigate potential impacts of market risks, including hedging-related strategies, those policies and procedures are inherently limited because they cannot anticipate the existence or future development of currently unanticipated or unknown risks. Accordingly, we could suffer adverse effects as a result of our failure to anticipate and manage these risks properly.

***If our internal controls over financial reporting do not comply with the requirements of the Sarbanes-Oxley Act, our business and stock price could be adversely affected.***

Section 404 of the Sarbanes-Oxley Act of 2002 currently requires us to evaluate the effectiveness of our internal controls over financial reporting at the end of each fiscal year and to include a management report assessing the effectiveness of our internal controls over financial reporting in all annual reports. We are required to obtain our auditors' attestation pursuant to Section 404(b) of the Sarbanes-Oxley Act. Going forward, we may not be able to complete the work required for such attestation on a timely basis and, even if we timely complete such requirements, our independent registered public accounting firm may still conclude that our internal controls over financial reporting are not effective.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and 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 fraud, if any, within Iteris have been or will be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions. Over time, our controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. If we are not able to maintain effective internal controls over financial reporting, we may lose the confidence of investors and analysts and our stock price could decline.

***Our quarterly operating results fluctuate as a result of many factors. Therefore, we may fail to meet or exceed the expectations of securities analysts and investors, which could cause our stock price to decline.***

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

- delays in government contracts and funding from time to time and budgetary constraints at the federal, state and local levels;
- our ability to access stimulus funding, funding from the federal highway bill or other government funding;
- declines in new home and commercial real estate construction and related road and other infrastructure construction;
- changes in our pricing policies and the pricing policies of our suppliers and competitors, pricing concessions on volume sales, as well as increased price competition in general;
- the long lead times associated with government contracts;

- the size, timing, rescheduling or cancellation of significant customer orders;
- our ability to control costs;
- our ability to raise additional capital;
- the mix of our products and services sold in a quarter, which has varied and is expected to continue to vary from time to time;
- seasonality due to winter weather conditions (as well as the adverse impact on revenues in certain regions impacted from time to time by hurricanes and other extreme conditions);
- seasonality with respect to revenues from our ClearPath Weather and related weather forecasting services due to the decrease in revenues generated for such services during the spring and summer time periods;
- our ability to develop, introduce, patent, market and gain market acceptance of new products, applications and product enhancements in a timely manner, or at all;
- market acceptance of the products incorporating our technologies and products;
- the introduction of new products by competitors;
- the availability and cost of components used in the manufacture of our products;
- our success in expanding and implementing our sales and marketing programs;
- the effects of technological changes in our target markets;
- the amount of our backlog at any given time;
- the nature of our government contracts;
- decrease in revenues derived from key or significant customers;
- deferrals of customer orders in anticipation of new products, applications or product enhancements;
- risks and uncertainties associated with our international business;
- market condition changes such as industry structure consolidations that could slow down our ability to procure new business;
- general economic and political conditions;
- international conflicts and acts of terrorism; and
- other factors beyond our control, including but not limited to, natural disasters.

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

***Supply shortages or production gaps could materially and adversely impact our sales and financial results.***

We have in the past experienced, and may from time to time in the future continue to experience parts shortages or unforeseen quality control issues by our suppliers that may impact our ability to meet demand for our products. We have historically used and continue to use single suppliers for certain significant components in our products, and have had to reengineer products from time to time to address obsolete components, especially in our Roadway Sensors products. Our Roadway Sensors

products are also included with other traffic intersection products that also could experience supply issues for their products, which in turn could result in delays in orders for our products. Should any such supply delay or disruption occur, or should a key supplier discontinue operations, our future sales will likely be materially and adversely affected. Additionally, we rely heavily on select contract manufacturers to produce many of our products and do not have any long-term contracts to guarantee supply of such products. Although we believe our contract manufacturers have sufficient capacity to meet our production schedules for the foreseeable future and we believe we could find alternative contract manufacturing sources for many of our products, if necessary, we could experience a production gap if for any reason our contract manufacturers were unable to meet our production requirements and our cost of goods sold could increase, adversely affecting our margins. Further, the federal government has created the potential for significant changes in trade policies, including tariffs and government regulations affecting trade between the U.S. and other countries where we source components for our Roadway Sensors products. Any such actions could increase the cost to us of such products and cause increases in the prices at which we sell such products, which could adversely affect the financial performance of our Roadway Sensors business. Similarly, these actions could result in cost increases or supply chain delays that impact third party products (e.g. steel poles) which could lead our customers to delay or cancel planned purchases by our products.

***Our international business operations may be threatened by many factors that are outside of our control.***

While we historically have had limited international sales, revenues and operational experience, we have been expanding our distribution capabilities for our Roadway Sensors and subscription customer base for our Agriculture and Weather Analytics segments internationally, particularly in Europe and in South America. We plan to continue to expand our international efforts, but we cannot assure you that we will be successful in such efforts. International operations subject us to various inherent risks including, among others:

- political, social and economic instability, as well as international conflicts and acts of terrorism;
- bonding requirements for certain international projects;
- longer accounts receivable payment cycles;
- import and export license requirements and restrictions of the U.S. and each other country in which we operate;
- currency fluctuations and restrictions, and our ability to repatriate currency from certain foreign regions;
- unexpected changes in regulatory requirements, tariffs and other trade barriers or restrictions;
- required compliance with existing and new foreign regulatory requirements and laws, more restrictive labor laws and obligations, including but not limited to the U.S. Foreign Corrupt Practices Act;
- difficulties in managing and staffing international operations;
- potentially adverse tax consequences; and
- reduced protection for intellectual property rights in some countries.

Substantially all of our international product sales are denominated in U.S. dollars. As a result, an increase in the relative value of the dollar could make our products more expensive and potentially less price competitive in international markets. We do not currently engage in any transactions as a hedge against risks of loss due to foreign currency fluctuations.

Any of the factors mentioned above may adversely affect our future international revenues and, consequently, affect our business, financial condition and operating results. Additionally, as we pursue the expansion of our international business, certain fixed and other overhead costs could outpace our revenues, thus adversely affecting our results of operations. We may likewise face local competitors in certain international markets who are more established, have greater economies of scale and stronger customer relationships. Furthermore, as we increase our international sales, our total revenues may also be affected to a greater extent by seasonal fluctuations resulting from lower sales that typically occur during the summer months in Europe and certain other parts of the world.

***The trading price of our common stock is highly volatile.***

The trading price of our common stock has been subject to wide fluctuations in the past. From March 31, 2016 through March 31, 2019, our common stock has traded at prices as low as \$2.20 per share and as high as \$8.17 per share. The market price of our common stock could continue to fluctuate in the future in response to various factors, including, but not limited to:

- quarterly variations in operating results;
- our ability to control costs, improve cash flow and sustain profitability;
- our ability to raise additional capital;
- shortages announced by suppliers;
- announcements of technological innovations or new products or applications by our competitors, customers or us;
- transitions to new products or product enhancements;
- acquisitions of businesses, products or technologies, or other possible strategic transactions or dispositions;
- the impact of any litigation;
- changes in investor perceptions;
- government funding, political agendas and other budgetary constraints;
- changes in stock market analyst recommendations regarding our common stock, other comparable companies or our industry in general;
- changes in earnings estimates or investment recommendations by securities analysts; and
- international conflicts, political unrest and acts of terrorism.

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

***Certain provisions of our charter documents may discourage a third party from acquiring us and may adversely affect the price of our common stock.***

Certain provisions of our certificate of incorporation could make it difficult for a third party to influence or acquire us, even though that might be beneficial to our stockholders. Such provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. For



example, under the terms of our certificate of incorporation, our Board of Directors is authorized to issue, without stockholder approval, up to 2,000,000 shares of preferred stock with voting, conversion and other rights and preferences superior to those of our common stock. In addition, our bylaws contain provisions governing the ability of stockholders to submit proposals or make nominations for directors, and we recently eliminated cumulative voting for directors and implemented majority voting for the election of directors of the company.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our headquarters and principal operations are housed in approximately 47,000 square feet of leased office, manufacturing and warehouse space located in Santa Ana, California, pursuant to a lease which terminates in March 2022. For additional information regarding our lease obligations, see Note 6 of Notes to Consolidated Financial Statements, included in Part II, Item 8 of this report.

**ITEM 3. LEGAL PROCEEDINGS**

The information set forth under the heading "Litigation and Other Contingencies" under Note 6 of Notes to Consolidated Financial Statements, included in Part II, Item 8 of this report, is incorporated herein by reference.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Market Information for Common Stock

Our common stock is traded on the NASDAQ Capital Market under the symbol "ITI" since February 8, 2016. Prior to that, our common stock traded on the NYSE MKT under the same symbol.

As of May 31, 2019, we had 322 holders of record of our common stock according to information furnished by our transfer agent. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners but whose shares are held in street name by brokers and other nominees.

#### Securities Authorized for Issuance under Equity Compensation Plans

Information regarding securities authorized for issuance can be found under Part III, "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

#### Dividend Policy

We have never paid or declared cash dividends on our common stock, and have no current plans to pay such dividends in the foreseeable future. We currently intend to retain any earnings for working capital and general corporate purposes. The payment of any future dividends will be at the discretion of our Board of Directors and will depend upon a number of factors, including, but not limited to, future earnings, the success of our business, our capital requirements, our general financial condition and future prospects, general business conditions, and such other factors as the Board of Directors may deem relevant.

#### Issuer Purchases of Equity Securities

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.

In Fiscal 2019, Fiscal 2018 and Fiscal 2017, we did not repurchase any shares. From inception of the program in August 2011 through March 31, 2019, we repurchased approximately 3,422,000 shares of our common stock for an aggregate price of approximately \$5.6 million, at an average price per share of \$1.63. As of March 31, 2019, all repurchased shares have been retired and returned to their status as authorized and unissued shares of our common stock. As of March 31, 2019, approximately \$1.7 million remains available for the repurchase of our common stock under our current program.

### ITEM 6. SELECTED FINANCIAL DATA

The Company is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and is not required to provide the information required under this Item.

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

*You should read the following discussion and analysis in conjunction with our Consolidated Financial Statements and related Notes thereto included in Part II, Item 8 of this report and the "Risk Factors" section in Part I, Item 1A, as well as the other cautionary statements and risks described elsewhere in this report before deciding to purchase, hold or sell our common stock.*

### Overview

**General.** We are a provider of essential applied informatics that enable smart transportation and digital agriculture. Municipalities, government agencies, crop science companies, agriculture service providers, and other agribusinesses use our solutions to make roads safer and travel more efficient, as well as farmlands more sustainable, healthy and productive.

**Sale of Vehicle Sensors.** On July 29, 2011, we completed the sale of substantially all of our assets used in connection with our former Vehicle Sensors segment to Bendix Commercial Vehicle Systems LLC ("Bendix"), a member of Knorr-Bremse Group, pursuant to an Asset Purchase Agreement signed on July 25, 2011 (the "Asset Sale"). In connection with the Asset Sale, we were entitled to additional consideration in the form of certain performance and royalty-related earn-outs through December 31, 2017. From the date of the Asset Sale, through March 31, 2019, we received approximately \$2.7 million in connection with royalty-related earn-outs provisions for a total of \$18 million in cash received from the Asset Sale. We also had approximately \$0 and \$106,000 in royalty-related receivables included in the prepaid expenses and other current assets in the accompanying consolidated balance sheet as of March 31, 2019 and 2018, respectively. We do not anticipate any further payments from Bendix.

As a result of the Asset Sale, we no longer operate in the Vehicle Sensors segment. We determined that the Vehicle Sensors segment, which previously constituted one of our operating segments, qualified as a discontinued operation. The applicable financial results of our former Vehicle Sensors segment through the closing of the Asset Sale have been reclassified as a discontinued operation for all periods presented in this report. Refer to Note 3 of Notes to Consolidated Financial Statements, included in Part II, Item 8 of this report, for additional discussion regarding the Asset Sale.

**Business Segments.** We currently operate in three reportable segments: Roadway Sensors, Transportation Systems and Agriculture and Weather Analytics.

The Roadway Sensors segment provides various advanced detection sensors and systems for traffic intersection management, communication systems and roadway traffic data collection applications. The Roadways Sensors product line uses advanced image processing technology and other techniques to capture and analyze sensor data through sophisticated algorithms, enabling vehicle, bicycle and pedestrian detection, as well as the transmission of both video images and data using various communication technologies. Our Roadway Sensors products include, among others, Vantage, VantageLive!, VantagePegasus, Vantage Next, VantageRadius, Vantage Vector, Velocity, SmartCycle, SmartCycle Bike Indicator, SmartSpan, VersiCam, PedTrax and P-Series products. In select territories, our Roadway Sensors segment also resells OEM products for the traffic intersection markets, which include, among other things, traffic signal controllers and traffic signal equipment cabinets.

Our Transportation Systems segment includes engineering and consulting services focused on the planning, design, development and implementation of software and hardware-based ITS systems that integrate sensors, video surveillance, computers and advanced communications equipment to enable public agencies to monitor, control and direct traffic flow, assist in the quick dispatch of emergency crews, and distribute real-time information about traffic conditions. Our Transportation Systems services include planning, design, implementation, operation and management of surface transportation

infrastructure systems. We perform analysis and study goods movement, provide commercial vehicle safety solutions, provide travel demand forecasting and systems engineering, and identify mitigation measures to reduce traffic congestion. Our Transportation Systems product line includes Iteris SPM and iPeMS, our performance measurement and information management solutions as well as our advanced traveler information system solutions, and our commercial vehicle operations and vehicle safety compliance platforms known as CVIEW-Plus, CheckPoint, UCRLink, and inspect.

The Agriculture and Weather Analytics segment includes ClearPath Weather, our road maintenance applications, and ClearAg, our digital agriculture platform. ClearPath Weather is a web-based solution, which includes a suite of tools that apply data assimilation and modeling technologies to assess weather conditions for customizable route/site weather and pavement forecasting, and render winter road maintenance recommendations for state agencies, municipalities and commercial companies to improve roadway maintenance decisions. Our ClearAg solutions combine weather and agronomic data with proprietary land-surface modeling and analytics to solve complex agricultural problems and to increase the efficiency and sustainability of farmlands. We currently offer our ClearAg solutions to companies in the agriculture industry, such as seed and crop protection companies, integrated food companies, and agricultural equipment manufacturers and service providers. Our ClearAg solutions provide weather, environment, soil and plant growth modeling to deliver environmental intelligence through ClearAg APIs and components, IMFocus APIs and ClearAg web applications.

### **Critical Accounting Policies and Estimates**

"Management's Discussion and Analysis of Financial Condition and Results of Operations" is based on our 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, include 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.

The following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

**Revenue Recognition.** Revenues are recognized when control of the promised goods or services are transferred to our customers, in a gross amount that reflects the consideration that we expect to be entitled to in exchange for those goods or services. We generate all of our revenue from contracts with customers.

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, primarily derived from the Transportation Systems and Agriculture and Weather Analytics segments, are primarily 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 variable consideration. However, 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 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 which combines the software functionality, maintenance and hosting into a single performance obligation. In product related contracts, a purchase order may contain 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:

<b>Performance Obligation</b>	<b>When Performance Obligation is Typically Satisfied</b>	<b>When Payment is Typically Due</b>	<b>How Standalone Selling Price is Typically Estimated</b>
<b>Product Revenues</b>			
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
<b>Service Revenues</b>			
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 reportable segments and the nature of the products and services. See Note 11 of Notes to Consolidated Financial Statements in Part II, Item 8 of this report for our revenue by reportable segment.

#### 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 consolidated balance sheet 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 balance sheet. 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 liabilities are reported in a net position on a contract basis at the end of each reporting period.

## 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 March 31, 2019, we capitalized approximately \$172,000 of contract fulfillment costs which are presented in the accompanying consolidated balance sheet 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 March 31, 2019, the aggregate amount of transaction price allocated to remaining performance obligations was immaterial primarily as a result of termination provisions within our contracts which make the duration of the accounting term of the contract one year or less.

**Practical Expedients and Exemptions.** T&M and CPFF contracts are considered variable consideration. However, performance obligations with an underlying fee type of T&M or CPFF qualify for the "Right to Invoice" Practical Expedient under ASC 606-10-55-18. Under this practical expedient, the Company is not required to estimate such variable consideration upon inception of the contract and reassess the estimate each reporting period.

The Company utilizes the practical expedient under ASC 606-10-50-14 of not disclosing information about its remaining performance obligations for contracts with an original expected duration (i.e., contract term, determined based on the analysis of termination provisions described above) of 12 months or less.

The Company pays sales commissions on certain sales contracts. These costs are accrued in the same period that the revenues are recorded. Using the practical expedient under ASC 340-40-25-4, the Company recognizes the incremental costs of obtaining a contract as an expense when incurred since the amortization period of the asset that the Company otherwise would have recognized is one year or less.

The Company utilizes the practical expedient under ASC 606-10-25-18B to account for shipping and handling as fulfillment costs, and not a promised service (a revenue element). Shipping and handling costs are included as cost of revenues in the period during which the products ship.

The Company excludes from the transaction price all sales taxes that are assessed by a governmental authority and that are imposed on and concurrent with a specific revenue-producing transaction and collected from a customer (for example, sales, use, value added, and some excise taxes). This employs the practical expedient under ASC 606-10-32-2A. Sales taxes are presented on a net basis (excluded from revenues) in the Company's consolidated statements of operations.

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

**Goodwill and Other Long-Lived Assets.** Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the acquired net tangible and intangible assets. Other long-lived assets primarily represent internally developed and purchased intangible assets including developed technology, customer relationships, trade names and patents. We currently amortize our intangible assets with definitive lives over periods ranging from one to seven years using a method that reflects the pattern in which the economic benefits of the intangible asset are

consumed or otherwise used or, if that pattern cannot be reliably determined, using a straight-line amortization method over the estimated useful life of the asset.

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 determine the fair values of our reporting units using the income valuation approach, as well as other generally accepted valuation methodologies.

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.

**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.

On an interim basis, we estimate what our anticipated annual effective tax rate will be, while also separately considering applicable discrete and other non-recurring items, and record a quarterly income tax provision in accordance with this anticipated rate. As the fiscal year progresses, we refine our estimates based upon actual events and financial results during the year. This estimation process can result in significant changes to our expected effective tax rate. When this occurs, we adjust our income tax provision during the quarter in which our estimates are refined so that the year-to-date provision reflects the expected annual effective tax rate. These changes, along with adjustments to our deferred taxes, among others, may create fluctuations in our overall effective tax rate from quarter to quarter.

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 reversed in the first subsequent financial reporting period in which that threshold is no longer met.

The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

In relation to the Tax Cuts and Jobs Act ("TCJA"), we determine reasonable provisional estimate on our existing deferred tax balances and the one-time transition tax under the SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118").



Actual future operating results and the underlying amount and type of income could differ materially from our estimates, assumptions and judgments, thereby impacting our consolidated financial position and results of operations.

***Stock-Based Compensation.*** We record stock-based compensation in the statements of operations as an expense, based on the grant date estimated 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 and restricted stock units. The fair value of our stock option awards is estimated on the grant date using the Black-Scholes-Merton option-pricing formula. While utilizing this model meets established requirements, the estimated fair values generated by it may not be indicative of the actual fair values of our stock option 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 the limited transferability of the awards. 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.

#### **Recent Accounting Pronouncements**

Refer to Note 1 of Notes to Consolidated Financial Statements, included in Part II, Item 8 of this report for a discussion of recent accounting pronouncements.

## Results of Operations

The following table sets forth certain statement of operations data as a percentage of revenues for the periods indicated.

	Year Ended March 31,		
	2019	2018	2017
Product revenues	48.7%	44.8%	45.6%
Service revenues	51.3	55.2	54.4
Total revenues	100.0	100.0	100.0
Cost of product revenues	28.7	25.7	24.8
Cost of service revenues	32.4	35.9	36.2
Cost of revenues	61.1	61.6	61.0
Gross profit	38.9	38.4	39.0
Operating expenses:			
Selling, general and administrative	38.7	36.0	34.6
Research and development	7.9	7.7	7.2
Amortization of intangible assets	0.3	0.1	0.3
Loss on impairment of goodwill	—	—	2.3
Total operating expenses	46.9	43.8	44.4
Operating loss	(7.9)	(5.4)	(5.4)
Non-operating income (expense):			
Other income (expense), net	0.1	(0.0)	0.0
Interest income, net	0.1	0.0	0.0
Loss from continuing operations before income taxes	(7.8)	(5.4)	(5.4)
(Provision) benefit for income taxes	(0.0)	1.8	—
Loss from continuing operations	(7.9)	(3.6)	(5.4)
Gain on sale of discontinued operation, net of tax	—	0.2	0.4
Net loss	(7.9)%	(3.4)%	(5.0)%

## Analysis of Fiscal 2019, Fiscal 2018 and Fiscal 2017 Results of Operations

**Total Revenues.** Total revenues are comprised of sales from our Roadway Sensors, Transportation Systems and Agriculture and Weather Analytics segments. The following tables present details of total revenues for Fiscal 2019 as compared to Fiscal 2018, and Fiscal 2018 as compared to Fiscal 2017:

	Year Ended March 31,		\$	%
	2019	2018	Increase (decrease)	Change
	(In thousands, except percentages)			
Product revenues	\$ 48,227	\$ 46,464	\$ 1,763	3.8%
Service revenues	50,896	57,265	(6,369)	(11.1)%
Total revenues	<u>\$ 99,123</u>	<u>\$ 103,729</u>	<u>\$ (4,606)</u>	<u>(4.4)%</u>

	Year Ended March 31,		\$	%
	2018	2017	Increase	Change
	(in thousands, except percentages)			
Product revenues	\$ 46,464	\$ 43,735	\$ 2,729	6.2%
Service revenues	57,265	52,247	5,018	9.6%
Total revenues	<u>\$ 103,729</u>	<u>\$ 95,982</u>	<u>\$ 7,747</u>	<u>8.1%</u>

Product revenues for Fiscal 2019 increased approximately 3.8% to \$48.2 million, compared to \$46.5 million in Fiscal 2018, primarily due to an increase in our Transportation Systems third-party product sales for certain construction-type contracts. This increase was offset in part by a decrease in unit sales from our distribution of certain OEM products for the traffic intersection market, largely in our Texas markets, as a result of the delayed finalization of certain statewide purchase programs. Service revenues for Fiscal 2019 decreased approximately 11.1% to \$50.9 million, compared to \$57.3 million in Fiscal 2018, primarily due to lower Transportation Systems traffic engineering service revenue for government agencies, and the transition from being the prime contractor on certain large contracts awarded in Fiscal 2016, to the sub-contracting party. Total revenues for Fiscal 2019 decreased approximately 4.4% to \$99.1 million, compared to \$103.7 million in Fiscal 2018, primarily due to an approximate 8.6% decrease in Transportation Systems revenues, an approximate 2.0% decrease in Roadway Sensors revenues, which was in part offset by an approximate 18.9% increase in Agriculture and Weather Analytics revenues.

Roadway Sensors revenues in Fiscal 2019 included approximately \$43.3 million in product revenues and approximately \$239,000 of service revenues, reflecting a decrease in total revenues of approximately \$0.9 million or 2%, compared to Fiscal 2018. The decrease in Fiscal 2019 was primarily due to lower unit sales from our distribution of certain OEM products for the traffic intersection market, resulting from the aforementioned delayed finalization of certain statewide purchase programs, as well as a slight decline in sales of our core Vantage products. Revenue generated through the distribution of certain OEM products was approximately \$4.0 million and approximately \$5.3 million for Fiscal 2019 and Fiscal 2018, respectively. Roadway Sensors revenues in Fiscal 2018 included approximately \$44.2 million in product revenues and \$194,000 of service revenues, reflecting an increase in total revenues of approximately \$2.2 million or 5%, compared to Fiscal 2017. The increase was primarily due to higher unit sales of our core Roadway Sensors video detection products aided by a corresponding increase in our distribution of certain OEM products for the traffic intersection market. Revenue generated through the distribution of certain third party products was approximately \$5.3 million and approximately \$4.8 million for Fiscal 2018 and Fiscal 2017, respectively. While OEM products generally have lower gross margins than our core video detection products, we believe offering OEM products can benefit sales of our core products by providing a more comprehensive suite of traffic solutions for our customers. Going forward, we plan to grow revenues by focusing on our core domestic intersection market, and refine and deliver products that address the needs of this market, primarily our Vantage processors and camera systems and our Vantage Vector video/radar hybrid sensor, as well as our SmartCycle, Velocity, PedTrax and SmartSpan products. Additionally, we expect our VantageLive! solution, which is a SaaS offering that analyzes data collected by our Vantage cameras, to further differentiate our products from competing alternatives.

Transportation Systems revenues in Fiscal 2019 included approximately \$44.8 million of service revenues and approximately \$5.0 million of sales of third-party products purchased for installation under certain construction-type contracts, reflecting a decrease in total revenues of approximately \$4.7 million or 8.6%, compared to Fiscal 2018. The decrease was primarily a result of transition from being the prime contractor to a sub-contractor on certain large contracts as mentioned above, as well as the completion of certain large contracts awarded in previous years, and the timing of backlog fulfilment on certain other projects. Transportation revenues in Fiscal 2018 included approximately \$52.2 million of service revenues and approximately \$2.3 million of sales of third-party products

purchased for installation under certain construction-type contracts, reflecting an increase in total revenues of approximately \$5.2 million or 11%, compared to Fiscal 2017. The increase was primarily a result of extensions granted on certain large contracts, new contract awards, and the timing of backlog fulfillment on certain other projects.

We plan to continue to focus on securing new contracts and to extend and/or continue our existing relationships with key agencies related to projects in their final project phases. While we believe our ability to obtain additional large contracts will contribute to overall revenue growth, the mix of sub-consulting content and third-party product sales will likely affect the related total gross profit from period to period, as total revenues derived from sub-consultants and third-party product sales generally have lower gross margins than revenues generated by our professional services.

Agriculture and Weather Analytics revenues in Fiscal 2019 included no product revenue and represented approximately \$5.8 million of service revenues, largely consisting of subscription revenues, reflecting an increase in total revenues of approximately \$925,000 or 18.9%, compared to Fiscal 2018. The increase was primarily due to increases in both ClearPath Weather and ClearAg solutions under newly signed contracts during Fiscal 2019. Agriculture and Weather Analytics revenues in Fiscal 2018 included no product revenue and approximately \$4.9 million of service revenues, largely consisting of subscription revenues, reflecting an increase in total revenues of approximately \$351,000 or 7.7%, compared to Fiscal 2017. The increase was primarily due to increases in both our ClearPath Weather and ClearAg solutions under newly signed contracts during Fiscal 2018. We plan to continue to focus on commercial opportunities in the digital agriculture technology markets by offering APIs, software applications, content, and modeling services to provide analytics and decision support services that leverage our digital weather, soil and agronomic content and applications.

**Gross Profit.** The following tables present details of our gross profit for Fiscal 2019 compared to Fiscal 2018, and Fiscal 2018 compared to Fiscal 2017:

	<u>Year Ended March 31,</u>		<u>\$</u>	<u>%</u>
	<u>2019</u>	<u>2018</u>	<u>Decrease</u>	<u>Change</u>
	<u>(In thousands, except percentages)</u>			
Product gross profit	\$ 19,793	\$ 19,831	\$ (38)	(0.2)%
Service gross profit	18,813	20,000	(1,187)	(5.9)%
Total gross profit	<u>\$ 38,606</u>	<u>\$ 39,831</u>	<u>\$ (1,225)</u>	<u>(3.1)%</u>
Product gross margin as a % of product revenues	41.0%	42.7%		
Service gross margin as a % of service revenues	37.0%	34.9%		
Total gross margin as a % of total revenues	38.9%	38.4%		

	<u>Year Ended March 31,</u>		<u>\$</u>	<u>%</u>
	<u>2018</u>	<u>2017</u>	<u>Increase (decrease)</u>	<u>Change</u>
	<u>(in thousands, except percentages)</u>			
Product gross profit	\$ 19,831	\$ 19,858	\$ (27)	(0.1)%
Service gross profit	20,000	17,544	2,456	14.0%
Total gross profit	<u>\$ 39,831</u>	<u>\$ 37,402</u>	<u>\$ 2,429</u>	<u>6.5%</u>
Product gross margin as a % of product revenues	42.7%	45.4%		
Service gross margin as a % of service revenues	34.9%	33.6%		
Total gross margin as a % of total revenues	38.4%	39.0%		

Our product gross margin as a percentage of product revenues for Fiscal 2019 decreased approximately 170 basis points compared to Fiscal 2018 primarily due to an increase in our Transportation Systems third-party product sales. Our service gross margin as a percentage of service revenues for Fiscal 2019 increased 210 basis points compared to Fiscal 2018 primarily due to the completion of previously awarded contracts, the timing of certain extension contracts, the contract mix and a decrease in the amount of related sub-consulting content of such contracts. Sub-consulting content generally results in lower gross margins than our direct labor content. Our total gross margin as a percentage of total revenues for Fiscal 2019 decreased 50 basis points compared to Fiscal 2018 primarily as a result of the revenue mix between the Roadway Sensors and Transportation Systems segments, as Roadway Sensors revenues generally yield higher total gross margins than our other segments. As such, the decrease in our Transportation Systems revenues from approximately 52.5% of total revenues for Fiscal 2018 to approximately 50.3% of total revenues for Fiscal 2019 was a primary contributor to our increase in total gross margin. Roadway Sensors revenue increased as a percentage of total revenues from approximately 42.8% for Fiscal 2018 to approximately 43.9% for Fiscal 2019.

Our product gross margin as a percentage of product revenues for Fiscal 2018 decreased approximately 270 basis points compared to Fiscal 2017 primarily due to an increase in our Roadway Sensors OEM sales, as well as our Transportation Systems third-party product sales, both of which typically yield lower gross margins than our sales of Roadway Sensors core video detection products. Our service gross margin as a percentage of service revenues for Fiscal 2018 increased 130 basis points compared to Fiscal 2017 primarily due to the timing of certain extension contracts, the contract mix and a decrease in the amount of related sub-consulting content of such contracts. Sub-consulting content generally results in lower gross margins than our direct labor content. Our total gross margin as a percentage of total revenues for Fiscal 2018 decreased 60 basis points compared to Fiscal 2017 primarily as a result of the revenue mix between the Roadway Sensors and Transportation Systems segments, as Roadway Sensors revenues generally yield higher total gross margins than our other segments. As such, the increase in our Transportation Systems total revenues from approximately 51% of total revenues for Fiscal 2017 to approximately 53% of total revenues for Fiscal 2018 was a primary contributor to our decline in total gross margin. Roadway Sensors revenue decreased as a percentage of total revenues from approximately 44% for Fiscal 2017 to approximately 43% for Fiscal 2018.

Roadway Sensors gross profit can fluctuate in any specific quarter or year based on, among other factors, customer and product mix between core products and third party OEM products, competitive pricing requirements, product warranty costs and provisions for our excess and obsolete inventories, as well as shifts of engineering resources from development activities to sustaining activities, which we record as cost of goods sold.

We recognize a portion of our Transportation Systems revenues and related gross profit using percentage of completion contract accounting, and the underlying mix of contract activity affects the related gross profit recognized in any given period. For the Transportation Systems segment, we expect to experience gross profit variability in future periods due to our contract mix and the amount of related sub-consulting content of such contracts, as well as factors such as our ability to efficiently utilize our internal workforce, which could cause fluctuations in our margins from period to period.

#### ***Selling, General and Administrative Expense***

Selling, general and administration expense for Fiscal 2019 increased approximately 2.9% to \$38.5 million, compared to \$37.4 million in Fiscal 2018. The overall increase was primarily due to an increase in business development costs aimed at the pursuit of large contracts in the Transportations Systems segment. In addition, during Fiscal 2019, there were planned headcount increases in general and administrative positions, as well as increases in the Transportations Systems and Roadway Sensors sales force headcount, all of which resulted in higher salary and personnel-related costs.

Selling, general and administration expense for Fiscal 2018 increased approximately 12.3% to \$37.4 million, compared to \$33.3 million in Fiscal 2017. The overall increase was primarily due to an increase in business development costs aimed at the pursuit of large contracts in the Transportations Systems segment. In addition, there were higher personnel compensation costs driven by higher revenues. This increase in personnel also drove an increase in facilities costs. The overall increase was also attributable to an increase in other selling, general and administrative expenses, primarily due to a reversal of certain bad debt reserves on specific accounts receivable that were subsequently collected during Fiscal 2017, which did not reoccur in Fiscal 2018.

### ***Research and Development Expense***

Research and development expense for Fiscal 2019 was \$7.8 million, which was relatively consistent with Fiscal 2018 at \$7.9 million, as the Company continued to invest in research, discovery, and development.

We continued to invest in the development of our iPeMS software offering as well as our ClearAg and ClearPath Weather solutions. In addition, we invested in further enhancements and functionality in our Vantage products family. During Fiscal 2018, we successfully released Iteris SPM, our cloud-based signal performance measures application. During Fiscal 2017, we released our VantageLive! platform as well as a number of generally available advisory applications, including our Harvest Advisory and Nitrogen Advisory. Certain development costs were capitalized into intangible assets in the consolidated balance sheets; 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 solutions. This continued investment may result in increases in research and development costs in future periods.

Research and development expense for Fiscal 2018 increased approximately 15.5% to \$7.9 million, compared to \$6.9 million in Fiscal 2017. The overall increase was primarily due to continued investment in research, discovery, and development largely focused on our software related product offerings.

### ***Impairment of Goodwill***

Based on our goodwill impairment testing for Fiscal 2019 and 2018, we believe the carrying value of our goodwill was not impaired, as the estimated fair values of our reporting units exceeded their carrying values at the end of Fiscal 2019 and 2018. Based on our goodwill impairment testing for Fiscal 2017, we determined the fair value of the Agriculture and Weather Analytics reporting unit was less than its carrying amount and resulted in approximately \$2.2 million impairment charge in the consolidated statement of operations for Fiscal 2017. We also determined our Roadway Sensors and Transportation Systems reporting units had no impairment, as their estimated fair values exceeded their respective carrying values. If our actual financial results, or the plans and estimates used in future goodwill impairment analyses, are lower than our original estimates used to assess impairment of our goodwill, we could incur goodwill impairment charges in the future.

### ***Amortization of Intangible Assets***

Amortization expense for intangible assets subject to amortization was approximately \$1.1 million, \$726,000, and \$623,000 for Fiscal 2019, Fiscal 2018 and Fiscal 2017, respectively. Approximately \$850,000, \$638,000, and \$342,000 of the intangible asset amortization was recorded to cost of revenues, and approximately \$275,000, \$88,000, and \$281,000 was recorded to amortization expense for Fiscal 2019, Fiscal 2018 and Fiscal 2017, respectively, in the consolidated statements of operations. The increase in amortization was primarily due to amortization related to our Oracle ERP system design and development, which was placed in service in April 2018.

**Interest Income, Net**

Net interest income was approximately \$129,000, \$32,000 and \$13,000 in Fiscal 2019, Fiscal 2018 and Fiscal 2017, respectively. The increase in net interest income in the current year was primarily due to interest earned on investments purchased and held during the current Fiscal year.

**Income Taxes**

The following table presents our (benefit) provision for income taxes for Fiscal 2019, Fiscal 2018 and Fiscal 2017:

	Year Ended March 31,		
	2019	2018	2017
	(In thousands, except percentages)		
(Benefit) provision for income taxes	\$ 36	\$ (1,818)	\$ (44)
Effective tax rate	(0.5)%	32.5%	0.8%

For Fiscal 2019, the difference between the statutory and the effective tax rate was primarily attributable to the valuation allowance recorded against our deferred tax assets.

For Fiscal 2018, the difference between the statutory and the effective tax rate was primarily attributable to an increase in tax expense resulting from the impact of the change in the U.S. federal tax rate on the Company's deferred tax assets, offset by a corresponding change to the valuation allowance maintained against the deferred tax assets and a benefit for research tax credits generated during the current fiscal year. The effective tax rate for Fiscal 2018 was also favorably impacted by the reversal of the valuation allowance related to alternative minimum tax credit carryforwards, which were made refundable by the tax legislation discussed below.

For Fiscal 2017, the difference between the statutory and the effective tax rate was primarily attributable to the valuation allowance recorded against the Company's deferred tax assets.

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 the Company has sustained a cumulative pre-tax loss over the trailing three fiscal years, we considered it appropriate to maintain valuation allowances of \$12.3 million and \$9.8 million against our deferred tax assets at March 31, 2019 and 2018, respectively. We will continue to reassess the appropriateness of maintaining a valuation allowance.

As we update our estimates in future periods, adjustments to our deferred tax asset and valuation allowance may be necessary. We anticipate this will cause our future overall effective tax rate in any given period to fluctuate from prior effective tax rates and statutory tax rates. We utilize the liability method of accounting for income taxes. We record net deferred tax assets to the extent that we believe these assets will more likely than not be realized.

At March 31, 2019, we had \$17.4 million of federal net operating loss carryforwards that do not expire as a result of recent tax law changes and \$5.7 million of federal net operating loss carryforwards that begin to expire in 2022. We also had \$8.0 million of state net operating loss carryforwards that begin to expire in 2031. Although the impact cannot be precisely determined at this time, we believe that our net operating loss carryforwards will provide reductions in our future income tax payments, that would otherwise be higher using statutory tax rates.

The TCJA was enacted on December 22, 2017 and reduced U.S. corporate income tax rates to 21.0% as of January 1, 2018. The rate change became effective during Fiscal 2018 resulting in a

blended statutory tax rate of 30.8% for Fiscal 2018. As a consequence of the tax legislation, the Company recorded a decrease in its net deferred tax assets of \$4.1 million and a decrease in the valuation allowance maintained against its deferred tax assets of \$5.8 million. The estimated impact of the tax legislation was an income tax benefit of \$1.7 million, of which \$1.1 million was due to the release of valuation allowance that had been maintained against alternative minimum tax credit carryforwards, which were made refundable by the tax legislation, and \$640,000 was due to the remeasurement of a deferred tax liability related to indefinite-lived assets.

On December 22, 2017, the SEC issued guidance under SAB 118 directing taxpayers to consider the impact of the tax legislation as "provisional" when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. In accordance with SAB 118, the income tax effects recorded in Fiscal 2018 represented the Company's best estimate based on its current interpretation of this tax legislation. We completed our accounting for the tax legislation in Fiscal 2019 and did not recognize any material adjustments to the provisional amounts recorded in Fiscal 2018.

## Liquidity and Capital Resources

### Cash Flows

We have historically financed our operations with a combination of cash flows from operations and the sale of equity securities and our prior bank line of credit. We have historically relied, and 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 March 31, 2019, we had \$13.5 million in working capital, which included \$7.1 million in cash and cash equivalents, as well as \$1.9 million in short-term investments. This compares to working capital of \$17.4 million at March 31, 2018, which included \$10.2 million in cash and cash equivalents as well as \$5.3 million in short-term investments.

The following table summarizes our cash flows for Fiscal 2019, Fiscal 2018 and Fiscal 2017:

	Year Ended March 31,		
	2019	2018	2017
	(In thousands)		
<b>Net cash provided by (used in):</b>			
Operating activities	\$ (5,828)	\$ (268)	\$ 2,903
Investing activities	2,345	(8,823)	(1,343)
Financing activities	402	1,042	612

**Operating Activities.** Cash used in our operations during Fiscal 2019 was primarily the result of our net loss of approximately \$7.8 million, adjusted by approximately \$4.1 million in non-cash items for deferred income taxes, depreciation, stock-based compensation, and amortization. The net loss was offset in part by approximately \$2.1 million of working capital used in our operations in Fiscal 2019.

Cash used in our operations during Fiscal 2018 was primarily the result of our net loss of approximately \$3.5 million, adjusted by approximately \$2.4 million in non-cash items for deferred income taxes, depreciation, stock-based compensation, amortization, gain on sales of discontinued



operations, and loss on disposal of equipment. The net loss was offset in part by approximately \$819,000 of working capital provided by our operations in Fiscal 2018.

Cash provided by our operations during Fiscal 2017 was primarily the result of approximately \$3.6 million of working capital provided and offset by our net loss of approximately \$4.8 million, adjusted by approximately \$4.2 million in non-cash items for deferred income taxes, depreciation, stock-based compensation, amortization, gain on sales of discontinued operations, loss on disposal of equipment and loss on impairment of goodwill.

**Investing Activities.** Net cash provided by our investing activities during Fiscal 2019 was primarily the result of approximately \$7.5 million in proceeds from the maturity of short-term investments and approximately \$107,000 in proceeds from the last earn-out payment related to the sale of the assets of the Vehicle Sensors segment in 2011. These amounts were partially offset by purchases of approximately \$4.1 million of short-term investments and approximately \$486,000 of property and equipment as well as approximately \$660,000 of capitalized software development primarily in the Roadway Sensors business segment related to VantageLive! developments.

Cash used in our investing activities during Fiscal 2018 consisted of approximately \$5.3 million in investment purchases, approximately \$1.1 million for purchases of property and equipment primarily related to leasehold improvement to our corporate headquarters, and \$2.9 million of capitalized software development primarily related to the development of our new Oracle ERP system, and to a lesser extent, in the Agriculture and Weather Analytics and Roadway Sensors business segments related to ClearAg assets and VantageLive! developments. These investments were partially offset by approximately \$511,000 in proceeds from the earn-out provision included in the sale of the Vehicle Sensors segment.

Cash used in our investing activities during Fiscal 2017 consisted of approximately \$1.2 million of capitalized software development in the Agriculture and Weather Analytics and Roadway Sensors business segments related to ClearAg assets and VantageLive! development, respectively, and approximately \$668,000 for purchases of property and equipment, primarily related to computers and related equipment which were offset by approximately \$495,000 in proceeds from the sale of the Vehicle Sensors segment.

**Financing Activities.** Net cash provided by financing activities during Fiscal 2019 was primarily the result of approximately \$343,000 of cash proceeds received from the purchases of Employee Stock Purchase Plan ("ESPP") shares, and approximately \$90,000 of cash proceeds from the exercise of stock options during Fiscal 2019.

Net cash provided by financing activities during Fiscal 2018 and Fiscal 2017 was primarily the result of approximately \$1.0 million and \$612,000, respectively, of cash proceeds received from the exercises of stock options.

#### **Off-Balance Sheet Arrangements**

Other than our operating leases, which are further described at Note 8 of Notes to Consolidated Financial Statements, included in Part II, Item 8 of this report, we do not have any other material off-balance sheet arrangements at March 31, 2019.

#### **Seasonality**

We have historically experienced seasonality, particularly with respect to our Roadway Sensors segment, which adversely affects such 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 impacted the most by inclement weather. We have also experienced seasonality, particularly with respect to our Transportation Systems segment, which

adversely impacts our third fiscal quarter due to the increased number of holidays, causing a reduction in available billable hours. In addition, we have experienced seasonality related to certain ClearPath Weather services which adversely impacts such sales in our first and second fiscal quarters, mainly because these services are generally not required during Spring and Summer when weather conditions are comparatively milder.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is a smaller reporting company as defined in Rule 12b-2 of the Exchange Act and is not required to provide the information required by this Item.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Iteris, Inc.  
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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Iteris, Inc.

### Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Iteris, Inc. and subsidiary (the "Company") as of March 31, 2019 and 2018, the related consolidated statements of operations, stockholders' equity, and cash flows, for each of the three years in the period ended March 31, 2019, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of March 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2019 and 2018, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2019, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

### Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

## **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Costa Mesa, CA

June 6, 2019

We have served as the Company's auditor since fiscal 2016.

**Iteris, Inc.**

**Consolidated Balance Sheets**

**(In thousands, except par value)**

	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 7,071	\$ 10,152
Short-term investments	1,935	5,319
Trade accounts receivable, net of allowance for doubtful accounts of \$539 and \$333 at March 31, 2019 and March 31, 2018, respectively	16,929	12,866
Unbilled accounts receivable	6,487	7,473
Inventories	2,916	2,921
Prepaid expenses and other current assets	1,367	1,165
Total current assets	<u>36,705</u>	<u>39,896</u>
Property and equipment, net	1,965	2,333
Intangible assets, net	3,286	3,751
Goodwill	15,150	15,150
Other assets	849	1,756
Total assets	<u>\$ 57,955</u>	<u>\$ 62,886</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Trade accounts payable	\$ 9,441	\$ 7,838
Accrued payroll and related expenses	6,536	7,398
Accrued liabilities	2,370	2,358
Deferred revenue	4,883	4,900
Total current liabilities	<u>23,230</u>	<u>22,494</u>
Deferred rent	455	638
Deferred income taxes	65	65
Unrecognized tax benefits	150	168
Total liabilities	<u>23,900</u>	<u>23,365</u>
Commitments and contingencies (Note 6)		
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 March 31, 2019 and March 31, 2018		
Issued and outstanding shares—33,377 at March 31, 2019 and 33,186 at March 31, 2018	3,338	3,318
Additional paid-in capital	142,260	139,722
Accumulated deficit	<u>(111,543)</u>	<u>(103,519)</u>
Total stockholders' equity	<u>34,055</u>	<u>39,521</u>
Total liabilities and stockholders' equity	<u>\$ 57,955</u>	<u>\$ 62,886</u>

See accompanying notes.

**Iteris, Inc.**

**Consolidated Statements of Operations**

**(In thousands, except per share amounts)**

	<b>Year Ended March 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Product revenues	\$ 48,227	\$ 46,464	\$ 43,735
Service revenues	50,896	57,265	52,247
Total revenues	99,123	103,729	95,982
Cost of product revenues	28,434	26,633	23,877
Cost of service revenues	32,083	37,265	34,703
Total cost of revenues	60,517	63,898	58,580
Gross profit	38,606	39,831	37,402
Operating expenses:			
Selling, general and administrative	38,471	37,400	33,313
Research and development	7,819	7,945	6,877
Amortization of intangible assets	275	88	281
Loss on impairment of goodwill	—	—	2,168
Total operating expenses	46,565	45,433	42,639
Operating loss	(7,959)	(5,602)	(5,237)
Non-operating income (expense):			
Other income (expense), net	50	(16)	(7)
Interest income, net	129	32	13
Loss from continuing operations before income taxes	(7,780)	(5,586)	(5,231)
(Provision) benefit for income taxes	(36)	1,818	44
Loss from continuing operations	(7,816)	(3,768)	(5,187)
Gain on sale of discontinued operation, net of tax	—	242	361
Net loss	\$ (7,816)	\$ (3,526)	\$ (4,826)
Loss per share from continuing operations—basic and diluted	\$ (0.23)	\$ (0.12)	\$ (0.16)
Gain per share from sale of discontinued operation—basic and diluted	\$ —	\$ 0.01	\$ 0.01
Net loss per share—basic and diluted	\$ (0.23)	\$ (0.11)	\$ (0.15)
Shares used in basic per share calculations	33,266	32,776	32,174
Shares used in diluted per share calculations	33,266	32,776	32,174

See accompanying notes.

**Iteris, Inc.**

**Consolidated Statements of Stockholders' Equity**

**(In thousands)**

	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Accumulated Deficit</b>	<b>Total Stockholders' Equity</b>
	<b>Shares</b>	<b>Amount</b>			
Balance at March 31, 2016	32,048	\$ 3,205	\$ 135,424	\$ (95,167)	\$ 43,462
Stock option exercises	388	40	628	—	668
Stock-based compensation	—	—	976	—	976
Issuance of shares pursuant to vesting of restricted stock units, net of payroll withholding taxes	52	4	(60)	—	(56)
Net loss				(4,826)	(4,826)
Balance at March 31, 2017	32,488	\$ 3,249	\$ 136,968	\$ (99,993)	\$ 40,224
Stock option exercises	591	59	1,131	—	1,190
Stock-based compensation	—	—	1,781	—	1,781
Issuance of shares pursuant to vesting of restricted stock units, net of payroll withholding taxes	107	10	(158)	—	(148)
Net loss				(3,526)	(3,526)
Balance at March 31, 2018	33,186	\$ 3,318	\$ 139,722	\$ (103,519)	\$ 39,521
Adoption of ASU 2014-09 (see Note 1)				(208)	(208)
Stock option exercises	43	4	81	—	85
Issuance of shares pursuant to Employee Stock Purchase Plan	92	10	355		365
Stock-based compensation	—	—	2,156	—	2,156
Issuance of shares pursuant to vesting of restricted stock units, net of payroll withholding taxes	56	6	(54)	—	(48)
Net loss				(7,816)	(7,816)
Balance at March 31, 2019	<u>33,377</u>	<u>\$ 3,338</u>	<u>\$ 142,260</u>	<u>\$ (111,543)</u>	<u>\$ 34,055</u>

See accompanying notes.



**Iteris, Inc.**

**Consolidated Statements of Cash Flows**

(In thousands)

	Year Ended March 31,		
	2019	2018	2017
<b>Cash flows from operating activities</b>			
Net loss	\$ (7,816)	\$ (3,526)	\$ (4,826)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Deferred income taxes	(18)	(660)	12
Depreciation of property and equipment	854	819	729
Stock-based compensation	2,156	1,781	976
Amortization of intangible assets	1,125	726	623
Gain on sale of discontinued operation, net of tax	—	(242)	(361)
Loss on disposal of equipment	—	16	14
Loss on impairment of goodwill	—	—	2,168
Changes in operating assets and liabilities, net of effects of discontinued operation:			
Accounts receivable	(4,063)	1,433	(1,058)
Unbilled accounts receivable and deferred revenue, net	457	(166)	549
Inventories	5	(671)	903
Prepaid expenses and other assets	902	(693)	(408)
Accounts payable and accrued expenses	570	915	3,582
Net cash (used in) provided by operating activities	(5,828)	(268)	2,903
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	(486)	(1,079)	(668)
Purchase of short term investments	(4,079)	(5,319)	—
Maturities of investments	7,463	—	—
Capitalized software development costs	(660)	(2,936)	(1,170)
Net proceeds from sale of business segment	107	511	495
Net cash (used in) provided by investing activities	2,345	(8,823)	(1,343)
<b>Cash flows from financing activities</b>			
Proceeds from stock option exercises	85	1,190	668
Proceeds from ESPP purchases	365	—	—
Tax withholding payments for net share settlements of restricted stock units	(48)	(148)	(56)
Net cash provided by financing activities	402	1,042	612
(Decrease) increase in cash and cash equivalents	(3,081)	(8,049)	2,172
Cash and cash equivalents at beginning of period	10,152	18,201	16,029
Cash and cash equivalents at end of period	<u>\$ 7,071</u>	<u>\$ 10,152</u>	<u>\$ 18,201</u>
<b>Supplemental cash flow information:</b>			
Cash paid during the year for:			
Interest	\$ —	\$ —	\$ 14
Income taxes	4	130	166
<b>Supplemental schedule of non-cash investing and financing activities:</b>			
Capitalized software development costs included in accounts payable and accrued expenses	\$ —	\$ 102	\$ —
Issuance of common stock for vested restricted stock units	6	10	5
Landlord contribution for tenant improvements	—	145	—

See accompanying notes.

**Iteris, Inc.**

**Notes to Consolidated Financial Statements**

**March 31, 2019**

**1. Description of Business and Summary of Significant Accounting Policies**

**Description of Business**

Iteris, Inc. (referred to collectively with its wholly-owned subsidiary, ClearAg, Inc., in this report as "Iteris", the "Company", "we", "our", and "us") is a provider of essential applied informatics that enable smart transportation and digital agriculture. Municipalities, government agencies, crop science companies, crop science companies, agriculture service providers and other agribusinesses use our solutions to make roads safer and travel more efficient, as well as farmlands more sustainable, healthy and productive.

As a pioneer in intelligent transportation systems ("ITS") technology for more than two decades, we offer a comprehensive range of ITS technology solutions to our customers throughout the U.S. and internationally through a combination intellectual property, products, SaaS offering and weather forecasting systems.

In the digital agriculture market, we have combined our intellectual property with enhanced atmospheric, land surface and agronomic modeling techniques to offer smart content and analytical solutions that provide analytical support to large enterprises in the agriculture industry, such as seed and crop protection companies, integrated food companies, and agricultural equipment manufacturers and service providers.

We believe our products, solutions and services improve and safely optimize mobility within our communities, while minimizing environmental impact on the roads we travel and the lands we farm.

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, while supporting the entire value chain in the agriculture market with our smart content and digital farming platform, and always exploring strategic alternatives intended to optimize the value of all of our businesses.

Iteris was incorporated in Delaware in 1987 and has operated in its current form since 2004.

**Recent Developments**

*ClearAg, Inc.*

In April 2017, Iteris, Inc. formed a wholly-owned subsidiary, ClearAg, Inc., a Delaware corporation, to provide ClearAg solutions in the agribusiness markets.

**Basis of Presentation**

Our consolidated financial statements include the accounts of Iteris, Inc. and its subsidiary and have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). All intercompany accounts and transactions have been eliminated in consolidation.

The results of continuing operations for all periods presented in the consolidated financial statements exclude the financial impact of a discontinued operation. See Note 3, "Sale of Vehicle Sensors," for further discussion related to the discontinued operation presentation.

**Iteris, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2019****1. Description of Business and Summary of Significant Accounting Policies (Continued)****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, costs to complete long-term contracts, indirect cost rates used in cost plus contracts, the valuation of purchased intangible assets and goodwill, the valuation of equity instruments, 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 the stock-based compensation.

**Revenue Recognition****Adoption of Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09")**

On April 1, 2018, the Company adopted ASU 2014-09, including its subsequent amendments as codified under ASC Topic 606 ("ASC 606"), using the modified retrospective approach to apply ASC 606 to all contracts that were not completed as of the beginning of Fiscal Year 2019. ASC 606 is a comprehensive new revenue recognition principle that requires a company to recognize revenue to depict the transfer of promised goods or services to a customer at an amount that reflects the consideration it expects to be entitled to in exchange for those goods or services. Results for reporting periods beginning after March 31, 2018 are presented under ASC 606, while prior period amounts and disclosures are not adjusted and continue to be reported under the accounting standards in effect for the prior period. As a result, the Company recognized the cumulative effect of initially applying ASC 606 as an increase to the opening balance of accumulated deficit in the amount of approximately \$208,000 as of April 1, 2018. The impact of the adoption of the new standard is immaterial to the Company's consolidated balance sheet, statement of operations, and cash flows.

**Iteris, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**March 31, 2019**

**1. Description of Business and Summary of Significant Accounting Policies (Continued)**

The following table represents the impact of adopting ASC 606 on our opening consolidated balance sheet as of April 1, 2018:

	<u>March 31, 2018</u> <u>As Reported</u>	<u>Cumulative-Effect</u> <u>Adjustments</u> <u>(In thousands)</u>	<u>April 1, 2018</u> <u>As Adjusted</u>
Prepaid expenses and other current assets	\$ 1,165	\$ 304	\$ 1,469
Total assets	\$ 62,886	\$ 304	\$ 63,190
Deferred revenue	\$ 4,900	\$ 512	\$ 5,412
Total liabilities	\$ 23,365	\$ 512	\$ 23,877
Accumulated deficit	\$ (103,519)	\$ (208)	\$ (103,727)
Total liabilities and stockholders' equity	\$ 62,886	\$ 304	\$ 63,190

Changes in Accounting Policies as a Result of Adopting ASC 606 and Nature of Goods and Services

Revenues are recognized when control of the promised goods or services are transferred to our customers, in a gross amount that reflects the consideration that we expect to be entitled to in exchange for those goods or services. We generate all of our revenue from contracts with customers.

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, primarily derived from the Transportation Systems and Agriculture and Weather Analytics segments, are primarily 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 variable consideration. However, 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.

**Iteris, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2019****1. Description of Business and Summary of Significant Accounting Policies (Continued)**

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 support, monthly active user fees, software as a service ("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 which combines the software functionality, maintenance and hosting into a single performance obligation. In product related contracts, a purchase order may contain 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.

Iteris, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2019

1. Description of Business and Summary of Significant Accounting Policies (Continued)

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
<b>Product Revenues</b>			
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
<b>Service Revenues</b>			
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 reportable segments and the nature of the products and services. See Note 11 for our revenue by reportable segment.

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 consolidated balance sheet 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 balance

**Iteris, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2019****1. Description of Business and Summary of Significant Accounting Policies (Continued)**

sheet. 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 March 31, 2019, we capitalized approximately \$172,000 of contract fulfillment costs which are presented in the accompanying consolidated balance sheet 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 March 31, 2019, the aggregate amount of transaction price allocated to remaining performance obligations was immaterial primarily as a result of termination provisions within our contracts which make the duration of the accounting term of the contract one year or less.

**Practical Expedients and Exemptions**

T&M and CPFF contracts are considered variable consideration. However, performance obligations with an underlying fee type of T&M or CPFF qualify for the "Right to Invoice" Practical Expedient under ASC 606-10-55-18. Under this practical expedient, the Company is not required to estimate such variable consideration upon inception of the contract and reassess the estimate each reporting period.

The Company utilizes the practical expedient under ASC 606-10-50-14 of not disclosing information about its remaining performance obligations for contracts with an original expected duration (i.e., contract term, determined based on the analysis of termination provisions described above) of 12 months or less.

The Company pays sales commissions on certain sales contracts. These costs are accrued in the same period that the revenues are recorded. Using the practical expedient under ASC 340-40-25-4, the Company recognizes the incremental costs of obtaining a contract as an expense when incurred since the amortization period of the asset that the Company otherwise would have recognized is one year or less.

The Company utilizes the practical expedient under ASC 606-10-25-18B to account for shipping and handling as fulfillment costs, and not a promised service (a revenue element). Shipping and handling costs are included as cost of revenues in the period during which the products ship.

**Iteris, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2019****1. Description of Business and Summary of Significant Accounting Policies (Continued)**

The Company excludes from the transaction price all sales taxes that are assessed by a governmental authority and that are imposed on and concurrent with a specific revenue-producing transaction and collected from a customer (for example, sales, use, value added, and some excise taxes). This employs the practical expedient under ASC 606-10-32-2A. Sales taxes are presented on a net basis (excluded from revenues) in the Company's consolidated statements of operations.

**Deferred Revenue**

Deferred revenue in the accompanying 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, South America and Asia. 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 fiscal year ended March 31, 2019 ("Fiscal 2019"), one individual customer represented approximately 24% of our total revenues. For the fiscal years ended March 31, 2018 ("Fiscal 2018") and March 31, 2017 ("Fiscal 2017"), one individual customer represented approximately 22% of our total revenues. As of March 31, 2019, no individual customer represented greater than 10% of our total accounts receivable. As of March 31, 2018, one customer represented approximately 13% of our total accounts receivable, and no other 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 FASB 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



**Iteris, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2019****1. Description of Business and Summary of Significant Accounting Policies (Continued)**

transaction between market participants on the measurement date. The fair value hierarchy proscribed 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 and Cash Equivalents**

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

**Investments**

The Company's investments are classified as either held-to-maturity, available-for-sale or trading, in accordance with FASB ASC 320. 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. FASB 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. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available (see Note 4). As of March 31, 2019, all of our investments are 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

**Iteris, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2019****1. Description of Business and Summary of Significant Accounting Policies (Continued)**

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.

**Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets were \$1.4 million as of March 31, 2019. Prepaid expenses and other current assets were \$1.2 million as of March 31, 2018 and included approximately \$130,000 of cash designated as collateral on performance bonds, as required under certain of our Transportation Systems contracts in the Middle East. The performance bonds required us to maintain 100% cash value of the bonds as collateral in a bank that is local to the purchasing agency. The performance bond collateral was required throughout the delivery of our services and was maintained in the local bank until the contract was closed by the purchasing agency. The requirements on the remaining performance bonds, and the related cash collateral restrictions, were released during the quarter ended June 30, 2018.

**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.

**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

**Iteris, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2019****1. Description of Business and Summary of Significant Accounting Policies (Continued)**

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. As of March 31, 2019 and March 31, 2018, we determined that no adjustments to the carrying value of goodwill and intangible assets were required. As of March 31, 2017, we determined the carrying amount of the goodwill in the Agriculture and Weather Analytics reporting unit exceeded its implied fair value, and as a result, recognized an approximate \$2.2 million impairment loss in the accompanying consolidated financial statements. We also determined that no adjustments to the carrying value of goodwill and intangible assets were required in the Roadway Sensors and Transportation Systems reporting units for any year presented.

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. As of March 31, 2019, there was no impairment to our long-lived and intangible assets.

**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, 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 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 and restricted 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. While utilizing this

**Iteris, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2019****1. Description of Business and Summary of Significant Accounting Policies (Continued)**

model meets established requirements, the estimated fair values generated by it may not be indicative of the actual fair values of our common stock option 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.

**Shipping and Handling Costs**

Shipping and handling costs are included as cost of revenues in the period during which the products ship.

**Sales Taxes**

Sales taxes are presented on a net basis (excluded from revenues) in the consolidated statements of operations.

**Advertising Expenses**

Advertising costs are expensed in the period incurred and totaled \$61,000, \$148,000 and \$146,000 in Fiscal 2019, Fiscal 2018 and Fiscal 2017, respectively.

**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 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.

**Iteris, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2019****1. Description of Business and Summary of Significant Accounting Policies (Continued)****Comprehensive Loss**

The difference between net loss and comprehensive loss was de minimis for Fiscal 2019 and Fiscal 2018. Comprehensive loss equaled net loss for Fiscal 2017.

**Recent Accounting Pronouncements**

In February 2016, the FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"). The pronouncement requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. ASU 2016-02 establishes a right-of-use ("ROU") model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. ASU 2016-02 also requires disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for the Company beginning April 1, 2019, using a modified retrospective approach, with early adoption permitted. An entity may choose to use either the effective date or the beginning of the earliest comparative period presented in the financial statements as the date of initial application. The Company expects to adopt ASU 2016-02 on April 1, 2019, using a modified retrospective approach, and to choose the effective date as the date of initial application. Consequently, financial information will not be updated, and the disclosures required under ASU 2016-02 will not be provided for dates and periods prior to April 1, 2019. ASU 2016-02 provides a number of optional practical expedients and accounting policy elections. The Company expects to elect the package of practical expedients requiring no reassessment of whether any expired or existing contracts are or contain leases, the lease classification of any expired or existing leases, or initial direct costs for any existing leases. Further, the Company expects to elect accounting policies not to apply the recognition requirements under ASU 2016-02 to any of the Company's short-term leases, instead recognizing the lease payments in the consolidated statement of operations on a straight-line basis over the lease term, and to account for each separate lease and associated nonlease components as a single lease component for all of its leases. The Company expects ASU 2016-02 will have a material effect on its consolidated balance sheets. However, the Company does not expect ASU 2016-02 will have a material effect on its consolidated statements of operations, its consolidated statements of stockholders' equity or its consolidated statements of cash flows. While the Company continues to assess all of the effects of adoption, the most significant effects relate to (1) the recognition of ROU assets of approximately \$12.0 million to \$14.0 million and lease liabilities of approximately \$13.0 million to \$15.0 million, primarily resulting from leases of office space, equipment and vehicles; (2) the derecognition of deferred rent of approximately \$830,000 for certain lease incentives received; and (3) significant new disclosure requirements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirement for Fair Value Measurements ("ASU 2018-13"), which modifies the disclosure requirements on fair value measurements. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, and early adoption is permitted. We are currently evaluating the impact of ASU 2018-13 on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles—Goodwill and Other—Internal Use Software (subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud

**Iteris, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2019****1. Description of Business and Summary of Significant Accounting Policies (Continued)**

Computing Arrangement That Is a Service Contract ("ASU 2018-15"), which clarifies the accounting for implementation costs in cloud computing arrangements. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, and early adoption is permitted. We are currently evaluating the impact of ASU 2018-15 on our consolidated financial statements.

**2. Supplementary Financial Information****Inventories**

The following table presents details regarding our inventories:

	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(In thousands)</b>	
Materials and supplies	\$ 1,517	\$ 1,745
Work in process	356	232
Finished goods	1,043	944
	<u>\$ 2,916</u>	<u>\$ 2,921</u>

**Property and Equipment, net**

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

	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(In thousands)</b>	
Equipment	\$ 6,444	\$ 6,053
Leasehold improvements	2,939	2,880
Accumulated depreciation	(7,418)	(6,600)
	<u>\$ 1,965</u>	<u>\$ 2,333</u>

Depreciation expense was approximately \$854,000, \$819,000, and \$729,000 in Fiscal 2019, Fiscal 2018 and Fiscal 2017, respectively. Approximately \$286,000, \$288,000, and \$269,000 of the depreciation expense was recorded to cost of revenues, and approximately \$568,000, \$531,000 and \$397,000 was recorded to operating expenses in Fiscal 2019, Fiscal 2018 and Fiscal 2017, respectively, in the consolidated statements of operations.

Iteris, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2019

2. Supplementary Financial Information (Continued)

Intangible Assets

The following table presents details regarding our intangible assets:

	March 31, 2019			March 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
	(In thousands)					
Technology	\$ 1,856	\$ (1,856)	\$ —	\$ 1,856	\$ (1,856)	\$ —
Customer contracts / relationships	750	(750)	—	750	(750)	—
Trade names and non-compete agreements	1,110	(1,110)	—	1,110	(1,102)	8
Capitalized software development costs	5,768	(2,482)	3,286	5,108	(1,365)	3,743
Total	<u>\$ 9,484</u>	<u>\$ (6,198)</u>	<u>\$ 3,286</u>	<u>\$ 8,824</u>	<u>\$ (5,073)</u>	<u>\$ 3,751</u>

Amortization expense for intangible assets subject to amortization was approximately \$1.1 million, \$726,000, and \$623,000 for Fiscal 2019, Fiscal 2018 and Fiscal 2017, respectively. Approximately \$850,000, \$638,000, and \$342,000 of the intangible asset amortization was recorded to cost of revenues, and approximately \$275,000, \$88,000, and \$281,000 was recorded to amortization expense for Fiscal 2019, Fiscal 2018 and Fiscal 2017, respectively, in the consolidated statements of operations.

We do not have any intangible assets with indefinite useful lives. As of March 31, 2019, our net capitalized software development costs of approximately \$3.3 million is primarily associated with our Oracle Enterprise Resource Planning ("ERP") system design and implementation of approximately \$2.2 million, which has a useful life of 10 years beginning Fiscal 2019.

As of March 31, 2019, the future estimated amortization expense is as follows:

<u>Year Ending March 31,</u> <u>(In thousands)</u>	
2020	\$ 895
2021	542
2022	327
2023	266
2024	266
Thereafter	990
	<u>\$ 3,286</u>

**Iteris, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**March 31, 2019**

**2. Supplementary Financial Information (Continued)**

**Goodwill**

The following table presents the activity related to the carrying value of our goodwill by reportable segment for Fiscal 2017, Fiscal 2018 and Fiscal 2019:

	<u>Roadway Sensors</u>	<u>Transportation Systems</u>	<u>Ag &amp; Weather Analytics</u>	<u>Total</u>
	<u>(In thousands)</u>			
Balance—March 31, 2017				
Goodwill	\$ 8,214	\$ 14,906	\$ 2,168	\$ 25,288
Accumulated impairment losses	—	(7,970)	(2,168)	(10,138)
	<u>\$ 8,214</u>	<u>\$ 6,936</u>	<u>\$ —</u>	<u>\$ 15,150</u>
Balance—March 31, 2018				
Goodwill	\$ 8,214	\$ 14,906	\$ 2,168	\$ 25,288
Accumulated impairment losses	—	(7,970)	(2,168)	(10,138)
	<u>8,214</u>	<u>6,936</u>	<u>—</u>	<u>15,150</u>
Balance—March 31, 2019				
Goodwill	\$ 8,214	\$ 14,906	\$ 2,168	\$ 25,288
Accumulated impairment losses	—	(7,970)	(2,168)	(10,138)
	<u><u>\$ 8,214</u></u>	<u><u>\$ 6,936</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 15,150</u></u>

**Warranty Reserve Activity**

The following table presents activity with respect to the warranty reserve:

	<u>Year Ended March 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
	<u>(In thousands)</u>		
Balance at beginning of fiscal year	\$ 403	\$ 278	\$ 193
Additions charged to cost of sales	647	623	382
Warranty claims	(587)	(498)	(297)
Balance at end of fiscal year	<u><u>\$ 463</u></u>	<u><u>\$ 403</u></u>	<u><u>\$ 278</u></u>



Iteris, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2019

2. Supplementary Financial Information (Continued)

Earnings Per Share

The following table sets forth the computation of basic and diluted loss from continuing operations per share:

	Year Ended March 31,		
	2019	2018	2017
	(In thousands, except per share amounts)		
Numerator:			
Loss from continuing operations	\$ (7,816)	\$ (3,768)	\$ (5,187)
Gain on sale of discontinued operation, net of tax	—	242	361
Net loss	<u>\$ (7,816)</u>	<u>\$ (3,526)</u>	<u>\$ (4,826)</u>
Denominator:			
Weighted average common shares used in basic computation	33,266	32,776	32,174
Dilutive stock options	—	—	—
Dilutive restricted stock units	—	—	—
Dilutive warrants	—	—	—
Weighted average common shares used in diluted computation	<u>33,266</u>	<u>32,776</u>	<u>32,174</u>
Loss from continuing operations per share:			
Basic	<u>\$ (0.23)</u>	<u>\$ (0.12)</u>	<u>\$ (0.15)</u>
Diluted	<u>\$ (0.23)</u>	<u>\$ (0.12)</u>	<u>\$ (0.15)</u>

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

	Year Ended March 31,		
	2019	2018	2017
	(In thousands)		
Stock options	5,056	3,917	3,491
Restricted stock units	12	228	179

3. Sale of Vehicle Sensors

On July 29, 2011, we completed the sale (the "Asset Sale") of substantially all of our assets used in connection with our prior Vehicle Sensors segment to Bendix Commercial Vehicle Systems LLC ("Bendix"), a member of Knorr Bremse Group. In connection with the Asset Sale, we are entitled to additional consideration in the form of the following performance and royalty related earn-outs: Bendix was obligated to pay us an amount in cash equal to 85% of revenue associated with royalties received under our license and distribution agreements with Audiovox Electronics Corporation and Valeo

**Iteris, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2019****3. Sale of Vehicle Sensors (Continued)**

Schalter and Sensoren GmbH through December 31, 2017, subject to certain reductions and limitations set forth in the asset purchase agreement. From the date of the Asset Sale, through March 31, 2019, we received approximately \$2.7 million in connection with royalty-related earn-outs provisions for a total of \$18 million in cash received from the Asset Sale.

In accordance with applicable accounting guidance, we determined that the Vehicle Sensors segment, which constituted one of our operating segments, qualified as a discontinued operation. For the fiscal years ended March 31, 2019, March 31, 2018, and 2017, we recorded a gain on sale of discontinued operation of approximately \$0, \$242,000 and \$361,000, respectively, net of tax, related to the earn-out provisions of the asset purchase agreement.

**4. 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—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.

We did not have any material financial assets or liabilities measured at fair value on a recurring basis using Level 3 inputs as of March 31, 2019 or 2018. Our non-financial assets, such as goodwill, intangible assets and property and equipment, are measured at fair value on a non-recurring basis, generally when there is a transaction involving those assets such as a purchase transaction, a business combination or an adjustment for impairment. In Fiscal 2019 and Fiscal 2018, Level 3 inputs were used to evaluate the fair value of our goodwill in our two reporting units that had goodwill balances. In Fiscal 2017, Level 3 inputs were used to evaluate the fair value of our goodwill in our three reporting units. As a result of our impairment testing, we recorded an adjustment for impairment of approximately \$2.2 million in our Agriculture and Weather Analytics reporting unit. No other non-financial assets were measured at fair value during the fiscal years ended March 31, 2019, March 31, 2018 and March 31, 2017.

Iteris, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2019

4. Fair Value Measurements (Continued)

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 March 31, 2019			
	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Estimated Fair Value
	(In thousands)			
Level 1:				
Money market funds	\$ 3,338	\$ —	\$ —	\$ 3,338
Subtotal	3,338	—	—	3,338
Level 2:				
Corporate notes and bonds	1,434	(1)	—	1,433
US Treasuries	502	—	—	502
Subtotal	1,936	(1)	—	1,935
Total	\$ 5,274	\$ (1)	\$ —	\$ 5,273

	As of March 31, 2018			
	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Estimated Fair Value
	(In thousands)			
Level 1:				
Money market funds	\$ 666	\$ —	\$ —	\$ 666
Subtotal	666	—	—	666
Level 2:				
Commercial paper	1,891	—	—	1,891
Corporate notes and bonds	2,008	(2)	—	2,006
US Treasuries	1,500	(1)	—	1,499
US Government agencies	2,950	(1)	—	2,949
Subtotal	8,349	(4)	—	8,345
Total	\$ 9,015	\$ (4)	\$ —	\$ 9,011

Iteris, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2019

5. Income Taxes

The components of current and deferred federal and state income tax (benefits) provision are as follows:

	Year Ended March 31,		
	2019	2018	2017
	(In thousands)		
Loss from continuing operations before income taxes	\$ (7,780)	\$ (5,586)	\$ (5,231)
Current income tax provision:			
Federal	—	3	71
State	36	45	62
Total current tax provision	36	48	133
Deferred income tax benefit:			
Federal	—	(1,849)	(166)
State	—	(17)	(11)
Total deferred benefit provision	—	(1,866)	(177)
Provision (benefit) for income taxes on continuing operations	36	(1,818)	(44)
Loss from continuing operations, net of taxes	\$ (7,816)	\$ (3,768)	\$ (5,187)

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

	Year Ended March 31,		
	2019	2018	2017
	(In thousands)		
Benefit for income taxes at statutory rates	\$ (1,634)	\$ (1,720)	\$ (1,778)
Change in federal tax rate	—	4,134	—
State income taxes net of federal benefit	(620)	(255)	(124)
Impairment charges	—	—	737
Tax credits	(343)	(567)	(125)
Compensation charges	199	(324)	29
Change in valuation allowance	2,385	(3,153)	1,148
Other	49	67	69
Provision (benefit) for income taxes	\$ 36	\$ (1,818)	\$ (44)

Iteris, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2019

5. Income Taxes (Continued)

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

	March 31,	
	2019	2018
	(In thousands)	
Deferred tax assets:		
Net operating losses	\$ 5,335	\$ 2,853
Capitalized R&D	2,347	2,734
Credit carry forwards	2,806	2,043
Deferred compensation and payroll	1,655	1,603
Bad debt allowance and other reserves	618	567
Deferred rent	202	235
Property and equipment	139	844
Other, net	309	203
Total deferred tax assets	13,411	11,082
Valuation allowance	(12,250)	(9,814)
Total deferred tax assets, net of valuation allowance	1,161	1,268
Deferred tax liabilities:		
Acquired intangibles	(759)	(866)
Goodwill	(467)	(467)
Total deferred tax liabilities	(1,226)	(1,333)
Net deferred tax liabilities	\$ (65)	\$ (65)

At March 31, 2019, we had \$1.2 million in federal alternative minimum tax credit carryforwards, approximately \$629,000 of which were classified as a current income tax receivable included in the prepaid expenses and other current assets in the accompanying consolidated balance sheet, and approximately \$551,000 of which were classified as a noncurrent income tax receivable included in the other assets in the accompanying consolidated balance sheet as we expect this amount to be refunded over the next three years. We also had \$1.8 million in federal research credits that begin to expire in 2031 and \$1.2 million in state tax credits that begin to expire in 2023. We had \$17.4 million of federal net operating loss carryforwards at March 31, 2019 that do not expire as a result of recent tax law changes. We had \$5.7 million of federal net operating loss carryforwards at March 31, 2019 that begin to expire in 2022. We also had \$8.0 million of state net operating loss carryforwards at March 31, 2019 that begin to expire in 2031.

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 the Company has sustained a cumulative pre-tax loss over the trailing three years, we considered it appropriate to maintain valuation allowances of \$12.3 million and \$9.8 million against our deferred tax assets at March 31, 2019 and 2018, respectively. We will continuously reassess the appropriateness of maintaining a valuation allowance.

**Iteris, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2019****5. Income Taxes (Continued)**

The Tax Cuts and Jobs Act ("TCJA") was enacted on December 22, 2017 and reduced U.S. corporate income tax rates to 21.0% as of January 1, 2018. The rate change became effective during Fiscal 2018 resulting in a blended statutory tax rate of 30.8% for Fiscal 2018. As a consequence of the tax legislation, the Company recorded a decrease in its net deferred tax assets of \$4.1 million and a decrease in the valuation allowance maintained against its deferred tax assets of \$5.8 million. The estimated impact of the tax legislation was an income tax benefit of \$1.7 million, of which \$1.1 million was due to the release of valuation allowance that had been maintained against alternative minimum tax credit carryforwards, which were made refundable by the tax legislation, and approximately \$640,000 was due to the remeasurement of a deferred tax liability related to indefinite-lived assets.

On December 22, 2017, the SEC issued guidance under Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118") directing taxpayers to consider the impact of the tax legislation as "provisional" when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. In accordance with SAB 118, the income tax effects recorded in Fiscal 2018 represented the Company's best estimate based on its current interpretation of this tax legislation. We completed our accounting for the tax legislation in Fiscal 2019 and did not recognize any material adjustments to the provisional amounts recorded in Fiscal 2018.

**Unrecognized Tax Benefits**

As of March 31, 2019 and 2018, our gross unrecognized tax benefits were approximately \$687,000 and \$586,000, respectively, of which approximately \$580,000 and \$461,000, respectively, are netted against certain noncurrent deferred tax assets. The amounts that would affect our effective tax rate if recognized are approximately \$609,000 and \$513,000, respectively.

We recognize interest and/or penalties related to income tax matters in income tax expense. As of March 31, 2019 and 2018, we had accrued cumulatively approximately \$42,000 and \$43,000, respectively, for the payment of potential interest and penalties. The total amount of interest and penalties recognized in the consolidated statements of operations for the fiscal years ended March 31, 2019 and 2018 was approximately \$1,000 and \$3,000, respectively.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows:

	<b>Year Ended March 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>(In thousands)</b>		
Gross unrecognized tax benefits at beginning of year	\$ 586	\$ 426	\$ 394
Increases for tax positions taken in prior years	2	62	18
Decreases for tax positions taken in prior years	—	—	(8)
Increases for tax positions taken in the current year	116	122	59
Lapse in statute of limitations	(17)	(24)	(37)
Gross unrecognized tax benefits at March 31	<u>\$ 687</u>	<u>\$ 586</u>	<u>\$ 426</u>

**Iteris, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2019****5. Income Taxes (Continued)**

We do not anticipate a significant change in gross unrecognized tax benefits within the next twelve months. We are subject to taxation in the U.S. and various state tax jurisdictions. We are subject to U.S. federal tax examination for fiscal tax years ended March 31, 2016 or later, and state and local income tax examination for fiscal tax years ended March 31, 2015 or later. However, if net operating loss carryforwards that originated in earlier tax years are utilized in the future, the amount of such NOLs from such earlier years remain subject to review by tax authorities.

**6. Commitments and Contingencies****Litigation and Other Contingencies**

As a provider of traffic engineering services, hardware products, software and other various solutions for the traffic and agricultural industries, 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 consolidated results of operations, financial position or cash flows.

**Operating Leases**

In May 2007, we entered into an agreement to lease 52,000 square feet of office space in Santa Ana, California for a term of 88 months. In September 2007, we relocated our headquarters and principal operations into this space. The monthly lease rate was \$102,000 during the first year of the lease and increased each year thereafter, to \$120,000 per month during the last year of the lease. In February 2014, we entered into an amendment to the lease, which reduced our office space by approximately 11,000 square feet and changed the lease term to 96 months, commencing on April 1, 2014. The monthly lease rate is approximately \$76,000 during the first year of the amended term and increases each year thereafter, up to a maximum of approximately \$90,000 during the last year of the term. Additionally, the lease amendment provided for approximately \$328,000 in incentives in the form of tenant improvement allowances, which we recorded as fixed assets and deferred rent in our consolidated balance sheet. The leasehold improvements were capitalized into fixed assets during Fiscal 2015 and will be depreciated over the estimated useful life of the improvements, or the term of the lease amendment, whichever is shorter. The corresponding deferred rent amount will reduce monthly rent expense over the term of the lease amendment. On January 23, 2017, we entered into an amendment to the lease, which added approximately 5,980 square feet and will expire after 60 months, commencing on April 1, 2017. The monthly lease rate is approximately \$14,000 during the first year of the term and increases each year thereafter, up to a maximum of approximately \$16,000 during the last year of the term. Additionally, the lease amendment provided for approximately \$119,000 in incentives in the form of tenant improvement allowances.

**Iteris, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2019****6. Commitments and Contingencies (Continued)**

We have lease commitments for facilities in various locations throughout the U.S., as well as for certain equipment. Future minimum rental payments under these non-cancelable operating leases at March 31, 2019 were as follows:

<u>Year Ending March 31,</u> <u>(In thousands)</u>	
2020	\$ 2,408
2021	2,150
2022	1,981
2023	548
2024	177
Thereafter	—
	<u>\$ 7,264</u>

Rent expense totaled approximately \$1.9 million for Fiscal 2019, and \$1.8 million for each of Fiscal 2018 and \$1.7 million for Fiscal 2017.

**Related Party Transaction**

We previously subleased office space to Maxxess Systems, Inc. ("Maxxess"), one of our former subsidiaries that we sold in September 2003. The sublease terminated in September 2007, at which time Maxxess owed us an aggregate of \$274,000. Maxxess executed a promissory note for such amount, which was subsequently amended and restated on July 23, 2013, August 11, 2016 and on August 11, 2018. The amended and restated note bears interest at a rate of 6% per annum, compounded annually, with accrued interest payable annually on the first business day of each calendar year. When authorized by the Company, Maxxess may pay down the balance of this note by providing consulting services to Iteris. We have previously fully reserved for amounts owed to us by Maxxess and the outstanding principal balance remains fully reserved. As of March 31, 2019, approximately \$146,000 of the original principal balance was outstanding and payable to Iteris. Maxxess is currently owned by an investor group that includes, among others, one former Iteris director, who has not been a director of Iteris since September 2013, and one existing director of Iteris, who currently owns less than 2% of Maxxess' capital stock.

**7. Stockholders' Equity****Preferred Stock**

Our certificate of incorporation provides for the issuance of up to 2,000,000 shares of preferred stock. Our Board of Directors is authorized to issue from time to time such authorized but unissued shares of preferred stock in one or more series and to fix or alter the designations, preferences, rights and any qualifications, limitations or restrictions of the shares of each such series, including the dividend, conversion, voting, redemption and liquidation rights. As of March 31, 2019 and 2018, there were no outstanding shares of preferred stock, and we do not currently have plans to issue any shares of preferred stock.



**Iteris, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2019****7. Stockholders' Equity (Continued)**

In August 2009, our Board of Directors adopted a stockholder rights plan, which calls for preferred stock purchase rights (each, a "Right") to be distributed, as a dividend, at the rate of one Right for each share of common stock held as of September 3, 2009. Each Right will entitle holders of common stock to buy one one-thousandth of one share of Series A Junior Participating Preferred Stock of Iteris. A further description and terms of the Rights are set forth in the Rights Agreement dated August 20, 2009 (as amended in August 2012) by and between Iteris and Computershare Trust Company, N.A. ("Computershare"), as rights agent. In connection with the stockholder rights plan, our Board of Directors approved the adoption of a Certificate of Designations, which created the Series A Junior Participating Preferred Stock, and likewise authorized the filing of a Certification of Elimination to eliminate the two series of junior participating preferred stock, which were originally created in April 1998 in connection with our previous stockholder rights plan which expired in 2008. Effective on September 28, 2018, an amendment was entered into by and between Iteris and Computershare to accelerate the expiration of the Rights from August 20, 2019 to September 28, 2019, wherein all of the Rights distributed to the holders of the Company's common stock pursuant to the Rights Agreement expired.

**Common Stock Reserved for Future Issuance**

The following summarizes common stock reserved for future issuance at March 31, 2019:

	<u>Number of Shares</u> <u>(In thousands)</u>
Stock options outstanding	5,035
Restricted stock units outstanding	112
Authorized for future issuance under stock incentive plans	2,761
	<u>7,908</u>

**8. Employee Benefit Plans****Stock Incentive Plans**

In September 2007, our stockholders approved the 2007 Omnibus Incentive Plan (the "2007 Plan"), which provides that options to purchase shares of our unissued common stock may be granted to our employees, officers, consultants and directors at exercise prices which are equal to or greater than the market value of our common stock on the date of grant. The 2007 Plan also allows for the issuance of stock appreciation rights, restricted stock, restricted stock units ("RSUs") and other stock-based awards based on the value of our common stock. New shares are issued to satisfy stock option exercises and share issuances under the 2007 Plan. In September 2009, our stockholders approved an amendment to increase the number of shares of our common stock authorized and reserved for issuance under the 2007 Plan by 800,000 shares to a total of 1,650,000 shares. In September 2012, our stockholders approved an amendment to increase the number of shares of our common stock authorized and reserved for issuance under the 2007 Plan by 800,000 shares to a total of 2,450,000 shares. In October 2014, our stockholders approved an amendment of the 2007 Plan to increase the number of shares of common stock authorized for issuance under the 2007 Plan by an additional 1,500,000 shares to a total of 3,950,000 shares. In September 2015, our stockholders approved an

**Iteris, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**March 31, 2019**

**8. Employee Benefit Plans (Continued)**

amendment of the 2007 Plan to increase the number of shares of common stock authorized for issuance under the 2007 Plan by an additional 1,000,000 shares to a total of 4,950,000 shares. In December 2016, our stockholders approved the 2016 Omnibus Incentive Plan (the "2016 Plan") which allows for the issuance of stock options, stock appreciation rights, restricted stock, RSUs, cash incentive awards and other stock-based awards to our employees, officers, consultants and directors at exercise prices which are equal to or greater than the market value of our common stock on the date of grant. Options expire no more than ten years after the date of grant and generally vest at the rate of 25% on each of the first four anniversaries of the grant date. Stock appreciation rights, restricted stock, RSUs and other stock-based awards are based on the value of our common stock. New shares are issued to satisfy stock option exercises and share issuances under the 2016 Plan.

We currently maintain both the 2007 Plan and the 2016 Plan. Of these plans, we may only grant future awards from the 2016 Plan. As of the 2016 Annual Meeting of Stockholders, no future shares could be granted under the 2007 Plan. As of March 31, 2019, options to purchase approximately 2.3 million shares of common stock, as well as 7,500 RSUs, were outstanding under the 2007 Plan and options to purchase approximately 2.8 million shares of common stock, as well as 104,000 RSUs, were outstanding under the 2016 Plan.

**Stock Options**

A summary of activity in the Plans with respect to our stock options for Fiscal 2019 is as follows:

	<b>Options</b>	<b>Weighted</b>	<b>Weighted</b>	<b>Aggregate</b>
	<b>(In thousands)</b>	<b>Average</b>	<b>Average</b>	<b>Intrinsic</b>
		<b>Exercise</b>	<b>Remaining</b>	<b>Value</b>
		<b>Price Per</b>	<b>Contractual</b>	<b>(In thousands)</b>
		<b>Share</b>	<b>Life</b>	
			<b>(Years)</b>	
Options outstanding at March 31, 2018	4,124	\$ 3.58		
Granted	1,038	4.20		
Exercised	(43)	2.00		
Forfeited	(76)	4.93		
Expired	(8)	4.91		
Options outstanding at March 31, 2019	5,035	\$ 3.70	7.6	\$ 4,430
Options exercisable at March 31, 2019	2,482	\$ 2.92	6.5	\$ 3,729
Vested and expected to vest at March 31, 2019	5,035	\$ 3.70	7.6	\$ 4,430
Options exercisable at March 31, 2019 pursuant to a change-in-control	5,035	\$ 3.70	7.6	\$ 4,430

**Restricted Stock Units**

RSU awards are stock-based awards that entitle the holder to receive one share of our common stock for each RSU upon vesting. RSUs granted under the 2007 Plan vest at the rate of 25% on each of the first four anniversaries of the grant date provided that the holder remains in service (as defined by the 2007 Plan) as of the vesting date. RSUs granted under the 2016 Plan vest at varying terms

Iteris, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2019

8. Employee Benefit Plans (Continued)

between one and four anniversaries of the grant date provided that the holder remains in service (as defined by the 2016 Plan) as of the vesting date. The fair value per RSU is determined based on the closing market price of our common stock on the grant date.

A summary of activity with respect to our RSUs for Fiscal 2019 is as follows:

	# of Shares (In thousands)	Weighted Average Price Per Share	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value (In thousands)
RSUs outstanding at March 31, 2018	144	\$ 4.72		
Granted	62	4.21		
Vested	(69)	4.83		
Forfeited	(25)	3.61		
RSUs outstanding at March 31, 2019	112	\$ 4.62	1.1	19.00
Expected to vest at March 31, 2019	112	\$ 4.62	1.1	19.00
Common stock issuable (for RSUs) at March 31, 2019 upon a change-in-control	112	\$ 4.62	1.1	19.00

Stock-Based Compensation

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

	Year Ended March 31,		
	2019	2018	2017
	(In thousands)		
Cost of revenues	\$ 146	\$ 71	\$ 51
Selling, general and administrative expense	1,804	1,558	858
Research and development expense	206	152	67
Total stock-based compensation	\$ 2,156	\$ 1,781	\$ 976

At March 31, 2019, there was approximately \$4.7 million and \$364,000 of unrecognized compensation expense related to unvested stock options and RSUs, respectively. This expense is currently expected to be recognized over a weighted average period of approximately 2.7 years for stock options and 1.1 years for RSUs. 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.

Iteris, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2019

8. Employee Benefit Plans (Continued)

The grant date fair value of stock options granted was estimated using the following weighted-average assumptions:

	Year Ended March 31,		
	2019	2018	2017
Expected life—years	5.9	6.5	6.5
Risk-free interest rate	2.7%	2.7%	2.2%
Expected volatility of common stock	43%	43%	40%
Dividend yield	—%	—%	—%

*Expected Life:* The Company's expected life represents the weighted-average period that the Company's stock options are expected to be outstanding. The expected life is based on expected time to post-vesting exercise of options by employees. The Company uses historical exercise patterns of previously granted options to derive employee behavioral patterns used to forecast expected exercise patterns.

*Risk-Free Interest Rate:* The risk-free interest rate is based on the U.S. Treasury zero coupon yield curve in effect at the time of grant for the expected term of the option.

*Expected Volatility:* The Company uses historical volatility as it provides a reasonable estimate of the expected volatility. Historical volatility is based on the most recent volatility of the stock price over a period of time equivalent to the expected term of the option.

A summary of certain fair value and intrinsic value information pertaining to our stock options is as follows:

	Year Ended March 31,		
	2019	2018	2017
	(In thousands, except per share amounts)		
Weighted average grant date fair value per share of options granted	\$ 1.89	\$ 2.59	\$ 2.11
Intrinsic value of options exercised	\$ 114	\$ 2,469	\$ 1,061

Employee Incentive Programs

Under the terms of a Profit Sharing Plan, we may contribute to a trust fund such amounts as determined annually by the Board of Directors. No contributions were made during the fiscal years ended March 31, 2019, 2018 and 2017.

We sponsor a defined contribution 401(k) plan (the "401(k) Plan"), adopted in 1990, under which eligible associates voluntarily contribute to the plan, up to IRS maximums, through payroll deductions. We match up to 50% of contributions, up to a stated limit, with all matching contributions being fully vested after three years of service. Our matching contributions under the 401(k) Plan were approximately \$1,185,000, \$1,067,000, and \$881,000 for the Fiscal 2019, Fiscal 2018 and Fiscal 2017, respectively.

**Iteris, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2019****8. Employee Benefit Plans (Continued)****Other Stock-Based Compensation Plans**

Beginning January 1, 2018, the Company adopted an Employee Stock Purchase Plan ("ESPP") which allows employees to withhold a percentage of their base compensation 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 Fiscal 2019, 92,000 shares were purchased. There were no share purchases in Fiscal 2018. The ESPP is considered a non-compensatory plan and accordingly no compensation expense is recorded in connection with this benefit.

**9. Stock Repurchase Program**

In August 2011, our Board of Directors approved a stock repurchase program pursuant to which we were authorized to acquire up to \$3 million of our outstanding common stock from time to time through August 2012. We repurchased approximately 964,000 shares under this original program for a total purchase price of \$1.3 million. On August 9, 2012, our Board of Directors cancelled the initial stock repurchase program and the approximate \$1.7 million of remaining funds, and 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 new program, we may repurchase shares from time to time in 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. 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 our fiscal years ended March 31, 2019, 2018, and 2017 we did not repurchase any shares. From inception of the program in August 2011 through March 31, 2019, we repurchased approximately 3,422,000 shares of our common stock for an aggregate price of approximately \$5.6 million, at an average price per share of \$1.63. As of March 31, 2019, all repurchased shares have been retired and returned to their status as authorized and unissued shares of our common stock. As of March 31, 2019, approximately \$1.7 million remains available for the repurchase of our common stock under our current program.

Iteris, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2019

10. Investments

Our investments consisted of the following:

	As of March 31, 2019			
	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Estimated Fair Value
	(In thousands)			
Cash and cash equivalents	\$ 3,338	\$ —	\$ —	\$ 3,338
Short term investments	1,936	(1)	—	1,935
Total	<u>\$ 5,274</u>	<u>\$ (1)</u>	<u>\$ —</u>	<u>\$ 5,273</u>

	As of March 31, 2018			
	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Estimated Fair Value
	(In thousands)			
Cash and cash equivalents	\$ 3,692	\$ —	\$ —	\$ 3,692
Short term investments	5,323	(4)	—	5,319
Total	<u>\$ 9,015</u>	<u>\$ (4)</u>	<u>\$ —</u>	<u>\$ 9,011</u>

Unrealized losses related to these 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, these investments before recovery of their cost basis. As a result, there is no other-than-temporary impairment for these investments as of March 31, 2019.

11. Business Segments, Significant Customer and Geographic Information

Business Segments

We currently operate in three reportable segments: Roadway Sensors, Transportation Systems, and Agriculture and Weather Analytics.

The Roadway Sensors segment provides various advanced detection sensors and systems for traffic intersection management, communication systems and roadway traffic data collection applications. The Roadway Sensors product line uses advanced image processing technology and other techniques to capture and analyze sensor data through sophisticated algorithms, enabling vehicle, bicycle and pedestrian detection, as well as the transmission of both video images and data using various communication technologies. Our Roadway Sensors products include, among others, Vantage, VantageLive!, Vantage Next, VantagePegasus, VantageRadius, Vantage Vector, Velocity, SmartCycle, SmartCycle Bike Indicator, SmartSpan, VersiCam, PedTrax and P-Series products. Our Roadway Sensors segment also includes the sale of original equipment manufacturer ("OEM") products for the traffic intersection markets, which include, among other things, traffic signal controllers and traffic signal equipment cabinets.

The Transportation Systems segment provides engineering and consulting services, performance measurement and traffic analytics solutions, as well as the development of transportation management

**Iteris, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2019****11. Business Segments, Significant Customer and Geographic Information (Continued)**

and traveler information systems for the ITS industry. Our Transportation Systems services include planning, design, implementation, operation and management of surface transportation infrastructure systems. We perform analysis and study goods movement, commercial vehicle operations, provide travel demand forecasting and systems engineering, and identify mitigation measures to reduce traffic congestion. Our Transportation Systems product line includes: iPeMS, our performance measurement and information management solution as well as our commercial vehicle operations and vehicle safety compliance platforms known as CVIEW Plus, CheckPoint, UCRLink and inspect.

The Agriculture and Weather Analytics segment includes ClearPath Weather, our road maintenance applications, and ClearAg, our digital agriculture platform. Our ClearPath Weather is a web-based solution, that includes a suite of tools that applies data assimilation and modeling technologies for assessing historical weather conditions for both short-term and long-range weather forecasts and customizable route/site weather and pavement forecasting, and providing winter road maintenance recommendations for state agencies, municipalities and for commercial companies that allow such users to create solutions to meet roadway maintenance decision needs. Our ClearAg solutions combine weather and agronomic data with proprietary land-surface modeling and analytics to solve complex agricultural problems and to increase the efficiency and sustainability of farmlands. We currently offer our ClearAg solutions to companies in the agriculture industry, such as seed and crop protection companies, integrated food companies, and agricultural equipment manufacturers and service providers. Our ClearAg solutions provide weather, environment, soil and plant growth modeling to deliver smart content through ClearAg APIs and components, IMFocus APIs and ClearAg web applications.

The accounting policies of our reportable segments are the same as those described in the summary of significant accounting policies (Note 1). Certain corporate general and administrative expenses, including general overhead functions such as information systems, accounting, human resources, marketing, compliance costs and certain administrative expenses, as well as interest and amortization of intangible assets, are not allocated to the segments. The reportable segments are each managed separately because they manufacture and distribute distinct products or provide services with different processes. All reported segment revenues are derived from external customers. Our Chief Executive Officer, who is our chief operating decision maker ("CODM"), reviews financial information at the operating segment level. Our CODM does not review assets by segment in his resource allocation, and therefore, assets by segment are not disclosed below.

Iteris, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2019

11. Business Segments, Significant Customer and Geographic Information (Continued)

Selected financial information for our reportable segments for the fiscal years ended March 31, 2019, 2018 and 2017 is as follows:

	Roadway Sensors	Transportation Systems	Agriculture and Weather Analytics	Total
	(In thousands)			
<b>Year Ended March 31, 2019</b>				
Product revenues	\$ 43,253	\$ 4,974	\$ —	\$ 48,227
Service revenues	239	44,841	5,816	50,896
Total revenues	43,492	49,815	5,816	99,123
Depreciation	233	195	103	531
Segment income (loss)	7,011	5,907	(5,024)	7,894
<b>Year Ended March 31, 2018</b>				
Product revenues	44,163	2,301	—	46,464
Service revenues	194	52,180	4,891	57,265
Total revenues	44,357	54,481	4,891	103,729
Depreciation	221	204	109	534
Segment income (loss)	8,825	8,639	(8,048)	9,416
<b>Year Ended March 31, 2017</b>				
Product revenues	42,059	1,676	—	43,735
Service revenues	111	47,594	4,542	52,247
Total revenues	42,170	49,270	4,542	95,982
Depreciation	180	191	131	502
Loss on impairment of goodwill	—	—	2,168	2,168
Segment income (loss)	\$ 9,799	\$ 8,482	\$ (9,557)	\$ 8,724

The following table reconciles total segment income to consolidated income from continuing operations before income taxes:

	Year Ended March 31,		
	2019	2018	2017
	(In thousands)		
<b>Segment income:</b>			
Total income from reportable segments	\$ 7,894	\$ 9,416	\$ 8,724
<b>Unallocated amounts:</b>			
Corporate and other expenses	(15,578)	(14,930)	(13,680)
Amortization of intangible assets	(275)	(88)	(281)
Other income (expense), net	50	(16)	(7)
Interest income, net	129	32	13
Loss from continuing operations before income taxes	\$ (7,780)	\$ (5,586)	\$ (5,231)



Iteris, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2019

11. Business Segments, Significant Customer and Geographic Information (Continued)

Significant Customer and Geographic Information

No individual customer or government agency had a receivable balance at March 31, 2019 greater than 10% of our total trade accounts receivable balances as of March 31, 2019. One individual customer who is also a government agency had a receivable balance of 13% of our total trade accounts receivable balance as of March 31, 2018. No individual customer or government agency had a receivable balance at March 31, 2017 greater than 10% of our total trade accounts receivable balances as of March 31, 2017.

The following table sets forth the percentages of our revenues, by geographic region, derived from shipments to, or contract, service and other revenues from, external customers located outside the U.S.:

	Year Ended March 31,		
	2019	2018	2017
Canada	—%	1%	1%
Europe	1	1	1
	1%	2%	2%

Substantially all of our long-lived assets are held in the U.S.

12. Quarterly Financial Data (Unaudited)

Quarter Ended:	Revenues	Gross Profit	Net (Loss) Income	Basic Net Income (Loss) per Share	Diluted Net Income (Loss) per Share
	(In thousands, except per share amounts)				
June 30, 2018	\$ 25,475	\$ 10,192	\$ (1,579)	\$ (0.05)	\$ (0.05)
September 30, 2018	24,417	9,661	(1,341)	(0.04)	(0.04)
December 31, 2018	23,140	8,892	(2,464)	(0.07)	(0.07)
March 31, 2019	26,091	9,861	(2,432)	(0.07)	(0.07)
	<u>\$ 99,123</u>	<u>\$ 38,606</u>	<u>\$ (7,816)</u>	<u>\$ (0.23)*</u>	<u>\$ (0.23)*</u>
June 30, 2017	\$ 27,183	\$ 9,905	\$ (470)	\$ (0.02)	\$ (0.02)
September 30, 2017	25,248	9,968	(984)	(0.03)	(0.03)
December 31, 2017	26,025	9,943	343	0.01	0.01
March 31, 2018	25,273	10,015	(2,415)	(0.07)	(0.07)
	<u>\$ 103,729</u>	<u>\$ 39,831</u>	<u>\$ (3,526)</u>	<u>\$ (0.11)*</u>	<u>\$ (0.11)*</u>

\* Annual per share amounts may not agree to the sum of the quarterly per share amounts due to differences between average shares outstanding during the periods.

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

None.

## ITEM 9A. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures.* In accordance with Rule 13a-15(b) of the Exchange Act, as of the end of the period covered by this Annual Report on Form 10-K, management evaluated, with the participation of our President and Chief Executive Officer, and our Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based upon their evaluation of these disclosure controls and procedures, the President and Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of the date of such evaluation in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to management, including the Company's President and Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) *Changes in internal control.* There was no significant change in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fourth quarter of Fiscal 2019 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

### **Inherent Limitations on Internal Control**

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.

### **Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control—Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of March 31, 2019. The effectiveness of our internal control over financial reporting as of March 31, 2019 has been audited by Deloitte &

Touche LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

**ITEM 9B. OTHER INFORMATION**

None, except as reported in Part III, Item 11.

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

## Directors and Executive Officers

The table and narrative below set forth information as of May 31, 2019 regarding our directors and executive officers, including, with respect to our directors, the attributes that we believe qualify them to serve as directors. We believe that our directors also have the following additional key attributes that are important to an effective board of directors: integrity and demonstrated high ethical standards; sound judgment; analytical skills; the ability to engage management and each other in a constructive and collaborative fashion; diversity of experience and thought; and the commitment to devote significant time and energy to service on our Board of Directors (the "Board") and its committees.

Name	Age	Current Position(s) with Iteris
J. Joseph ("Joe") Bergera	55	Chief Executive Officer, President and Director
Kevin C. Daly, Ph.D.(2)(3)(4)	74	Director
Scott E. Deeter(1)(2)	55	Director
Gerard M. Mooney(1)(3)(4)	65	Director
Laura L. Siegal	56	Director
Thomas L. Thomas(2)(4)(5)	70	Chairman of the Board
Mikel H. Williams(1)(3)	62	Director
Andrew Schmidt	57	Chief Financial Officer, Vice President of Finance and Secretary
Joseph Boissy	55	Chief Marketing Officer
James Chambers	52	Senior Vice President and General Manager, Agriculture and Weather Analytics
Todd Kreter	59	Senior Vice President and General Manager, Roadway Sensors
Ramin Massoumi	46	Senior Vice President and General Manager, Transportation Systems

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Nominating and Corporate Governance Committee
- (4) Member of the Finance and Strategy Committee
- (5) Our Bylaws provide that our Chairman of the Board is also an ex-officio member of each of our Board committees.

**Joe Bergera** has served as our President and Chief Executive Officer and as a director since September 2015. Prior to joining us, Mr. Bergera served as Group Vice President, Software of Roper Technologies, Inc. (formerly, Roper Industries) since September 2011 and as President of iTradeNetwork, a Roper subsidiary, since August 2013. He was the Executive Vice President and General Manager, Tax Solutions at CCH Wolters Kluwer from March 2011 to September 2011 and served in senior executive positions with Sage Software from 2004 to March 2011, most recently as Executive Vice President, Global CRM. Mr. Bergera holds a B.A. degree in Government from Colby College, an M.B.A. from the Booth School of Business at the University of Chicago and an A.M. in Public Policy from the Harris School of Public Policy at the University of Chicago. Mr. Bergera has over 25 years of experience in technology-related companies and provides extensive management and global software and service industry knowledge to the Board.

**Kevin C. Daly, Ph.D.** served as our interim Chief Executive Officer from February 2015 to September 2015. Prior to his service as our interim CEO, Dr. Daly served as the CEO of Maxxess Systems, Inc., a provider of electronic security systems, from November 2005. Between August 2007 and August 2009, Dr. Daly also served as CEO of iStor Networks, Inc., a manufacturer of IP SAN storage systems. Prior to that, he served as the CEO of several technology companies, including Avamar Technologies, Inc. and ATL Products, Inc. Dr. Daly served on the board of directors of sTec, Inc., a provider of solid state disk systems, from May 2010 until the acquisition of the company in September 2013 by Western Digital Corporation. Dr. Daly received a B.S. degree in Electrical Engineering from the University of Notre Dame and M.S., M.A. and Ph.D. degrees in Engineering from Princeton University. He has served as a director of Iteris since 1993. Having served as the CEO of several technology companies and as a director of both private and public companies, Dr. Daly offers to the Board a wealth of management and leadership experience, as well as an understanding of issues faced by such companies.

**Scott E. Deeter** has served as a director since February 23, 2017. Mr. Deeter has served as Ventria Bioscience Inc.'s President and CEO and as a director since 2002. Ventria is the first company to commercialize recombinant proteins derived from a plant-based manufacturing system. From 1999 to 2001, he served as President and CEO and as a director of CyberCrop.com Incorporated, a supply chain software company connecting producers with their markets to optimize quality, logistics and efficiency. From 1996 to 1998, Mr. Deeter served as Vice President of Agriculture of Koch Industries, Inc. Previously, Mr. Deeter held various positions at Cargill, Incorporated as well as started and led a joint venture between Cargill and F. Hoffmann-La Roche, Ltd. that commercialized pharmaceutical intermediates and functional food ingredients. Earlier in his career, Mr. Deeter was a member of the Technology and Life Sciences Group of Salomon Brothers Inc. He received a BSc degree in Economics from the University of Kansas; an M.B.A. from the University of Chicago; and an MSc degree in Economics from the London School of Economics. Mr. Deeter is a proven leader who is widely known across entrepreneurial sectors of the agribusiness and agricultural biotech industry.

**Gerard M. Mooney** retired from International Business Machines Corporation ("IBM") in March 2014, after serving in a number of senior positions since 2000. Most recently, he served as the Vice President Strategy for IBM's Public Sector from February 2012 until his retirement, as the General Manager, Global Smarter Cities for IBM from November 2011 to February 2012, and as the General Manager, Global Government and Education for IBM from 2008 to November 2011. He served as Vice President of IBM's Venture Capital Group from 2000 to 2008. Before joining IBM, Mr. Mooney held various management positions at Hewlett-Packard Company for six years. Mr. Mooney has extensive operational and financial experience across a broad range of technology-based companies, from start-ups to large public companies, and has considerable experience with the major customers in the professional transportation market. He previously served as a member of the board of directors of the Intelligent Transportation Society of America and is also active in the intelligent search technology, cognitive intelligence, AI, data mining and visualization tools industries. Mr. Mooney currently serves as a director of inno360 and cofounder of Swarm Intelligence LLC formerly theinnovationexchange, which offers SaaS cognitive platforms. He received a B.A. degree in Philosophy from Mount Saint Mary's College, an M.S. degree in Accounting from Georgetown University and an M.B.A. from Yale University. Mr. Mooney has served as a director of Iteris since September 2013 and brings to the Board extensive experience in setting and implementing strategy for both large and small technology organizations, deep category knowledge of the intelligent transportation market, and familiarity with many key customers for intelligent transportation solutions.

**Laura L. Siegal** has served as a director since May 15, 2018. Ms. Siegal has been the Chief Financial Officer and a member of the board of directors at Natel Engineering Company, Inc. dba NEO Technology Solutions, a manufacturer of products in the industrial, medical, and aerospace and defense markets, since July 2013. Prior to that, Ms. Siegal served in various financial positions with

Kratos Defense & Security Solutions, Inc. ("Kratos") formerly Wireless Facilities Inc. since 2000, most recently as its Principal Accounting Officer, Vice President and Corporate Controller from April 2006 to July 2013. Kratos is a publicly-traded leading technology, intellectual property, proprietary product and system solution company which provides engineering, information technology and other technical services to government agencies. Throughout her career, she has held a variety of financial management positions in technology and consulting companies including Controller of MEC Analytical Systems. Ms. Siegal is a Certified Public Accountant and received a B.A. degree in Economics from the University of California, San Diego. Ms. Siegal's extensive experience in technology and public agency markets, financial expertise, and demonstrated success with mergers and acquisitions provide important resources in her service on our Board.

**Thomas L. Thomas** is the managing partner of T2 Partners, a private management consulting and investment business which he founded in January 2011. In addition, Mr. Thomas served as the Executive Chairman and CEO of International Decision Systems, a provider of software and solutions for the equipment finance market, from September 2009 to January 2011. From 2004 to July 2008, Mr. Thomas was the President and Chief Operating Officer of Global Exchange Services, a provider of business to business EDI and supply chain management solutions. Prior to that, Mr. Thomas served as the President and CEO at several software, analytics and technology companies, including HAHT Commerce, Ajuba Solutions, and Vantive Corporation, and as the first Chief Information Officer for Dell Computer Corporation and 3Com Corporation. Earlier in his career, Mr. Thomas also held various senior executive management positions at Kraft General Foods, Sara Lee Corporation and W. R. Grace. Since July 2017, Mr. Thomas has served as Chairman of the Board of Directors of VIP Software Corporation, a provider of software solutions in the insurance industry. Since 2012, Mr. Thomas has served as a director of Accurate Group, which specializes in the appraisal and title services business where technology has been instrumental in redefining the transaction model for the industry. He has also served on the board of directors of infoGroup, Inc. from January 2009 to July 2010, and served as a director on the boards of a wide range of technology companies, including ATL Products, Vantive Corporation, Interwoven, iManage, FrontRange Solutions, IDS International, and Quofore International. Mr. Thomas has served as a director of Iteris since 1999 and as our Chairman of the Board of Directors since 2016. Mr. Thomas offers to our Board valuable business, leadership and strategic insights obtained through his service as an executive and as a member of the board of directors in a variety of industries and businesses, including a number of leading technology companies, and his experience in working with companies through several stages of their development.

**Mikel H. Williams** has served as the Chief Executive Officer and a director of Targus Cayman Holdco Limited, a leading global supplier that designs, develops and sells products for the mobile worker, including laptop cases, docking stations and accessories for mobile electronic devices, since February 2016. Prior to that, Mr. Williams served as the Chief Executive Officer and a director of JPS Industries, Inc., a manufacturer of sheet and mechanically formed glass and aramid substrate materials for the electronics, aerospace, ballistics and general industrial applications, from May 2013 until its sale in July 2015. Mr. Williams was the President, Chief Executive Officer and a director of DDi Corp., a leading provider of time-critical, technologically advanced electronics manufacturing services, from November 2005 to May 2012 and a Senior Vice President and Chief Financial Officer of DDi from November 2004 to October 2005. DDi was sold in May of 2012. He has also served in various management positions with several companies in the technology and professional services related industries. Mr. Williams began his career with PricewaterhouseCoopers as a certified public accountant in the State of Maryland. Mr. Williams also serves as Chairman of the board of directors of Centrus Energy Corp. (formerly USEC Inc.). He was added to USEC's board of directors in October 2013 on the recommendation of certain holders of USEC's convertible senior notes as USEC was considering a bankruptcy restructuring, which was successfully initiated and completed in 2014. Since October 2015, Mr. Williams also serves on the board of directors of B. Riley Financial, Inc. He previously served on the boards of Lightbridge Communications Corporation until it was sold in January 2015, and

Tellabs, Inc. until it was sold in December 2013. Mr. Williams received his B.S. degree in Accounting from the University of Maryland and an M.B.A. from the University of Georgetown. Mr. Williams has served as a director of Iteris since April 2011 and provides the Board with operational and public company experience and valuable strategic insights through his many years of leadership positions in technology-related companies with international operations, as well as valuable knowledge and insights in finance and financial reporting matters.

**Andrew Schmidt** has served as our Vice President of Finance, Chief Financial Officer and Secretary since March 2015. Prior to joining us, Mr. Schmidt served as the Chief Financial Officer and Corporate Secretary of Smith Micro Software, Inc., a publicly-held provider of wireless and mobility software solutions from 2005 to May 2014. Prior to joining Smith Micro, Mr. Schmidt held CFO roles for several other public companies, including Genius Products, an entertainment company, and Mad Catz Interactive, a provider of console video game accessories. He also served as Vice President (Finance) of Peregrine Systems, a publicly-held provider of enterprise level software. Mr. Schmidt holds a B.B.A. degree in Finance from the University of Texas and an M.S. degree in Accountancy from San Diego State University.

**Joseph Boissy** has served as our Chief Marketing Officer since January 2017. Prior to that, Mr. Boissy served as Chief Marketing Officer of Vendavo, Inc. (acquired by Francisco Partners in October 2014), a provider of margin and profit optimization solutions, from September 2013 to November 2016. Prior to that, he served as the Chief Marketing Officer at 3VR Inc., a video intelligence solutions provider, from October 2011 to September 2013. From February 2002 to October 2011, he served in various management positions at ILOG, Inc. (acquired by IBM in July 2008), a provider of business rule management systems, most recently as Vice President ILOG Worldwide Marketing, then Program Director, Go-to-Market Strategy and Industry Marketing IBM WebSphere. Mr. Boissy was Vice President Program Management, Credient at SunGard Trading & Risk Systems Inc., a provider of financial software solutions and services, from 2000 to 2002, and from 1997 to 2000, he served in management positions in product development, support and product management, most recently as the Vice President Product Marketing, with Infinity Financial Technology, Inc., a financial trading and risk management software solutions provider that was acquired by SunGard in October 1997. Prior to Infinity, Mr. Boissy was Director Product Development at Diagram Financial Software, Inc. (now part of Thomson Reuters) from 1993 to 1997. Mr. Boissy holds a B.S. degree in Electrical Engineering from the Lebanese University (Lebanon) and a M.S. degree in Computer Science and Data Analytics from the University of Paris XI (France).

**James Chambers** has served as our Senior Vice President and General Manager, Agriculture and Weather Analytics since August 2017. Prior to that, Mr. Chambers served as Chief Executive Officer of Observant, Inc. (acquired by Jain Irrigation, Inc. in February 2017), a provider of agricultural in-field hardware and cloud based applications for precision farm water management, from February 2016 to February 2017. From June 2013 to February 2016, he served as Director of Marketing at Bayer CropScience, a company specialized in agriculture, and lifesciences. Prior to that, Mr. Chambers served in various key management positions at divisions of Deere & Company, including John Deere Water (acquired by FIMI Opportunity Funds in June 2014), a provider of integrated Ag water management solutions, most recently as Director of Global Product Management and Marketing and then as the Director of Global Technology Solutions, from August 2010 to May 2013, and John Deere Agri Services, Inc. (acquired by Constellation Software, Inc. in January 2011), a provider of software solutions for the agricultural supply chain, most recently as the General Manager for the Specialty Crop Business Unit and then as the Director of Marketing, from June 2006 to August 2010. From January 2003 to June 2006, he was Global Business Manager at Valent BioSciences Corporation, a provider of technologies and products for the agricultural, public health, forestry and household markets, and from March 2001 to January 2003, he was Director of Global Sales and Marketing with AgraQuest (acquired by Bayer CropScience in July 2012), a supplier of biological pest management

solutions. From 1989 to 2001, Mr. Chambers served in various management positions at Monsanto Company, a provider of agriculture products for farmers, most recently as Business Development Manager and Financial Analyst, then as Marketing Manager Animal Productivity and Market and Sales Manager. Mr. Chambers holds a B.S. degree in Agriculture Business Management and Economics from The Ohio State University.

**Todd Kreter** has served as our Senior Vice President and General Manager, Roadway Sensors since May 2014. Mr. Kreter served as our Senior Vice President, Sensors Development and Operations from May 2009 to May 2014 and as Vice President of Engineering from November 2007 to May 2009. Prior to joining us, Mr. Kreter served in a number of executive positions at Quantum Corporation, most recently as the VP Global Services from 2004 to January 2007, where he managed the company's worldwide customer service organization. Mr. Kreter holds a B.S. degree in Mechanical Engineering from California State University, Fullerton.

**Ramin Massoumi** has served as our Senior Vice President and General Manager, Transportation Systems since March 2015. Mr. Massoumi joined Iteris in 1998 and served in a number of executive and managerial positions prior to the promotion to his current position, most recently as our Vice President of Business Development from June 2011 to March 2015. Throughout his career, his focus has been in the application of advanced technologies in the traffic management market, and has led projects throughout the United States and the Middle East. Mr. Massoumi also serves as a lecturer of upper division courses on transportation engineering, ITS and multi-modal operation at University of California at Irvine. Mr. Massoumi holds a B.S. degree in Civil Engineering from the University of California Irvine, an M.S. degree in Engineering from the University of California, Berkeley, and an M.B.A. from the University of Southern California.

## Family Relationships

There are no family relationships among any of our directors or executive officers.

## Code of Ethics and Business Conduct

Our Board has adopted a Code of Ethics and Business Conduct ("Code of Ethics"), which applies to all directors, officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) and employees. The full text of our Code of Ethics is available under the "Corporate Governance" heading on the Investor Relations section of our website at [www.iteris.com](http://www.iteris.com). We will also provide an electronic or paper copy of the Code of Ethics, free of charge, upon request made to our corporate secretary. If any substantive amendments are made to our Code of Ethics, or if any waiver (including any implicit waiver) of any provision of the Code of Ethics is granted that is required to be disclosed under the rules of the SEC, such amendment or waiver will be disclosed at the same location on our website, or, if required, in a current report on Form 8-K.

## Audit Committee

The current members of our Audit Committee are Messrs. Deeter, Mooney and Williams. The Board has determined that each member of the Audit Committee is "independent" under the standards established by The Nasdaq Stock Market ("Nasdaq") and the SEC rules regarding audit committee memberships. The Board has identified Mr. Williams as the member of the Audit Committee who qualifies as an "audit committee financial expert" under applicable SEC rules and regulations governing the composition of the Audit Committee.



**Changes in Nominating Procedures**

There have been no material changes to the procedures by which security holders may recommend nominees to our Board that were implemented since we last disclosed such procedures.

**ITEM 11. EXECUTIVE COMPENSATION****COMPENSATION OF DIRECTORS**

Compensation of directors is determined by the Compensation Committee. The Compensation Committee has approved a compensation structure for non-employee directors consisting of a cash retainer, an annual equity award and, for Board members serving on a committee, an additional cash retainer. Directors who are our employees are not compensated for their services as directors.

**Board and Committee Retainers**

For Fiscal 2019, annual cash compensation for non-employee directors was as follows:

<u>Position</u>	<u>Annual Retainer</u>
Chairman of the Board	\$ 65,000
Non-Employee Director (other than the Chairman)	\$ 35,000

Additional retainers for each non-employee director who served on one or more Board committees in Fiscal 2019 were as follows:

<u>Position</u>	<u>Annual Retainer</u>
<b>Audit Committee</b>	
Chair	\$ 12,000
Member	\$ 6,000
<b>Compensation Committee</b>	
Chair	\$ 9,000
Member	\$ 4,500
<b>Nominating and Corporate Governance Committee</b>	
Chair	\$ 4,000
Member	\$ 2,000
<b>Finance and Strategy Committee</b>	
Chair	\$ 9,000
Member	\$ 4,500

All directors are reimbursed for their out-of-pocket expenses incurred in attending meetings of our Board and its committees, but they do not receive separate meeting fees.

**Annual Equity Compensation**

Non-employee directors are also eligible to receive periodic restricted stock units ("RSUs") under the Company's equity incentive plan then in effect. Each non-employee director shall be granted an annual RSU upon approval of the grant by the Compensation Committee as soon as reasonably practicable following the annual meeting of stockholders at which such director is re-elected. The annual RSU grant to directors shall be worth approximately \$40,000 based on the closing price of the Company's common stock on the RSU grant date. Each RSU entitles the holder to receive shares of the Company's common stock upon vesting of those units. Each annual RSU generally vests in full upon the director's completion of one year of service measured from the date of the grant; however, it is expected that future annual RSU grants will vest in full on the annual stockholder meeting date to which the RSU relates. If a non-employee director joins the Board in between annual stockholder

meetings, such director would receive an RSU for a pro rata portion of the annual grant, which typically vests in full one year following the grant date.

## 2019 Director Compensation Table

The following table sets forth a summary of the compensation earned in Fiscal 2019 by each person who served as a non-employee director during that year:

Name	Fees Earned or Paid in Cash \$(1)	Restricted Stock Units \$(2)	Total (\$)
Kevin C. Daly, Ph.D.	\$ 50,500	39,998	90,498
Scott E. Deeter	45,500	39,998	85,498
Gerard M. Mooney	42,250	39,998	82,248
Laura L. Siegal(3)	30,722	39,998	70,720
Thomas L. Thomas	78,500	39,998	118,498
Mikel H. Williams	49,000	39,998	88,998

- (1) Represents amounts earned by the directors based on the arrangement described above, which amounts have been prorated for directors who served on such committees for less than a full term.
- (2) The dollar amounts shown represent the grant date fair value of restricted stock unit awards granted in Fiscal 2019 determined in accordance with ASC 718. For each director, the number of units was determined by dividing \$40,000 by \$4.16, the closing sales price of the Company's common stock on the grant date. At the end of Fiscal 2019, the above-listed directors held options for the following number of shares of common stock: Kevin C. Daly—60,000; Gerard M. Mooney—40,000; and Mikel H. Williams—60,000. At the end of Fiscal 2019, the above listed directors held RSUs for the following number of shares of common stock: Kevin C. Daly—9,615; Scott E. Deeter—9,615; Laura L. Siegal—9,615; Gerard M. Mooney—9,615; Thomas L. Thomas—9,615; and Mikel H. Williams—9,615.
- (3) Ms. Siegal did not join the Board until May 2018, and accordingly, earned pro-rated Board fees in Fiscal 2019.

## Director Stock Ownership Guidelines

Pursuant to stock ownership guidelines adopted by the Board in February 2016 with a five-year phase-in period, members of the Board of Directors are required to own shares of Company common stock having a value equal to or greater than three times their annual cash board retainer, which is currently set at \$35,000 per year. Unexercised stock options do not count toward fulfillment of this ownership requirement. Each director will have until the later of (i) February 2021 and (ii) five years from the time he or she is elected to the Board, to meet the stock ownership guidelines.

## Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the board of directors or compensation committee (or other committee performing equivalent functions) of any entity that has one or more executive officers serving on our Board or Compensation Committee. No interlocking relationship exists between any member of the board of directors and any member of the compensation committee (or other committee performing equivalent functions) of any other company. Kevin C. Daly, Ph.D., a member of our Compensation Committee, previously served as our interim Chief Executive Officer from February 2015 to September 2015.

## EXECUTIVE COMPENSATION SUMMARY

The following is a summary of the compensation policies, plans and arrangements for our executive officers. This summary should be read in conjunction with the Summary Compensation Table and related disclosure set forth below. We are eligible to, and have chosen to, comply with the executive compensation disclosure rules applicable to a "smaller reporting company," as defined in the applicable SEC rules. This section discusses the principles underlying our compensation policies for our executive officers who are named in the "Summary Compensation Table" below, who we refer to as our "named executive officers" or "NEOs" for Fiscal 2019 and who include the following executive officers:

- Joe Bergera, our Chief Executive Officer, President and Director;
- Andrew Schmidt, our Chief Financial Officer, Vice President of Finance and Secretary; and
- James Chambers, our Senior Vice President and General Manager, Agriculture and Weather Analytics.

### Compensation Philosophy and Objectives

Our executive compensation plans and arrangements are overseen and administered by our Compensation Committee, which is comprised entirely of independent directors as determined in accordance with applicable NASDAQ and SEC rules. The Compensation Committee operates under a written charter adopted and reviewed annually by our Board. A copy of this charter is available on our website under our investor relations page on our website at [www.Iteris.com](http://www.Iteris.com) under the heading "Corporate Governance." Our philosophy is to provide our named executive officers with compensation that will motivate and retain them, provide them with meaningful incentives to achieve and exceed short-term and long-term corporate objectives set by our Compensation Committee, and align their long-term interests with those of our shareholders. Based on this philosophy, the compensation programs for our named executive officers are designed to achieve the following primary objectives:

- establish a compensation structure that is competitive enough to attract, retain and motivate outstanding executive talent;
- ensure that any cash incentive compensation programs for our named executive officers are aligned with our corporate strategies and business objectives by tying the potential payouts under such programs to the achievement of key strategic, financial and operational goals; and
- utilize long-term equity awards to align interests between our named executive officers and stockholders.

### Impact of 2016 Say-on-Pay Vote

The most recent stockholder advisory vote on executive officer compensation required under the federal securities laws was held on December 15, 2016. Approximately 81.5% of the total votes cast on such proposal (which excluded broker non-votes) were in favor of the compensation of the named executive officers, as that compensation was disclosed in the various compensation tables and narrative that appeared in the Company's proxy statement dated November 21, 2016. Based on that high level of stockholder approval, the Compensation Committee decided not to make any material changes to the Company's compensation philosophies, policies and practices for the Fiscal 2019 compensation of the named executive officers. Based on the voting preference of the Company's stockholders, advisory votes on executive officer compensation will be conducted every three years. Accordingly, the next advisory vote will be conducted at the 2019 Annual Meeting of Stockholders. The Compensation Committee will continue to take into account each such advisory vote in order to determine whether any subsequent changes to the Company's executive compensation programs and policies would be warranted to reflect any stockholder concerns reflected in those advisory votes.

## Annual Review of Cash and Equity Compensation

We conduct an annual review of the aggregate level of our executive compensation, as well as the mix of elements used to compensate our executive officers to ensure that compensation is structured appropriately to achieve our objectives. We review each component of compensation as related but distinct. Although the Compensation Committee reviews total compensation, it has not adopted any formal guidelines for allocating total compensation between cash and equity compensation. We determine the appropriate level of each compensation component based in part, but not exclusively, on our retention goals and short-term and long-term objectives.

This review generally occurs in the first quarter of each fiscal year at which time the Compensation Committee establishes executive officer base salaries for the following fiscal year, reviews and approves any bonus awards and programs, establishes the performance objectives for our cash based bonus plan, and may grant of equity compensation to the executive officers to ensure their interests are aligned with our stockholders and for retention. [In Fiscal 2019, the Compensation Committee engaged and retained the services of an independent compensation consulting firm, Frederic W. Cook & Co., Inc. ("FWC"), to assist in the review of its executive compensation with respect to our Chief Executive Officer and our Chief Financial Officer. This consultant provided the Compensation Committee with market data and analysis of our total direct compensation for such executive officer positions as compared with the competitive market. FWC reports only to the Compensation Committee and has not performed any other work for the Company since being retained as an independent consultant to the Compensation Committee. As provided in its charter, the Compensation Committee has the authority to determine the scope of FWC's services and may terminate their engagement at any time.]

In setting executive compensation, the Compensation Committee takes into account a number of factors, including the nature and scope of the named executive officer's responsibilities, his or her individual performance level and contribution to the achievement of our corporate objectives, the experience level of the executive, the recommendations of our Chief Executive Officer for each individual's compensation package (other than his own) and the compensation trends in the industry.

As part of the review process, our Chief Executive Officer provides our Compensation Committee with recommendations as to the base salary, cash bonus potential and long-term equity incentive award for each of our executive officers other than himself based on that officer's level of responsibility, individual performance and contribution to the attainment of our strategic corporate objectives and market data. Our Compensation Committee takes the Chief Executive Officer's recommendations into consideration in setting named executive officer compensation, but retains complete discretionary authority to make all compensation-related decisions for our named executive officers. Our Compensation Committee makes its compensation decisions with respect to the Chief Executive Officer on the basis of relevant market data furnished by a variety of sources and its subjective assessment of individual performance and contributions to our overall corporate performance. Any decisions regarding our Chief Executive Officer's compensation are made without such officer present.

### Compensation Components and Structure

We utilize three main components in structuring compensation programs for our named executive officers:

- Base salary, which is the only fixed compensation element in the executive compensation program and is primarily used to recruit and retain executive talent and provide an element of economic security from year to year;
- Performance-based cash bonuses that are primarily designed to reward achievement of financial and operational goals; and

- Equity incentive awards designed to ensure long-term retention of our executive talent and align their interests with those of our stockholders.

We view each component of compensation as related but distinct. It is the practice of our Compensation Committee to allocate a substantial portion of each named executive officer's total compensation to performance and long-term incentive compensation as a result of the philosophy described above. While the Compensation Committee does establish specific performance criteria for its cash-based bonus plan each year, there is no formal pre-established policy for the allocation of compensation between cash and non-cash components or between short-term and long-term components, and there are no pre-established ratios between the compensation of our Chief Executive Officer and that of the other named executive officers. Instead, our Compensation Committee determines the compensation of each named executive officer annually based on its review of the market data, its subjective analysis of that individual's performance and contribution to our financial performance and the other factors identified in the "Annual Review of Cash and Equity Compensation" section above to determine the appropriate level and balance of total compensation. We believe that this approach allows us to tailor compensation for each named executive officer to attract, retain and motivate that executive officer within the parameters of our compensation philosophy.

**Base Salaries.** Base salaries are set at levels that are intended to recognize the experience, skills, knowledge and responsibilities required of all our named executive officers. Each named executive officer's base salary level is typically reviewed on an annual basis and adjustments may be made to the individual's base salary on the basis of his or her level of performance, the overall performance of the Company and the various compensation trends in our industry.

In July 2018, the Compensation Committee reviewed the base salaries of the named executive officers and established the base salaries for Fiscal 2019 for such officers as is set forth below.

<u>Named Executive Officer</u>	<u>Fiscal 2019 Annual Base Salary</u>
Joe Bergera	\$ 416,000
Andrew Schmidt	362,500
James Chambers	283,750

**Fiscal 2019 Cash-Based Bonus Plan ("2019 Bonus Plan").** Our named executive officers are eligible to receive an annual cash-based bonus under our 2019 Bonus Plan. Each year, our Compensation Committee establishes the performance objectives to be attained and the target bonuses payable based on the level of attainment of the specified goals, which generally include the Company's revenues and operating income for the fiscal year, the revenues and contribution margin of such officer's business unit, and personal objectives set for each officer ("MBOs"). We define "contribution margin" as the business unit's operating income without corporate expense allocations. Corporate operating income and the operating income of each business unit is calculated on a non-GAAP basis to exclude amortization, depreciation, stock-based compensation, goodwill impairment charge, if any, and such other non-cash items that the Compensation Committee, in its sole discretion, believes are not directly indicative of the performance of the Company and the business units.

The corporate and business unit performance targets and the actual achievement of such objectives for Fiscal 2019 were as follows (dollars in thousands):

<b>Performance Components</b>	<b>No Bonuses At or Below</b>	<b>Target</b>	<b>Maximum</b>	<b>Actual</b>	<b>% Attained</b>
Corporate Revenue	\$ 85,899	\$ 107,374	\$ 123,881	\$ 99,123	92.3%
Corporate Operating Income	(200)	—	(201)	(3,575)	(100)
Roadway Sensors Revenue	41,235	51,544	61,853	43,492	84.4
Roadway Sensors Contribution Margin	8,774	10,968	13,162	7,157	65.3
Transportation Systems Revenue	43,585	54,481	65,377	49,815	91.4
Transportation Systems Contribution Margin	6,390	7,987	9,584	5,907	74.0
Agriculture and Weather Analytics Revenue	4,736	5,920	7,104	5,816	98.2
Agriculture and Weather Analytics Contribution Margin	(8,008)	(6,673)	(5,338)	(5,024)	132.8

If our performance for Fiscal 2019 exceeded the Company and business unit performance targets set for bonus purposes, the NEOs could have earned an additional bonus of up to 50% of the target bonus award that was not based upon achieving individual objectives. The full 50% additional bonus would have been earned by the NEOs if the Company had achieved the performance goals set forth under the "Maximum" column above. If the Company had achieved performance that was less than the goals set forth under the "Maximum" column but more than the amounts set forth under the "Target" column, the additional bonus payable would have been proportional, or based on the level of the Maximum goal achieved when measured from the Target amount. For example, if the performance had exceeded the Target goal by 25% of the difference between the Maximum and Target amounts, then 25% of the 50% additional bonus relating to such performance goal would have been payable.

The Compensation Committee typically meets during near the end of the first fiscal quarter of each year to evaluate each NEO's achievement of their respective MBOs and annual bonuses are typically paid out as soon as practicable thereafter.

The performance objectives, target bonus and actual bonus for each of our named executive officers for Fiscal 2019 were as follows:

<b>Named Executive Officer</b>	<b>Performance Objectives Allocation (%)</b>	<b>2019 Target Bonus (\$)</b>	<b>2019 Actual Bonus (\$)</b>	<b>% of Target Awarded (%)</b>
<b>Joe Bergera</b>		\$ 312,000	\$ 137,280	44%
Corporate Revenue	40			
Corporate Operating Income	40			
MBOs	20			
<b>Andrew Schmidt</b>		163,125	71,775	44
Corporate Revenue	40			
Corporate Operating Income	40			
MBOs	20			
<b>James Chambers</b>		156,063	131,890	85
Agriculture and Weather Analytics Revenue	30			
Agriculture and Weather Analytics Contribution Margin	20			
Corporate Revenue	15			
Corporate Operating Income	15			
MBOs	20			

See "Fiscal 2019 Grant of Plan-Based Awards" below for additional information on Fiscal 2019 cash bonuses.

**Equity Compensation.** Our equity award program is the primary vehicle for offering long-term incentives to our named executive officers and providing an inducement for long-term retention. Our equity component also aligns the interests of our named executive officers with those of our stockholders and focuses their attention on the creation of stockholder value in the form of stock price appreciation. The Compensation Committee uses both stock options and restricted stock units as part of the Company's long-term incentive program for named executive officers, and the relative allocation of such instruments may vary from time to time. The Company believes that there are several advantages of using restricted stock units including ongoing concerns over the dilutive effect of option grants on the Company's outstanding shares, the Company's desire to have a more direct correlation between the compensation expense it must record for financial accounting purposes and the actual value delivered to executive officers, and the fact that the incentive and retention value of a restricted stock unit award is less affected by market volatility than stock options. We believe that the equity-based compensation provides our named executive officers with a direct interest in our long-term performance and creates an ownership culture that establishes a mutuality of interests between our named executive officers and our stockholders.

Typically, the Compensation Committee provides grant guidelines to our Chief Executive Officer, who in turn will make recommendations back to the Compensation Committee regarding the number of options to be granted to our executive officers. See "Fiscal 2019 Grant of Plan-Based Awards" below for the Fiscal 2019 awards.

## Summary Compensation Table

The following table shows information regarding the compensation earned for the fiscal years ended March 31, 2019, 2018 and 2017 by (i) our Chief Executive Officer, and (ii) our two other most highly compensated executive officers (other than our Chief Executive Officer) who were serving as executive officers as of March 31, 2019. The officers listed below are collectively referred to as the "named executive officers" or "NEOs" in this proxy statement:

Name and Principal Position	Fiscal Year	Salary	Bonus	Stock Awards(1)	Non-Equity Incentive Plan Compensation(2)	All Other Compensation(3)	Total
Joe Bergera	2019	\$ 412,894	\$ —	\$ 421,425	\$ 137,280	\$ 17,118	\$ 988,716
Chief Executive Officer	2018	396,648	—	649,328	180,000	8,848	1,234,825
and President	2017	399,816	—	328,362	354,000(4)	3,594	1,085,772
Andrew Schmidt	2019	358,670	—	159,205	71,775	12,792	602,442
Chief Financial Officer,	2018	346,138	15,000(4)	259,731	94,035	8,683	723,587
Vice President of Finance and Secretary	2017	346,790	—	164,181	161,970	8,118	681,059
James Chambers	2019	282,399	—	188,085	131,890	10,385	612,759
Senior Vice President and General Manager, Agriculture and Weather Analytics	2018	195,322(5)	—	322,425	65,541	5,616	589,004

- (1) The dollar amounts shown represent the grant date fair value of stock options granted during the applicable fiscal year determined pursuant to the Black-Scholes-Merton option pricing formula. For a discussion of valuation assumptions used in the calculations, see Note 8 of Notes to Consolidated Financial Statements, included in Part II, Item 8 of this report. See also our discussion of stock-based compensation under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in Part II, Item 7 of this report. The options have an exercise price equal

to the closing sales price of our common stock as of the grant date and vest in equal annual installments over four years and are not exercisable until vested.

- (2) The amounts shown in this column constitute the cash bonuses paid to each named executive officer based on the attainment of certain pre-established management's objectives. These awards are discussed in further detail under "Fiscal 2019 Cash-Based Bonus Plan" below.
- (3) Except as otherwise noted, represents 401(k) plan employer contributions paid by us.
- (4) Represents a discretionary cash bonus.
- (5) Mr. Chambers was hired in August 2017 at an annual salary of \$275,000. The Fiscal 2018 salary represents the amount earned by Mr. Chambers from his hire date through the end Fiscal 2018.

#### Fiscal 2019 Grant of Plan-Based Awards

The table below sets forth information with respect to awards granted to the named executive officers under our annual non-equity incentive compensation plan and our 2016 Omnibus Incentive Plan in Fiscal 2019, which constitute all of the plan-based awards granted to our named executive officers in Fiscal 2019.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Number of Securities Underlying Options or Stock Units (#)	Awards (\$/share)	Grant Date Fair Value of Awards (\$)(2)
		Threshold (\$)	Target (\$)(1)	Maximum (\$)(1)			
Joe Bergera	12/10/2018	\$ —	\$ 312,000	\$ 468,000	225,000	\$ 4.16	\$ 421,405
Andrew Schmidt	12/10/2018	—	163,125	244,688	85,000	4.16	159,197
James Chambers	12/10/2018	—	156,063	234,095	70,000	4.16	131,104
	6/11/2018				25,000	4.85	56,987

- (1) Reflects the amount payable upon achievement of the management objectives described under the heading "Fiscal 2019 Cash-Based Bonus Plan" above.
- (2) The dollar amounts shown represent the grant date fair value of stock options granted during the applicable fiscal year determined pursuant to the Black-Scholes-Merton option pricing formula. For a discussion of valuation assumptions used in the calculations, see Note 8 of Notes to Consolidated Financial Statements, included in Part II, Item 8 of this report. See also our discussion of stock-based compensation under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in Part II, Item 7 of this report.



## Outstanding Equity Awards at 2019 Fiscal Year End

The following table sets forth the outstanding equity awards held by each named executive officer as of March 31, 2019. None of the NEOs held outstanding RSUs at the end of Fiscal 2019.

Name	Option Awards(1)				
	Number of Securities Underlying Outstanding Options (#) Exercisable	Number of Securities Underlying Outstanding Options (#) Unexercisable	Option Exercise Price (\$)	Option Grant Date	Option Expiration Date
Joe Bergera	1,012,500	337,500	\$ 2.38	09/23/15	09/22/25
Chief Executive Officer, President and Director	75,000	75,000	4.91	03/03/17	03/02/27
	62,500	187,500	5.52	02/16/18	02/15/28
	—	225,000	4.16	12/10/18	12/09/28
Andrew Schmidt	100,000	—	1.79	03/16/15	03/15/25
Chief Financial Officer, Vice President of Finance and Secretary	56,250	18,750	2.37	11/02/15	11/01/25
	37,500	37,500	4.91	03/03/17	03/02/27
	25,000	75,000	5.52	02/16/18	02/15/28
	—	85,000	4.16	12/10/18	12/09/28
James Chambers	25,000	75,000	5.90	08/17/17	08/16/27
Senior Vice President and General Manager, Agriculture and Weather Analytics	6,250	25,000	5.52	02/16/18	02/15/28
	—	25,000	4.85	06/11/18	06/10/28
	—	70,000	4.16	12/10/18	12/09/28

- (1) All options vest in four equal annual installments following the date of grant. The vesting of equity awards held by the named executive officers is subject to each officers continued service with the Company, and is subject to acceleration under certain circumstances as discussed under the heading "Employment Agreements; Termination of Employment and Change in Control Arrangements" below.

## Fiscal 2019 Option Exercises and Stock Vesting Table

No options were exercised by the NEOs and no stock awards issued with a vesting period vested during Fiscal 2019.

## Employment Contracts; Termination of Employment and Change of Control Arrangements

We do not currently have any employment contracts or change in control arrangements in effect with any of our named executive officers other than the agreements described below. We provide incentives such as salary, benefits, option grants and RSUs to attract and retain executive officers and other key associates. The plan administrator of the 2007 Omnibus Incentive Plan and 2016 Omnibus Incentive Plan has the discretion to determine whether outstanding equity awards held by our NEOs are to vest upon a qualifying termination of employment following certain changes in control of the Company, or upon such change in control, but we do not provide for any automatic "single trigger" acceleration of equity awards upon a change in control (other than the option grant received by Dr. Daly in connection with his service as a non-employee director). Other than as noted in this section, there is no agreement or policy which would automatically entitle any named executive officer to severance payments or any other compensation as a result of such officer's termination.

***Joe Bergera***

In connection with his hiring, we entered into an employment agreement with Joe Bergera, our Chief Executive Officer, dated September 8, 2015, pursuant to which Mr. Bergera will receive an annual base salary of \$385,000, which may be increased from time to time at the discretion of the Compensation Committee. Mr. Bergera will also be eligible to participate in our executive bonus plan as then in effect and his potential bonus for each year will be established annually by the Board or a committee of the Board, provided that the bonus potential for Fiscal 2016 was \$300,000, of which \$150,000 was a signing bonus payable on January 31, 2016 provided that Mr. Bergera was employed by the Company as of such date. The agreement is for an initial term of three years and will renew for successive one year periods until September 2025 unless either we or Mr. Bergera provide written notice of non-renewal at least 30 days prior to the end of the initial term or renewal term, as applicable.

Pursuant to the agreement, Mr. Bergera also received an option grant under our 2007 Omnibus Incentive Plan to purchase up to 1,350,000 shares of our common stock (the "Option"). The Option vests in equal annual installments over four years and has an exercise price equal to the closing sales price of our common stock on the date of grant of the Option.

If during the initial term of the agreement or any renewal term, Mr. Bergera's employment with the Company is terminated without Cause (as such term is defined in the agreement), Mr. Bergera will be entitled to receive (i) salary continuation payments for 12 months following his termination, (ii) a lump sum payment equal to the pro-rated portion of his target bonus established by the Compensation Committee for the fiscal year in which his employment is terminated and (iii) reimbursement for the cost of COBRA coverage for a period of up to 12 months following the termination. If Mr. Bergera is terminated without Cause or resigns for Good Reason within 12 months following a Change in Control (as such terms are defined in the agreement) (such termination or resignation, a "CIC Termination"), Mr. Bergera will be entitled to receive (i) a lump sum payment equal to 125% of his base salary as then in effect, (ii) a lump sum payment equal to the pro-rated portion of his target bonus established by the Compensation Committee for the fiscal year in which the CIC Termination occurs, (iii) reimbursement for the cost of COBRA coverage for a period of up to 12 months following the CIC Termination, and (iv) acceleration of the vesting of the Option. In addition, upon termination of his employment due to death, Mr. Bergera's estate or beneficiaries will be entitled to receive salary continuation payments in the aggregate equal to 50% of his then current base salary.

***Andrew Schmidt***

We entered into an employment agreement dated March 9, 2015 with Andrew Schmidt, our Chief Financial Officer, in connection with his hiring. Pursuant to the agreement, Mr. Schmidt will receive an annual base salary of \$325,000, which may be increased from time to time at the discretion of the Board or the Compensation Committee. He will also be eligible to participate in our executive bonus plan as then in effect and his potential bonus for each year will be established annually by the Board or the Compensation Committee, provided that the bonus potential for Fiscal 2016 was to be \$125,000. The agreement will have an initial term of two years and will renew for successive one year periods until March 2025 unless either the Company or Mr. Schmidt provides written notice of non-renewal at least 30 days prior to the end of the initial term or renewal term, as applicable. The agreement was amended on June 12, 2017 and provides that if Mr. Schmidt's employment with the Company is terminated without Cause or in connection with a Change of Control (as such terms are defined in the agreement), Mr. Schmidt will be entitled to salary continuation payments for twelve months following his termination of his annual base salary as then in effect. In addition, Mr. Schmidt will be entitled to receive reimbursement for the cost of COBRA coverage for a period of up to twelve months following such termination.

**James Chambers**

We entered into a retention incentive agreement and retention bonus agreement, both effective June 4, 2019, with James Chambers, our Senior Vice President and General Manager, Agriculture and Weather Analytics. Pursuant to the retention bonus agreement, Mr. Chambers will receive a one-time cash award of \$426,000 on June 4, 2021, if Mr. Chambers is still employed by us. The payment of the cash bonus will accelerate if Mr. Chambers' employment is terminated without cause or by Mr. Chambers for good reason, as those terms are defined in the retention bonus agreement. In addition, pursuant to the retention incentive agreement, if we achieve certain strategic business goals while he remains employed by us, Mr. Chambers will receive a cash award equal to 0.9 times his base salary or 1.5 times his base salary.

***Iteris, Inc. Amended and Restated Executive Severance Plan***

The Iteris, Inc. Executive Severance Plan (the "Severance Plan") was adopted on February 5, 2018 and amended and restated effective on June 4, 2019 (the "Severance Plan"). Each individual employed by the Company or its subsidiary, who is an officer subject to Section 16 of the Securities Exchange Act of 1934, as amended, and who is not otherwise covered by an employment agreement that includes severance terms, is eligible to receive severance payments under the Severance Plan upon certain qualifying terminations of employment (the "Eligible Employees"). Eligible Employees for the purposes of the Severance Plan is limited to a select group of management or highly compensated employees within the meaning of the Employee Retirement Income Security Act of 1974, as amended.

The Severance Plan provides Eligible Employees with severance payments in the event that an Eligible Employee's employment with the Company or its subsidiaries is terminated either (a) by the Company without Cause not in connection with a Change of Control ("Non-CIC Qualifying Termination") or (b) if in connection with or within 12 months following a Change of Control, which, for Eligible Employees employed by that business, includes a divestiture of a material business, by the Eligible Employee for Good Reason (as such terms are defined in the Severance Plan) or by the Company without Cause (a "CIC Qualifying Termination").

*Non-CIC Qualifying Termination.* Upon a Non-CIC Qualifying Termination, an Eligible Employee will be eligible to receive the following:

- A cash payment equal to the Eligible Employee's annual base salary, payable in substantially equal installment payments over the one-year period following termination, in accordance with the Company's normal payroll practices; and
- Reimbursement for the Eligible Employee's monthly COBRA premiums for the 12-month period following termination or until the Eligible Employee receives substantially similar medical coverage from another employer.

*CIC Qualifying Termination.* Upon a CIC Qualifying Termination, an Eligible Employee will be eligible to receive the following:

- A cash payment equal to the Eligible Employee's annual base salary, payable in a lump sum on the next payroll date after the 61st day following termination; and
- Reimbursement for the Eligible Employee's monthly COBRA premiums for the 12-month period following, or until the Eligible Employee receives substantially similar medical coverage from another employer.

The severance payments are subject to the Eligible Employee's execution of a severance agreement within 60 days following termination that includes a release of claims and certain non-solicitation, confidentiality, and non-disparagement restrictions.

The Company may amend or terminate the Severance Plan at any time by providing at least 90 days' advance written notice to each participant, provided that no such amendment or termination that has the effect of reducing or diminishing the right of any participant will be effective unless one year's advance written notice is provided to participants, and such amendment or termination will not be effective if a Change of Control occurs during the one-year notice period.

## **Indemnification of Directors and Officers**

Under Section 145 of the Delaware General Corporation Law, we can indemnify our directors and officers against liabilities they may incur in such capacities, including liabilities under the Securities Act. Our certificate of incorporation and bylaws provide that we will indemnify our directors and officers to the fullest extent permitted by law, and our bylaws require us to advance litigation expenses upon receipt of an undertaking by the director or officer. If it is ultimately determined that the director or officer is not entitled to indemnification, the director or officer is required to repay such advances. The bylaws further provide that rights conferred under such bylaws do not exclude any other right such persons may have or acquire under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

Our certificate of incorporation provides that, pursuant to Delaware law, our directors shall not be liable for monetary damages for breach of the directors' fiduciary duty of care to us and our stockholders. This provision in the certificate of incorporation does not eliminate the duty of care, and in appropriate circumstances equitable remedies such as injunctive or other forms of non-monetary relief will remain available under Delaware law. In addition, each director will continue to be subject to liability for breach of the director's duty of loyalty to us or our stockholders, for acts or omissions not in good faith or involving intentional misconduct or knowing violations of law, for actions leading to improper personal benefit to the director, and for payment of dividends or approval of stock repurchases or redemptions that are unlawful under Delaware law. The provision also does not affect a director's responsibilities under any other law, such as the federal securities laws or state or federal environmental laws.

We have entered into agreements to indemnify certain of our directors and officers in addition to the indemnification provided for in the certificate of incorporation and bylaws. These agreements, among other things, indemnify such directors and officers for certain expenses (including attorneys' fees), judgments, fines and settlement amounts incurred by such person in any action or proceeding, including any action by or in the right of the Company, on account of services as a director or officer of Iteris, or as a director or officer of any other company or enterprise to which the person provides services at our request.

## **Compensation Committee Report**

The Compensation Committee has reviewed and discussed with management the discussion and analysis of the compensation of our named executive officers as disclosed in this Annual Report under the heading "Compensation Discussion and Analysis." Based on this review and discussion, the Compensation Committee has recommended to the Board that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K for the fiscal year ended March 31, 2019.

Kevin Daly, Ph.D.  
Scott E. Deeter  
Thomas L. Thomas (*Chairman*)

## Compensation Risk Assessment

The Compensation Committee has evaluated our compensation programs and policies as generally applicable to our employees to ascertain any potential material risks that may be created by the compensation programs. The Compensation Committee concluded that our compensation policies and practices, taken as a whole, are not reasonably likely to have a material adverse impact on our business or our financial condition. The following compensation design features help minimize the incentives for excessive risk-taking:

- Our base pay programs consist of generally competitive salary rates that represent a reasonable portion of total compensation and provide a reliable level of income on a regular basis, which decreases incentive on the part of our executives to take unnecessary or imprudent risks;
- A portion of each executive's incentive compensation opportunity is tied to long-term incentive compensation that emphasizes sustained performance over time. This reduces any incentive to take risks that might increase short-term compensation at the expense of longer term results; and
- Annual equity awards have multi-year vesting which aligns the long-term interests of our executives with those of our stockholders and, again, discourages the taking of short-term risk at the expense of long-term performance.
- Each officer has multiple performance objectives, some of which relate to the Company as a whole, which is more difficult for an officer to manipulate.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

### Principal Stockholders and Common Stock Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of May 31, 2019, the number and percentage ownership of our common stock by (i) all persons known to us to beneficially own more than 5% of the outstanding common stock, (ii) each of the named executive officers, (iii) each of our directors, and (iv) all of our executive officers and directors as a group. To our knowledge, except as otherwise indicated, each of

the persons named in this table has sole voting and investment power with respect to the common stock shown as beneficially owned, subject to community property and similar laws, where applicable.

<u>Name and Address of Beneficial Owner(1)</u>	<u>Common Stock</u>	
	<u>Amount and Nature of Beneficial Ownership(2)</u>	<u>Percent of Class(2)</u>
BlackRock, Inc.(3)	1,956,032	5.9%
Joe Bergera(4)	1,150,000	3.3
Andrew Schmidt(5)	218,750	*
James Chambers(6)	31,250	*
Todd Kreter(7)	146,111	*
Ramin Massoumi(8)	125,425	*
Joseph Boissy(9)	56,250	*
Kevin C. Daly, Ph.D.(10)	497,166	1.5
Scott E. Deeter	12,394	*
Gerard M. Mooney(11)	53,934	*
Laura L. Siegal	4,180	*
Thomas L. Thomas(12)	137,934	*
Mikel H. Williams(13)	83,934	*
All executive officers and directors as a group (12 persons)(13)	2,517,328	7.2

\* Less than 1%.

- (1) The address of each of the directors and officers is 1700 Carnegie Avenue, Suite 100, Santa Ana, CA 92705.
- (2) Based on 33,388,696 shares of common stock outstanding as of May 31, 2019. Shares of common stock subject to options or warrants which are exercisable within 60 days of May 31, 2019 are deemed to be beneficially owned by the person holding such options or warrants for the purpose of computing the percentage of ownership of such person but are not treated as outstanding for the purpose of computing the percentage of any other person. Other than as described in the preceding sentence, shares issuable upon exercise of outstanding options and warrants are not deemed to be outstanding for purposes of this calculation. In addition to the shares held in the individual's name, the number of shares indicated also includes shares held for the benefit of the named person under our 401(k) plan.
- (3) Pursuant to a Schedule 13G filed on February 4, 2019 with the SEC, BlackRock, Inc. reported that through the following subsidiaries, it has sole dispositive and voting power with respect to 1,956,032 shares: BlackRock Advisors, LLC, BlackRock Fund Advisors; BlackRock Institutional Trust Company, National Association; BlackRock Financial Management, Inc. and BlackRock Investment Management, LLC. The address for BlackRock Inc. is 55 East 52nd Street, New York, NY 10005.
- (4) Consists of 1,150,500 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after May 31, 2019.
- (5) Consists of 218,750 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after May 31, 2019.
- (6) Consists of 31,250 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after May 31, 2019.

- (7) Consists of (i) 33,303 shares held directly, (ii) 308 shares held by Mr. Kreter's IRA and (iii) 112,500 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after May 31, 2019.
- (8) Consists of (i) 31,624 shares held by the Massoumi Family Trust; (ii) 2,551 shares held by Mr. Massoumi's IRA and (iii) 91,250 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after May 31, 2019.
- (9) Consists of 56,250 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after May 31, 2019.
- (10) Consists of (i) 420,165 shares held by the Daly Family Trust, of which Dr. Daly is a trustee, (ii) 10,788 shares held directly by Dr. Daly, (iii) 6,113 shares held by Dr. Daly's IRA, (iv) 100 shares held by Dr. Daly's spouse; and (v) 60,000 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after May 31, 2019.
- (11) Consists of (i) 13,934 shares held directly by Mr. Mooney and (ii) 40,000 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after May 31, 2019.
- (12) Consists of (i) 20,788 shares held directly by Mr. Thomas and (ii) 117,146 shares held by Mr. Thomas's Trust.
- (13) Consists of (i) 10,000 shares held by Mr. Williams' IRA; (ii) 8,146 shares held by Mr. Williams' family trust, (iii) 5,788 shares held directly by Mr. Williams and (iv) 60,000 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after May 31, 2019.
- (13) Includes 1,820,000 shares issuable upon exercise of options held by the executive officers and directors as a group that are currently exercisable or will become exercisable within 60 days after May 31, 2019.

## Equity Compensation Plans

The following table provides information as of March 31, 2019 with respect to shares of our common stock that may be issued under existing equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding some securities reflected in first column)
<i>Equity Compensation Plans Approved by Security Holders</i>			
2007 Omnibus Incentive Plan	2,268,750(1)	\$ 2.22(2)	—
2016 Omnibus Incentive Plan	2,877,842(3)	\$ 4.90(4)	2,761,082
<i>Equity Compensation Plans Not Approved by Security Holders</i>			
None			
Total	5,146,592(1)(3)	\$ 3.70(5)	2,761,082

- (1) Includes 7,500 shares of our common stock subject to RSUs that entitle each holder to one share of common stock for each such unit that vests over the holder's period of continued service.
- (2) Calculated without taking into account the 7,500 shares of common stock subject to outstanding RSUs that become issuable as those units vest, without the payment of any additional consideration or exercise price.
- (3) Includes 104,342 shares of our common stock subject to RSUs that entitle each holder to one share of common stock for each such unit that vests over the holder's period of continued service.
- (4) Calculated without taking into account the 104,342 shares of common stock subject to outstanding RSUs that become issuable as those units vest, without the payment of any additional consideration or exercise price.
- (5) Calculated without taking into account the 111,842 shares of common stock subject to outstanding RSUs that become issuable as those units vest, without the payment of any additional consideration or exercise price.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

### Certain Transactions

Since April 1, 2015, other than the agreements and transactions described in "Item 11. Executive Compensation" and the transactions described below, there has not been, nor is there any proposed transaction, where we (or any of our subsidiaries) were or will be a party in which the amount involved exceeded or will exceed the lesser of \$120,000 or one percent of the average of our total assets at year-end for the last two fiscal years and in which any director, director nominee, executive officer, holder of more than 5% of any class of our voting securities, or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest.

We previously subleased office space to Maxxess Systems, Inc. ("Maxxess"), one of our former subsidiaries that we sold in September 2003. The sublease terminated in September 2007, at which time Maxxess owed us an aggregate of \$274,000. Maxxess executed a promissory note for such amount,



which was subsequently amended and restated on July 23, 2013 and on August 11, 2016. The amended and restated note bears interest at a rate of 6% per annum, compounded annually, with accrued interest payable annually on the first business day of each calendar year. When authorized by the Company, Maxxess may pay down the balance of this note by providing consulting services to Iteris. We have previously fully reserved for amounts owed to us by Maxxess and the outstanding principal balance remains fully reserved. As of March 31, 2019, approximately \$146,000 of the original principal balance was outstanding and payable to Iteris. Maxxess is currently owned by an investor group that includes, among others, one former Iteris director, who has not been a director of Iteris since September 2013, and one existing director of Iteris, who currently owns less than 2% of Maxxess' capital stock.

## Director Independence

The Board of Directors has determined that Ms. Siegal and each of Messrs. Daly, Deeter, Mooney, Thomas and Williams satisfies the requirements for "independence" using the standards established by Nasdaq, except that Dr. Daly did not qualify as an independent director while he was serving as our interim Chief Executive Officer from February 2015 to September 2015.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

### Principal Accountant Fees

Deloitte & Touche LLP ("Deloitte") has been our principal independent accounting firm since October 2015. The table below reflects the aggregate fees billed by Deloitte in Fiscal 2019 and Fiscal 2018 for the following services:

Fee Category	Year Ended March 31,	
	2019	2018
Audit fees	\$ 914,000	\$ 916,000
Audit related fees	30,000	190,000
Tax fees	—	—
All other fees	—	—
Total fees	<u>\$ 944,000</u>	<u>\$ 1,106,000</u>

*Audit Fees.* Audit fees consist of fees billed for professional services rendered in connection with the audit of our annual consolidated financial statements for the applicable fiscal year and review of our consolidated financial statements included in our quarterly reports on Form 10-Q, Form 10-K and other regulatory filings for such fiscal year.

*Audit Related Fees.* Audit related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements but are not reporting under "Audit Fees." Audit related fees for Fiscal 2019 were related to the adoption of ASC 842. Audit related fees billed for Fiscal 2018 were related to the review our registration statements on Form S-3 and Form S-8 as well as fees related to the adoption of ASC 606.

*Tax Fees.* Tax fees consist of fees billed for professional services for tax compliance, tax advice and tax planning. There were no tax fees billed by Deloitte for Fiscal 2019 or Fiscal 2018.

*All Other Fees.* There were no fees were billed by Deloitte in Fiscal 2019 or Fiscal 2018 for any other services.

## **Audit Committee Pre-Approval Policies and Procedures**

All engagements for services by Deloitte or other independent registered public accountants are subject to prior approval by the Audit Committee; however, de minimis, non-audit services may instead be approved in accordance with applicable SEC rules. The prior approval of the Audit Committee was obtained for all services provided by Deloitte for Fiscal 2019 and Fiscal 2018.

The Audit Committee reviewed and discussed the services, in addition to the auditor services, rendered by Deloitte during Fiscal 2019, as well as the fees paid for such services, and has determined that the provision of such other services by Deloitte, and the fees paid for such services, were compatible with maintaining Deloitte's independence.

**PART IV****ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) Documents filed as part of this report:

1. *Financial Statements.*

Our consolidated financial statements are listed in the "Index to Consolidated Financial Statements" under Part II, Item 8, of this Annual Report.

2. *Financial Statement Schedules.*

All financial statement schedules have been omitted because they are not required or are not applicable, or the required information is shown in our consolidated financial statements or the notes thereto.

3. *Exhibits.*

The following table sets forth the exhibits either filed herewith or incorporated herein by reference:

**Exhibit Index**

<b>Exhibit Number</b>	<b>Description</b>	<b>Reference</b>
3.1	<a href="#">Restated Certificate of Incorporation of the registrant as filed with the Delaware Secretary of State on October 12, 2018</a>	Exhibit 3.1 to the registrant's Current Report on Form 8-K as filed with the SEC on October 15, 2018
3.2	<a href="#">Restated Bylaws of the registrant, as amended through August 6, 2018</a>	Exhibit 3.1 to the registrant's Quarterly Report on Form 10-Q as filed with the SEC on August 7, 2018
4.1	<a href="#">Specimen of common stock certificate</a>	Exhibit 4.1 to registrant's Registration Statement on Form 8-A as filed with the SEC on December 8, 2004
10.1	Form of Indemnity Agreement entered into by the registrant and certain of its officers and directors	Exhibit 19.4 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1988
10.2	<a href="#">Form of Indemnification Agreement entered into by the registrant and certain of its officers and directors</a>	Exhibit 10.5 to the registrant's Annual Report on Form 10-K for the year ended March 31, 2004 as filed with the SEC on June 29, 2004
10.3	<a href="#">Office Lease, dated May 24, 2007, by and between the registrant and Realty Associates Fund X, L.P. (as the successor to Crown Carnegie Associates, LLC)</a>	Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 as filed with the SEC on August 14, 2007
10.4	<a href="#">First Amendment to Lease, dated February 21, 2014, by and between RREF II Freeway Acquisitions, LLC and Iteris, Inc.</a>	Exhibit 10.29 to the registrant's Annual Report on Form 10-K for the year ended March 31, 2014 as filed with the SEC on September 4, 2014.

Exhibit Number	Description	Reference
10.5	<a href="#">Second Amendment to Lease, dated September 29, 2014, by and between Realty Associates Fund X, L.P. and Iteris, Inc. (as the successor to Realty Associate RREF II Freeway Acquisitions, LLC) and Iteris, Inc.</a>	<i>Filed herewith</i>
10.6	<a href="#">Third Amendment to Lease, dated December 15, 2016, by and between Realty Associates Fund X, L.P. and Iteris, Inc.</a>	<i>Filed herewith</i>
10.7*	<a href="#">Iteris, Inc. Employee Stock Purchase Plan</a>	<i>Exhibit 10.4 to the registrant's Annual Report on Form 10-K for the year ended March 31, 2018 as filed with the SEC on June 7, 2018</i>
10.8*	<a href="#">2007 Omnibus Incentive Plan</a>	<i>Exhibit 10.19 to the registrant's Annual Report on Form 10-K for the year ended March 31, 2012 as filed with the SEC on June 11, 2012</i>
10.9*	<a href="#">Forms of Stock Option Agreements under the 2007 Omnibus Incentive Plan</a>	<i>Exhibit 10.20 to the registrant's Annual Report on Form 10-K for the year ended March 31, 2012 as filed with the SEC on June 11, 2012</i>
10.10*	<a href="#">Form of Restricted Stock Unit Award Agreement under the 2007 Omnibus Incentive Plan</a>	<i>Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 as filed with the SEC on July 28, 2010</i>
10.11*	<a href="#">Amended and Restated 2016 Omnibus Incentive Plan</a>	<i>Exhibit 99.1 to registrant's Registration Statement on Form S-8 (File No. 333-228210) as filed with the SEC on November 6, 2018.</i>
10.12*	<a href="#">Form of Restricted Stock Unit Issuance Agreement for use with 2016 Omnibus Incentive Plan</a>	<i>Exhibit 99.2 to the registrant's Registration Statement on Form S-8 (File No.333-216407) as filed with the SEC on March 2, 2017</i>
10.13*	<a href="#">Form of Form of Notice of Grant of Stock Option and form of Stock Option Agreement for use with 2016 Omnibus Incentive Plan</a>	<i>Exhibit 99.3 to the registrant's Registration Statement on Form S-8 (File No.333-216407) as filed with the SEC on March 2, 2017</i>
10.14	<a href="#">Amended and Restated Promissory Note, effective July 23, 2013, by and between Maxxess Systems, Inc. in favor of Iteris, Inc.</a>	<i>Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 as filed with the SEC on August 1, 2013</i>
10.15	<a href="#">First Amendment to Lease, dated February 21, 2014, by and between RREF II Freeway Acquisitions, LLC and Iteris, Inc.</a>	<i>Exhibit 10.29 to the registrant's Annual Report on Form 10-K for the year ended March 31, 2014 as filed with the SEC on September 4, 2014.</i>
10.16*	<a href="#">Employment Agreement dated March 9, 2015 between Iteris, Inc. and Andrew Schmidt</a>	<i>Exhibit 10.1 to the registrant's Current Report on Form 8-K as filed with the SEC on March 15, 2015</i>

Exhibit Number	Description	Reference
10.17*	<a href="#">Amendment 1 to Employment Agreement dated June 12, 2017 between Iteris, Inc. and Andrew Schmidt</a>	<i>Exhibit 10.33 to the registrant's Annual Report on Form 10-K for the year ended March 31, 2016 as filed with the SEC on June 13, 2017.</i>
10.18*	<a href="#">Employment Agreement dated September 8, 2015 between Iteris, Inc. and Joe Bergera</a>	<i>Exhibit 10.1 to the registrant's Current Report on Form 8-K as filed with the SEC on September 22, 2015</i>
10.19	<a href="#">Separation Agreement and General Release dated March 29, 2018 between Iteris, Inc. and Thomas N. Blair</a>	<i>Exhibit 99.1 to Amendment No. 1 to the registrant's Current Report on Form 8-K as filed with the SEC on April 5, 2018</i>
10.20*	<a href="#">Iteris, Inc. Amended and Restated Executive Severance Plan</a>	<i>Filed herewith</i>
10.21*	<a href="#">Retention Bonus Agreement dated June 4, 2019 between Iteris, Inc. and James Chambers</a>	<i>Filed herewith.</i>
10.22*	<a href="#">Incentive Bonus Agreement dated June 4, 2019 between Iteris, Inc. and James Chambers</a>	<i>Filed herewith.</i>
23	<a href="#">Consent of Independent Registered Public Accounting Firm, dated June 6, 2019</a>	<i>Filed herewith</i>
24	<a href="#">Power of Attorney</a>	<i>Filed herewith (included on the Signature page)</i>
31.1	<a href="#">Certification of the Chief Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>	<i>Filed herewith</i>
31.2	<a href="#">Certification of the Chief Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>	<i>Filed herewith</i>
32.1	<a href="#">Certification of the Chief Executive Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>	<i>Filed herewith</i>
32.2	<a href="#">Certification of the Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>	<i>Filed herewith</i>
101.INS	XBRL Instance Document	<i>Filed herewith</i>
101.SCH	XBRL Taxonomy Extension Schema Document	<i>Filed herewith</i>
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	<i>Filed herewith</i>
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	<i>Filed herewith</i>

Exhibit Number	Description	Reference
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	<i>Filed herewith</i>
101.DEF	XBRL Taxonomy Definition Presentation Linkbase Document	<i>Filed herewith</i>

\* Indicates a contract, compensatory plan or arrangement in which directors or executive officers of the registrant are eligible to participate.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: June 6, 2019

ITERIS, INC.  
(Registrant)

By /s/ JOE BERGERA

Joe Bergera  
*Chief Executive Officer*  
(Principal Executive Officer)

**POWER OF ATTORNEY**

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JOE BERGERA</u> Joe Bergera	Director, President and Chief Executive Officer (principal executive officer)	June 6, 2019
<u>/s/ ANDREW C. SCHMIDT</u> Andrew C. Schmidt	Chief Financial Officer (principal financial and accounting officer)	June 6, 2019
<u>/s/ THOMAS L. THOMAS</u> Thomas L. Thomas	Chairman of the Board	June 6, 2019
<u>/s/ LAURA L. SIEGAL</u> Laura L. Siegal	Director	June 6, 2019

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<div>/s/ KEVIN C. DALY, PH.D</div> <div>_____ Kevin C. Daly, Ph.D</div>	Director	June 6, 2019
<div>/s/ GERARD M. MOONEY</div> <div>_____ Gerard M. Mooney</div>	Director	June 6, 2019
<div>/s/ SCOTT E. DEETER</div> <div>_____ Scott E. Deeter</div>	Director	June 6, 2019
<div>/s/ MIKEL WILLIAMS</div> <div>_____ Mikel Williams</div>	Director	June 6, 2019





## SECOND AMENDMENT TO LEASE

This SECOND AMENDMENT TO LEASE ("Amendment") is made as of September 29, 2014, between RREF II FREEWAY ACQUISITIONS, LLC, a Delaware limited liability company ("Landlord"), and ITERIS, INC., a Delaware corporation ("Tenant"), with reference to the following:

### RECITALS

A. Tenant and Landlord's predecessor-in-interest, Crown Carnegie Associates, LLC, a Delaware limited liability company ("Crown") are parties to that certain Office Lease, dated as of May 24, 2007 ("Original Lease"), pursuant to which Tenant leased from Crown certain office space within the office building at 1700 E. Carnegie Avenue, Suites 100 & 200, Santa Ana, California, as more particularly described in the Lease ("Premises") within the complex known as Freeway Corporate Park ("Development");

B. Landlord acquired the Development, including the Premises, from Crown on or about May 30, 2013;

C. Landlord and Tenant amended the Original Lease pursuant to that certain First Amendment to Lease, dated February 21, 2014 ("First Amendment", and collectively with the Original Lease, the "Lease"); and

D. Landlord and Tenant desire to further amend the Lease upon the terms and conditions set forth herein.

NOW, THEREFORE, for good, valuable and sufficient consideration received, Landlord and Tenant hereby agree as follows:

1. **Terms.** All capitalized terms used but not defined herein shall have the meaning given to them in the Lease.

2. **Parking Spaces; Fenced Area.** The Fenced Area, as defined in Section 8.3 of the Original Lease, shall be increased by four (4) parking spaces for use by another tenant within the Building, Bendix Commercial Vehicle Systems, LLC ("Bendix"). Bendix shall also be assigned two (2) of the eighteen (18) existing spaces within the fenced area. Except as may be otherwise agreed between Tenant and Bendix (and subject to Landlord approval), Tenant shall continue to have the right to use only sixteen (16) parking spaces within the Fenced Area. The expansion of the Fenced Area shall be made at Bendix's sole cost and expense. Tenant shall provide Bendix with access to the Fenced Area. Exhibit F to the Original Lease depicting the Fenced Area, Test Lane, Test Target Area and the Parking Lot is hereby deleted and replaced with attached Exhibit E. All other terms related to parking spaces and the Parking Lot remain unchanged.

3. **Lease Unchanged and Complete.** Except as changed by this Amendment, the Lease remains unchanged and contains the entire agreement of Landlord and Tenant with respect to the Premises. Landlord and Tenant each represent and warrant it does not believe or claim there are

any oral or written agreements between Landlord and Tenant relating to the Premises, and that it is not relying on any agreements relating to the Premises, other than those agreements contained in the Lease as amended by this Amendment.

4. **Authority.** Each person signing this Amendment on behalf of Landlord or Tenant represents and warrants that that party has duly authorized him or her to execute and deliver this Amendment and by so doing to bind that party.

5. **Counterparts.** This Amendment may be signed in any number of counterparts, each of which shall constitute one and the same instrument.

**[Signatures on following page]**

IN WITNESS WHEREOF, Landlord and Tenant have executed this Amendment as of the date first set forth above.


**"LANDLORD"**

RREF II FREEWAY ACQUISITIONS, LLC,  
a Delaware limited liability company

By: RREF II REI, LP,  
a Delaware limited partnership,  
its Sole Member


By: Rialto Partners GP II, LLC,  
a Delaware limited liability company,  
its General Partner

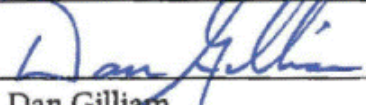
By: Rialto Capital Advisors, LLC,  
a Delaware limited liability company,  
its Attorney in fact

By:   
Name: Mike Farley  
Title: Director

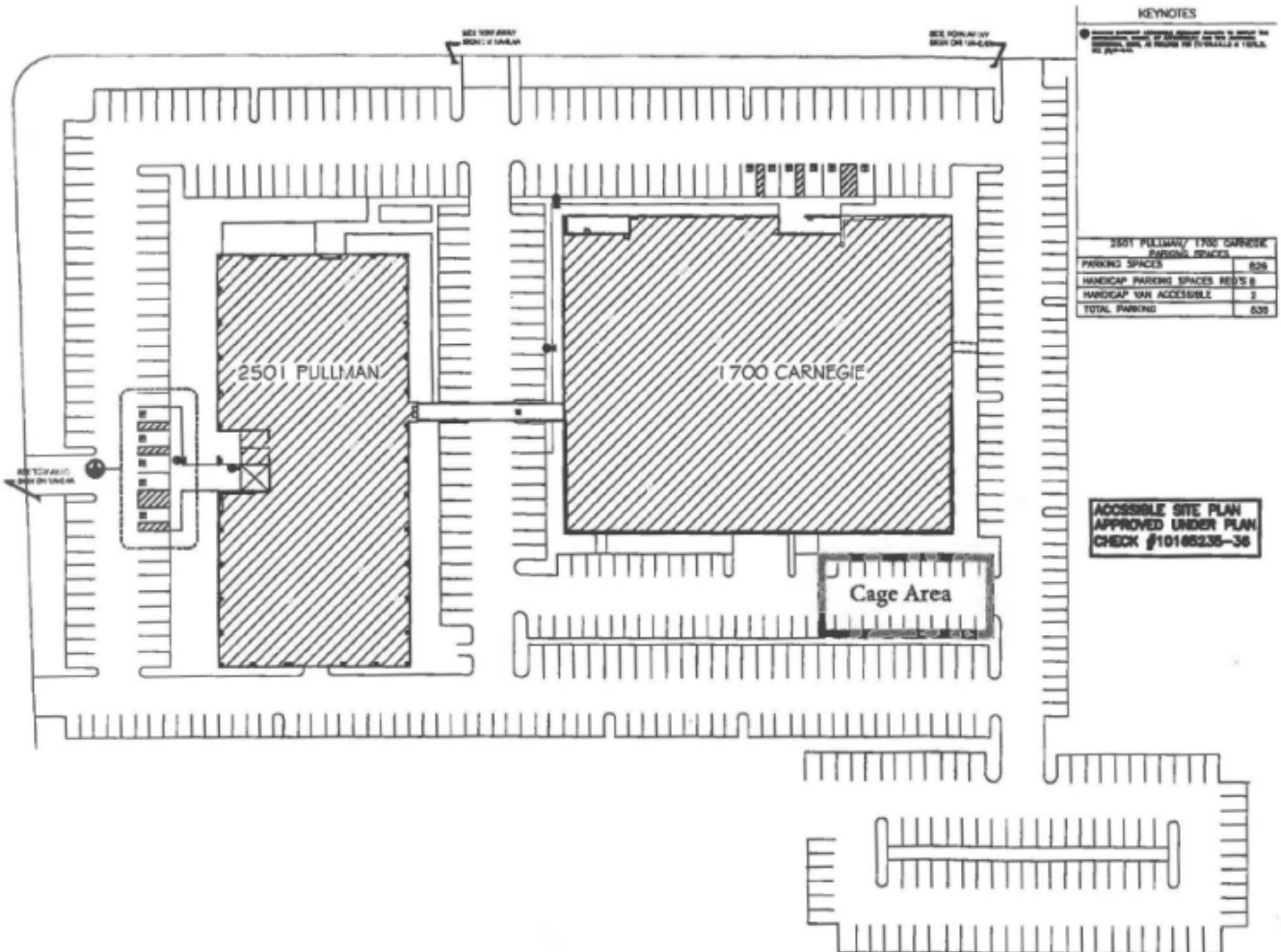
**"TENANT"**

ITERIS, INC.,  
a Delaware corporation

By:   
Name: Abbas Mohaddes  
Title: CEO

By:   
Name: Dan Gilliam  
Title: Assistant Secretary

"Exhibit F"



SITE PLAN

A-0.4



### THIRD AMENDMENT TO LEASE

This Third Amendment to Lease (the "**Third Amendment**") is dated for reference purposes this 15<sup>th</sup> day of December, 2016 and is entered into by and between The Realty Associates Fund X, L.P., a Delaware limited partnership ("**Landlord**"), and Iteris, Inc., a Delaware corporation ("**Tenant**"), with reference to the following recitals.

#### RECITALS:

A. On or about May 24, 2007, Crown Carnegie Associates, LLC ("**Crown**") and Tenant entered into an Office Lease (the "**Original Lease**") for that certain premises commonly known as Suites 100 and 200 (the "**Original Premises**"), 1700 East Carnegie, Santa Ana, California (the "**Building**"). The Original Premises was comprised of approximately 52,116 rentable square feet of space. Crown subsequently assigned all of its rights and obligations under the Original Lease to RREF II Freeway Acquisitions, LLC ("**RREF**") and RREF assumed all of Crown's rights and obligations under the Original Lease. On or about February 21, 2014, RREF and Tenant entered into a First Amendment to Lease (the "**First Amendment**"). Pursuant to the First Amendment the size of the Original Premises was reduced by 11,059 rentable square feet, and Tenant now occupies 41,057 rentable square feet in the Building (the "**Existing Premises**"). On or about September 29, 2014, RREF and Tenant entered into a Second Amendment to Lease (the "**Second Amendment**"). The Original Lease as modified by the First Amendment and the Second Amendment is hereinafter referred to as the "**Lease**".

B. Tenant now desires to lease from Landlord Suite 225 in the Building which contains approximately 5,980 rentable square feet and which is depicted on Exhibit A attached hereto (the "**Expansion Space**").

C. Landlord and Tenant wish to amend the Lease on the terms and conditions set forth below.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Lease of Expansion Space. Subject to the terms and conditions set forth below, Landlord hereby agrees to lease to Tenant and Tenant hereby agrees to lease from Landlord the Expansion Space. The Expansion Space is currently occupied by Bendix Commercial Vehicle Systems LLC (the "**Existing Tenant**") and the Existing Tenant's lease is scheduled to expire on March 31, 2017. The date that Existing Tenant delivers possession of the Expansion Space to Landlord is hereinafter referred to as the "**Existing Tenant Delivery Date**". On the later to occur of one (1) business day after the Existing Tenant Delivery Date and March 31, 2017, Landlord shall offer Tenant possession of the Expansion Space (the "**Landlord Delivery Date**"). Tenant shall accept possession of the Expansion Space from Landlord on the Landlord Delivery Date in its "as is" condition. As of the Landlord Delivery Date, the total rentable area of the Premises (the Existing Premises and the Expansion Space) shall be 47,037 square feet. From and after the Landlord Delivery Date, all references in the Lease to the "Premises" shall include the Expansion Space. For purposes of this Third Amendment, the "**Rent Commencement Date**" shall mean the date that is ninety (90) days after the Landlord Delivery Date. When the Landlord Delivery Date and Rent Commencement Date are established by Landlord, Tenant shall, within five (5) business days after Landlord's request, complete and execute the memorandum attached hereto as Exhibit B and deliver it to Landlord. Tenant's failure to execute the memorandum attached hereto as Exhibit B within said five (5) business day period shall constitute Tenant's acknowledgment of the truth of the facts contained in the memorandum delivered by Landlord to Tenant.

2. Term. Tenant's lease of the Expansion Space shall commence on the Landlord Delivery Date and shall end when the term of the Lease ends on March 31, 2022, subject to extension of the term of the Lease, as hereby amended, by Tenant pursuant to Section 4 of the First Amendment.

3. Base Rent. Prior to the Landlord Delivery Date, Tenant shall continue to pay the monthly Base Rent required by the Lease. Notwithstanding anything to the contrary contained in the Lease, from and after the Landlord Delivery Date, in addition to the Base Rent Tenant pays for the Existing Premises pursuant to the Lease, Tenant shall pay additional Base Rent for its use of the Expansion Space in the following amounts:

Period	Base Rent Due Each Month
Landlord Delivery Date – Rent Commencement Date:	\$0
Rent Commencement Date through 12 <sup>th</sup> full calendar month after Rent Commencement Date:	\$14,053.00
13 <sup>th</sup> through 24 <sup>th</sup> month after Rent Commencement Date:	\$14,474.59
25 <sup>th</sup> through 36 <sup>th</sup> month after Rent Commencement Date:	\$14,908.83
37 <sup>th</sup> through 48 <sup>th</sup> month after Rent Commencement Date:	\$15,356.09
49 <sup>th</sup> month after Rent Commencement Date through March 31, 2022:	\$15,816.78

4. Abatement of Expansion Space Base Rent. Landlord hereby agrees to waive the Base Rent due for the Expansion Space for the first, second and third full calendar months after the Rent Commencement Date. The Base Rent applicable to the Existing Premises shall not be waived. No amounts due to Landlord under the Lease other than the Base Rent referred to above shall be waived.

5. Tenant's Share. Tenant's Share (as defined in the Original Lease) with respect to the Existing Premises shall continue to be 52.291% with respect to the Project and 32.009% with respect to the Development. Tenant's Share with respect to the Expansion Space shall be 7.815% with respect to the Project and 4.662% with respect to the Development.

6. Base Year. For purposes of calculating Tenant's Share of Direct Expenses applicable to the Existing Premises, the Base Year for the Existing Premises shall continue to be the calendar year 2014. For purposes of calculating Tenant's Share of Direct Expenses applicable to the Expansion Space, the Base Year for the Expansion Space shall be the calendar year 2017.

7. Direct Expenses. Notwithstanding anything to the contrary contained in the Lease, Tenant shall not be obligated to pay Tenant's Share of Direct Expenses attributable to the Expansion Space during the period commencing on the Landlord Delivery Date and ending on the date that is twelve (12) full calendar months after the Rent Commencement Date.

8. Limitation on Operating Expense Increases. Section 6(b) of the First Amendment shall not apply to or otherwise limit the payment by Tenant of Tenant's Share of Direct Expenses attributable to the Expansion Space.

9. Parking. From and after the Landlord Delivery Date, the number of unreserved parking spaces allotted to Tenant is hereby increased from one hundred twenty-eight (128) parking spaces to one hundred fifty-two (152) parking spaces. All other terms related to parking spaces and the Parking Lot shall remain the same. Pursuant to Section 2 of the Second Amendment, the Existing Tenant has the right to use six (6) parking spaces in the Fenced Area (as defined in the Original Lease) (the "**Existing Tenant Fenced Area Spaces**"). The Existing Tenant Fenced Area Spaces shall constitute six (6) of the one hundred fifty-two (152) parking spaces referred to above.

10. Tenant Improvements.

(a) Improvements. Within thirty (30) days after the execution of this Third Amendment, Tenant shall submit to Landlord for approval a detailed space plan ("**Space Plan**") for the improvements to the Expansion Space which shall include without limitation, the location of doors, partitions, electrical and telephone outlets, plumbing fixtures, heavy floor loads and other special requirements. The Space Plan and

the Construction Drawings (as defined below) shall be prepared by H. Hendy Associates (the "**Architect**"). Landlord agrees to cooperate with Tenant and its design representatives in connection with the preparation of the Space Plan. Within five (5) business days after receipt by Landlord of the Space Plan, Landlord (i) shall give its written approval with respect thereto, or (ii) shall notify Tenant in writing of its disapproval and state with specificity the grounds for such disapproval and the revisions or modifications necessary in order for Landlord to give its approval. Within five (5) business days following Tenant's receipt of Landlord's disapproval, Tenant shall submit to Landlord for approval the requested revisions or modifications. Within five (5) business days following receipt by Landlord of such revisions or modifications, Landlord shall give its written approval with respect thereto or shall request other revisions or modifications therein (but relating only to the extent Tenant has failed to comply with Landlord's earlier requests). The preceding sentence shall be implemented repeatedly until Landlord gives its approval to Tenant's Space Plan. The improvements to be made to the Expansion Space that are described in the final Space Plan are hereinafter referred to as the "**Improvements**".

(b) Construction Drawings. If the preparation of the Construction Drawings requires the input of engineers (the "**Engineers**"), as reasonably determined by Landlord, Architect shall retain Engineers that are reasonably acceptable to Landlord to prepare all plans and engineering drawings relating to the structural, mechanical, electrical, plumbing, HVAC, life safety, and sprinkler work in the Expansion Space. The plans and specifications to be prepared by the Architect and the Engineers hereunder shall reflect only the improvements described on the Space Plan and shall be known collectively as the "**Construction Drawings**." Tenant and Architect shall verify, in the field, the dimensions of the Expansion Space and the conditions at the Expansion Space, and Tenant and Architect shall be solely responsible for the same, and Landlord shall have no responsibility in connection therewith. Landlord shall have the right to approve the Construction Drawings in Landlord's reasonable discretion, and the Construction Drawings shall not materially deviate from the Space Plan. Landlord's review of the Construction Drawings are for its sole benefit and Landlord shall have no liability to Tenant or Tenant's contractors arising out of or based on Landlord's review. Accordingly, notwithstanding that any Construction Drawings are reviewed by Landlord or its space planner, architect, engineers and consultants, and notwithstanding any advice or assistance which may be rendered to Tenant or Tenant's Architect, Engineers or contractors by Landlord or Landlord's space planner, architect, engineers and consultants, Landlord shall have no liability whatsoever in connection therewith and shall not be responsible for any omissions or errors arising therefrom.

(c) Permits and Changes. The Construction Drawings approved by Landlord (the "**Final Construction Drawings**") shall be submitted by Tenant to the appropriate governmental agencies in order to obtain all applicable building permits. Prior to commencing construction of the Improvements, Tenant shall provide Landlord with copies of the permits. Tenant hereby agrees that neither Landlord nor Landlord's consultants shall be responsible for obtaining any building permits or a certificate of occupancy for the Expansion Space and that obtaining the same shall be Tenant's sole responsibility; provided, however, that Landlord shall cooperate with Tenant in executing permit applications and performing other ministerial acts reasonably necessary to enable Tenant to obtain any such permits or certificate of occupancy. No changes, modifications or alterations in the Final Construction Drawings may be made without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed.

(d) Compliance with Laws. Tenant shall be solely responsible for constructing the Improvements in compliance with all laws. Tenant acknowledges and agrees that it may be obligated to modify, alter or upgrade the Expansion Space and the systems therein in order to complete the construction of the Improvements, and Landlord shall have no liability or responsibility for modifying, altering or upgrading the Expansion Space or its existing systems. If, as a result of Improvements constructed in accordance with this Third Amendment, Landlord is obligated to comply with the Americans With Disabilities Act and such compliance requires Landlord to make any improvements or alterations to any portion of the Development in the common areas of the Development outside the Expansion Space and Existing Premises (an "**Exterior Alteration**"), Landlord shall pay the cost of making the Exterior Alteration at Landlord's sole cost and expense and the cost of the Exterior Alteration shall not be paid from the Improvement Allowance.



(e) Contractors. Landlord shall have the right to approve in advance the contractors (the "**Contractors**") used by Tenant to construct the Improvements, in Landlord's reasonable discretion, and Landlord may require Tenant to use union Contractors. Notwithstanding the forgoing, Landlord shall have the right to designate which subcontractors may perform work on the Building's systems, including, but not limited to, the Building's HVAC, electrical, plumbing, roof and life, fire and safety systems. Tenant's indemnification obligations in the Lease shall also apply with respect to any and all damages, cost, loss or expense (including attorney's fees) related to any act or omission of Tenant or its Contractors, or anyone directly or indirectly employed by any of them, or in connection with Tenant's non-payment of any amount arising out of the Improvements. The Contractors shall carry worker's compensation insurance covering all of their respective employees, public liability insurance, including property damage, and such other insurance as required by Landlord, in Landlord's sole discretion. Certificates for all insurance carried pursuant to this section shall be delivered to Landlord before the commencement of construction of the Improvements. All such policies of insurance shall name Landlord and its property manager as an additional insured.

(f) Construction Procedures. The Contractors shall comply with all of Landlord's rules, regulations and procedures concerning the construction of improvements at the Project (collectively, the "**Construction Procedures**"), and if any Contractor fails to comply with the Construction Procedures after Landlord has provided the Contractor with written notice of its non-compliance, Landlord shall have the right to prohibit such Contractor from performing any further work in the Building, and Landlord shall have no liability to Tenant due to such prohibition. Landlord's Construction Procedures are available from the Building's property manager. To the extent not inconsistent with the provisions of this Section 10, Article 11 of the Original Lease shall apply to the construction of the Improvements. If there is a conflict between Article 11 of the Original Lease, and this Section 10, this Section 10 shall control. Tenant's Contractors shall not perform any construction work at the Building if such work might disturb other tenants of the Building, as determined by Landlord in Landlord's sole discretion, from 8:00 a.m. to 6:00 p.m., Monday through Friday. Tenant and the Contractors shall not have the right, at any time, to disrupt any Building service (e.g., electrical, plumbing etc.) to the Common Areas or to another tenant's premises. Tenant and the Contractors shall only store construction materials inside the Premises or the Expansion Space and the Contractors shall not dispose of their refuse or construction materials in the Project's or Developments trash receptacles. Tenant's Contractors shall only use Building entrances and Building freight elevators designated by Landlord to transport construction materials to the Expansion Space, and Tenant and Tenant's Contractors shall take whatever precautions Landlord may reasonably prescribe to protect the Project and the Development from damages due to such activities. Tenant shall reimburse Landlord for the cost of repairing any damage to the Project or Development caused by the construction of the Improvements. Landlord shall have the right to inspect the Improvements at all times upon reasonable notice to Tenant, provided however, that Landlord's inspection of the Improvements shall not constitute Landlord's approval of the Improvements. Should Landlord reasonably disapprove any portion of the Improvements, Landlord shall notify Tenant in writing of such disapproval and shall specify the items disapproved. Any defects in the Improvements shall be rectified by Tenant at no expense to Landlord. Landlord shall have the right to receive a fee to reimburse it for its costs in providing approvals hereunder and in monitoring the construction of the Improvements in an amount equal to one and one-half percent (1.5%) of the total cost of constructing the Improvements (the "**Landlord Fee**"). In addition, if Landlord incurs architectural, engineering or other consultants' fees in evaluating such Improvements ("**Third Party Fees**"), Tenant shall reimburse Landlord for these fees in addition to the Landlord Fee. Landlord shall have the right to deduct the Landlord Fee and the Third Party Fees from the Improvement Allowance (as defined below).

(g) Improvement Allowance. Landlord hereby grants to Tenant an "**Improvement Allowance**" of \$119,600.00, which Improvement Allowance shall be used only to reimburse Tenant for the actual out-of-pocket costs paid by Tenant to independent third parties for the construction of the Improvements. After the completion of the construction of the Improvements, Landlord shall make one (1) disbursement of the Improvement Allowance. Prior to Landlord making the disbursement, Tenant shall deliver to Landlord: (A) a request for payment, approved by Tenant, in a form which is reasonably acceptable to Landlord; (B) invoices from all contractors whose work is being paid with respect to such payment request; (C) copies of executed mechanic's lien releases from all of the contractors which shall comply with the

provisions of California Civil Code Section 8138; (D) proof that Tenant has previously paid to the contractors the monies described in the payment request; (E) "as built" plans for the Improvements and (F) all other information reasonably requested by Landlord. Within thirty (30) days after Landlord has received all of this information, Landlord shall deliver a check to Tenant in an amount equal to the lesser of (i) the actual monies paid by Tenant to Tenant's contractors with respect to such payment request or (ii) the Improvement Allowance.

(h) Unused Allowance. If the actual cost of the Improvements does not exceed the Improvement Allowance, Tenant may use up to \$59,800.00 of the unused portion of the Improvement Allowance (the "**Maximum Amount**") to reimburse Tenant for the actual out-of-pocket costs it pays to unrelated third parties in order to (a) move its existing furniture and equipment into the Expansion Space, (b) purchase new furniture and equipment for use in the Expansion Space and (c) install telephone and computer cabling in the Expansion Space (collectively, "**Expenses**"). If Tenant desires to use the unused portion of the Improvement Allowance (not to exceed the Maximum Amount) to reimburse itself for Expenses, Tenant shall provide to Landlord bills, invoices and other information reasonably acceptable to Landlord to document monies paid by Tenant for Expenses, and Landlord shall reimburse Tenant within thirty (30) days after receiving such information for the lesser of the Maximum Amount and amount of the unused Improvement Allowance. After the Improvements are completed, Tenant shall have the right to make one request for the reimbursement of Expenses (the "**Reimbursement Request**") and the Reimbursement Request shall include all Expenses for which Tenant requests reimbursement. Landlord shall have no obligation to reimburse Tenant for any Expense that is not included in the Reimbursement Request. Any portion of the Improvement Allowance that has not been expended on or before December 31, 2017 on the construction of the Improvements or on the reimbursement of Expenses shall be retained by Landlord, and Tenant shall have no further right to the use of such unused portion of the Improvement Allowance for any purpose.

(i) Commencement Date. Tenant shall construct the Improvements after the Landlord Delivery Date, and Tenant's obligation to pay Base Rent and other charges due under the Lease is not conditioned on the completion of the Improvements.

11. Conflict. If there is a conflict between the terms and conditions of this Third Amendment and the terms and conditions of the Lease, the terms and conditions of this Third Amendment shall control. Except as modified by this Third Amendment, the terms and conditions of the Lease shall remain in full force and effect. Capitalized terms included in this Third Amendment shall have the same meaning as capitalized terms in the Lease unless otherwise defined herein. Tenant hereby acknowledges and agrees that the Lease is in full force and effect, Landlord is not currently in default under the Lease, and, to the best of Tenant's knowledge, no event has occurred which, with the giving of notice or the passage of time, or both, would ripen into Landlord's default under the Lease. The Lease, as hereby amended, contains all agreements of the parties with respect to the lease of the Premises. No prior or contemporaneous agreement or understanding pertaining to the Lease, as hereby amended, shall be effective.

12. Brokers. Tenant and Landlord each represent and warrant to the other that neither has had any dealings or entered into any agreements with any person, entity, broker or finder in connection with the negotiation of this Third Amendment except CBRE, Inc., and no other broker, person, or entity is entitled to any commission or finder's fee in connection with the negotiation of this Third Amendment, and Tenant and Landlord each agree to indemnify, defend and hold the other harmless from and against any claims, damages, costs, expenses, attorneys' fees or liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings, actions or agreements of the indemnifying party.

13. Authority. The persons executing this Third Amendment on behalf of the parties hereto represent and warrant that they have the authority to execute this Third Amendment on behalf of said parties and that said parties have authority to enter into this Third Amendment.

14. Confidentiality. Tenant acknowledges and agrees that the terms of this Third Amendment are confidential and constitute proprietary information of Landlord. Disclosure of the terms hereof could adversely affect the ability of Landlord to negotiate other leases with respect to the property and may impair Landlord's relationship with other tenants of the property. Tenant agrees that it and its partners, officers, directors, employees, brokers, and attorneys, if any, shall not disclose the terms and conditions of this Third Amendment to any other person or entity without the prior written consent of Landlord which may be given or withheld by Landlord, in Landlord's sole discretion. It is understood and agreed that damages alone would be an inadequate remedy for the breach of this provision by Tenant, and Landlord shall also have the right to seek specific performance of this provision and to seek injunctive relief to prevent its breach or continued breach.

15. Execution. This Third Amendment and any documents or addenda attached hereto (collectively, the "**Documents**") may be executed in two or more counterpart copies, each of which shall be deemed to be an original and all of which together shall have the same force and effect as if the parties had executed a single copy of the Document. Landlord shall have the right, in Landlord's sole discretion, to insert the name of the person executing a Document on behalf of Landlord in Landlord's signature block using an electronic signature (an "**Electronic Signature**"), and in this event the Document delivered to Tenant will not include an original ink signature and Landlord shall have no obligation to provide a copy of such Document to Tenant with Landlord's original ink signature. A Document delivered to Tenant by Landlord with an Electronic Signature shall be binding on Landlord as if the Document had been originally executed by Landlord with an ink signature. Without the prior written consent of Landlord, which may be withheld in Landlord's sole discretion, Tenant shall not have the right to insert the name of the person executing the Document on behalf of Tenant using an Electronic Signature and all Documents shall be originally executed by Tenant using an ink signature. A Document executed by Landlord or Tenant and delivered to the other party in PDF, facsimile or similar electronic format (collectively, "**Electronic Format**") shall be binding on the party delivering the executed Document with the same force and effect as the delivery of a printed copy of the Document with an original ink signature. At any time upon Landlord's written request, Tenant shall provide Landlord with a printed copy of the Document with an original ink signature. This Section describes the only ways in which Documents may be executed and delivered by the parties. An email from Landlord, its agents, brokers, attorneys, employees or other representatives shall never constitute Landlord's Electronic Signature or be otherwise binding on Landlord. Subject to the limitations set forth above, the parties agree that a Document executed using an Electronic Signature and/or delivered in Electronic Format may be introduced into evidence in a proceeding arising out of or related to the Document as if it was a printed copy of the Document executed by the parties with original ink signatures. Landlord shall have no obligation to retain copies of Documents with original ink signatures, and Landlord shall have the right, in its sole discretion, to elect to discard originals and to retain only copies of Documents in Electronic Format.

16. Delivery of Amendment. Preparation of this Third Amendment by Landlord or Landlord's agent and submission of same to Tenant shall not be deemed an offer by Landlord to enter into this Third Amendment. This Third Amendment shall become binding upon Landlord only when fully executed by all parties. The delivery of this Third Amendment to Tenant shall not constitute an agreement by Landlord to negotiate in good faith, and Landlord expressly disclaims any legal obligation to negotiate in good faith. To Landlord's actual knowledge, as of the date of this Third Amendment, the Premises has not undergone an inspection by a certified access specialist. Landlord's actual knowledge shall mean and be limited to the actual knowledge of the person who is the Building owner's asset manager (not the Building's property manager) on the date this Third Amendment is executed by Landlord, without any duty of inquiry or investigation, and such asset manager shall have no personal liability if such representation is untrue.

17. Energy Use. Landlord shall have the right to require Tenant to provide Landlord with copies of bills from electricity, natural gas or similar energy providers (collectively, "**Energy Providers**") Tenant receives from Energy Providers relating to Tenant's energy use at the Premises ("**Energy Bills**") within ten (10) days after Landlord's written request. In addition, Tenant hereby authorizes Landlord to obtain copies of the Energy Bills directly from the Energy Provider(s), and Tenant hereby authorizes each Energy Provider to provide Energy Bills and related usage information directly to Landlord without Tenant's consent. From time



to time within ten (10) days after Landlord's request, Tenant shall execute and deliver to Landlord an agreement provided by Landlord authorizing the Energy Provider(s) to provide to Landlord Energy Bills and other information relating to Tenant's energy usage at the Premises.

18. Notices. All notices provided by Tenant to Landlord pursuant to the Lease shall be sent to the following addresses:

The Realty Associates Fund X, L.P.  
c/o TA Realty  
1301 Dove Street, Suite 860  
Newport Beach, California 92660  
Attention: Asset Manager/Freeway Corporate Park

and

The Realty Associates Fund X, L.P.  
c/o TA Realty  
28 State Street, Tenth Floor  
Boston, Massachusetts 02109  
Attention: Asset Manager/Freeway Corporate Park

With a copy to:

Davis Partners LLC  
1420 Bristol Street North, Suite 100  
Newport Beach, CA 92660  
Attention: Property Manager/Freeway Corporate Park.

[Remainder of page left intentionally blank.]

IN WITNESS WHEREOF, the parties hereby execute this Third Amendment as of the date first written above.

LANDLORD:

The Realty Associates Fund X, L.P.,  
a Delaware limited partnership

By: Realty Associates Fund X LLC,  
its general partner

By: TA Realty, LLC, its manager

By:  Kendrick Lockband, Vice President  
Jan 20 2017 4:19 PM  
\_\_\_\_\_  
Officer 

By: Realty Associates Fund X REIT GP, LLC,  
its general partner

By: Realty Associates Fund X REIT, LLC,  
its manager

By: Realty Associates Fund X UTP, L.P.  
its manager

By: Realty Associates Fund X, LLC  
its general partner

By: TA Realty, LLC, its manager

By:  Kendrick Lockband, Vice President  
Jan 20 2017 4:19 PM  
\_\_\_\_\_  
Officer 

TENANT:

Iteris, Inc.,  
a Delaware corporation

By:



Joe Bergera

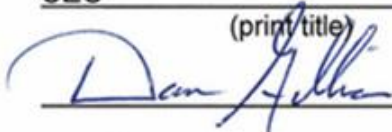
(print name)

Its:

CEO

(print title)

By:



Dan Gilliam

(print name)

Its:

Assistant Secretary

(print title)

Exhibit A  
(Depiction of Expansion Space)

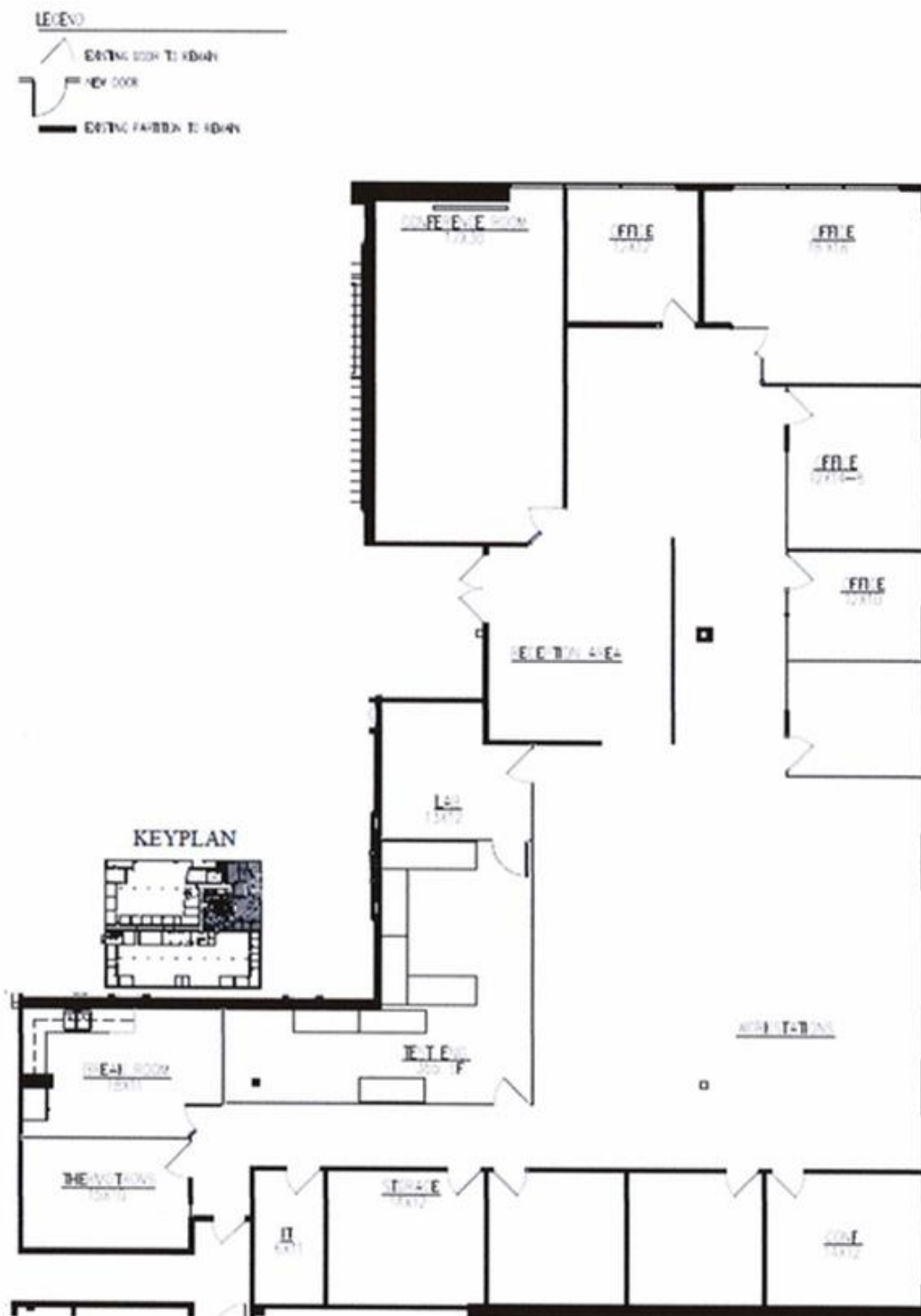


Exhibit B

Memorandum

The Realty Associates Fund X, L.P., a Delaware limited partnership ("**Landlord**"), and Iteris, Inc., a Delaware corporation ("**Tenant**"), have entered into an Office Lease, as previously amended (the "**Lease**"), for certain space in the building located at 1700 East Carnegie, Santa Ana, California. Landlord and Tenant have entered into a Third Amendment to Lease (the "**Third Amendment**") amending the Lease, and pursuant to the Third Amendment Tenant hereby acknowledges and agrees as follows:

1. The Landlord Delivery Date (as defined in the Third Amendment) is \_\_\_\_\_, 2017.
2. The Rent Commencement Date (as defined in the Third Amendment) is \_\_\_\_\_, 2017.

Iteris, Inc.,  
a Delaware corporation

By: \_\_\_\_\_  
\_\_\_\_\_  
(print name)

Its: \_\_\_\_\_  
(print title)

By: \_\_\_\_\_  
\_\_\_\_\_  
(print name)

Its: \_\_\_\_\_  
(print title)





**ITERIS, INC.**  
**AMENDED AND RESTATED EXECUTIVE SEVERANCE PLAN**

**ARTICLE I**  
**PURPOSE**

This Amended and Restated Executive Severance Plan was established by Iteris, Inc. (“**Iteris**”) on February 5, 2018 (the “**Effective Date**”), and amended and restated effective June 4, 2019, to provide Participants with the opportunity to receive severance benefits in the event of certain terminations of employment. The purpose of the Plan is to provide equitable treatment for terminated senior executives consistent with the values and culture of the Company, provide financial support for senior executives seeking new employment, recognize senior executives’ contributions to the Company, and to avoid or mitigate the Company’s potential exposure to litigation. The Company further believes that the Plan will aid the Company to attract and retain highly qualified executives who are essential to its success. The Plan is intended to be a top hat welfare benefit plan under ERISA. Capitalized terms used but not otherwise defined herein have the meanings set forth in ARTICLE II.

**ARTICLE II**  
**DEFINITIONS**

“**ACA**” has the meaning set forth in Section 4.01(b).

“**Accrued Rights**” means (i) any base salary earned by the Participant through, but not paid to the Participant as of, the date of a Qualifying Termination, (ii) any annual cash bonus earned by the Participant for a prior year but not paid to the Participant as of the date of a Qualifying Termination and (iii) any vested employee benefits to which the Participant is entitled as of the date of a Qualifying Termination under the employee benefit plans of the Company.

“**Administrator**” means the Compensation Committee of the Board of Directors of Iteris.

“**Base Salary**” means the Participant’s annual base salary as in effect immediately prior to the date of a Qualifying Termination, or, if higher, in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason. For avoidance of doubt, Base Salary does not include variable pay, such as bonuses and commissions, equity-based compensation, such as stock options, other supplemental pay, and all non-cash compensation, employee benefits and incentives provided by the Company.

“**Benefit Continuation**” has the meaning set forth in Section 4.01(b).

“**Benefit Continuation Period**” means the earliest of (i): the end of the twelve-month period following the date on which the Participant’s employment with the Company terminates; (ii) the date on which the Participant receives substantially similar coverage from another employer; or (iii) the date the Participant is no longer eligible to receive COBRA continuation coverage.

“**Board of Directors**” or “**Board**” shall mean the board of directors of Iteris.

“**Cause**” means (a) Participant’s misappropriation of the Company’s funds or property, or any attempt by Participant to secure any personal profit related to the business or business opportunities of the Company without the informed, written approval of the Audit Committee of the Board; (b) any unauthorized use or disclosure by Participant of confidential information or trade secrets of the Company (or any parent of the Company); (c) Participant’s gross negligence or reckless misconduct in the

performance of Participant's duties; (d) Participant's willful failure to comply with any valid and legal directive of the Board or the person to whom Participant reports; (e) Participant's conviction of, or plea of nolo contendere to, any felony or misdemeanor involving moral turpitude or fraud, or of any other crime involving material harm to the standing or reputation of the Company; (f) any other willful misconduct by Participant that the Board determines in good faith has had a material adverse effect upon the business or reputation of the Company; or (g) any other material breach or violation by the Participant of any employment agreement with the Company or any other material written policy of the Company; provided, however, that the Company shall have provided the Participant with written notice that such breach or violation has occurred, and the Participant has been afforded at least ten (10) business days to cure such breach or violation. Notwithstanding the foregoing, (A) the cure period shall not apply to violations of the Company's code of conduct, code of ethics or prohibition against unlawful harassment, and (B) such cure period shall only apply to breaches, violations, failures or neglect that in the Board's sole judgment are capable of or amenable to such cure. Notwithstanding the foregoing, prong (b) of this definition is not intended to, and shall be interpreted in a manner that does not, limit or restrict a Participant from exercising any legally protected whistleblower rights (including pursuant to Rule 21F under the Exchange Act).

**"Change of Control"** means a change in ownership or control of Iteris effected through any of the following transactions: (a) consummation of a merger, consolidation or other reorganization approved by Iteris' stockholders, unless securities representing at least fifty percent (50%) of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned Iteris' outstanding voting securities immediately prior to such transaction; (b) a sale, transfer or other disposition of all or substantially all of Iteris' assets; (c) the closing of any transaction or series of related transactions pursuant to which any Person or any group of Persons comprising a "group" within the meaning of Rule 13d-5(b)(1) of the 1934 Exchange Act (other than Iteris or a Person that, prior to such transaction or series of related transactions, directly or indirectly controls, is controlled by or is under common control with, Iteris) becomes directly or indirectly (whether as a result of a single acquisition or by reason of one or more acquisitions within the twelve (12)-month period ending with the most recent acquisition) the beneficial owner (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing (or convertible into or exercisable for securities possessing) more than fifty percent (50%) of the total combined voting power of Iteris' securities (as measured in terms of the power to vote with respect to the election of Board members) outstanding immediately after the consummation of such transaction or series of related transactions, whether such transaction involves a direct issuance from Iteris or the acquisition of outstanding securities held by one or more of Iteris' existing stockholders; or (d) a change in the composition of the Board over a period of twenty-four (24) consecutive months or less such that a majority of the Board members ceases to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period ("Incumbent Directors") or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Incumbent Directors who were still in office at the time the Board approved such election or nomination; provided that any individual who becomes a Board member subsequent to the beginning of such period and whose election or nomination was approved by two-thirds of the Board members then comprising the Incumbent Directors will be considered an Incumbent Director. The term Change of Control also includes a Divestiture.

**"CIC Qualifying Termination"** is as defined in the definition of Qualifying Termination.

**"COBRA"** means the Consolidated Omnibus Budget Reconciliation Act of 1985.

**"Code"** means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code shall be deemed to include a reference to any regulations promulgated thereunder.

**"Company"** means Iteris and its Subsidiaries.

**“Compensation Committee”** means the Compensation Committee appointed by the Board.

**“Covered Payment”** has the meaning set forth in Section 8.14.

**“Divestiture”** means the sale, spin-off, or other divestiture of a material business unit or business line of Iteris.

**“Effective Date”** has the meaning set forth in ARTICLE I.

**“Eligible Employee”** means Section 16 Officers of the Company, excluding any officer of the Company subject to an employment agreement that include severance terms (as determined by the Administrator). Eligible Employees shall be limited to a select group of management or highly compensated employees within the meaning of Sections 201, 301, and 404 of ERISA.

**“ERISA”** means the Employee Retirement Income Security Act of 1974, as amended.

**“Exchange Act”** means the Securities and Exchange Act of 1934, as amended.

**“Excise Tax”** has the meaning set forth in Section 8.14.

**“Good Reason”** means Participant’s voluntary resignation from the Company upon any of the following events without Participant’s written consent: (a) a material reduction in the Participant’s authority, duties or responsibilities (and not simply a change in title or reporting relationships); (b) a material reduction in the Participant’s base salary (for the avoidance of doubt, a greater than ten (10%) percent reduction in the level of base salary shall constitute a material reduction in the Participant’s compensation, unless the reduction is part of a Company-wide reduction that affects all similarly situated employees in substantially the same proportion; (c) a relocation of the Participant’s principal place of work to a location that would increase the Participant’s one-way commute from his or her personal residence to the new principal place of work by more than fifty (50) miles; (d) any breach by the Company of its obligations under any employment agreement with Participant that results in a material negative change to Participant; or (e) Iteris’ failure to obtain an agreement from any successor to Iteris to assume and agree to perform the obligations under the Plan in the same manner and to the same extent that Iteris would be required to perform, except where such assumption occurs by operation of law. Notwithstanding the foregoing, “Good Reason” shall only be found to exist if the Participant provides written notice (each, a **“Good Reason Notice”**) to the Company identifying and describing the event resulting in Good Reason within ninety (90) days of the initial existence of such event, the Company does not cure such event within thirty (30) days following receipt of the Good Reason Notice from the Participant and the Participant terminates his or her employment during the ninety (90)-day period after the Participant’s delivery of the Good Reason Notice. If the Participant does not terminate his or her employment for Good Reason within 90 days after delivery of the Good Reason Notice, then the Participant will be deemed to have waived his or her right to terminate for Good Reason with respect to such grounds.

**“Iteris”** has the meaning set forth in ARTICLE I.

**“Non-CIC Qualifying Termination”** has the meaning set forth in the definition of Qualifying Termination.

**“Parachute Payment”** has the meaning set forth in Section 8.14.

**“Participant”** has the meaning set forth in Section 3.01.

**“Person”** has the meaning ascribed to it in Section 13(d)(3) of the Exchange Act.



“**Plan**” means this Iteris, Inc. Executive Severance Plan, as may be amended and/or restated from time to time.

“**Qualifying Termination**” means the termination of a Participant’s employment either which is either a Non-CIC Qualifying Termination or a CIC Qualifying Termination. A “**Non-CIC Qualifying Termination**” is a termination of a Participant’s employment by the Company without Cause unrelated to a Change of Control. A “**CIC Qualifying Termination**” is a termination of a Participant’s employment in connection with or within twelve (12) months following a Change of Control, by the Participant for Good Reason or by the Company (or its successor) without Cause, provided, however, that if the Change of Control is a Divestiture, then a termination of employment may only be a CIC Qualifying Termination as to those Participants who were principally providing services to the business line or unit that was sold, spun-off or otherwise divested in the Divestiture.

“**Section 16 Officer**” means an officer of Iteris or a Subsidiary who is subject to Section 16 of the Exchange Act.

“**Severance**” has the meaning set forth in Section 4.01(a).

“**Severance Agreement**” has the meaning set forth in Section 5.01(b).

“**Specified Employee Payment Date**” has the meaning set forth in Section 8.13(b).

“**Subsidiary**” means any corporation (other than Iteris) in an unbroken chain of corporations beginning with Iteris, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

### ARTICLE III PARTICIPATION

**Section 3.01 Participants.** Subject to the terms and conditions of this Plan, only Section 16 Officers that conform to the definition of an Eligible Employee are eligible to participate under this Plan (each, a “**Participant**”). Section 16 Officers must be an Eligible Employee on the Qualifying Termination effective date.

### ARTICLE IV SEVERANCE

**Section 4.01 Non-CIC Qualified Termination.** If a Participant experiences a Non-CIC Qualifying Termination, then the Company will provide the Participant with any Accrued Rights and, subject to ARTICLE V, the Company will provide the Participant with the following:

(a) Severance equal to the Participant’s Base Salary (“**Severance**”). Subject to Section 8.13, Severance will be paid in substantially equal installment payments over the one-year period following the Qualifying Termination, payable in accordance with the Company’s normal payroll practices, but no less frequently than monthly, which payments in the aggregate are equal to the Severance and which shall begin on the next normal payroll date after the 61st day following the Qualifying Termination; and

(b) During the Participant’s Benefit Continuation Period, reimbursement for the monthly COBRA premium paid by the Participant for himself or herself and his or her eligible dependents (“**Benefit Continuation**”). Notwithstanding the foregoing, if the Company’s providing Benefit Continuation under this Section 4.01(b) would violate the nondiscrimination rules applicable to non-grandfathered plans, or would result in the imposition of penalties under the Patient Protection and Affordable Care Act of 2010, as amended by the Health Care and Education

ITERIS, INC.  
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Reconciliation Act of 2010, and the related regulations and guidance promulgated thereunder (the “**ACA**”), the Company shall reform this Section 4.01(b) in a manner as is necessary to comply with the ACA. Subject to Section 8.13, Benefit Continuation reimbursement shall be paid to the Participant on the 15th of the month immediately following the month in which the Participant timely remits the premium payment (or as close to such date as is reasonably practicable). Participant is to notify the Company immediately upon becoming covered by another group health plan.

**Section 4.02 CIC Qualified Termination.** If a Participant experiences a CIC Qualifying Termination, then the Company will provide the Participant with any Accrued Rights and, subject to ARTICLE V, the Company will provide the Participant with the following:

(a) Severance equal to the Participant’s Base Salary. Subject to Section 8.13, Severance will be paid in a lump sum on next payroll date after the 61st day following the Qualifying Termination; and

(b) During the Participant's Benefit Continuation Period, reimbursement for the monthly COBRA premium paid by the Participant for himself or herself and his or her eligible dependents. Notwithstanding the foregoing, if the Company's providing Benefit Continuation under this Section 4.02(b) would violate the nondiscrimination rules applicable to non-grandfathered plans, or would result in the imposition of penalties under ACA, the Company shall reform this Section 4.02(b) in a manner as is necessary to comply with the ACA. Subject to Section 8.13, Benefit Continuation reimbursement shall be paid to the Participant on the 15th of the month immediately following the month in which the Participant timely remits the premium payment (or as close to such date as is reasonably practicable). Participant is to notify the Company immediately upon becoming covered by another group health plan.

## **ARTICLE V CONDITIONS**

**Section 5.01 Conditions** A Participant's entitlement to any severance benefits under ARTICLE IV will be subject to:

- (a) the Participant experiencing a Qualifying Termination;
- (b) the Participant executing a severance agreement (the "**Severance Agreement**") to the reasonable satisfaction of the Company and such Severance Agreement becoming effective and irrevocable within sixty (60) days following the Participant's Qualifying Termination. Any such Severance Agreement will include, without limitation, (i) a release of claims in favor of the Company, their affiliates and their respective officers and directors; (ii) non-solicitation provisions applicable to the Company's customers, employees and suppliers during the one-year period following the Qualifying Termination; and (iii) non-disparagement and confidentiality provisions; and
- (c) with respect to Benefit Continuation only, the Participant timely and properly electing continuation coverage under COBRA.

**ARTICLE VI  
CLAIMS PROCEDURES**

**Section 6.01 Initial Claims.** A Participant who believes he or she is entitled to a payment under the Plan that has not been received may submit a written claim for benefits to the Plan within sixty (60) days after the Participant's first lapsed payment. Claims should be addressed and sent to:

Chairman of Compensation Committee  
Iteris, Inc.  
1700 Carnegie Ave  
Santa Ana, CA 92705

If the Participant's claim is denied, in whole or in part, the Participant will be furnished with written notice of the denial within ninety (90) days after the Administrator's receipt of the Participant's written claim, unless special circumstances require an extension of time for processing the claim, in which case a period not to exceed one hundred eighty (180) days will apply. If such an extension of time is required, written notice of the extension will be furnished to the Participant before the termination of the initial ninety (90)-day period and will describe the special circumstances requiring the extension, and the date on which a decision is expected to be rendered. Written notice of the denial of the Participant's claim will contain the following information:

- (a) the specific reason or reasons for the denial of the Participant's claim;
- (b) references to the specific Plan provisions on which the denial of the Participant's claim was based;
- (c) a description of any additional information or material required by the Administrator to reconsider the Participant's claim (to the extent applicable) and an explanation of why such material or information is necessary; and
- (d) a description of the Plan's review procedures and time limits applicable to such procedures, including a statement of the Participant's right to bring a civil action under Section 502(a) of ERISA following a benefit claim denial on review.

**Section 6.02 Appeal of Denied Claims.** If the Participant's claim is denied and he or she wishes to submit a request for a review of the denied claim, the Participant or his or her authorized representative must follow the procedures described below:

- (a) Upon receipt of the denied claim, the Participant (or his or her authorized representative) may file a request for review of the claim in writing with the Administrator. This request for review must be filed no later than sixty (60) days after the Participant has received written notification of the denial.
- (b) The Participant has the right to submit in writing to the Administrator any comments, documents, records or other information relating to his or her claim for benefits.
- (c) The Participant has the right to be provided with, upon request and free of charge, reasonable access to and copies of all pertinent documents, records and other information that is relevant to his or her claim for benefits.

(d) The review of the denied claim will take into account all comments, documents, records and other information that the Participant submitted relating to his or her claim, without regard to whether such information was submitted or considered in the initial denial of his or her claim.

**Section 6.03 Administrator's Response to Appeal.** The Administrator will provide the Participant with written notice of its decision within sixty (60) days after the Administrator's receipt of the Participant's written claim for review. There may be special circumstances that require an extension of this sixty (60)-day period. In any such case, the Administrator will notify the Participant in writing within the sixty (60)-day period and the final decision will be made no later than one hundred twenty (120) days after the Administrator's receipt of the Participant's written claim for review. The Administrator's decision on the Participant's claim for review will be communicated to the Participant in writing and will clearly state:

- (a) the specific reason or reasons for the denial of the Participant's claim;
- (b) reference to the specific Plan provisions on which the denial of the Participant's claim is based;
- (c) a statement that the Participant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, the Plan and all documents, records, and other information relevant to his or her claim for benefits; and
- (d) a statement describing the Participant's right to bring an action under Section 502(a) of ERISA.

**Section 6.04 Exhaustion of Administrative Remedies.** The exhaustion of these claims procedures is mandatory for resolving every claim and dispute arising under the Plan. As to such claims and disputes:

- (a) no claimant shall be permitted to commence any legal proceeding to recover benefits or to enforce or clarify rights under the Plan under Section 502 or Section 510 of ERISA or under any other provision of law, whether or not statutory, until these claims procedures have been exhausted in their entirety; and
- (b) in any such legal proceeding, all explicit and implicit determinations by the Administrator (including, but not limited to, determinations as to whether the claim, or a request for a review of a denied claim, was timely filed) shall be afforded the maximum deference permitted by law.

**Section 6.05 Attorney's Fees.** The Company and each Participant shall bear their own attorneys' fees incurred in connection with any disputes between them.

## ARTICLE VII ADMINISTRATION, AMENDMENT AND TERMINATION

**Section 7.01 Administration.** The Administrator has the exclusive right, power and authority, in its sole and absolute discretion, to administer and interpret the Plan. The Administrator has all powers reasonably necessary to carry out its responsibilities under the Plan including (but not limited to) the sole and absolute discretionary authority to:

- (a) administer the Plan according to its terms and to interpret Plan provisions;
- (b) resolve and clarify inconsistencies, ambiguities, and omissions in the Plan and among and between the Plan and other related documents;
- (c) take all actions and make all decisions regarding questions of eligibility and entitlement to benefits, and benefit amounts;
- (d) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of the Plan;
- (e) process and approve or deny all claims for benefits; and
- (f) decide or resolve any and all questions, including benefit entitlement determinations and interpretations of the Plan, as may arise in connection with the Plan.

The decision of the Administrator on any disputes arising under the Plan, including (but not limited to) questions of construction, interpretation and administration shall be final, conclusive and binding on all persons having an interest in or under the Plan. Any determination made by the Administrator shall be given deference in the event the determination is subject to judicial review and shall be overturned by a court of law only if it is arbitrary and capricious.

**Section 7.02 Amendment and Termination.** Iteris may amend or terminate the Plan at any time subject to the limitations in this Section 7.02. No amendment or termination of the Plan that has the effect of reducing or diminishing the right of any Participant hereunder will be effective unless one year's advance written notice is provided to each affected Participant, and provided further that such amendment or termination shall not be effective if a Change of Control occurs during the one year notice period.

## ARTICLE VIII GENERAL PROVISIONS

**Section 8.01 At-Will Employment.** The Plan does not alter the status of each Participant as an at-will employee of the Company. Nothing contained herein shall be deemed to give any Participant the right to remain employed by the Company or to interfere with the rights of the Company to terminate the employment of any Participant at any time, with or without Cause.

**Section 8.02 Effect on Other Plans, Agreements, and Benefits.**

(a) Any severance benefits payable to a Participant under the Plan will be reduced by any severance benefits to which the Participant would otherwise be entitled under any general severance policy or severance plan maintained by the Company or any agreement between the Participant and the Company that provides for severance benefits (unless the policy, plan, or agreement expressly provides for severance benefits to be in addition to those provided under the Plan); and (ii) any severance benefits payable to a Participant under the Plan will be reduced by any severance benefits to which the Participant is entitled by operation of a statute or government regulations.



(b) Any severance benefits payable to a Participant under the Plan will not be counted as compensation for purposes of determining benefits under any other benefit policies or plans of the Company, except to the extent expressly provided therein.

**Section 8.03 Mitigation and Offset.** If a Participant obtains other employment after a Qualifying Termination, such other employment will not affect the Participant's rights or the Company's obligations under the Plan to provide Severance.

**Section 8.04 Severability.** The invalidity or unenforceability of any provision of the Plan shall not affect the validity or enforceability of any other provision of the Plan. If any provision of the Plan is held to be illegal, invalid, void or unenforceable, such provision shall be deemed modified, amended and narrowed to the extent necessary to render such provision legal, valid, and enforceable, and the other remaining provisions of the Plan shall not be affected but shall remain in full force and effect.

**Section 8.05 Headings and Subheadings.** Headings and subheadings contained in the Plan are intended solely for convenience and no provision of the Plan is to be construed by reference to the heading or subheading of any section or paragraph.

**Section 8.06 Unfunded Obligations.** The amounts to be paid to Participants under the Plan are unfunded obligations of the Company. The Company is not required to segregate any monies or other assets from its general funds with respect to these obligations. Participants shall not have any preference or security interest in any assets of the Company other than as a general unsecured creditor.

**Section 8.07 Successors.** The Plan will be binding upon any successor to Iteris, its assets, its businesses or its interest, in the same manner and to the same extent that Iteris would be obligated under the Plan if no succession had taken place. In the case of any transaction in which a successor would not by the foregoing provision or by operation of law be bound by the Plan, Iteris shall require any successor to Iteris to expressly and unconditionally assume the Plan in writing and honor the obligations of Iteris hereunder, in the same manner and to the same extent that Iteris would be required to perform if no succession had taken place. All payments and benefits that become due to a Participant under the Plan will inure to the benefit of his or her heirs, assigns, designees, or legal representatives.

**Section 8.08 Transfer and Assignment.** Neither a Participant nor any other person shall have any right to sell, assign, transfer, pledge, anticipate or otherwise encumber, transfer, hypothecate or convey any amounts payable under the Plan prior to the date that such amounts are paid, except that, in the case of a Participant's death, such amounts shall be paid to the Participant's beneficiaries.

**Section 8.09 Waiver.** Any party's failure to enforce any provision or provisions of the Plan will not in any way be construed as a waiver of any such provision or provisions, nor prevent any party from thereafter enforcing each and every other provision of the Plan.

**Section 8.10 Governing Law.** To the extent not pre-empted by federal law, the Plan shall be construed in accordance with and governed by the laws of California without regard to conflicts of law principles.

**Section 8.11 Clawback.** Any amounts payable under the Plan are subject to any policy (whether in existence as of the Effective Date or later adopted) established by the Company providing for clawback or recovery of amounts that were paid to the Participant. The Company will make any determination for clawback or recovery in its sole discretion and in accordance with any applicable law or regulation.

**Section 8.12 Withholding.** The Company shall have the right to withhold from any amount payable hereunder any Federal, state, and local taxes in order for the Company to satisfy any withholding tax obligation it may have under any applicable law or regulation.

**Section 8.13 Section 409A.**

(a) The Plan is intended to comply with Section 409A of the Code or an exemption thereunder and shall be construed and administered in accordance with Section 409A of the Code. Notwithstanding any other provision of the Plan, payments provided under the Plan may only be made upon an event and in a manner that complies with Section 409A of the Code or an applicable exemption. Any payments under the Plan that may be excluded from Section 409A of the Code either as separation pay due to an involuntary separation from service or as a short-term deferral shall be excluded from Section 409A of the Code to the maximum extent possible. For purposes of Section 409A of the Code, each installment payment provided under the Plan shall be treated as a separate payment. Any payments to be made under the Plan upon a termination of employment shall only be made upon a “separation from service” under Section 409A of the Code. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under the Plan comply with Section 409A of the Code and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest, or other expenses that may be incurred by a Participant on account of non-compliance with Section 409A of the Code. To the extent required to avoid accelerated taxation and/or tax penalties under Section 409A of the Code, amounts reimbursable to the Participant under this Plan shall be paid to the Participant on or before the last day of the year following the year in which the expense was incurred and the amount of expenses eligible for reimbursement (and in-kind benefits provided) during any one (1) year may not effect amounts reimbursable or provided in any subsequent year.

(b) Notwithstanding any other provision of the Plan, if any payment or benefit provided to a Participant in connection with his or her Qualifying Termination is determined to constitute “nonqualified deferred compensation” within the meaning of Section 409A of the Code and the Participant is determined to be a “specified employee” as defined in Section 409A(a)(2)(b)(i) of the Code, then such payment or benefit shall not be paid until the first payroll date to occur following the six-month anniversary of the Qualifying Termination or, if earlier, on the Participant’s death (the “**Specified Employee Payment Date**”). The aggregate of any payments that would otherwise have been paid before the Specified Employee Payment Date shall be paid to the Participant in a lump sum on the Specified Employee Payment Date and thereafter, any remaining payments shall be paid without delay in accordance with their original schedule. Notwithstanding any other provision of the Plan, if any payment or benefit is conditioned on the Participant’s execution of a Severance Agreement, the first payment shall include all amounts that would otherwise have been paid to the Participant during the period beginning on the date of the Qualifying Termination and ending on the payment date if no delay had been imposed.

(c) To the extent required by Section 409A of the Code, each reimbursement or in-kind benefit provided under the Plan shall be provided in accordance with the following: (i) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during each calendar year cannot affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year; and (ii) any right to reimbursements or in-kind benefits under the Plan shall not be subject to liquidation or exchange for another benefit.

**Section 8.14 Section 280G**

(a) Notwithstanding any other provision of this Plan to the contrary, if any Severance or Benefit Continuation provided or to be provided by the Company to a Participant or for a Participant's benefit pursuant to the terms of this Plan ("**Covered Payments**") constitute parachute payments ("**Parachute Payments**") within the meaning of the Code and would, but for this Section 8.14 be subject to the excise tax imposed under Section 4999 of the Code (or any successor provision thereto) or any similar tax imposed by state or local law or any interest or penalties with respect to such taxes (collectively, the "**Excise Tax**"), then prior to making the Covered Payments, a calculation shall be made comparing (i) the Net Benefit (as defined below) to the Participant of the Covered Payments after payment of the Excise Tax to (ii) the Net Benefit to the Participant if the Covered Payments are limited to the extent necessary to avoid being subject to the Excise Tax. Only if the amount calculated under (i) above is less than the amount under (ii) above will the Covered Payments be reduced to the minimum extent necessary to ensure that no portion of the Covered Payments is subject to the Excise Tax (that amount, the "**Reduced Amount**"). "**Net Benefit**" shall mean the present value of the Covered Payments net of all federal, state, local, foreign income, employment and excise taxes.

(b) Any such reduction shall be made in accordance with Section 409A of the Code.

(c) Any determination required under this Section 8.14 shall be made in writing in good faith by the accounting firm that was the Company's independent auditor immediately before the change in control (the "**Accountants**") which shall provide detailed supporting calculations to the Company and the Participant as requested by the Company or the Participant. The Company and the Participant shall provide the Accountants with such information and documents as the Accountants may reasonably request in order to make a determination under this Section 8.14. For purposes of making the calculations and determinations required by this Section 8.14, the Accountants may rely on reasonable, good faith assumptions and approximations concerning the application of Section 280G and Section 4999 of the Code. The Accountants' determinations shall be final and binding on the Company and the Participant.

**Section 8.15 Limitation of Actions.** Any legal proceeding to recover benefits or to enforce or clarify rights under this Plan, or under any provision of law, statutory or otherwise must be brought within a period of one year following the exhaustion of administrative remedies under Section 6.04. All Participants waive the right to file any legal proceeding arising directly or indirectly out of this Plan under any longer statute of limitations.

**Section 8.16 No Right to Continued Employment.** Neither the establishment of the Plan, nor any modification thereof, nor the creation of any fund, trust or account, nor the payment of any benefits shall be construed as giving any Participant, or any person whomsoever, the right to be retained in the service of the Company, and all Participants shall remain subject to discharge to the same extent as if the Plan had never been adopted.



949.270.9400  
iteris.com

1700 Carnegie Avenue, Suite 100  
Santa Ana, CA 92705

### **RETENTION BONUS AGREEMENT**

This Retention Bonus Agreement (this "Agreement") is made this 4th day of June, 2019, by and between Iteris, Inc., a Delaware corporation (the "Company"), and Jim Chambers ("Executive").

WHEREAS, the Company wishes to recognize Executive's contributions to the Company and its business, and to incentivize Executive's continued employment with, and efforts on behalf of, the Company by offering Executive a special retention bonus as an incentive for Executive to remain employed with the Company through the date specified herein.

NOW, THEREFORE, in consideration of Executive's services to the Company and the mutual promises and covenants contained in this Agreement, Executive and the Company agree as follows.

**1. Retention Bonus.** If Executive remains employed by the Company through June 4, 2021, the Company will pay Executive a bonus in the gross amount of **\$426,000** (the "Retention Bonus") in a lump in the Company's first regularly-scheduled payday following such date. Except as provided in the next sentence, if Executive fails to remain employed by the Company through June 4, 2021, Executive will not earn or receive any portion of the Retention Bonus. If Executive's employment with the Company is terminated by the Company without Cause or by the Executive for Good Reason, then Executive will receive the Retention Bonus on the Company's first regularly scheduled pay day following the date of such termination, subject to the provisions of Section 3(c) below.

**2. Definitions.** As used herein, the following terms have the meanings provided below.

**(a)** "Board" means the Company's board of directors.

**(b)** "Cause" means (i) Executive's misappropriation of the Company's funds or property, or any attempt by Executive to secure any personal profit related to the business or business opportunities of the Company without the informed, written approval of the Audit Committee of the Board; (ii) any unauthorized use or disclosure by Executive of confidential information or trade secrets of the Company (or any affiliate of the Company); (iii) Executive's gross negligence or reckless misconduct in the performance of Executive's duties; (iv) Executive's willful failure to comply with any valid and legal directive of the Board or the person to whom Executive reports; (v) Executive's conviction of, or plea of nolo contendere to, any felony or misdemeanor involving moral turpitude or fraud, or of any other crime involving material harm to the standing or reputation of the Company; (vi) any other willful misconduct by Executive that the Board determines in good faith has had a material adverse effect upon



the business or reputation of the Company; or (vii) any other material breach or violation by Executive of any employment agreement with the Company or any other material written policy of the Company; provided, however, that the Company shall have provided Executive with written notice that such breach or violation has occurred, and Executive has been afforded at least ten (10) business days to cure such breach or violation. Notwithstanding the foregoing, (A) the cure period shall not apply to violations of the Company's code of conduct, code of ethics or prohibition against unlawful harassment, and (B) such cure period shall only apply to breaches, violations, failures or neglect that in the Board's sole judgment are capable of or amenable to such cure. Notwithstanding the foregoing, prong (ii) of this definition is not intended to, and shall be interpreted in a manner that does not, limit or restrict Executive from exercising any legally protected whistleblower rights (including pursuant to Rule 21F under the Securities Exchange Act of 1934).

(c) "Code" means the Internal Revenue Code of 1986, as the same may be amended from time to time.

(d) "**Good Reason**" shall mean Executive's voluntary resignation from the Company upon any of the following events without Executive's written consent: (i) a material reduction in Executive's authority, duties or responsibilities (and not simply a change in title or reporting relationships); (ii) a material reduction in Executive's base salary (for the avoidance of doubt, a greater than ten (10%) percent reduction in the level of base salary shall constitute a material reduction in Executive's compensation, unless the reduction is part of a Company-wide reduction that affects all similarly situated employees in substantially the same proportion); (iii) a relocation of Executive's principal place of work to a location that would increase Executive's one-way commute from his or her personal residence to the new principal place of work by more than fifty (50) miles; or (iv) any breach by the Company of its obligations under any employment agreement with Executive that results in a material negative change to Executive. Notwithstanding the foregoing, "Good Reason" shall only be found to exist if Executive provides written notice (each, a "Good Reason Notice") to the Company identifying and describing the event resulting in Good Reason within ninety (90) days of the initial existence of such event, the Company does not cure such event within thirty (30) days following receipt of the Good Reason Notice from Executive and Executive terminates his or her employment during the ninety (90)-day period after Executive's delivery of the Good Reason Notice. If Executive does not terminate his or her employment for Good Reason within 90 days after delivery of the Good Reason Notice, then Executive will be deemed to have waived his or her right to terminate for Good Reason with respect to such grounds.

(e) "Section 409A" means section 409A of the Code and the regulations and other guidance promulgated thereunder and any state law of similar effect.



### 3. Tax Matters.

(a) The Company may withhold from any amounts payable under this Agreement, such federal, state and local taxes as the Company determines are required to be withheld pursuant to any applicable law. Executive agrees that he/she will be solely responsible for any taxes that may be due and owing by Executive as a result of any payment of monies under this Agreement. Executive has not relied on any no representations of the Company regarding the tax treatment of any payments provided pursuant to this Agreement and is encouraged to seek his or her own personal tax advice.

(b) The parties acknowledge and agree that all benefits or payments provided by the Company to Executive pursuant to this Agreement are intended either to be exempt from the provisions of Section 409A, or to be in compliance with Section 409A, and the Agreement shall be interpreted to the greatest extent possible to be so exempt or in compliance. Without limiting the generality of the preceding sentence, the parties intend that payments set forth in this Agreement satisfy, to the greatest extent possible, the exemption from the application of Section 409A provided under Treasury Regulation Section 1.409A-1(b)(4). If there is an ambiguity in the language of the Agreement, or if Section 409A guidance indicates that a change to the Agreement is required or desirable to achieve exemption or compliance with Section 409A, Company and Executive agree to renegotiate in good faith to clarify the ambiguity or make such change. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement comply with Section 409A and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest, or other expenses that may be incurred by the Executive on account of non-compliance with Section 409A.

(c) To the extent any payment hereunder due upon the occurrence of Executive's termination of employment constitutes deferred compensation that is subject to Section 409A, and is not otherwise exempt from complying with the provisions of Section 409A, then such payment(s) will not commence unless and until Executive has also incurred a "separation from service" as such term is defined in Treasury Regulation Section 1.409A-1(h). If the Company determines that to the extent any payment hereunder constitutes "deferred compensation" under Section 409A and Executive is, on the termination of his or her employment, a "specified employee" of the Company or any successor entity thereto, as such term is defined in Section 409A, then, solely to the extent necessary to avoid the incurrence of the adverse personal tax consequences under Section 409A, the timing of such payment will be delayed until the earlier to occur of: (i) the date that is six months and one day after Executive's separation from service, or (ii) the date of Executive's death.



(d) Notwithstanding any other provision of this Agreement to the contrary, if any payment or benefit provided or to be provided by the Company to Executive or for Executive's benefit pursuant to the terms of this Agreement or otherwise ("Covered Payments") constitute parachute payments ("Parachute Payments") within the meaning of the Code and would, but for this Section 3(d) be subject to the excise tax imposed under Section 4999 of the Code (or any successor provision thereto) or any similar tax imposed by state or local law or any interest or penalties with respect to such taxes (collectively, the "Excise Tax"), then prior to making the Covered Payments, a calculation shall be made comparing (i) the Net Benefit (as defined below) to the Executive of the Covered Payments after payment of the Excise Tax to (ii) the Net Benefit to the Executive if the Covered Payments are limited to the extent necessary to avoid being subject to the Excise Tax. Only if the amount calculated under clause (i) above is less than the amount under clause (ii) above will the Covered Payments be reduced to the minimum extent necessary to ensure that no portion of the Covered Payments is subject to the Excise Tax (that amount, the "Reduced Amount"). As used herein, "Net Benefit" shall mean the present value of the Covered Payments net of all federal, state, local, foreign income, employment and excise taxes. Any such reduction shall be made in accordance with Section 409A. Any determination required under this Section 3(d) shall be made in writing in good faith by the accounting firm that was the Company's independent auditor immediately before the Divestiture (the "Accountants") which shall provide detailed supporting calculations to the Company and the Executive as requested by the Company or the Executive. The Company and the Executive shall provide the Accountants with such information and documents as the Accountants may reasonably request in order to make a determination under this Section 3(d). For purposes of making the calculations and determinations required by this Section 3(d), the Accountants may rely on reasonable, good faith assumptions and approximations concerning the application of Section 280G and Section 4999 of the Code. The Accountants' determinations shall be final and binding on the Company and the Executive.

**4. Continued Services.** Nothing in this Agreement confers on Executive any right to continue in the service of the Company for any period of time or restricts in any way the right of the Company or Executive to terminate Executive's services relationship with the Company at any time.

#### **5. Miscellaneous Provisions.**

(a) **Entire Agreement.** This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements (whether written or oral and whether express or implied) between the parties to the extent related to such subject matter.

(b) **Successors and Assigns.** This Agreement will be binding upon and inure to the benefit of the parties and their respective successors, permitted assigns and, in the case of Executive, heirs, executors, and/or personal representatives. Executive may not assign, delegate or otherwise transfer any of Executive's rights, interests or obligations in this Agreement without the prior written approval of the Company.





**(c) Notices.** Any notice pursuant to this Agreement must be in writing and will be deemed effectively given to the other party on (i) the date it is actually delivered by personal delivery of such notice in person; (ii) one business day after its deposit for overnight delivery in the custody of a reputable overnight courier service (such as FedEx); or (iii) three business days after the date it is mailed by certified mail, return receipt requested, postage prepaid; in the case of Executive, to his/her most recent address as shown in the records of the Company, and in the case of the Company, to its then-current corporate headquarters, addressed to the attention of the Chief Executive Officer.

**(d) Severability.** Each provision of this Agreement is severable from every other provision of this Agreement. Any provision of this Agreement that is determined by any court of competent jurisdiction to be invalid or unenforceable will not affect the validity or enforceability of any other provision hereof or the invalid or unenforceable provision in any other situation or in any other jurisdiction. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

**(e) Governing Law.** This Agreement will be governed by and construed in accordance with the laws of the State of California, without regard to that body of law known as choice of law.

**(f) Amendments and Waivers.** No amendment of any provision of this Agreement will be valid unless the amendment is in writing and signed by the Company and Executive. No waiver of any provision of this Agreement will be valid unless the waiver is in writing and signed by the waiving party. The failure of a party at any time to require performance of any provision of this Agreement will not affect such party's rights at a later time to enforce such provision. No waiver by a party of any breach of this Agreement will be deemed to extend to any other breach hereunder or affect in any way any rights arising by virtue of any other breach.

**(g) Construction.** The section headings in this Agreement are inserted for convenience only and are not intended to affect the interpretation of this Agreement. The word "including" in this Agreement means "including without limitation." All words in this Agreement will be construed to be of such gender or number as the circumstances require.

**(h) Counterparts.** This Agreement may be executed in two or more counterparts, each of which will be deemed an original and all of which will be part of the same Agreement. Facsimile or PDF reproductions of original signatures will be deemed binding for the purpose of the execution of this Agreement.

*[Signature Page Immediately Follows]*





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

**EXECUTIVE:**

**COMPANY:**

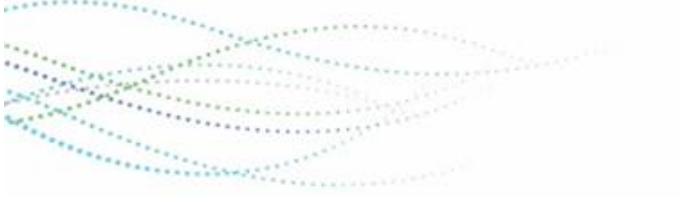
Iteris, Inc.

/s/ Jim Chambers

Jim Chambers  
Sr. VP and GM, AWA

By: /s/ Jeff McDermott

Jeff McDermott  
Sr. VP Human Resources





949.270.9400  
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1700 Carnegie Avenue, Suite 100  
Santa Ana, CA 92705

## INCENTIVE BONUS AGREEMENT

This INCENTIVE BONUS AGREEMENT (this “Agreement”) is made this 4th day of June, 2019, by and between Iteris, Inc., a Delaware corporation (the “Company”), and Jim Chambers (“Executive”).

WHEREAS, the Company wishes to recognize Executive’s contributions to the Company and its business, and to incentivize Executive’s contributions to the Company by offering Executive compensation if certain milestones are met as described herein.

NOW, THEREFORE, in consideration of Executive’s services to the Company and the mutual promises and covenants contained in this Agreement, Executive and the Company agree as follows.

**1. Certain Definitions.** As used in this Agreement, the following terms have the meanings given to such terms below.

(a) “Base Salary” means Executive’s annual base salary as in effect at the time the First Milestone or the Second Milestone is achieved. For avoidance of doubt, Base Salary does not include variable pay, such as bonuses and commissions, equity-based compensation, such as stock options, other supplemental pay, and all non-cash compensation, employee benefits and incentives provided by the Company.

(b) “Code” means the Internal Revenue Code of 1986, as the same may be amended from time to time.

(c) “First Milestone” has the meaning set forth on Schedule A hereto.

(d) “Second Milestone” has the meaning set forth on Schedule A hereto.

(e) “Section 409A” means section 409A of the Code and the regulations and other guidance promulgated thereunder and any state law of similar effect.

**2. Incentive Bonus.** Executive will be eligible to receive an “Incentive Bonus” in the amount described in Section 2(a) below, subject to the conditions and provisions set forth below.

(a) **Amount of Incentive Bonus.** If the First Milestone is met, the amount of the Incentive Bonus will be 0.9 times Executive’s Base Salary. If the Second Milestone is met, the amount of the Incentive Bonus will be 1.5 times Executive’s Base Salary.

(b) **Conditions.** In order for Executive to receive the Incentive Bonus, each of the following conditions must be met. No Incentive Bonus is earned by Executive, nor payable by the Company, unless and until each of the conditions is met.



(i) Either the First Milestone or the Second Milestone must have occurred on or before December 31, 2021.

(ii) Executive must remain continuously employed by the Company through the earlier of the date on which the First Milestone or the Second Milestone has occurred.

(iii) If requested by the Company, Executive must sign and not revoke a general release in a form acceptable to the Company releasing the Company, its affiliates, and its and their officers, directors, and employees, from all claims occurring up to the date Executive signs the release, excepting claims which cannot be released by private agreement as a matter of law.

(c) **Timing and Nature of Payment.** Subject to satisfaction of the conditions in Section 2(b) above, the Incentive Bonus will be paid to Executive in cash within five (5) days following the date on which the First Milestone or the Second Milestone, as applicable, has occurred.

### 3. Tax Matters.

(a) The Company may withhold from any amounts payable under this Agreement, such federal, state and local taxes as the Company determines are required to be withheld pursuant to any applicable law. Executive agrees that he/she will be solely responsible for any taxes that may be due and owing by Executive as a result of any payment of monies under this Agreement. Executive has not relied on any no representations of the Company regarding the tax treatment of any payments provided pursuant to this Agreement and is encouraged to seek his or her own personal tax advice.

(b) The parties acknowledge and agree that all benefits or payments provided by the Company to Executive pursuant to this Agreement are intended either to be exempt from the provisions of Section 409A, or to be in compliance with Section 409A, and the Agreement shall be interpreted to the greatest extent possible to be so exempt or in compliance. Without limiting the generality of the preceding sentence, the parties intend that payments set forth in this Agreement satisfy, to the greatest extent possible, the exemption from the application of Section 409A provided under Treasury Regulation Section 1.409A-1(b)(4). If there is an ambiguity in the language of the Agreement, or if Section 409A guidance indicates that a change to the Agreement is required or desirable to achieve exemption or compliance with Section 409A, Company and Executive agree to renegotiate in good faith to clarify the ambiguity or make such change. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement comply with Section 409A and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest, or other expenses that may be incurred by the Executive on account of non-compliance with Section 409A.



(c) Notwithstanding any other provision of this Agreement to the contrary, if any payment or benefit provided or to be provided by the Company to Executive or for Executive's benefit pursuant to the terms of this Agreement or otherwise ("Covered Payments") constitute parachute payments ("Parachute Payments") within the meaning of the Code and would, but for this Section 3(c) be subject to the excise tax imposed under Section 4999 of the Code (or any successor provision thereto) or any similar tax imposed by state or local law or any interest or penalties with respect to such taxes (collectively, the "Excise Tax"), then prior to making the Covered Payments, a calculation shall be made comparing (i) the Net Benefit (as defined below) to the Executive of the Covered Payments after payment of the Excise Tax to (ii) the Net Benefit to the Executive if the Covered Payments are limited to the extent necessary to avoid being subject to the Excise Tax. Only if the amount calculated under clause (i) above is less than the amount under clause (ii) above will the Covered Payments be reduced to the minimum extent necessary to ensure that no portion of the Covered Payments is subject to the Excise Tax (that amount, the "Reduced Amount"). As used herein, "Net Benefit" shall mean the present value of the Covered Payments net of all federal, state, local, foreign income, employment and excise taxes. Any such reduction shall be made in accordance with Section 409A. Any determination required under this Section 3(c) shall be made in writing in good faith by the accounting firm that was the Company's independent auditor immediately before the Divestiture (the "Accountants") which shall provide detailed supporting calculations to the Company and the Executive as requested by the Company or the Executive. The Company and the Executive shall provide the Accountants with such information and documents as the Accountants may reasonably request in order to make a determination under this Section 3(c). For purposes of making the calculations and determinations required by this Section 3(c), the Accountants may rely on reasonable, good faith assumptions and approximations concerning the application of Section 280G and Section 4999 of the Code. The Accountants determinations shall be final and binding on the Company and the Executive.

**4. Continued Services.** Nothing in this Agreement confers on Executive any right to continue in the service of the Company for any period of time or restricts in any way the right of the Company or Executive to terminate Executive's services relationship with the Company at any time.

**5. Miscellaneous Provisions.**

(a) **Entire Agreement.** This Agreement, along with Schedule A hereto, constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements (whether written or oral and whether express or implied) between the parties to the extent related to such subject matter.

(b) **Successors and Assigns.** This Agreement will be binding upon and inure to the benefit of the parties and their respective successors, permitted assigns and, in the case of Executive, heirs, executors, and/or personal representatives. Executive may not assign, delegate or otherwise transfer any of Executive's rights, interests or obligations in this Agreement without the prior written approval of the Company.

(c) **Notices.** Any notice pursuant to this Agreement must be in writing and will be deemed effectively given to the other party on (i) the date it is actually delivered by personal delivery of such notice in person; (ii) one business day after its deposit for overnight delivery in the custody of a reputable overnight courier service (such as FedEx); or (iii) three business days after the date it is mailed by certified mail, return receipt requested, postage prepaid; in the case of Executive, to his/her most recent address as shown in the records of the Company, and in the case of the Company, to its then-current corporate headquarters, addressed to the attention of the Chief Executive Officer.



**(d) Severability.** Each provision of this Agreement is severable from every other provision of this Agreement. Any provision of this Agreement that is determined by any court of competent jurisdiction to be invalid or unenforceable will not affect the validity or enforceability of any other provision hereof or the invalid or unenforceable provision in any other situation or in any other jurisdiction. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

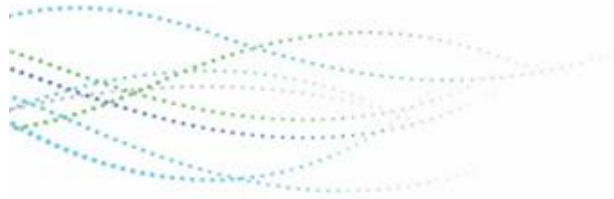
**(e) Governing Law.** This Agreement will be governed by and construed in accordance with the laws of the State of California, without regard to that body of law known as choice of law.

**(f) Amendments and Waivers.** No amendment of any provision of this Agreement will be valid unless the amendment is in writing and signed by the Company and Executive. No waiver of any provision of this Agreement will be valid unless the waiver is in writing and signed by the waiving party. The failure of a party at any time to require performance of any provision of this Agreement will not affect such party's rights at a later time to enforce such provision. No waiver by a party of any breach of this Agreement will be deemed to extend to any other breach hereunder or affect in any way any rights arising by virtue of any other breach.

**(g) Construction.** The section headings in this Agreement are inserted for convenience only and are not intended to affect the interpretation of this Agreement. The word "including" in this Agreement means "including without limitation." All words in this Agreement will be construed to be of such gender or number as the circumstances require.

**(h) Counterparts.** This Agreement may be executed in two or more counterparts, each of which will be deemed an original and all of which will be part of the same Agreement. Facsimile or PDF reproductions of original signatures will be deemed binding for the purpose of the execution of this Agreement.

*[Signature Page Immediately Follows]*



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

**EMPLOYEE:**

**COMPANY:**

Iteris, Inc.

/s/ Jim Chambers

Jim Chambers

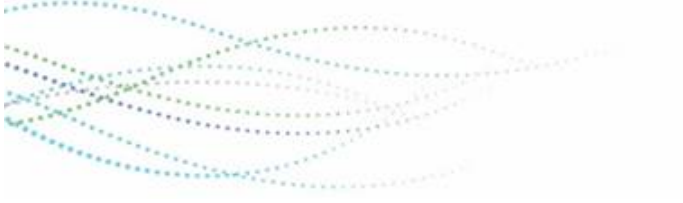
Sr. VP and GM for AWA

By:

/s/ Jeff McDermott

Jeff McDermott

Sr. VP Human Resources



## **Schedule A**

Schedule A has been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company hereby undertakes to furnish supplementally a copy of the omitted exhibit upon request by the U.S. Securities and Exchange Commission.



**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in Registration Statement Nos. 333-228210, 333-221790, 333-216407, 333-190309, 333-162807 and 333-146459 on Form S-8 and Registration Statement No. 333-220305 on Form S-3 of our report dated June 6, 2019, relating to the consolidated financial statements of Iteris, Inc. and subsidiary and the effectiveness of Iteris, Inc. and subsidiary's internal control over financial reporting appearing in this Annual Report on Form 10-K of Iteris, Inc. and subsidiary for the year ended March 31, 2019.

/s/ Deloitte & Touche LLP  
Costa Mesa, California  
June 6, 2019

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

I, Joe Bergera, certify that:

1. I have reviewed this annual report on Form 10-K 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 subsidiary, 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: June 6, 2019

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

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

I, Andrew C. Schmidt, certify that:

1. I have reviewed this annual report on Form 10-K 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 subsidiary, 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: June 6, 2019

/s/ ANDREW C. SCHMIDT

Andrew C. Schmidt

Chief Financial Officer

(Principal Financial Officer)

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**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 Annual Report of Iteris, Inc. (the “Company”) on Form 10-K for the fiscal year ended March 31, 2019, as filed with the Securities and Exchange Commission (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: June 6, 2019

/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.

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**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 Annual Report of Iteris, Inc. (the “Company”) on Form 10-K for the fiscal year ended March 31, 2019 as filed with the Securities and Exchange Commission (the “Report”), I, Andrew C. Schmidt, 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: June 6, 2019

/s/ ANDREW C. SCHMIDT

Andrew C. Schmidt

*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.

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