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

FORM 10-K/A
(Amendment No.1)

(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, 2021

OR

o **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

ITERIS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**95-2588496**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1700 Carnegie Ave., Santa Ana, California	**92705**
(Address of Principal Executive Offices)	(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 o No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Yes o 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 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 o

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 o

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	o	Accelerated filer	☒	Non-accelerated filer	o	Smaller reporting company	☒
						Emerging growth company	o

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. o

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

The aggregate market value of the registrant's common stock held by nonaffiliates of the registrant as of September 30, 2020 was approximately $168,470,533. For the purposes of this calculation, shares owned by officers, directors and 10% stockholders known to the registrant have been deemed to be owned by affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of June 4, 2021, there were 41,847,838 shares of our common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this report incorporates by reference certain information from the registrant's definitive proxy statement for the 2021 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission.

EXPLANATORY NOTE

The Registrant filed its Annual Report on Form 10-K for the fiscal year ended March 31, 2021 on June 1, 2021 (the "Original Filing"). This Amendment No. 1 ("Amendment") to the Original Filing on Form 10-K/A is being filed by the Registrant solely for the purpose of correcting inadvertent clerical errors contained in the disclosure summarizing activity in the Omnibus Incentive Plan with respect to our stock options for Fiscal 2021. Specifically, the weighted average exercise price per share for the exercised, expired and total options outstanding at March 31, 2021 have been updated in the first table in "Note 10, Employee Benefit Plans" to Registrant's notes to consolidated financial statements of Item 8 of Part II of the Original Filing. Except as described in this Explanatory Note, no other changes have been made to the Original Filing; therefore this Amendment includes only those Items listed in the Table of Contents. The remainder of the information in the Registrant's consolidated financial statements and the related notes thereto remains unchanged.

In this Amendment, unless the context indicates otherwise, the terms the "Company," "Iteris," "we," "us," and "our" refer to Iteris, Inc. and its wholly-owned subsidiaries. In addition, unless the context indicates otherwise, each reference to "this report" or "the Annual Report" or words of like import in this Amendment, shall be deemed to be a reference to our Annual Report on Form 10-K for the year ended March 31, 2021, as amended by this Amendment.

ITERIS, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED MARCH 31, 2021
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PART II
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Iteris, Inc. and subsidiaries (the "Company") as of March 31, 2021 and 2020, the related consolidated statements of operations, stockholders' equity, and cash flows, for each of the three years in the period ended March 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 1, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Adoption of New Accounting Standard

As discussed in Note 8 to the consolidated financial statements, the Company changed its method of accounting for leases as of and for the year ended March 31, 2020 due to the adoption of Accounting Standards Update 2016-02, *Leases*.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that 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. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue from Contracts with Customers – Determination of Distinct Performance Obligations Relating to Service Revenues – Refer to Note 1 of the financial statements

Critical Audit Matter Description

The Company's service revenues within the Transportation Systems (“SYS”) operating segment, primarily derives revenue from long-term engineering & consulting services and software as a service ("SaaS"). The Company accounts for individual services separately if they are distinct performance obligations, which often requires significant judgment based upon knowledge of the services, the solution provided and the structure of the sales contract. During the year ended March 31, 2021, the Company recognized service revenues from contracts with customers of $53.3 million.

We identified the determination of distinct performance obligations in contracts with customers relating to service revenues as a critical audit matter. Significant judgment is required to determine whether the performance obligations in these sales contracts are distinct; that is, if a service is separately identifiable from other items in the sales contract and if a customer can benefit from it on its own or with other resources that are readily available to the customer. Auditing these aspects include especially challenging auditor judgment due to the nature and extent of audit effort required to address this matter.

How the Critical Audit Matter was Addressed in the Audit

Our audit procedures related to the Company’s determination of distinct performance obligations relating to service revenues for these contracts included the following, among others:

• We tested the effectiveness of controls related to management’s identification and assessment of distinct performance obligations in contracts with customers.

• We selected a sample of customer contracts to evaluate the appropriateness of management’s determination of distinct performance obligations.

• We selected a sample of invoices from the accounts receivable detail and determined whether amounts invoiced were in accordance with the related contract terms. Further, we inspected line items on the invoice to verify that all line items were included in management's evaluation of performance obligations.

• We selected a sample of customer contracts and investigated all changes in current forecasted cost to original forecasted cost to evaluate if changes in estimate are indicative of existing services known by operations personnel, but not previously considered as distinct performance obligations by management.

• We investigated offsets to revenue to determine that they represent a valid purpose and a service was not previously identified.

• We selected a sample of expenditures and determined whether the good/service represented by the selected transaction was properly identified and evaluated by management as a distinct performance obligation.

/s/ Deloitte & Touche LLP

Costa Mesa, CA
June 1, 2021

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

Iteris, Inc.

Consolidated Balance Sheets

(In thousands, except par value)

	March 31, 2021	March 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 25,205	$ 14,217
Restricted cash	263	146
Short-term investments	3,100	11,556
Trade accounts receivable, net of allowance for doubtful accounts of $1,019 and $802 at March 31, 2021 and 2020 respectively	19,020	16,706
Unbilled accounts receivable	11,541	9,848
Inventories	5,066	3,040
Prepaid expenses and other current assets	5,445	2,040
Current assets of discontinued operations	—	1,476
Total current assets	69,640	59,029
Property and equipment, net	1,923	1,835
Right-of-use assets	11,353	12,598
Intangible assets, net	14,297	6,066
Goodwill	28,340	20,590
Other assets	1,238	1,213
Noncurrent assets of discontinued operations	78	626
Total assets	$ 126,869	$ 101,957
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$ 8,935	$ 8,101
Accrued payroll and related expenses	11,734	7,508
Accrued liabilities	4,921	3,665
Deferred revenue	7,349	4,413
Current liabilities of discontinued operations	94	2,828
Total current liabilities	33,033	26,515
Lease liabilities	10,146	11,638
Deferred income taxes	808	190
Unrecognized tax benefits	119	130
Other long-term liabilities	3,523	—
Noncurrent liabilities of discontinued operations	261	357
Total liabilities	47,890	38,830
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, $1.00 par value:		
Authorized shares—2,000 Issued and outstanding shares—0	—	—
Common stock, $0.10 par value:		
Authorized shares—70,000 at March 31, 2021 and March 31, 2020 Issued and outstanding shares—41,687 at March 31, 2021 and 40,713 at March 31, 2020	4,170	4,071
Additional paid-in capital	181,828	176,209
Accumulated deficit	(107,019)	(117,153)
Total stockholders' equity	78,979	63,127
Total liabilities and stockholders' equity	$ 126,869	$ 101,957

See accompanying Notes to the Consolidated Financial Statements.

Iteris, Inc.

Consolidated Statements of Operations

(In thousands, except per share amounts)

	Year Ended March 31, 2021	2020	2019
Product revenues	$ 62,933	$ 55,007	$ 48,227
Service revenues	54,205	52,396	45,080
Total revenues	117,138	107,403	93,307
Cost of product revenues	34,933	30,266	28,434
Cost of service revenues	35,349	33,524	29,611
Cost of revenues	70,282	63,790	58,045
Gross profit	46,856	43,613	35,262
Operating expenses:			
Selling, general and administrative	39,164	40,665	34,166
Research and development	5,130	4,315	3,755
Amortization of intangible assets	1,504	757	275
Restructuring charges	619	—	—
Total operating expenses	46,417	45,737	38,196
Operating income (loss)	439	(2,124)	(2,934)
Non-operating income:			
Other income, net	54	297	49
Interest income, net	113	229	128
Income (loss) from continuing operations before income taxes	606	(1,598)	(2,757)
Provision for income taxes	(115)	(160)	(36)
Net income (loss) from continuing operations	491	(1,758)	(2,793)
Loss from discontinued operations before gain on sale, net of tax	(1,654)	(3,852)	(5,023)
Gain on sale of discontinued operations, net of tax	11,297	—	—
Net income (loss) from discontinued operations, net of tax	9,643	(3,852)	(5,023)
Net income (loss)	$ 10,134	$ (5,610)	$ (7,816)
Income (loss) per share - basic:			
Income (loss) per share from continuing operations	$ 0.01	$ (0.04)	$ (0.08)
Income (loss) per share from discontinued operations	$ 0.23	$ (0.10)	$ (0.15)
Net income (loss) per share	$ 0.24	$ (0.14)	$ (0.23)
Income (loss) per share - diluted:			
Income (loss) per share from continuing operations	$ 0.01	$ (0.04)	$ (0.08)
Income (loss) per share from discontinued operations	$ 0.23	$ (0.10)	$ (0.15)
Net income (loss) per share	$ 0.24	$ (0.14)	$ (0.23)
Shares used in basic per share calculations	41,176	39,012	33,266
Shares used in diluted per share calculations	41,599	39,012	33,266

See accompanying Notes to the Consolidated Financial Statements.

Iteris, Inc.

Consolidated Statements of Stockholders' Equity

(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at March 31, 2018	33,186	$ 3,318	$ 139,722	$ (103,519)	$ 39,521
Adoption of ASU 2014-09	—	—	—	(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	33,377	3,338	142,260	(111,543)	34,055
Issuance of common stock in connection with public offering, net of costs	6,183	618	26,133	—	26,751
Stock option exercises	120	12	244	—	256
Issuance of shares pursuant to Employee Stock Purchase Plan	91	9	361	—	370
Stock-based compensation	—	—	2,785	—	2,785
Issuance of shares pursuant to vesting of restricted stock units, net of payroll withholding taxes	73	7	(22)	—	(15)
Issuance of common stock in connection with acquisition	869	87	4,448	—	4,535
Net loss	—	—	—	(5,610)	(5,610)
Balance at March 31, 2020	40,713	4,071	176,209	(117,153)	63,127
Stock option exercises	731	74	2,559	—	2,633
Issuance of shares pursuant to Employee Stock Purchase Plan	97	10	438	—	448
Stock-based compensation	—	—	2,845	—	2,845
Issuance of shares pursuant to vesting of restricted stock units, net of payroll withholding taxes	146	15	(223)	—	(208)
Net income	—	—	—	10,134	10,134
Balance at March 31, 2021	41,687	$ 4,170	$ 181,828	$ (107,019)	$ 78,979

See accompanying Notes to the Consolidated Financial Statements.

Iteris, Inc.

Consolidated Statements of Cash Flows

(In thousands)

Iteris, Inc.

	Year Ended March 31, 2021	2020	2019
Cash flows from operating activities			
Net income (loss)	$ 10,134	$ (5,610)	$ (7,816)
Less: Net income (loss) from discontinued operations	9,643	(3,852)	(5,023)
Net income (loss) from continuing operations	491	(1,758)	(2,793)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Right-of-use asset non-cash expense	1,438	1,199	—
Deferred income taxes	607	105	(18)
Depreciation of property and equipment	734	770	754
Stock-based compensation	2,902	2,495	1,861
Amortization of intangible assets	2,036	1,255	629
Other	86	(60)	—
Changes in operating assets and liabilities, net of effects of discontinued operations and acquisitions:			
Trade accounts receivable	(227)	235	(3,773)
Unbilled accounts receivable and deferred revenue	903	(2,353)	601
Inventories	(1,085)	(124)	5
Prepaid expenses and other assets	(1,738)	(951)	671
Trade accounts payable and accrued expenses	4,168	(409)	1,868
Operating lease liabilities	(1,427)	(866)	—
Net cash provided by (used in) operating activities - continuing operations	8,888	(462)	(195)
Net cash used in operating activities - discontinued operations	(2,398)	(3,365)	(5,633)
Net cash provided by (used in) in operating activities	6,490	(3,827)	(5,828)
Cash flows from investing activities			
Purchases of property and equipment	(601)	(409)	(486)
Purchase of short-term investments	(23,655)	(33,786)	(4,079)
Maturities of investments	32,025	24,225	7,463
Capitalized software development costs	(767)	(633)	(660)
Cash paid in business acquisition, net of cash acquired	(15,000)	(5,581)	—
Net proceeds from sale of Vehicle Sensors	—	—	107
Net cash provided by (used in) investing activities - continuing operations	(7,998)	(16,184)	2,345
Net cash provided by (used in) investing activities - discontinued operations	9,740	(59)	—
Net cash provided by (used in) investing activities	1,742	(16,243)	2,345
Cash flows from financing activities			
Proceeds from stock option exercises	2,633	256	85
Proceeds from ESPP purchases	448	370	365
Tax withholding payments for net share settlements of restricted stock units	(208)	(15)	(48)
Proceeds from issuance of common stock, net of costs	—	26,751	—
Net cash provided by financing activities - continuing operations	2,873	27,362	402
Net cash provided by financing activities - discontinued operations	—	—	—
Net cash provided by financing activities	2,873	27,362	402
Increase (decrease) in cash, cash equivalents and restricted cash	11,105	7,292	(3,081)
Cash, cash equivalents and restricted cash at beginning of period	14,363	7,071	10,152
Cash, cash equivalents and restricted cash at end of period	$ 25,468	$ 14,363	$ 7,071
Supplemental cash flow information:			
Cash paid during the year for:			
Income taxes	$ 183	$ 63	$ 4
Supplemental schedule of non-cash investing and financing activities:			
Issuance of common stock for vested restricted stock units	$ 15	$ 7	$ 6
Lease liabilities arising from obtaining right-of-use assets	$ 689	$ 581	$ —
Deferred purchase price receivable	$ 1,500	$ —	$ —
Issuance of common stock in connection with acquisition	$ —	$ 4,535	$ —
Deferred consideration related to TrafficCast acquisition	$ 2,050	$ —	$ —
Working capital adjustment related to TrafficCast acquisition	$ 681	$ —	$ —

See accompanying Notes to the Consolidated Financial Statements.

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Iteris, Inc. (referred to collectively with its wholly-owned subsidiaries, ClearAg, Inc. and Albeck Gerken, Inc. ("AGI"), in this report as "Iteris", the "Company", "we", "our", and "us") is a provider of smart mobility infrastructure solutions. Our solutions enable public transportation agencies, municipalities, commercial entities and other transportation infrastructure providers to monitor, visualize, and optimize mobility infrastructure to help ensure roads are safe, travel is efficient, and communities thrive.

As a pioneer in intelligent transportation systems ("ITS") technology, our intellectual property, advanced detection sensors, mobility and traffic data, software-as-a-service ("SaaS") offerings, specialized consulting services and end-to-end solutions delivered as cloud-enabled managed services represent a comprehensive range of smart mobility infrastructure management solutions that we distribute to customers throughout the United States ("U.S.") and internationally.

Prior to the sale of our Agriculture and Weather Analytics segment in May 2020, we 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 increase safety and decrease congestion within our communities, while also minimizing environmental impact.

We continue to make significant investments to leverage our existing technologies and further expand our advanced detection sensors, transportation performance analytics systems, and specialized consulting services and cloud-enabled managed services in the smart mobility infrastructure management market, and we are always exploring strategic alternatives intended to optimize the value of our Company.

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

Recent Developments

COVID-19 Update

The COVID-19 pandemic (the “Pandemic”) has materially adversely impacted global economic conditions. More than twelve months into the Pandemic, COVID-19 continues to have an unpredictable and unprecedented impact on the U.S. economy as federal, state and local governments react to this public health crisis with travel restrictions, quarantines and "stay-at-home" orders. The uncertainties caused by the Pandemic include, but are not limited to, supply chain disruptions, workplace dislocations, economic contraction, and downward pressure on some customer budgets and customer sentiment in general. While there has been no material impact to our business during the fiscal year ended March 31, 2021, we did experience some work delays due to the Pandemic. Should such conditions become protracted or worsen or should longer term budgets or priorities of our clients be impacted, the Pandemic could negatively affect our business, results of operations and financial condition. The extent of the impact of the Pandemic on our business and financial results, and the volatility of our stock price will depend largely on future developments, including the duration of the spread of the outbreak, the distribution, rate of adoption and efficacy of vaccines, the impact on capital and financial markets and the related impact on the budgets and financial circumstances of our customers, all of which are highly uncertain and cannot be reasonably estimated as of the date of this report.

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

Notes to Consolidated Financial Statements (Continued)

March 31, 2021

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

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

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

Acquisition of the Assets of TrafficCast International, Inc.

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

Under the TrafficCast Purchase Agreement, Iteris purchased from TrafficCast substantially all of the assets used in the conduct of the TrafficCast Business and assumed certain specified liabilities of the TrafficCast Business in exchange for a total purchase price of up to $17.7 million, with $15.0 million paid in cash on the closing date, $1.0 million held back as security for certain post-closing adjustments and post-closing indemnity obligations of TrafficCast, $1.1 million acquisition-related liability, and a $1.0 million earn out, fair valued at $0.6 million as of March 31, 2021, that if earned, will be paid over two years based on the TrafficCast Business' achievement of certain revenue targets. The TrafficCast Purchase Agreement also provides for customary post-closing adjustments to the purchase price tied to working capital balances of the TrafficCast Business at closing (see Note 12, *Acquisitions*, to the Consolidated Financial Statements).

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

Public Offering and Acquisition of Albeck Gerken, Inc.

On June 13, 2019, the Company completed an underwritten public offering of 6,182,797 shares of the Company's common stock for net proceeds to the Company of approximately $26.8 million, after deducting underwriting discounts and estimated offering expenses payable by the Company. The Company used approximately $6.2 million of the net proceeds of this offering to pay the cash portion of the purchase price in the acquisition of AGI, a privately-held professional transportation engineering services firm headquartered in Tampa, Florida (see Note 12, *Acquisitions*, to the Consolidated Financial Statements), and plans to use the balance of the net proceeds for general corporate purposes and possibly for other future acquisitions.

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

Sale of Agriculture and Weather Analytics Segment

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

Restructuring Activities

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

Basis of Presentation

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

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. Significant estimates made in the preparation of the consolidated financial statements include, but not limited to, recoverability of long-lived and intangible assets; fair value of acquired intangible assets and goodwill; 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; fair value of stock option awards and equity instruments; estimates of future cash flows used to assess the recoverability of the impairment of goodwill; fair value of contingent consideration and capitalization and estimated useful life of the Company's internal-use software development costs. Estimates are based on historical experience and on various assumptions that the Company believes are reasonable under current circumstances. However, future events are subject to change and best estimates and judgments may require further adjustments, therefore, actual results could differ materially from those estimates. Management periodically evaluates such estimates and they are adjusted prospectively based upon such periodic evaluation.

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 and 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 our Transportation Systems segment, 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 and support, extended warranty, and the use of the Company's service platforms and APIs on a subscription basis. We generate this revenue from fees for maintenance and support, extended warranty, 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.

The Company's typical performance obligations include the following:

Performance Obligation	When Performance Obligation is Typically Satisfied	When Payment is Typically Due	How Standalone Selling Price is Typically Estimated
Product Revenues			
Standard purchase orders for delivery of a tangible product	Upon shipment (point in time)	Within 30 days of delivery	Observable transactions
Engineering services where the deliverable is considered a product	As work is performed (over time)	Within 30 days of services being invoiced	Estimated using a cost-plus margin approach
Service Revenues			
Engineering and consulting services	As work is performed (over time)	Within 30 days of services being invoiced	Estimated using a cost-plus margin approach
SaaS	Over the course of the SaaS service once the system is available for use (over time)	At the beginning of the contract period	Estimated using a cost-plus margin approach
Extended warranty service	Over the course of the extended warranty period (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 13, *Business Segments, Significant Customer and Geographic Information* for further details.

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 the accompanying 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 in the accompanying consolidated 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 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, 2021 and 2020, there was approximately $3.2 million and $1.2 million, respectively, of contract fulfillment costs which are presented in the accompanying consolidated balance sheets as prepaid and other current assets. These costs primarily relate to the satisfaction of performance obligations related to the set up of SaaS platforms. These costs are amortized on a straight-line basis over the estimated useful life of the SaaS platform.

Transaction Price Allocated to the Remaining Performance Obligations

As of March 31, 2021 and 2020, 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.

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

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 accompanying 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 years ended March 31, 2021 ("Fiscal 2021") and, March 31, 2020 ("Fiscal 2020"), no individual customer represented greater than 10% of our total revenues. For the fiscal year ended March 31, 2019 ("Fiscal 2019"), one individual customer represented approximately 24% of our total revenues. As of March 31, 2021 and 2020, no individual customer represented greater than 10% of our total accounts receivable.

Fair Values of Financial Instruments

The accounting guidance provided in ASC 820, *Fair Value Measurements ("ASC 820")* for fair value provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

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 assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company applies fair value accounting for all financial instruments on a recurring basis. The Company's financial instruments, which include cash, cash equivalents, accounts receivable and accounts payable are recorded at their carrying amounts, which approximate their fair values due to their short-term nature. All marketable securities are considered to be available-for-sale and recorded at their estimated fair values. In valuing these items, the Company uses inputs and assumptions that market participants would use to determine their fair value, utilizing valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Cash, Cash Equivalents and Restricted Cash

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

As of March 31, 2021 and 2020 restricted cash was 0.3 million and 0.1 million, respectively, related to cash restricted for shares purchased under the Employee Stock Purchase Plan ("ESPP") (see Note 10 for further details on the ESPP).

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

	Year Ended March 31,	
	2021	2020
Cash and cash equivalents	$ 25,205	$ 14,217
Restricted cash	263	146
	$ 25,468	$ 14,363

Investments

The Company's investments are classified as either held-to-maturity, available-for-sale or trading, in accordance with 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. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available (see Note 5). As of March 31, 2021, all of our investments are available-for-sale.

Under ASC 320-10-35, a security is considered to be other-than-temporarily impaired if the present value of cash flows expected to be collected are less than the security's amortized cost basis (the difference being defined as the "Credit Loss") or if the fair value of the security is less than the security's amortized cost basis and the investor intends, or will be required, to sell the security before recovery of the security's amortized cost basis. If an other-than-temporary impairment exists, the charge to earnings is limited to the amount of Credit Loss if the investor does not intend to sell the security, and will not be required to sell the security, before recovery of the security's amortized cost basis. Any remaining difference between fair value and amortized cost is recognized in other comprehensive loss, net of applicable taxes. The Company evaluates whether the decline in fair value of its investments is other-than-temporary at each quarter-end. This evaluation consists of a review by management, and includes market pricing information and maturity dates for the securities held, market and economic trends in the industry and information on the issuer's financial condition and, if applicable, information on the guarantors' financial condition. Factors considered in determining whether a loss is temporary include the length of time and extent to which the investment's fair value has been less than its cost basis, the financial condition and near-term prospects of the issuer and guarantors, including any specific events which may influence the operations of the issuer and the Company's intent and ability to retain the investment for a reasonable period of time sufficient to allow for any anticipated recovery of fair value.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded net of the allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on the Company's assessment of its ability to collect on customer accounts receivable. 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. The Company writes-off accounts receivable against the allowance when a determination is made that the balance is uncollectible and collection of the receivable is no longer being actively pursued. The allowance for doubtful accounts was $1.0 million and $0.8 million as of March 31, 2021 and 2020, respectively.

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 of the related assets ranging from three to eight years. Leasehold improvements are depreciated over the term of the related lease or the estimated useful life of the improvement, whichever is shorter.

Intangible Assets

Intangible assets with determinable economic lives are carried at cost, less accumulated amortization. Amortization is computed over the estimated useful life of each asset on a straight-line basis. The Company determines the useful lives of identifiable intangible assets after considering the specific facts and circumstances related to each intangible asset. Factors the Company considers when determining useful lives include the contractual term of any agreement related to the asset, the historical performance of the asset, the Company's long-term strategy for using the asset, any laws or other local regulations which could impact the useful life of the asset and other economic factors, including competition and specific market conditions. Intangible assets without determinable economic lives are carried at cost, not amortized and reviewed for impairment at least annually.

Goodwill

Goodwill represents the excess of the aggregate purchase price over the fair value of net identifiable assets acquired in a business combination. Goodwill is not amortized and is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In the valuation of goodwill, management must make assumptions regarding estimated future cash flows to be derived from the Company's business. If these estimates or their related assumptions change in the future, the Company may be required to record impairment for these assets.

The Company has the option to first perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value. However, the Company may elect to bypass the qualitative assessment and proceed directly to the quantitative impairment tests. The first step of the impairment test involves comparing the fair value of the reporting unit to its net book value, including goodwill. If the net book value exceeds its fair value, the Company would perform the second step of the goodwill impairment test to determine the amount of the impairment loss. We perform an annual quantitative assessment of our goodwill during the fourth fiscal quarter, or more frequently, to determine if any events or circumstances exist, such as an adverse change in business climate or a decline in overall industry demand, that would indicate that it would more likely than not reduce the fair value of a reporting unit below its carrying amount, including goodwill. If events or circumstances do not indicate that the fair value of a reporting unit is below its carrying amount, then goodwill is not considered to be impaired and no further testing is required, if otherwise, we compare the fair value of our reporting unit to its carrying value, including goodwill. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the amount by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss. We monitor the indicators for goodwill impairment testing between annual tests. As of March 31, 2021 and 2020, we determined that no adjustments to the carrying value of goodwill were required.

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

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets, including property, equipment and intangible assets (other than goodwill) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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 and intangible assets. During the three months ended June 30, 2020, we recorded $0.3 million in impairment charges related to right-of-use assets and leasehold improvements directly resulting from the restructuring activities. During the fiscal years ended March 31, 2021 and 2020, there was no additional 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, restricted stock units and performance stock units. The fair value of our common stock option awards is estimated on the grant date using the Black-Scholes-Merton option-pricing formula. The fair value of our performance stock unit awards is estimated on the grant date using a Monte Carlo simulation model. While the use of these models meets established requirements, the estimated fair values generated by the models may not be indicative of the actual fair values of our awards as it does not consider certain factors important to those awards to employees, such as continued employment and periodic vesting requirements, as well as limited transferability. The fair value of our restricted stock units is based on the closing market price of our common stock on the grant date. If there are any modifications or cancellations of the underlying unvested stock-based awards, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense.

Research and Development Expenditures

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

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.

Right-of-Use Assets and Lease Liabilities

We determine if an arrangement contains a lease at inception and determine the classification of the lease, as either operating or finance, at commencement.

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

Right-of-use assets and lease liabilities are recorded based on the present value of future lease payments which factors in certain qualifying initial direct costs incurred as well as any lease incentives received. If an implicit rate is not readily determinable, we utilize inputs from third-party lenders to determine the appropriate discount rate. Lease expense for operating lease payments are recognized on a straight-line basis over the lease term. Finance leases incur interest expense using the effective interest method in addition to amortization of the leased asset on straight-line basis, both over the applicable lease term. Lease terms may factor in options to extend or terminate the lease.

We adhere to the short-term lease recognition exemption for all classes of assets (i.e. facilities and equipment). As a result, leases with an initial term of twelve months or less are not recorded on the balance sheet and are recognized on a straight-line basis over the lease term. In addition, for certain equipment leases, we account for lease and non-lease components, such as services, as a single lease component as permitted.

Warranty

We generally provide a one to three years 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.

Comprehensive Loss

The difference between net income (loss) and comprehensive income (loss) was de minimis for Fiscal 2021, Fiscal 2020 and Fiscal 2019.

Recent Accounting Pronouncements

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

In August 2018, the FASB issued Accounting Standards Update ("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. The Company adopted this update effective April 2020. The adoption of this ASU did not have a material impact on the Company’s financial statements.

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

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 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. The Company adopted this update effective April 2020. The adoption of this ASU did not have a material impact on the Company's financial statements.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes. The ASU removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within that fiscal year, with early adoption permitted. The Company early adopted this update effective July 2020. The adoption of this ASU did not have a material impact on the Company's financial statements.

2. Supplementary Financial Information

Inventories

The following table presents details regarding our inventories:

	March 31, 2021	March 31, 2020
	(In thousands)	
Materials and supplies	$ 2,714	$ 1,380
Work in process	435	162
Finished goods	1,917	1,498
	$ 5,066	$ 3,040

Property and Equipment, net

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

	March 31, 2021	March 31, 2020
	(In thousands)	
Equipment	$ 6,806	$ 6,222
Leasehold improvements	3,046	2,911
Accumulated depreciation	(7,929)	(7,298)
	$ 1,923	$ 1,835

Depreciation expense was approximately $0.7 million, $0.8 million and $0.8 million in Fiscal 2021, Fiscal 2020 and Fiscal 2019, respectively. Approximately $0.2 million, $0.3 million, and $0.3 million of the depreciation expense was recorded to cost of revenues, and approximately $0.5 million, $0.5 million, and $0.5 million was recorded to operating expenses in Fiscal 2021, Fiscal 2020 and Fiscal 2019, respectively, in the accompanying consolidated statements of operations.

Intangible Assets

The following table presents details regarding our intangible assets:

	March 31, 2021			March 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
	(In thousands)					
Technology	$ 4,986	$ (1,594)	$ 3,392	$ 1,286	$ (1,286)	$ —
Customer contracts / relationships	9,550	(1,547)	8,003	3,750	(688)	3,062
Trade names and non-compete agreements	782	(683)	99	770	(613)	157
Capitalized software development costs	5,177	(2,374)	2,803	4,423	(1,576)	2,847
Total	$ 20,495	$ (6,198)	$ 14,297	$ 10,229	$ (4,163)	$ 6,066

Amortization expense for intangible assets subject to amortization was approximately $2.0 million, $1.3 million and $0.6 million for Fiscal 2021, Fiscal 2020 and Fiscal 2019, respectively. Approximately $0.5 million, $0.5 million and $0.4 million of the intangible asset amortization was recorded to cost of revenues, and approximately $1.5 million, $0.8 million and $0.3 million was recorded to amortization expense for Fiscal 2021, Fiscal 2020 and Fiscal 2019, respectively, in the consolidated statements of operations. The weighted average remaining useful lives of the intangible assets as of March 31, 2021 is 5.1 years.

2. Supplementary Financial Information (Continued)

We have one indefinite useful life intangible asset, with de minimis carrying value, which was included in trade names and non-complete agreements. Our net customer contracts/relationships have a useful life of 6 years. Our net trade names and non-compete agreements have a useful life of 3 years. Our net capitalized software development costs of approximately $2.8 million and $2.9 million primarily consisted of our Oracle Enterprise Resource Planning ("ERP") system design and implementation of approximately $1.7 million and $1.9 million as of March 31, 2021 and 2020, respectively, which has a useful life of 10 years.

As of March 31, 2021, the future estimated amortization expense is as follows:

Year Ending March 31, (In thousands)	
2022	3,216
2023	2,999
2024	2,779
2025	2,318
2026	1,257
Thereafter	1,716
	$ 14,285

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

Goodwill

The following table presents the carrying value of our goodwill by reportable segments for Fiscal 2021, Fiscal 2020 and Fiscal 2019:

	Roadway Sensors	Transportation Systems	Total
		(In thousands)	
Balance—March 31, 2021			
Goodwill	$ 8,214	$ 20,346	$ 28,560
Acquired goodwill (see Note 12)	4,044	3,706	7,750
Accumulated impairment losses	—	(7,970)	(7,970)
	$ 12,258	$ 16,082	$ 28,340
Balance—March 31, 2020			
Goodwill	$ 8,214	$ 14,906	$ 23,120
Acquired goodwill (Note 12)	—	5,440	5,440
Accumulated impairment losses	—	(7,970)	(7,970)
	$ 8,214	$ 12,376	$ 20,590
Balance—March 31, 2019			
Goodwill	$ 8,214	$ 14,906	$ 23,120
Accumulated impairment losses	—	(7,970)	(7,970)
	$ 8,214	$ 6,936	$ 15,150

Notes to Consolidated Financial Statements (Continued)

March 31, 2021

2. Supplementary Financial Information (Continued)

Warranty Reserve Activity

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

	Year Ended March 31,		
	2021	2020	2019
	(In thousands)		
Balance at beginning of fiscal year	$ 416	$ 463	$ 403
Additions charged to cost of sales	508	649	647
Warranty claims	(355)	(696)	(587)
Balance at end of fiscal year	$ 569	$ 416	$ 463

Earnings Per Share

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

	Year Ended March 31,		
	2021	2020	2019
	(In thousands, except per share amounts)		
Numerator:			
Net income (loss) from continuing operations	$ 491	$ (1,758)	$ (2,793)
Net income (loss) from discontinued operations, net of tax	9,643	(3,852)	(5,023)
Net income (loss)	$ 10,134	$ (5,610)	$ (7,816)
Denominator:			
Weighted average common shares used in basic computation	41,176	39,012	33,266
Dilutive stock options	423	—	—
Weighted average common shares used in diluted computation	41,599	39,012	33,266
Basic:			
Net income (loss) per share from continuing operations:	$ 0.01	$ (0.04)	$ (0.08)
Net income (loss) per share from discontinued operations:	$ 0.23	$ (0.10)	$ (0.15)
Net income (loss) per basic share	$ 0.24	$ (0.14)	$ (0.23)
Diluted:			
Net income (loss) per share from continuing operations:	$ 0.01	$ (0.04)	$ (0.08)
Net income (loss) per share from discontinued operations:	$ 0.23	$ (0.10)	$ (0.15)
Net income (loss) per diluted share	$ 0.24	$ (0.14)	$ (0.23)

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 for the years ended March 31, 2020 and 2019:

	Year Ended March 31,		
	2021	2020	2019
	(In thousands)		
Stock options	3,935	6,190	5,056
Restricted stock units	126	110	12

3. Discontinued Operations

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

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

On May 5, 2020, the Company also entered into a transition services agreement ("TSA") with DTN, pursuant to which the Company agreed to support the information technology and accounting functions of the Agriculture and Weather Analytics segment for a period up to 12 months and DTN agreed to provide the contract administration/account management services for certain contracts of the Company and other transition services. Either party may make any reasonable request to extend the period of time the other party shall provide a transition service beyond the initial service period or access to additional services that are necessary for the transition of the operations and business. The Company earned approximately $0.2 million in income and incurred approximately $0.1 million in costs associated with the TSA for the year ended March 31, 2021, which were included in income (loss) from discontinued operations on the accompanying consolidated statement of operations.

Notes to Consolidated Financial Statements (Continued)

March 31, 2021

3. Discontinued Operations (Continued)

The related assets and liabilities of the Agriculture and Weather Analytics segment were reclassified to assets and liabilities of discontinued operations as of March 31, 2021 and March 31, 2020 on the accompanying consolidated balance sheets. The following table is a summary of major classes of assets and liabilities of discontinued operations:

	March 31, 2021	March 31, 2020
	(In thousands)	
Assets		
Trade accounts receivable, net of allowance for doubtful accounts	$ —	$ 86
Unbilled accounts receivable	—	50
Prepaid expenses and other current assets	—	10
Total current assets of discontinued operations	—	1,47
Property and equipment, net	—	10
Right-of-use assets	78	44
Other classes of assets that are not major	—	7
Total noncurrent assets of discontinued operations	78	62
Total assets of discontinued operations	$ 78	$ 2,10
Liabilities		
Trade accounts payable	$ —	$ 25
Accrued liabilities	—	9
Accrued payroll and related expenses	—	93
Deferred revenue	—	1,55
Current Lease Liabilities	94	—
Total current liabilities of discontinued operations	94	2,82
Noncurrent Lease liabilities	261	35
Total liabilities of discontinued operations	$ 355	$ 3,18

3. Discontinued Operations (Continued)

The results of operations for the Agriculture and Weather Analytics segment were included in net income (loss) from discontinued operations on the accompanying consolidated statements of operations. The following table provides information regarding the results of discontinued operations:

	Year Ended March 31,		
	2021	2020	2019
Service revenue	$ 695	$ 6,714	$ 5,816
Cost of service revenues	350	2,566	2,472
Gross profit	345	4,148	3,344
Operating expenses:			
Selling, general and administration	780	3,718	4,304
Research and development	407	4,282	4,063
Restructuring charges	837	—	—
Total operating expenses	2,024	8,000	8,367
Operating loss from discontinued operations	(1,679)	(3,852)	(5,023)
Other income, net	72	—	—
Loss from discontinued operation before income tax	(1,607)	(3,852)	(5,023)
Income tax expense	(47)	—	—
Net loss from discontinued operations	(1,654)	(3,852)	(5,023)
Gain on disposal of discontinued operations before income tax	11,315	—	—
Income tax expense on gain on disposal	(18)	—	—
Gain on disposal of discontinued operations after income tax	11,297	—	—
Net income (loss) from discontinued operations	$ 9,643	$ (3,852)	$ (5,023)

The following table provides information on the gain recorded on the sale of the Agriculture and Weather Analytics segment for the year ended March 31, 2021. These amounts reflect the closing balance sheet of the Agriculture and Weather Analytics segment upon the closing of the sale on May 5, 2020 (in thousands).

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

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

4. Restructuring Activities

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

The following table presents the restructuring and severance costs for our reportable segments, as well as corporate expenses, for the fiscal year ended March 31, 2021 (in thousands):

	Roadway Sensors	Transportation Systems	Agriculture and Weather Analytics	Corporate	Total
Severance and benefits	$ 110	$ 43	$ 524	$ 428	$ 1,10
Lease impairment and other costs	—	—	313	38	35
Total restructuring and severance costs	$ 110	$ 43	$ 837	$ 466	$ 1,45

During the year ended March 31, 2021, approximately $0.6 million of the restructuring costs were recorded to restructuring charges in the accompanying consolidated statements of operations, and approximately $0.8 million of the restructuring costs were recorded to loss from discontinued operations in the accompanying consolidated statements of operations.

As of March 31, 2021, we have accrued approximately $0.1 million for severance and benefits related to the restructuring activities in accrued payroll and related expenses in the accompanying consolidated balance sheet. Our restructuring activities during the fiscal years ended March 31, 2021 were as follows (in thousands):

Balance at March 31, 2020	$ -
Charged to expenses	1,10
Cash payments	(1,00
Balance at March 31, 2021	$ 10

5. Fair Value Measurements

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, 2021 or 2020, except for the contingent consideration of $0.6 million (with $0.2 million due in the next 12 months) related to the earn-out as part of the TrafficCast acquisition. Our non-financial assets, such as goodwill, intangible assets, property and equipment, and acquired assets and liabilities assumed 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. Our non-financial assets, such as goodwill, intangible assets, property and equipment, securities held in the deferred compensation plan and the liabilities associated with the deferred compensation plan, and acquired assets and liabilities assumed are measured at fair value on a non-recurring basis, generally when there is a transaction involving those assets. In Fiscal 2021, Fiscal 2020 and Fiscal 2019, Level 3 inputs were used to evaluate the fair value of the contingent consideration and goodwill in our two reporting units that had goodwill balances. No other non-financial assets were measured at fair value as of March 31, 2021 and March 31, 2020.

5. Fair Value Measurements (Continued)

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

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

	As of March 31, 2020			
	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Estimated Fair Value
	(In thousands)			
Level 1:				
Money market funds	$ 10,576	$ (1)	$ —	$ 10,575
Subtotal	10,576	(1)	—	10,575
Level 2:				
Commercial paper	1,495	(1)	—	1,494
Corporate notes and bonds	6,044	(22)	—	6,022
US treasuries	3,013	—	20	3,033
US government agencies	1,007	—	—	1,007
Subtotal	11,559	(23)	20	11,556
Total	$ 22,135	$ (24)	$ 20	$ 22,131

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

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

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

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, 2021.

6. Income Taxes

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

	Year Ended March 31,		
	2021	2020	2019
	(In thousands)		
Income (loss) from continuing operations before income taxes	$ 606	$ (1,598)	$ (2,757)
Current income tax provision:			
Federal	—	—	—
State	67	34	36
Total current tax provision	67	34	36
Deferred income tax benefit:			
Federal	21	105	—
State	27	21	—
Total deferred benefit provision	48	126	—
Provision for income taxes on continued operations	115	160	36
Income (loss) from continuing operations, net of taxes	$ 491	$ (1,758)	$ (2,793)

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

	Year Ended March 31,		
	2021	2020	2019
	(In thousands)		
Provision (benefit) for income taxes at statutory rates	$ 90	$ (1,095)	$ (1,634)
State income taxes net of federal benefit	(177)	(198)	(620)
Tax credits	(663)	(658)	(343)
Compensation charges	313	151	199
Change in valuation allowance	523	1,913	2,385
Other	29	47	49
Provision for income taxes	$ 115	$ 160	$ 36

6. Income Taxes (Continued)

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

	Year Ended March 31, 2021	2020
	(In thousands)	
Deferred tax assets:		
Net operating losses	$ 2,186	$ 4,284
Capitalized R&D	2,282	3,520
Credit carry forwards	4,088	3,510
Deferred compensation and payroll	2,475	2,304
Bad debt allowance and other reserves	930	656
Operating leases	—	219
Property and equipment	354	60
Other, net	765	556
Total deferred tax assets	13,080	15,109
Valuation allowance	(12,349)	(14,163)
Total deferred tax assets, net of valuation allowance	731	946
Deferred tax liabilities:		
Acquired intangibles	(297)	(596)
Goodwill	(672)	(540)
Total deferred tax liabilities	(969)	(1,136)
Net deferred tax liabilities	$ (238)	$ (190)

At March 31, 2021, we had $3.2 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 $7.7 million of federal net operating loss carryforwards at March 31, 2021 that do not expire as a result of recent tax law changes. We also had $5.9 million of state net operating loss carryforwards at March 31, 2021 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 $14.2 million against our deferred tax assets at March 31, 2021 and 2020, respectively. We intend to continue maintaining a full valuation allowance on our deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. However, given our current earnings and anticipated future earnings, we believe that there is a reasonable possibility that within the next 12 months, sufficient positive evidence may become available to allow us to reach a conclusion that a significant portion of the valuation allowance will no longer be needed. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change on the basis of the level of profitability that we are able to actually achieve.

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

The Company is currently evaluating the impact of final IRS regulations under Internal Revenue Code section 263A relating to inventory capitalization for tax purposes. The Company does not expect there to be a material impact to the financial statements.

6. Income Taxes (Continued)

Unrecognized Tax Benefits

As of March 31, 2021 and 2020, our gross unrecognized tax benefits were approximately $1.1 million and $1.0 million, respectively, of which approximately $1.0 million and $0.9 million, respectively, are netted against certain noncurrent deferred tax assets. The amounts that would affect our effective tax rate if recognized are approximately $1.0 million and $0.8 million, respectively.

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

	Year Ended March 31,		
	2021	2020	2019
		(In thousands)	
Gross unrecognized tax benefits at beginning of year	$ 952	$ 687	$ 586
Increases for tax positions taken in prior years	35	101	2
Decreases for tax positions taken in prior years	0	—	—
Increases for tax positions taken in the current year	104	180	116
Lapse in statute of limitations	(12)	(16)	(17)
Gross unrecognized tax benefits at March 31	$ 1,079	$ 952	$ 687

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, 2018 or later, and state and local income tax examination for fiscal tax years ended March 31, 2017 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.

7. Commitments and Contingencies

Litigation and Other Contingencies

As a provider of traffic engineering services, hardware products, software and other various solutions for the traffic 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.

8. Right-of-Use Assets and Lease Liabilities

On April 1, 2019, the Company adopted ASU 2016-02, *Leases* and recognized (a) an operating lease liability of $14.2 million, which represents the present value of our remaining lease payments and (b) a related right-of-use asset of $13.4 million. In addition, the Company derecognized approximately $0.8 million of deferred rent liability. The adoption of ASU 2016-02 did not have a material impact on the Company's statement of operations, cash flows, or stockholders' equity. Due to the adoption of the standard using the modified retrospective cumulative-effect adjustment method, there were no changes to our previously reported results prior to April 1, 2019.

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

Notes to Consolidated Financial Statements (Continued)

March 31, 2021

8. Right-of-Use Assets and Lease Liabilities(Continued)

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

	Classification	March 31, 2021
		(In thousands)
Assets		
Operating lease right-of-use-assets - continuing operations	Right-of-use assets	$ 11,353
Operating lease right-of-use-assets - discontinued operations	Noncurrent assets of discontinued operations	78
Total operating lease right-of-use-assets		$ 11,431
Liabilities		
Operating lease liabilities (short-term) - continuing operations	Accrued liabilities	$ 2,089
Operating lease liabilities (short-term) - discontinued operations	Current liabilities of discontinued operations	94
Total operating lease liabilities (short-term)		2,183
Operating lease liabilities (long-term) - continuing operations	Lease liabilities	10,146
Operating lease liabilities (long-term) - discontinued operations	Noncurrent liabilities of discontinued operations	261
Total operating lease liabilities (long-term)		10,407
Total operating lease liabilities		$ 12,590

Lease Costs

For Fiscal 2021, Fiscal 2020 and Fiscal 2019, lease costs totaled approximately $2.7 million, $2.6 million and $1.9 million, respectively. The Company currently has no variable lease costs.

Supplemental Information

The table below presents supplemental information related to operating leases during the fiscal year ended March 31, 2021 (in thousands, except weighted average information):

Cash paid for amounts included in the measurement of operating lease liabilities	$ 2,847
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 689
Weighted average remaining lease term	6
Weighted average discount rate	5.0 %

8. Right-of-Use Assets and Lease Liabilities(Continued)

Undiscounted Cash Flows

The table below reconciles the undiscounted cash flows for each of the first five years and total of the remaining years to the operating lease liabilities recorded on the consolidated balance sheet as of March 31, 2021:

Fiscal Year Ending March 31,	Operating Leases	Sublease Income	Net Operating Leases
(In thousands)			
2022	$ 2,750	$ 9	$ 2,741
2023	2,513	—	2,513
2024	2,348	—	2,348
2025	2,076	—	2,076
2026	1,865	—	1,865
Thereafter	3,031	—	3,031
Total lease payments	14,583	$ 9	$ 14,574
Less imputed interest	(1,993)		
Present value of future lease payments	12,590		
Less current obligations under leases	(2,183)		
Long-term lease obligations	$ 10,407		

9. 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, 2021 and 2020, there were no outstanding shares of preferred stock, and we do not currently have plans to issue any shares of preferred stock.

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, 2018, wherein all of the Rights distributed to the holders of the Company's common stock pursuant to the Rights Agreement expired.

9. Stockholders' Equity (Continued)

Common Stock Reserved for Future Issuance

The following summarizes common stock reserved for future issuance at March 31, 2021:

	Number of Shares (In thousands)
Stock options outstanding	5,623
Restricted stock units outstanding	448
Performance stock units outstanding	61
Authorized for future issuance under stock incentive plans	595
	6,727

10. 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 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 two stock incentive plans, the 2007 Omnibus Incentive Plan (the "2007 Plan") and the 2016 Omnibus Incentive Plan (the "2016 Plan"). Of these plans, we may only grant future awards from the 2016 Plan. The 2016 Plan allows for the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), cash incentive awards and other stock-based awards. At March 31, 2021, there were approximately 0.6 million shares of common stock available for grant or issuance under the 2016 Plan. Total stock options vested and expected to vest were approximately 5.6 million as of March 31, 2021.

10. Employee Benefit Plans (Continued)

Stock Options

A summary of activity in the Omnibus Incentive Plans with respect to our stock options for Fiscal 2021 is as follows:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
	(In thousands)		(Years)	(In thousands)
Options outstanding at March 31, 2020	5,934	$ 3.99	7.2	2,095
Granted	831	4.90		
Exercised	(743)	3.51		
Forfeited	(378)	4.84		
Expired	(21)	5.20		
Options outstanding at March 31, 2021	5,623	4.10	6.8	11,659

As of March 31, 2021, 3.4 million stock options were exercisable.

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 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 2021 is as follows:

	# of Shares	Weighted Average Price Per Share	Weighted Average Remaining Life	Aggregate Intrinsic Value
	(In thousands)		(Years)	(In thousands)
RSUs outstanding at March 31, 2020	404	$ 5.16	2.0	1,295
Granted	239	3.13		
Vested	(189)	5.13		
Forfeited	(6)	5.52		
RSUs outstanding at March 31, 2021	448	4.08	7.8	2,764

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,		
	2021	2020	2019
		(In thousands)	
Cost of revenues	$ 209	$ 143	$ 122
Selling, general and administrative expense	2,517	2,271	1,680
Research and development expense	134	81	59
Restructuring activities	42	—	—
Loss from discontinued operations	(57)	290	295
Total stock-based compensation	$ 2,845	$ 2,785	$ 2,156

10. Employee Benefit Plans (Continued)

At March 31, 2021, there was approximately $4.7 million, $1.6 million and $0 of unrecognized compensation expense related to unvested stock options, RSUs, and PSUs respectively. This expense is currently expected to be recognized over a weighted average period of approximately 2.8 years for stock options, 1.6 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.

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

	Year Ended March 31,		
	2021	2020	2019
Expected life—years	6.7	6.8	5.9
Risk-free interest rate	1.0 %	2.2 %	2.7 %
Expected volatility of common stock	47 %	47 %	43 %
Dividend yield	0 %	0 %	0 %

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,		
	2021	2020	2019
	(In thousands, except per share amounts)		
Weighted average grant date fair value per share of options granted	$ 2.38	$ 2.52	$ 1.89
Intrinsic value of options exercised	$ 1,494	$ 378	$ 114

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, 2021, 2020 and 2019.

We sponsor a defined contribution 401(k) plan (the "401(k) Plan"), adopted in 1990, under which eligible employees 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 one month of service. Our matching contributions under the 401(k) Plan were approximately $1.4 million, $1.3 million and $1.2 million for Fiscal 2021, Fiscal 2020 and Fiscal 2019, respectively.

Other Stock-Based Compensation Plans

Beginning January 1, 2018, the Company adopted an 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 $0.03 million annual stock value limit. During Fiscal 2021, Fiscal 2020, and Fiscal 2019, 97,000, 91,000 and 92,000 shares, respectively, were purchased. The ESPP is considered a non-compensatory plan and accordingly no compensation expense is recorded in connection with this benefit.

As of March 31, 2021, approximately $0.3 million of cash was restricted for the purchase of shares under the ESPP and is recorded as restricted cash in the accompanying consolidated balance sheets.

Deferred Compensation Plan

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

As of March 31, 2021, the amount invested under the DC Plan totaled $0.09 million and are classified as trading securities, which are recorded at fair market value with changes recorded as adjustments to other income. This amount is included in prepaid expenses and other current assets on the consolidated balance sheets.

As of March 31, 2021, the vested amounts under the DC Plan totaled $0.1 million and are included in accrued payroll and related expenses on the consolidated balance sheets. Changes in the deferred compensation plan liabilities are recorded as an adjustment to compensation expense.

As of March 31, 2021, no equity awards were deferred and held in the rabbi trust. The shares deferred and held in the rabbi trust will be classified as treasury stock, and the liability to participating employees will be classified as deferred compensation obligations in the stockholders' equity section of the consolidated balance sheets. The number of shares needed to settle the liability for deferred compensation obligations will be included in the denominator in both the basic and diluted earnings per share calculations.

The cash surrender value of the corporate-owned insurance policies totaled $0.07 million and is included in prepaid expenses and other current assets on the consolidated balance sheets.

Employment Inducement Incentive Plan

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

10. Employee Benefit Plans (Continued)

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

During the fiscal year ended March 31, 2021, the Company granted 95,000 stock options and 84,914 restricted stock units to TCI employees under the Inducement Plan.

11. 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 $3.0 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 $3.0 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, 2021, 2020, and 2019 we did not repurchase any shares. From inception of the program in August 2011 through March 31, 2021, 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, 2021, all repurchased shares have been retired and returned to their status as authorized and unissued shares of our common stock. As of March 31, 2021, approximately 1.7 million remains available for the repurchase of our common stock under our current program.

12. Acquisitions

TrafficCast Acquisition

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

The aggregate acquisition-date fair value of the consideration transferred totaled approximately $17.7 million, which consisted of the following:

	Fair Value (in thousands)
Cash	$ 15,000
Security hold back	1,000
Acquisition-related liabilities	1,131
Contingent consideration	600
Total	$ 17,731

The security hold back relates to amounts held back as security for certain post-closing adjustments and post-closing indemnity obligations of TrafficCast, and is included in other long-term liabilities on the consolidated balance sheets. Acquisition-related liabilities include customary post-closing adjustments, as well as short term liabilities related to certain ancillary agreements that will provide Iteris with ongoing access to mapping and monitoring services. These items are included in accrued liabilities on the consolidated balance sheets. Contingent consideration relates to a $1.0 million earn out, that if earned, will be paid over two years based on the TrafficCast Business' achievement of certain revenue targets. This item is included in other long-term liabilities on the consolidated balance sheets.

12. Acquisition (Continued)

TrafficCast operates two lines of business – commercial and public sector – each of which contributes about 50% of total revenue. Its commercial line of business develops software that collects, filters, and models real-time traveler information and traffic incident data for global media companies and other commercial customers. Its public sector line of business provides sensors and related software that help state and local agencies measure, visualize, and manage traffic flow. The management team has deep experience in traffic management systems, traffic flow theory and probe data technologies, as well as mobile services, digital content and media marketing. The commercial line of business is presented in the results of the Transportation Systems segment, while the public sector line of business is presented in the results of the Roadway Sensors segment. Since the date of acquisition, TrafficCast contributed approximately $2.7 million of service revenue and approximately $1.4 million of product revenue, as well as approximately $1.0 million of net loss.

The acquisition of TrafficCast has been accounted for as a business combination. We estimated the fair values of net assets acquired, and the excess of the consideration transferred over the aggregate of such fair values was recorded as goodwill.

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

Trade accounts receivable	$	2,08
Unbilled accounts receivable		59
Inventories		94
Right-of-use assets		19
Property and equipment		23
Intangible assets		9,50
Goodwill		7,75
Other assets		24
Total assets acquired		21,54
Accounts payable		1,02
Deferred revenue		2,46
Lease liabilities		19
Other liabilities		13
Total liabilities assumed		3,81
Total purchase price	$	17,73

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

12. Acquisition (Continued)

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

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

AGI Acquisition

On July 2, 2019, the Company completed the acquisition of AGI, a privately-held professional transportation engineering services firm headquartered in Tampa, Florida, with offices in Orlando (FL), Virginia Beach (VA) and Chadds Ford (PA). AGI assists municipalities in maximizing the effectiveness of their existing transportation networks through a collection of traffic management services to cost effectively improve the performance of roadway systems and address increased traffic demands, traffic congestion and delay. With a foundation of arterial timing plan development, AGI has expanded its services into active arterial monitoring and management with multiple public sector clients. AGI is expected to expand the Company's geographic footprint for ITS services in Florida, as well as in the Midwest and Mid-Atlantic region. AGI's typical contracts are for traffic operations professional engineering services focused on transportation systems management and operations.

Pursuant to a Stock Purchase Agreement dated June 10, 2019 among the Company, AGI and the stockholders of AGI (the "Selling Shareholders"), the Company acquired all of the outstanding capital stock of AGI from the Selling Shareholders for an aggregate purchase price of $10.8 million, after working capital adjustments, payable in cash and stock, of which 114,943 shares were held in escrow for 18 months to secure performance of indemnification and other post-closing obligations of the Selling Shareholders.

The acquisition of AGI has been accounted for as a business combination. We estimated the fair values of net assets acquired, and the excess of the consideration transferred over the aggregate of such fair values was recorded as goodwill.

The following tables summarize the purchase price allocation (in thousands) as of July 2, 2019:

Cash	$ 664
Trade accounts receivable	905
Unbilled accounts receivable	347
Right-of-use assets	863
Property and equipment	357
Intangible assets	3,710
Goodwill	5,440
Other assets	161
Total assets acquired	12,447
Accounts payable	(378)
Accrued payroll and related expenses	(426)
Lease liabilities	(863)
Total liabilities assumed	(1,667)
Total purchase price	$ 10,780

12. Acquisition (Continued)

The fair values of the remaining AGI assets and liabilities noted above approximate their carrying values at July 2, 2019. There was no difference between the fair value of trade accounts receivables and the gross contractual value of those receivables. There are no contractual cash flows related to these receivables that are not expected to be collected. The Company believes the goodwill related to the acquisition was a result of the ability of the Company to leverage its technology in the broader market, as well as offering cross-selling market exposure opportunities. Goodwill from the acquisition of AGI is included within the Company's Transportation Systems reporting unit. The goodwill is fully deductible for tax purposes. The significant intangible assets identified in the purchase price allocation include customer relationships and non-compete agreements, which are amortized over their respective useful lives on a straight line basis which approximates the underlying cash flows. To value the customer relationships, the Company utilized the income approach, specifically a discounted cash-flow method known as the excess earnings method. The Company utilized the with and without method to derive the fair value of the non-compete agreement. The fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. Varying discount rates were applied to the projected net cash flows and EBITDA as applicable to valuation methodology. We believe the assumptions are representative of those a market participant would use in estimating fair value.

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

	Amount	Weighted Average Useful Life
	(in thousands)	(in years)
Customer relationships	3,500	6
Non-compete agreement	210	3
Total intangible assets assumed	3,710	

Acquisition-Related Costs

In connection with the acquisition of AGI, the Company agreed to grant $1.7 million in retention bonuses to the Selling Shareholders and other employees payable in the form of restricted stock units at $5.22 per share, and $0.6 million in retention bonuses payable in cash, each vesting and payable over three years following the closing, provided such employees remain in our service on the first, second and third anniversary of the closing of the acquisition. For the fiscal years ended March 31, 2021 and 2020, the Company recorded approximately $0.7 million and $1.0 million, respectively, as stock based compensation and salaries expense to selling, general and administrative expense in the consolidated statements of operations, related to these bonuses.

In connection with the acquisition of AGI, the Company recorded approximately $0.7 million, in acquisition related professional fees, which was included in selling, general and administrative expense, in the consolidated statements of operations for the year ended March 31, 2020.

In connection with the acquisition of TrafficCast, the Company recorded approximately $0.4 million, in acquisition related professional fees, which was included in selling, general and administrative expense, in the consolidated statements of operations for the year ended March 31, 2021.

12. Acquisition (Continued)

Pro Forma Financial Information (Unaudited)

The following pro forma information presents the consolidated results of operations of the Company, AGI and TrafficCast for the fiscal years ended March 31, 2021, 2020 and 2019, as if the acquisition of AGI had been completed on April 1, 2018 and the acquisition of TrafficCast had been completed on April 1, 2019. These pro forma unaudited consolidated financial results have been prepared for comparative purposes only and include certain adjustments that reflect pro forma results of operations, such as increased amortization for the fair value of acquired intangible assets and increased salaries expense related to the retention bonuses. The pro forma results do not reflect any operating efficiencies or potential cost savings that may result from the consolidation of the operations of the Company, AGI and TrafficCast. Accordingly, these pro forma results are presented for informational purposes only and are not necessarily indicative of the results of operations that actually would have been achieved had the acquisition of AGI occurred as of April 1, 2018 and the acquisition of TrafficCast occurred as of April 1, 2019, nor are they intended to represent or be indicative of future results of operations:

	Year Ended March 31,		
	2021	2020	2019
Proforma revenue	$ 117,138	$ 124,156	$ 101,233
Proforma net income (loss) from continuing operations	$ 491	$ (5,262)	$ (2,084)
Pro forma income (loss) per common stock			
Basic	$ 0.02	$ (0.13)	$ (0.06)
Diluted	$ 0.02	$ (0.13)	$ (0.06)

13. Business Segments, Significant Customer and Geographic Information

Business Segments

We operate in two reportable segments: Roadway Sensors and Transportation Systems.

The Roadway Sensors segment provides 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, the 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 Roadway Sensors segment also includes the public sector operations of TrafficCast beginning December 7, 2020 (see Note 12, *Acquisitions*, to the consolidated financial statements for further details).

The Transportation Systems segment provides engineering and specialized consulting services, cloud-enabled managed services, transportation performance measurement and traffic analytics solutions, as well as the development of transportation management and traveler information systems for the smart mobility infrastructure management industry. Our Transportation Systems services include planning, design, implementation, operation and management of surface transportation infrastructure systems. We perform analysis and study goods movement and commercial vehicle operations, as well as provide travel demand forecasting and systems engineering, and identify mitigation measures to reduce traffic congestion. Our Transportation Systems product line includes:the Iteris Signal Performance Measures ("Iteris SPM") and iPeMS traffic signal performance and traffic analytics software suites, the capabilities and customers of which have now respectively been incorporated into and migrated to ClearGuide, our comprehensive mobility intelligence and transportation performance measures solution; our advanced traveler information system ("ATIS") solution for public transportation agencies, ClearRoute; our ATIS solution for the enterprise and commercial sector, TrafficCarma; and our commercial vehicle operations and vehicle safety compliance platforms known as ClearFleet, CVIEW-Plus, CheckPoint, UCRLink and inspect. The Transportation Systems segment also includes the operations of AGI beginning July 2, 2019 as well as the commercial operations of TrafficCast beginning December 7, 2020 (see Note 12, *Acquisitions*, to the consolidated financial statements for further details).

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

The accounting policies of our reportable segments are the same as those described in the summary of significant accounting policies (Note 1, *Description of Business and Summary of Significant Accounting Policies*, to the consolidated financial statements). 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 segments in his resource allocation, and therefore, assets by segments are not disclosed below.

The following table sets forth selected consolidated financial information for our reportable segments for the fiscal years ended March 31, 2021, March 31, 2020 and March 31, 2019 is as follows:

	Roadway Sensors	Transportation Systems	Total
		(In thousands)	
Year Ended March 31, 2021			
Product revenues	$ 55,665	$ 7,268	$ 62,933
Service revenues	884	53,321	54,205
Total revenues	$ 56,549	$ 60,589	$ 117,138
Segment income	$ 11,554	$ 8,689	$ 20,243
Year Ended March 31, 2020			
Product revenues	$ 49,082	$ 5,925	$ 55,007
Service revenues	288	52,108	52,396
Total revenues	$ 49,370	$ 58,033	$ 107,403
Segment income	$ 7,787	$ 10,556	$ 18,343
Year Ended March 31, 2019			
Product revenues	$ 43,253	$ 4,974	$ 48,227
Service revenues	239	44,841	45,080
Total revenues	$ 43,492	$ 49,815	$ 93,307
Segment income	$ 7,011	$ 5,907	$ 12,918

The following table reconciles total segment income to consolidated operating income (loss) from continuing operations:

	Year Ended March 31,		
	2021	2020	2019
		(In thousands)	
Segment income:			
Total income from reportable segments	$ 20,243	$ 18,343	$ 12,918
Unallocated amounts:			
Corporate expenses	$ (17,264)	$ (19,021)	$ (15,577)
Amortization of intangible assets	(1,504)	(757)	(275)
Restructuring activities	(619)	—	—
Acquisition costs	(417)	(689)	—
Operating income (loss)	$ 439	$ (2,124)	$ (2,934)

Notes to Consolidated Financial Statements (Continued)

March 31, 2021

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

Significant Customer and Geographic Information

No individual customer or government agency had a receivable balance greater than 10% of our total trade accounts receivable balances as of March 31, 2021 and 2020.

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,		
	2021	2020	2019
Canada	1 %	— %	1 %
Europe	—	1	1
	1 %	1 %	2 %

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

14. Quarterly Financial Data (Unaudited)

Quarter Ended:	Revenues	Gross Profit	Net (Loss) Income from continuing operations	Basic Net Income (Loss) per Share from continuing operations	Diluted Net Income (Loss) per Share from continuing operations
	(In thousands, except per share amounts)				
June 30, 2020	$ 28,000	$ 10,868	$ 418	$ 0.01	$ 0.01
September 30, 2020	29,256	11,358	719	0.02	0.02
December 31, 2020	28,170	11,650	(261)	(0.01)	(0.01)
March 31, 2021	31,712	12,980	(385)	(0.01)	(0.01)
	$ 117,138	$ 46,856	$ 491	$ 0.01 *	$ 0.01
June 30, 2019	$ 25,167	$ 9,584	$ (537)	$ (0.02)	$ (0.02)
September 30, 2019	26,586	10,678	(1,051)	(0.03)	(0.03)
December 31, 2019	26,737	10,633	(1,252)	(0.03)	(0.03)
March 31, 2020	28,913	12,718	1,082	0.03	0.03
	$ 107,403	$ 43,613	$ (1,758)	$ (0.05) *	$ (0.05)

* 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

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 the Original Filing, as amended by this Amendment.

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 included in the Original Filing.

3. *Exhibits.*

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

Exhibit Index

Exhibit Number	Description	Reference
2.1 †	Asset Purchase Agreement, dated May 2, 2020, by and among Iteris, Inc., ClearAg, Inc., and DTN, LLC*	*Exhibit 2.1 to the registrant's Current Report on Form 8-K as filed with the SEC on May 6, 2020*
4.1	Restated Certificate of Incorporation of the registrant as filed with the Delaware Secretary of State on October 12, 2018	*Exhibit 3.1 to the Registrant's Current Report on Form 8-K as filed with the Commission on October 15, 2018*
4.2	Restated Bylaws of the Registrant, as amended through August 6, 2018	*Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 as filed with the Commission on August 7, 2018*
4.3	Specimen common stock certificate	*Exhibit 4.1 to the Registrant's Registration Statement on Form 8-A (File No. 001-08762), as filed with the Commission on December 8, 2004*
4.4 †	Description of Iteris, Inc. Securities Registered under Section 12 of the Exchange Act	*Exhibit 4.2 to the Registrant's Annual Report on Form 10-K for the year ended for the year ended March 31, 2020 as filed with the SEC on June 9, 2020*
10.1 †	Asset Purchase Agreement dated December 6, 2020, by and between Iteris, Inc. and TrafficCast International, Inc.	*Exhibit 10.1 to the registrant's Current Report on Form 8-K as filed with the SEC on December 7, 2020*
10.2 *	Form of Indemnification Agreement entered into by the registrant and certain of its officers and directors	*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	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)	*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*

Exhibit Number	Description	Reference
10.4	First Amendment to Lease, dated February 21, 2014, by and between RREF II Freeway Acquisitions, LLC and Iteris, Inc.	*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*
10.5	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.	*Exhibit 10.5 to registrant's Annual Report on Form 10-K for the year ended March 31, 2019 as filed with the SEC on June 6, 2019*
10.6 *	Third Amendment to Lease, dated December 15, 2016, by and between Realty Associates Fund X, L.P. and Iteris, Inc.	*Exhibit 10.6 to the registrant's Annual Report on Form 10-K for the year ended March 31, 2019 filed with the SEC on June 6, 2019*
10.7	Fourth Amendment to Lease, dated May 17, 2021, by and between Realty Associates Fund X, L.P. and Iteris, Inc.	*Previously filed with the Original Filing*
10.8 *	Iteris, Inc. Employee Stock Purchase Plan	*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*
10.9 *	2007 Omnibus Incentive Plan	*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*
10.10 *	Forms of Stock Option Agreements under the 2007 Omnibus Incentive Plan	*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*
10.11 *	Form of Restricted Stock Unit Award Agreement under the 2007 Omnibus Incentive Plan	*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*
10.12 *	Amended and Restated 2016 Omnibus Incentive Plan	*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*
10.13 *	Form of Performance Stock Unit Issuance Agreement for use with 2016 Omnibus Incentive Plan**	*Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 as filed with the SEC on August 4, 2020*
10.14 *	Revised Form of Restricted Stock Unit Issuance for use with 2016 Omnibus Incentive Plan**	*Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 as filed with the SEC on August 4, 2020*
10.15 *	Revised Form of Form of Notice of Grant of Stock Option and Form of Stock Option Agreement for use with 2016 Omnibus Incentive Plan**	*Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 as filed with the SEC on August 4, 2020*
10.16 *	Employment Agreement dated September 8, 2015 between Iteris, Inc. and Joe Bergera	*Exhibit 10.1 to the registrant's Current Report on Form 8-K as filed with the SEC on September 22, 2015*
10.17 *	Employment Agreement, dated November 15, 2019, between Iteris, Inc. and Douglas Groves	*Exhibit 10.1 to the registrant's Current Report on Form 8-K as filed with the SEC on December 4, 2019*
10.18 *	Iteris, Inc. Amended and Restated Executive Severance Plan	*Exhibit 10.20 to the registrant's Annual Report on Form 10-K for the year ended March 31, 2019 as filed with the SEC on June 6, 2019*

Exhibit Number	Description	Reference
10.19 *	Retention Bonus Agreement dated June 4, 2019 between Iteris, Inc. and James Chambers	*Exhibit 10.21 to the registrant's Annual Report on Form 10-K for the year ended March 31, 2019 as filed with the SEC on June 6, 2019*
10.20 *	Incentive Bonus Agreement dated June 4, 2019 between Iteris, Inc. and James Chambers	*Exhibit 10.22 to the registrant's Annual Report on Form 10-K for the year ended March 31, 2019 as filed with the SEC on June 6, 2019*
10.21 *	Form of Retention Bonus Agreement entered into between the Company and selling shareholders of Albeck Gerken, Inc.	*Exhibit 10.1 to registrant's Current Report on Form 8-K as filed with the SEC on July 9, 2019*
10.22 *	2020 Employment Inducement Incentive Award Plan	*Exhibit 10.2 to the registrant's Current Report on Form 8-K as filed with the SEC on December 7, 2020*
10.23 *	Form of Notice Grant of Stock Option and Form of Stock Option Agreement for use with 2020 Employment Inducement Incentive Plan	*Exhibit 10.3 to the registrant's Current Report on Form 8-K as filed with the SEC on December 7, 2020*
10.24 *	Form of Restricted Stock Unit Issuance Agreement for use with 2020 Employment Inducement Incentive Award Plan	*Exhibit 10.4 to the registrant's Current Report on Form 8-K as filed with the SEC on December 7, 2020*
10.25 *	Iteris, Inc. Deferred Compensation Plan Effective Date October 1, 2020	*Exhibit 10.5 to the registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2020 as filed with the SEC on February 2, 2021*
10.26 *	Form of Restricted Stock Unit Issuance Agreement for use with the Iteris, Inc. Deferred Compensation Plan Effective Date October 1, 2020.	*Exhibit 10.6 to the registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2020 as filed with the SEC on February 2, 2021*
23.1	Consent of Independent Registered Public Accounting Firm, dated June 1, 2021	*Previously filed with the Original Filing*
23.2	Consent of Independent Registered Public Accounting Firm, dated June 7, 2021	*Filed herewith*
24	Power of Attorney	*Previously filed with the Original Filing (included on the Signature page)*
31.1	Certification of the Chief Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*Previously filed with the Original Filing*
31.2	Certification of the Chief Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*Previously filed with the Original Filing*
31.3	Certification of the Chief Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*Filed herewith*
31.4	Certification of the Chief Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*Filed herewith*
32.1	Certification of the Chief Executive Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*Previously filed with the Original Filing*
32.2	Certification of the Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*Previously filed with the Original Filing*

Exhibit Number	Description	Reference
101.INS	XBRL Instance Document	*Previously filed with the Original Filing*
101.SCH	XBRL Taxonomy Extension Schema Document	*Previously filed with the Original Filing*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	*Previously filed with the Original Filing*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	*Previously filed with the Original Filing*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	*Previously filed with the Original Filing*
101.DEF	XBRL Taxonomy Definition Presentation Linkbase Document	*Previously filed with the Original Filing*

† Pursuant to Item 601(a)(5) of Regulation S-K, certain appendices to this agreement have been omitted. The Company agrees to furnish supplementally to the Securities and Exchange Commission, upon its request, any or all of such omitted appendices.

* 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 7, 2021	ITERIS, INC. (Registrant)	
	By	/s/ JOE BERGERA
		Joe Bergera *Chief Executive Officer* *(Principal Executive Officer)*

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-251598, 333-228210, 333-221790, 333-216407, 333-190309, 333-162807, and 333-146459 on Form S-8 and Registration Statement No. 333-235699 on Form S-3 of our report dated June 1, 2021, relating to the consolidated financial statements of Iteris, Inc. and subsidiaries appearing in this Annual Report on Form 10-K/A for the year ended March 31, 2021.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California

June 7, 2021

Exhibit 31.3

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

I, Joe Bergera, certify that:

1. I have reviewed this Amendment No. 1 on Form 10-K/A to the annual report on Form 10-K of Iteris, Inc. for the fiscal year ended March 31, 2021; and
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.

Date: June 7, 2021

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

Exhibit 31.4

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

I, Douglas L. Groves, certify that:

1. I have reviewed this Amendment No. 1 on Form 10-K/A to the annual report on Form 10-K of Iteris, Inc. for fiscal year ended March 31, 2021; and
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.

Date: June 7, 2021

/s/ DOUGLAS L. GROVES

Douglas L. Groves

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)