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DELTA REPORT

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ITI - ITERIS, INC.

10-K - MARCH 31, 2024 COMPARED TO 10-K - MARCH 31, 2023

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TOTAL DELTAS 2767

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

FORM 10-K

(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, 2023** **March 31, 2024**

OR

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

For the transition period from to

Commission file number 001-08762



ITERIS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

95-2588496

(State or Other Jurisdiction of Incorporation or Organization)

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

**1250 S. Capital of Texas Hwy., Building 1, Suite 330, Austin,
Texas**

78746

(Address of Principal Executive Offices)

(Zip Code)

Registrant's **Registrant's** Telephone Number, Including Area Code: **(512) 716-0808**

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"). **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"). **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 Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No 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 Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

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

Indicate by check mark whether the registrant 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.

If securities are registered pursuant to Section 12(b) of the Exchange Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

The aggregate market value of the registrant's common stock held by nonaffiliates of the registrant as of September 30, 2022 September 29, 2023 was approximately \$123,850,913; \$147,728,051. For the purposes of this calculation, shares owned by officers, directors, and greater than 10% stockholders known to the registrant have been deemed to be owned by affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of June 26, 2023 June 11, 2024, there were 42,569,363 42,975,222 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 2023 2024 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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FOR THE FISCAL YEAR ENDED MARCH 31, 2023 2024
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Unless otherwise indicated in this report, the "Company," "we," "us" "Company," "we," "us" and "our" "our" refer to Iteris, Inc. BlueARGUS™, CheckPoint™ BlueTOAD®, ClearData™ ClearData®, ClearFleet®, ClearGuide®, ClearMobility®, ClearRoute®, CVIEWplus™, Inspect™, Iteris®, PedTrax®, SmartCycle®, SmartCycle Bike Indicator®, SmartSpan®, Spectra™, TrafficCarma®, TrafficCast®, UCRLink™, Vantage®, VantageARGUS CV™, Vantage Apex®, Vantage Fusion™, Vantage Next®, VantagePegasus®, VantageRadius®, VantageLive!®, Vantage Vector®, Velocity®, and VersiCam™ are among, but not all of, the trademarks of Iteris, Inc. Any other trademarks or trade names mentioned herein are the property of their respective owners.

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Cautionary Statement

Regarding Forward-Looking Statements

This report including the following discussion and analysis, contains forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that are based on our current expectations, estimates and projections about our business and our industry, and reflect management's beliefs and certain assumptions made by us based upon information available to us as of the date of this report. When used in this report and the information incorporated herein by reference, the words "expect," "believe," "intend," "plan," "should," "will," "may," "might," "anticipate," "estimate," "could," "should," and similar expressions

or variations of these words are intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements regarding our anticipated growth, sales, revenue, revenues, expenses, profitability, capital needs, backlog, manufacturing capabilities, and the market acceptance of our products and services, competition, the impact of any current or future litigation, the impact of recent accounting pronouncements, the impacts of ongoing and new supply chain constraints, the status of our facilities and product development, reliance on key personnel, general economic conditions, including rising interest rates, and the impact of any current or future volatility or instability in national or international political conditions, any shutdown of the United States federal government, deadlock over the debt ceiling, future responses to and effects impacts of COVID-19 or other future pandemics, and other characterizations of future events or circumstances are forward-looking statements. You should not place undue reliance on these forward-looking statements that speak only as of the date hereof. These statements are not guarantees of future performance and are subject to certain risks and uncertainties that could cause our actual results to differ materially and adversely from those projected. We encourage you to carefully read this annual report on Form 10-K in its entirety, including the various disclosures made by us which describe certain factors which could affect our business, such as those set forth in the "Risk Factors" of Part 1, Item 1A of this report, before deciding to invest in our Company or to maintain or increase your investment. We undertake no obligation to revise or update publicly any forward-looking statement for any reason, including to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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PART I

ITEM 1. BUSINESS

Overview Description of Business

Iteris, Inc. (referred to collectively in this report as "Iteris" "Iteris", the "Company" "Company", "we" "we", "our" "our", and "us" "us") is a provider of smart mobility infrastructure management solutions. Our cloud-enabled solutions help public transportation agencies, municipalities, commercial entities and other transportation infrastructure providers monitor, visualize, and optimize mobility infrastructure to make mobility safe, efficient, and sustainable for everyone.

As a pioneer in intelligent transportation systems ("ITS" ("ITS")) technology, our intellectual property, advanced detection sensors, mobility and traffic data, software-as-a-service ("SaaS" ("SaaS")) offerings, mobility consulting services, and 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.

We believe our products, solutions and services increase vehicle and pedestrian safety and decrease congestion within our communities, while also reducing environmental impact, including vehicle carbon emissions.

We continue to make significant investments to leverage our existing technologies and further enhance our advanced detection sensors, mobility intelligence software, SaaS portfolio, mobility data sets, mobility consulting services, and cloud-enabled managed services. As we are always mindful of capital allocation, we apply significant effort to evaluate and prioritize these investments. Likewise, 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. Our principal executive offices are located at 1250 S Capital of Texas Hwy, Bldg. 1, Suite 330, Austin TX 78746, and our telephone number at that location is (512) 716-0808. Our website address is www.iteris.com. The inclusion of our website address in this report does not include or incorporate by reference into this report any information on, or accessible through, our website. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, together with amendments to these reports, are available on the "Investor Relations" section of our website, free of charge, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the U.S. Securities and Exchange Commission ("SEC" ("SEC")).

Recent Developments Impacting our Business

COVID-19 Update

The COVID-19 pandemic (the "Pandemic") materially adversely impacted global economic conditions. As Although COVID-19 has entered an endemic stage, COVID-19 (including new variants of COVID-19) or other future pandemics may continue to have an unpredictable and unprecedented impact on adversely affect the global economy, economic conditions, including possible additional supply chain disruptions, workplace dislocations, economic contraction, and negative pressure on customer budgets and customer sentiment.

Given the uncertainties surrounding the impacts of When COVID-19 on the Company's future financial condition and results of operations, was considered a public health emergency, we have and may continue to identify and execute various took actions to preserve our liquidity, manage cash flow and strengthen our financial flexibility. Such actions include, included, but are were not limited to, reducing our discretionary spending, reducing capital expenditures, and implementing restructuring activities (see Note 3, Restructuring Activities, to the Financial Statements for more information).

activities.

Our products require specialized parts, some of which have become more difficult to source during the COVID-19 pandemic. In some cases, we have had to purchase such parts from third-party brokers at substantially higher prices. Additionally, The Company's strategies to mitigate the impact of component shortages, we have increased inventory levels for parts in short supply. In the event demand does not materialize, we would need to hold excess inventory for several quarters. Alternatively, we may be unable to source sufficient components at any price, even from third-party brokers, to meet customer demand, resulting in high levels of backlog that we are unable to ship. The Company's tactics to mitigate the current global supply chain issues included re-designing certain circuit boards to accommodate computer chips that are more readily available in the market at more reasonable prices, and by accumulating inventory in the first two quarters of the fiscal year ended March 31, 2023 ("Fiscal 2023"). We have also placed non-cancellable inventory orders for certain products in advance of our normal lead times to secure normal and incremental future supply and capacity and may need to continue to do so in capacity.

We curtailed the future.

Due to the supply chain environment, the Company increased inventory by approximately \$2.9 million as part of the Company's supply chain strategy for Fiscal 2023. The cash flow used in operating activities of our continuing operations was approximately \$4.5 million during the twelve months ended March 31, 2023. Cash used during Fiscal 2023 was primarily due to two factors. First, the planned increase in inventory during the first half of Fiscal 2023 and the continued re-design of certain

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circuit boards as part of the Company's supply chain strategy to help assure the Company has enough product to satisfy customer demand. Second, the net operating loss as a result of higher inventory component costs related to the global supply chain constraints. The increase in inventory purchases and in particular components purchased in the secondary markets was curtailed in the second half of Fiscal 2023, and the Company currently does not expect to continue to accumulate inventory in the same magnitude in future periods. However, if the Company encounters additional supply chain constraints again in the future, it may need to further adjust its operations to have maintain sufficient liquidity.

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 applied certain beneficial provisions of the CARES Act, including the payroll tax deferral and the alternative minimum tax acceleration. As of March 31, 2023, the Company had repaid all amounts deferred under the CARES Act (see Note 5, *Income Taxes*, to the Financial Statements for more information).

COVID-19 has had an impact on the Company's human capital. While our Santa Ana product and commercial operations facility remained open throughout the Pandemic, many of our employees worked remotely during the past three years. With the recent easing of COVID-19 related restrictions imposed by local and state authorities, a larger portion of our workforce has returned to our various facilities while others continue to work remotely. The Company's information technology infrastructure has proven sufficiently flexible to minimize disruptions in required duties and responsibilities. We believe we have the infrastructure to efficiently work remotely during COVID-19's current endemic stage and well into the future.

The Company assessed the impacts of COVID-19 on the estimates and assumptions used in preparing our financial statements. The estimates and assumptions used in our 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 COVID-19, which has entered an endemic stage, and its resulting impact on global economic conditions. If economic conditions caused by COVID-19 do not recover as currently estimated by management, the Company's financial condition, cash flows and results of operations may be materially impacted. The Company will continue to assess the effect of COVID-19 on its operations and the actions implemented to combat the virus throughout the world. As a result, our assessment of the impact of COVID-19 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") and assume certain specified liabilities of the TrafficCast Business.

On May 6, 2022, approximately \$0.9 million was paid to settle the balance of a security hold back agreed to as part of the acquisition, net of approximately \$0.1 million of post-closing adjustments. As of March 31, 2023, the achievement levels of the revenue targets with respect to the earnout were resolved and the balance remaining of approximately \$0.6 million was accrued in accordance with the terms of the agreement. This item is included in accrued liabilities on the balance sheets.

Simultaneous with closing the transaction, the parties entered into certain ancillary agreements that provided Iteris with ongoing access to mapping and monitoring services that the TrafficCast Business used to support its real-time and predictive travel data and associated content until termination of these

agreements on December 6, 2022.

Restructuring Activities

To help offset recent increases in supply chain costs in Fiscal 2023, on May 12, 2022, the our Board of Directors of Iteris, Inc. approved additional restructuring activities to better position the Company for increased profitability and growth. The Company incurred \$0.7 million of employee separation costs in relation to these activities, which were included in restructuring charges on the statement of operations (see Note 3, *Restructuring Activities*, to the Financial Statements for more information).

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Products and Services

Iteris provides comprehensive smart mobility infrastructure management solutions for public-sector and private-sector customers primarily located in North America. These solutions include traveler information systems, transportation performance measurement software, traffic analytics software, transportation operations software, transportation-related data sets, advanced sensing devices, managed services, traffic engineering services, and mobility consulting services.

Software Solutions

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Iteris offers our public-sector and private-sector customers a portfolio of industry-leading smart mobility infrastructure software solutions. These software solutions include ClearGuide, ClearRoute, commercial vehicle operations, Commercial Vehicle Operations ("CVO"), TrafficCarma, VantageLive! and BlueARGUS VantageARGUS CV (previously known as BlueARGUS) as described below.

- ClearGuide, which is provided on a software-as-a-service basis ("SaaS" ("SaaS")), is a state-of-the-art mobility intelligence and transportation performance measures analytics solution. It utilizes a wide range of data resources and analytical techniques to determine current and future traffic patterns to enable the effective performance analysis and management of traffic infrastructure resources at various levels – highway, arterial (i.e., corridor), or intersection. At times, we refer to intersection performance analytics as signal performance measurement ("SPM" ("SPM")). ClearGuide users can measure how a transportation network is performing and identify potential areas of improvement. These applications are also capable of providing users with predictive traffic analytics, and easy-to-use visualization and animation features based on historical traffic conditions.
- ClearRoute delivers contextual, real-time, actionable mobility intelligence and traveler information services on a platform-as-a-service basis. ClearRoute provides multimodal, multilingual, traveler information via mobile apps, websites, email and text alerts, and Interactive Voice Response ("IVR" ("IVR")). The ClearRoute solution benefits from a powerful, flexible and streamlined infrastructure to help reduce congestion and improve safety and mobility for transportation networks across the country, and facilitates frictionless interoperability, flexible provisioning, and robust management of customer focused data.
- Commercial vehicle operations Vehicle Operations and vehicle safety compliance applications, which are provided on a SaaS basis, include various applications branded as ClearFleet, CVIEWplus, CheckPoint, UCRLink, and Inspect. Collectively, these software applications support state-based commercial vehicles operations by storing and distributing intrastate and interstate commercial vehicle information for local, state, and federal agency roadside and enforcement operations.
- TrafficCarma, which is easily white labeled, is the first mobile application focused on the 120 million U.S. daily commuters and their journeys to and from work, train stations, airports, sporting events and other destinations. TrafficCarma provides advice on known route choices, not turn-by-turn navigation. It is

personalized for peoples' people's daily commutes and the roads they drive most. Verified crowdsourced content is combined with road speed data, public agency reports, camera imaging and other metrics and delivers users information relevant to their commute and other personal routes.

- VantageLive! is a SaaS solution that allows users to collect, process and analyze advanced intersection data from our Vantage sensors, as well as to view and understand intersection activity.
- BlueARGUS VantageARGUS CV (previously BlueARGUS) is a SaaS solution that collects, analyzes, and visualizes various information related to travel times, speeds, and origin-destination from our BlueTOAD Spectra sensors and connected vehicle information from our BlueTOAD Spectra RSU sensors.

Mobility Data Sets

ClearData is the enhanced mobility data output of the Iteris ClearMobility Cloud, Platform, a suite of data integration and analytics engines that aggregates and validates both proprietary and diversely sourced data inputs, including incidents, construction and connected vehicle GPS probes. Following processing and quality assurance, ClearData reflects real-time road conditions and is delivered to public-sector and private-sector customers via subscription-based direct data feeds or application programming interfaces ("APIs" ("APIs"), or through ClearGuide, our mobility intelligence and transportation performance measures analytics software solution. The complex, dynamic nature of roadway traffic cannot be explained by any single data source. ClearData resolves data conflicts through proprietary computerized algorithms and selective quality control from experienced traffic analysts.

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Advanced Sensors

Iteris offers advanced intersection detection and other fixed traffic sensors that collectively comprise our two sensor families – Vantage and BlueTOAD. Increasingly, we bundle communications systems and traffic data collection applications (e.g., VantageLive! and BlueARGUS VantageARGUS CV) with our sensor products.

The Vantage family of sensors uses advanced image processing technology, radar technology and other techniques to observe multi-modal traffic (e.g., vehicle, bicycle, and pedestrian), translate these observations into structured data, and apply

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sophisticated, proprietary algorithms to this structured data to optimize traffic signal performance in real-time. Certain Vantage sensors apply machine learning techniques for enhanced object classification. In addition to detecting the presence of objects, our Vantage systems record vehicle count, speed and other traffic information used in traffic management systems. Thus, our Vantage systems give traffic managers the tools to mitigate roadway congestion by visualizing and analyzing traffic patterns, allowing them to modify traffic signal timing to improve traffic flow. Our various software components complement our Vantage detection systems by providing integrated platforms to manage and view detection assets remotely over a network connection, as well as a mobile application for viewing anywhere. The Vantage family of sensors includes Vantage Apex, Vantage Fusion, Vantage Next, VantagePegasus, VantageRadius, Vantage Vector, Velocity, SmartCycle, SmartCycle Bike Indicator, SmartSpan, VersiCam, PedTrax, and P-Series products.

- Vantage Fusion is a connected-vehicle ("CV") focused detection product that tracks and reports vehicles and pedestrians in and around intersections. This product helps the industry bridge the currently fledgling CV market to an eventually CV-dominant world by providing non-CV vehicle locations (and details) to the CV network. This product is developed in partnership with Continental AG, a global automotive parts manufacturer and leading CV equipment provider.

- Vantage Apex is the industry's first full 1080p high-definition ("HD" ("HD")) video and 4D/HD radar hybrid sensor with integrated artificial intelligence (AI) ("AI") algorithms. Vantage Apex provides precise and detailed detection, tracking and classification of traffic.
- Vantage Next uses a powerful processor that enables future functional growth while maintaining proven Iteris video detection performance and reliability. The architecture supports expanding ITS applications and easily integrates with existing technologies and is anticipated to integrate with future technologies.
 - VantagePegasus offers wireless broadband communications for transportation systems. VantagePegasus wireless networks are built with carrier grade radio components that deliver wireless connectivity and the bandwidth for communications from remote sites to a centralized host system.
 - VantageRadius is the industry's leading 4D high-definition radar detection system with an integrated high-resolution video camera for traffic monitoring and detection verification.
- Vantage Vector is a hybrid video and radar detection sensor with a wide range of capabilities, including stop bar and advanced zone detection, which enable advanced safety and adaptive control applications.
 - Velocity takes advantage of the large number of vehicles that are driving with Bluetooth or Wi-Fi enabled devices such as smart phones. Each Velocity reader senses a device's unique "MAC" address as they pass a reader station and transmits the time and location of the device to a central host system. As devices are detected at successive Velocity readers, the Host System calculates average travel times and speeds for a roadway segment. The device specific network address remains totally anonymous.
- SmartCycle capability, which can effectively differentiate between bicycles and other vehicles with a single video detection camera, is available with all of our Vantage systems. SmartCycle enables more efficient signalized intersections, improved traffic throughput and increased bicyclist cyclist safety. Agencies using bicycle timing benefit from bicycle-specific virtual detection zones that can be placed anywhere within the approaching traffic lanes, eliminating the need for separate bicycle-only detection systems.
- SmartCycle Bike Indicator, which leverages the SmartCycle bicycle detection algorithm, is a device that mounts onto traffic signals and illuminates when cyclists waiting at an intersection have been detected, allowing cyclists to avoid interacting with vehicle traffic to push and without pushing pole-mounted buttons.
 - VersiCam, an integrated camera and processor video detection system, is a cost-efficient video detection system for smaller intersections that require only a few detection points.
- PedTrax capability, which is also available with all of our Vantage systems, provides bi-directional pedestrian counting and speed tracking within the crosswalk to help improve signal timing efficiency, as well as providing an additional data stream to existing vehicle and bicycle counts.

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- VersiCam, an P-Series detection cameras are integrated camera machine vision processors and processor video detection system, is a cost-efficient video detection system cameras, designed for smaller use on all types of intersections that require only a few detection points. outside of North America.

The BlueTOAD product family combines unique MAC Address address capture with the latest CV technologies. The combination of these two technologies provides customers with a market leading sensor along with a comprehensive data set that enables advanced analytics through our SaaS offerings. The BlueTOAD family of sensors includes BlueTOAD Spectra and BlueTOAD Spectra RSU, CV, both of which we bundle with a Cloud-based cloud-based software application branded as BlueARGUS.

VantageARGUS CV.

- BlueTOAD Spectra is a complete system for identifying the travel times of vehicles using advanced Bluetooth re-identification techniques. This provides traffic flow information for vehicle travel as well as Origin-Destination information.
- BlueTOAD Spectra **RSU CV** is a full-featured connected vehicle and travel time information system. In addition to travel times and vehicle speeds, it communicates vital safety and mobility information via both DSRC and C-V2X from infrastructure to vehicles and other users.

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

We believe that future growth domestically and internationally for our Vantage family of products will **be dependent, depend**, in part, on the continued replacement **of adoption** of traditional in-pavement loop technology with above-ground video and radar detection technologies to manage traffic.

Managed Services

Iteris Managed Services include traffic management centers ("**TMC**" ("**TMC**")) design, staffing, and operations services **to for** public agencies, whether they need to create a new TMC or migrate an existing TMC network to a virtual environment. Iteris partners with agencies to augment their internal capability and provide the foundation and expertise required to successfully implement virtual TMCs to support goals such as capital or recurring cost savings, operation from any location, and staff security and flexibility.

Additionally, Iteris' **cloud-enabled** managed services combine SaaS, smart sensors and consulting expertise to proactively address the challenges of monitoring and maintaining intersections, arterial roads and highways along with their related in-field technology. These services include **congestion arterial management** and asset management **areas of focus, combining managed services. Our asset management managed service combines** innovative traffic optimization with hardware inventory and maintenance.

With Iteris Managed Services, public transportation agencies, real estate developers, construction firms, and event operators are provided the opportunity to save time and money while **better** keeping road users **safe safer** and ensuring that traffic flows efficiently.

Traffic Engineering and Mobility Consulting

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

ClearMobility Platform

With the **company's Company's** introduction of the ClearMobility Platform, we aligned our entire portfolio of solutions under a common branding structure. We believe this alignment will drive internal synergies, increase our cross-sell rate, enhance sales productivity, and increase market awareness of our entire solutions portfolio. Additionally, **we launched** the ClearMobility **Cloud that Platform** enables seamless interoperation among our solutions via a common mobility data management engine, API framework, and microservices ecosystem that provides standardized data ingestion, cleansing, and analytics, as well as authentication and policy-based security for each component of the ClearMobility Platform. **Our ClearMobility Cloud Platform** is both horizontally scalable and third-party extensible.

Our process of developing, enhancing, aligning, harmonizing, and optimizing our portfolio of individual solutions to a common platform, is an ongoing process, for which the Company's chief operating decision maker ("CODM") evaluates financial and operational performance holistically. As such, beginning in the fiscal year ended March 31, 2022 ("Fiscal 2022") and throughout Fiscal 2023, we reported report as a single operating segment.

Market Conditions

Currently, over 90% of our revenue is revenues are attributable to public-sector customers. Therefore, most of our revenue is dependent upon revenues depend on state and local government funding, and to a lesser extent federal governmental funding. In some cases, this funding is appropriated annually through the respective legislative process. In other cases, various dedicated funding mechanisms exist to support transportation infrastructure and related projects, including, but not limited to dedicated sales and gas tax measures, vehicle and permit fees, and other alternative dedicated funding sources. Additionally, some of our activities may be funded through bond measures.

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We believe that overall demand for our solutions will continue to be dependent depend, at least in part, on the federal and local government's governments' use of funds, and as in the past, our business may be, at times, adversely affected by governmental budgetary issues. The Infrastructure Investment and Jobs Act ("IIJA" ("IIJA")) became effective on November 15, 2021. The IIJA will contribute \$1.2 trillion to fund physical infrastructure and public works, adding \$550 billion to existing levels of transportation-specific funding. With Within that funding pool, areas of direct relevance to Iteris include \$110 billion for roads, bridges and major projects, \$39 billion for public transit, and \$11 billion for transportation safety. However, delays in the appropriation obligation of annual appropriated funding and current debates related to the federal debt ceiling may cause some uncertainty regarding the availability of transportation funds in federal, state and local budgets. Although the pace of actual spending of IIJA funds may lag behind the appropriation process, sometimes significantly, the funds appropriated can continue to be spent after the IIJA expires.

Sales and Marketing

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

We sell our Vantage and BlueTOAD product families along with their related software bundles through both direct and indirect sales channels. Where we sell direct, we use a combination of our own sales personnel and outside sales organizations to sell, oversee installations, and support our products. Our indirect sales channel comprises a network of independent distributors in the U.S. and select international locations, which sell integrated systems and related products to the traffic management market. Our independent distributors are trained in and primarily responsible for the sales, installation, set-up and support of our products. They maintain an inventory of demonstration traffic products from various manufacturers, who sell directly to government agencies and installation contractors. These distributors often have long-term arrangements with local government agencies in their respective territories for the supply of various products for the construction and renovation of traffic intersections, as they are generally well-known suppliers of various high-quality ITS products to the traffic management market. We periodically hold technical training classes for our distributors and end-users, and we maintain a full-time staff of customer support technicians throughout the U.S. to provide technical assistance when needed. When appropriate, we modify or make changes to our distributor network to accommodate the needs of the market and our customer base.

With the acquisition of the TrafficCast Business on December 7, 2020, we now We sell traffic and mobility data and software through a direct sales model to commercial enterprises, such as media companies involved in providing real-time traffic data and traffic incident data to insurance companies, automotive OEMs and the traveling public.

We have historically had a diverse customer base. For the fiscal year ended March 31, 2024 ("Fiscal 2023 2024") and Fiscal 2022, 2023, no individual customer represented greater than 10% of our total revenues. As of March 31, 2023, March 31, 2024 and 2022, 2023, no individual customer accounted for more than 10% of our total trade accounts receivable.

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Manufacturing and Materials

We use contract manufacturers to build subassemblies that are used in our products. Additionally, we procure certain components for our products from qualified suppliers, both in the U.S. and internationally, and generally use multi-sourcing strategies when technically and economically feasible to mitigate supply risk. These subassemblies and components are typically delivered to our Santa Ana, California facility where they go through final assembly and testing prior to shipment to our customers. Our key suppliers include Historically, Veris Manufacturing and MoboTrex, Inc. Our assembly and test activities are conducted has served as our only contract manufacturing services (CMS) partner; however, in approximately 12,000 square feet fiscal 2024, we entered into a contract with a second CMS partner, Creation Technologies. We believe the addition of space at a second CMS partner will help to mitigate potential business discontinuity should either CMS partner be unable to meet its commitments to Iteris. We also believe the addition of a second CMS partner will improve our Santa Ana, California facility, ability to negotiate possible pricing concessions. Production volume at volumes for our subcontractors CMS partners typically is based upon bi-annual forecasts that we generally adjust on a monthly basis to control inventory levels. Our CMS partners deliver manufactured subassemblies and components to our Santa Ana, California facility, which includes approximately 12,000 square feet of space, where they go through final assembly and testing prior to shipment to our customers. Our production facility maintains a Quality Management System that is currently certified as conforming to all requirements of the International Organization for Standardization ("ISO" ("ISO")) 9001:2015 international standard. Additionally, we also purchase and resell certain third-party products at times in order to better service customer needs. These third-party products may be stored and shipped from our Santa Ana facility or one of our regional distribution centers, depending on the type of third-party product and the ultimate customer destination.

Customer Support and Services

We provide warranty service and support for our products, as well as follow-up service and support for which we charge separately. Such service revenue was revenues were not a material portion of our total revenues for Fiscal 2023 2024 and Fiscal 2022, 2023. We believe customer support is a key competitive factor for our Company.

Backlog

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Our total backlog of unfulfilled firm orders was approximately \$114.2 \$123.8 million at March 31, 2023, March 31, 2024. We typically expect to recognize revenue revenues in the range of approximately two-thirds to three-quarters of our backlog as of the end of a fiscal year in the subsequent fiscal year. At March 31, 2022, March 31, 2023, we had backlog of approximately \$99.9 \$114.2 million. The 14% 8.4% increase in backlog in the current fiscal year was generally attributable to overall strong demand for our products and services, as well as the timing of the receipt of some large contracts.

Backlog is an operational measure representing future unearned revenue amounts revenues believed to be firm and earned under existing agreements, but it does not represent the total contract award if a firm purchase order or task order has not yet been issued under the contract. Backlog is not included in deferred revenue revenues on our balance sheets. Backlog does not include contract awards for which definitive contracts have not been executed. We believe backlog is a useful metric for investors, given its relevance to total orders.

The timing and realization of our backlog is subject to the inherent uncertainties of doing business with federal, state and local governments, particularly in view of given budgetary constraints, cut-backs and other delays or reallocations of funding that these entities typically face. In addition, pursuant to the customary terms of our agreements with government contractors and other customers, our customers can generally cancel or reschedule orders with little or no penalties. Lead times for the release of purchase orders often can be affected by a variety of factors including the scheduling and forecasting practices of our individual customers, as well as availability of installation labor and ancillary parts related to installation which we do not manufacture or supply. These factors can affect the timing of the conversion of our backlog into revenues. For these reasons, among others, our backlog at a particular date may might not be indicative of the timing of our future revenues.

Product Development

Our product development activities are mostly conducted at our facilities in Santa Ana, California, and Madison, Wisconsin, as well as using additional employee and partner resources across North America. Our research and development costs and expenses were approximately \$8.3 million \$10.0 million for Fiscal 2023 2024 and \$7.4 million \$8.3 million for Fiscal 2022, 2023. We expect to continue to pursue various product development programs and incur research and development expenditures in future periods.

We believe our engineering and product development capabilities are a competitive strength. We strive to continuously develop new products, technologies, features and functionalities to meet the needs of our ever-changing markets, as well as to enhance, improve upon, and refine our existing product lines. We plan to continue to invest in the development of further enhancement and functionality of our ClearMobility Platform.

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Competition

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

The markets in which we operate are highly fragmented and subject to evolving national and regional quality, operations and safety standards. Our competitors vary in number, scope and breadth of the products and services they offer. Our competitors providing managed services and consulting include a mix of local, regional and international engineering services firms. Our competitors in software products (e.g., performance measurement and management, advanced traveler information systems, asset management software, and our commercial vehicle operations and vehicle safety compliance platforms) include university affiliated software organizations, venture backed software companies, as well as and other multi-disciplinary hardware and software corporations.

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

In general, the markets for the products and services we offer are highly competitive and are characterized by rapidly changing technology and evolving standards. Many of our current and prospective competitors have longer operating histories, greater name recognition, access to larger customer bases, and significantly greater financial, technical, manufacturing, distribution and marketing resources than we do. As a result, they may be able to adapt more quickly to new or emerging standards or technologies, or to devote greater resources to the promotion and sale of their products. It is also possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share. We believe that our ability to compete effectively in our target markets will depend on a number of factors, including the success and timing of our

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new product development, the compatibility of our products with a broad range of computing systems, product quality and performance, reliability, functionality, price and service, and technical support. Our failure to provide services and develop and market products that compete successfully with those of other suppliers and consultants in our target markets could have a material adverse effect on our business, financial condition and results of operations.

Intellectual Property and Proprietary Rights

Our ability to compete effectively depends in part on our ability to develop and maintain the proprietary aspects of our technology. Our policy is to obtain appropriate proprietary rights of protection for any potentially significant new technology acquired we acquire or developed by us, develop. We currently have a total of 31 34 issued U.S. patents, including: (i) 17 relating to our advanced sensor technologies, (ii) 8 10 relating to our engineering and consulting services technologies and (iii) 6 7 related to our purchase of the TrafficCast Business, traffic and mobility software. We have a total of 2 pending patent applications in the U.S. We currently have 5 9 issued foreign patents and 2 1 foreign patent applications application related to our purchase of the TrafficCast Business, traffic and mobility software. The expiration dates of our patents range from 2026 to 2040, 2042. We intend to pursue additional patent protection to the extent we believe it would be beneficial and cost-effective.

In addition to patent laws, we rely on copyright and trade secret laws to protect our proprietary rights. We attempt to protect our trade secrets and other proprietary information through agreements with customers and suppliers, proprietary information agreements with our employees and consultants, and other

similar measures. We do not have any material licenses or trademarks other than those relating to product names. We cannot be certain that we will be successful in protecting our proprietary rights. While we believe our patents, patent applications, software and other proprietary know-how have value, rapidly evolving technology makes our future success dependent largely upon our ability to successfully achieve continuing innovation.

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As a provider of traffic engineering services, hardware products, software and other various solutions for the traffic industry, the Company is, and may in the future from time to time, be involved in litigation in the normal course of business related to our intellectual property rights and the intellectual property rights of others. While the Company cannot accurately predict the outcome of any such litigation, the Company is not a party to any litigation or other legal proceedings related to its intellectual property or the intellectual property of others, the outcome of which, in management's opinion, individually or in the aggregate, would have a material effect on the Company's results of operations, financial position or cash flows. An adverse outcome in such litigation or similar proceedings could subject us to significant liabilities to third parties, require disputed rights to be licensed from others or require us to cease marketing or using certain products, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, the cost of addressing any intellectual property litigation claim, both in legal fees and expenses, as well as from the diversion of management's resources, regardless of whether the claim is valid, could be significant and could have a material adverse effect on our business, financial condition and results of operations, regardless of a claim's validity.

Employees

As of March 31, 2023 March 31, 2024, we employed 450 454 full-time employees and 17 18 part-time employees, for a total of 467 472 employees. None of our employees are represented by a labor union, and we have never experienced a work stoppage. We believe our relations with our employees are good.

Government Regulation

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

ITEM 1A. RISK FACTORS

Our business is subject to a number of risks, some of which are discussed below. Other risks are presented elsewhere in this report and in the information incorporated by reference into this report. You should consider the following risks carefully in addition to the other information contained in this report and our other filings with the SEC, including our subsequent quarterly reports on Form 10-Q and current reports on Form 8-K, before deciding to buy, sell or hold our common stock. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not

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presently known to us or that we currently deem immaterial may also affect our business operations. If any of these risks actually occurs, our business, financial condition, or results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose all or part of your investment.

Risk Related to Our Business

Because we depend on government contracts and subcontracts, we face additional risks related to contracting with federal, state and local governments, including budgetary issues and fixed price contracts, that could adversely impact our future revenues and profitability.

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

- delays in funding and uncertainty regarding the allocation of funds to state and local agencies from the U.S. federal government, and delays or reductions in other state and local funding dedicated for transportation and ITS projects;
- other government personnel or budgetary constraints, including local governments not having sufficient personnel to pursue projects; reaching the current federal debt ceiling; and/or cut-backs, delays or reallocation of government funding, including without limitation, changes in the administration and repeal of government purchasing programs;

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- audits, litigation or investigations that delay or otherwise negatively impact the funding for certain government projects;
- long purchase cycles or approval processes;
- competitive bidding and qualification requirements, as well as our ability to replace large contracts once they have been completed;
- changes in government policies and political agendas;
- maintenance of relationships with key government entities from whom a substantial portion of our revenue revenues is derived;
- milestone deliverable requirements and liquidated damage and/or contract termination provisions for failure to meet contract milestone requirements;
- performance bond requirements;
- potential government shutdowns and related uncertainty with respect to the federal budget and debt ceiling;
- adverse weather conditions or other natural or health disasters or developments, such as COVID-19, and evacuations and flooding due to hurricanes, or severe storms, can result in our inability to perform work in affected areas; and
- international relations and international conflicts such as the war in Ukraine and the war in the Middle East, or other military operations that could cause the temporary or permanent diversion of government funding from transportation or other infrastructure projects.

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

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

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address any of the foregoing concerns or the loss or renegotiation of any material government contract could seriously harm our business, financial condition and results of operations.

Our profitability could be adversely affected if we are not able to maintain adequate utilization of our engineering and consulting workforce.

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

- our ability to transition employees from completed projects to new assignments and to hire and assimilate new employees;
- our ability to forecast demand for our services and thereby maintain an appropriate headcount in our various regions and related professional disciplines;
- the timing of new contract awards, the commencement of work under an awarded contract or the completion of large contracts;

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- the availability of project funding or other project budget issues;
 - our need to devote time and resources to training, business development, professional development and other non-chargeable activities; and
 - our ability to match the skill sets of our employees to the needs of the marketplace.

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

Our management information systems and databases have been and could in the future be disrupted by data protection breaches, system security failures, cyber threats or by the failure of, or lack of access to, our internal operations, such as our enterprise resource planning ("ERP") ("ERP") system, or services provided to our customers. These disruptions could negatively impact our sales, increase our expenses, significantly harm our reputation and/or adversely affect our stock price.

Experienced users and computer programmers may be able to penetrate, or "hack" "hack", our network security and create system disruptions, cause shutdowns and compromise or misappropriate our confidential information or that of our employees and third parties. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our internal network, any of our systems, service offerings or otherwise exploit any security vulnerabilities of our network, systems or service offerings. In addition, sophisticated services, hardware and operating system software and applications that we procure from third parties may contain defects in design or manufacture, including "bugs" "bugs" and other problems that could unexpectedly interfere with the operation of a system. We could incur expenses addressing problems created by cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities, and our efforts to address these problems may might not be successful. We must, and do, take precautions to secure customer information and prevent unauthorized access to our databases and systems containing confidential information. Any data security event, such as a breach, data loss or information security lapses, whether resulting in the compromise of personal information or the improper use or disclosure of confidential, sensitive or classified information, could result in interruptions, cessation of service(s), claims, remediation costs, regulatory sanctions against us, loss of current and future contracts, adverse effects to results of operations and financial condition, serious harm to our reputation and/or adverse effects to our stock price. We operate our ERP system and other key business systems on SaaS platforms, and we use these systems for reporting, planning, sales, audit, inventory control, loss prevention, purchase order management and business intelligence. Accordingly, we depend on these systems, and the third-party providers of these services, for a number of aspects of our operations. If these service providers or these systems fail, or if we are unable to continue to have access to these systems on commercially reasonable terms, or at all, operations could be severely disrupted until an equivalent system(s) could be identified, licensed or developed, and integrated into our operations. This disruption could have a material adverse effect on our business, business and due to the evolving nature of these cyber and other security threats, the potential impact of any future incident cannot be predicted. We carry insurance, including cyber insurance, commensurate with our size and the nature of our operations, although there is no certainty that such insurance will in all cases be sufficient to fully reimburse adequately cover us for all costs and losses incurred in connection with the occurrence of any of these system security risks, data protection breaches, cyber-attacks or other events.

If unauthorized access is obtained to our customer's customer's personal and/or proprietary data in connection with our web-based and mobile application solutions and services, we may suffer various negative impacts, including a loss of customer and

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market confidence, loss of customer loyalty, and significant liability to our customers and to individuals or businesses whose information was being stored.

Protecting **data of our customers** **customers' data** is critical to our business, and if there is unauthorized access, we may incur significant costs or liabilities. In addition, we are required to comply with government contracting requirements and make investments in our systems to protect that data. If we are unable to do so, our customers may lose confidence in us, which would harm our sales, and we may incur significant expenses or liabilities.

Acquisitions, of companies or technologies may require us to undertake significant capital infusions investments and divestitures could result in disruptions of operating difficulties, dilution, and other consequences that may adversely affect our business and diversion results of resources operations.

Acquisitions, investments and management attention.

divestitures are important elements of our overall corporate strategy and use of capital, and these transactions could be material to our financial conditions and results of operations. We completed the acquisition of TrafficCast in December 2020 and we plan expect to continue to explore evaluate and enter into discussions regarding potential strategic transactions, including acquiring additional complementary businesses, products, services, and technologies. Acquisitions may require significant capital infusions which could be in the form of include debt, equity, or both, and, in convertible securities. In general, acquisitions strategic transactions also involve a number of special risks, including:

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- potential disruption the strategic benefits and opportunities from any planned or completed acquisition or divestiture by the Company might not be realized or may take longer to realize than expected;
- strategic benefits and opportunities related to past and ongoing restructuring actions might not be realized or may take longer to realize than expected;
- our ability to realize the expected financial benefits of an acquisition, divestiture or other strategic transaction might not be realized or may take longer to realize than expected;
- cost reductions might not occur as expected;
- management time and focus may be diverted from operating our ongoing business due to challenges related to acquisitions and the diversion of our resources and management's attention; other strategic transactions;
- the failure to retain or integrate key acquired personnel;
- the challenge of assimilating diverse business cultures, and the difficulties in integrating the operations, technologies and information system of the acquired companies;
- increased costs to improve managerial, operational, financial and administrative systems and to eliminate duplicative services;
- failure to successfully further develop the acquired business or technology;
- the incurrence of unforeseen obligations or liabilities;
- potential impairment of relationships with employees or customers as a result of changes in management;
- increased interest expense or increased share or equity dilution; and
- amortization of acquired intangible assets, as well as unanticipated accounting charges.

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

Acquisitions, investments and divestitures could result in operating difficulties, dilution, and other consequences that may adversely affect our business and results of operations.

Acquisitions, investments and divestitures are important elements of our overall corporate strategy and use of capital, and these transactions could be material to our financial condition and results of operations. We expect to continue to evaluate and enter into discussions regarding potential strategic transactions. These strategic transactions could create unforeseen operating difficulties and expenditures. We face risks that include, among other things:

- the strategic benefits and opportunities from any planned or completed acquisition or divestiture by the Company may not be realized or may take longer to realize than expected;
- strategic benefits and opportunities related to past and ongoing restructuring actions may not be realized or may take longer to realize than expected;
- our ability to realize the expected financial benefits of an acquisition, divestiture or other strategic transaction may not be realized or may take longer to realize than expected;
- cost reductions may not occur as expected;
- management time and focus may be diverted from operating our business to challenges related to acquisitions and other strategic transactions;

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- cultural challenges may arise associated with integrating employees from the acquired company into our organization, and retention of employees from the businesses we acquire; and
- we may fail to successfully further develop the acquired business or technology.

transaction. Our failure to address the risks and other issues in connection with our past or future acquisitions and other strategic transactions could cause us to not realize their anticipated benefits and opportunities, incur unanticipated liabilities, experience increased costs, and harm our business generally.

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

We invest in software development and have in the past and may in the future experience development and technical challenges. Our business and results of operations could also be seriously harmed by any significant delays in our software development activities. Despite testing and quality control, we cannot be certain that errors will not be found exist in our software after its release. Any faults or errors in our existing products or in any new products may cause delays in delay product introduction introductions and shipments, require design modifications, or harm customer relationships or our reputation, any of which could adversely affect our business and competitive position. In addition, software companies are subject to litigation concerning intellectual property disputes, which could be costly and distract our management. During the twelve months ended March 31, 2022, due to delays in the completion of a software development contract with a customer, the Company No losses on contracts were recorded an estimated loss on a contract of approximately \$3.4 million. The terms of the contract have since been amended to a time and materials structure and no further additional contract losses are expected for this contract. No further subsequent loss on this contract was recorded through the year ended March 31, 2023 during Fiscal 2024 based on our assessment. The estimates and assumptions used in these assessments were based upon management's management's judgment and may be subject to change as new events occur and additional information is obtained. If the future estimated costs to fulfill a contract exceed the expected consideration from the customer, the Company's Company's financial condition, cash flows, and results of operations may be adversely and materially impacted.

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

Our In general, our markets are **in general** characterized by the following factors:

- rapid technological advances;
- downward price pressures in our target markets as technologies mature;
- changes in customer requirements;
- additional qualification requirements related to new products or components;
- frequent new product introductions and enhancements;

- obsolescence of certain parts and components from time to time that may require re-engineering of certain portions of our product or products;
- inventory issues related to transition to new or enhanced models; and
- evolving industry standards and changes in the regulatory environment.

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

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

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

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

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

We have historically experienced volatility in our earnings and cash flows from operations from year to year. Should the financial results of our business decline, we We may need or choose to raise additional capital to fund our operations, to repay indebtedness, pursue acquisitions or expand our operations. Such additional capital may be raised through bank borrowings, or other debt or equity financings, financings, or some combination of capital sources. We cannot assure you that any additional capital will be available on a timely basis, on acceptable terms, or at all, and such additional financing may result in further dilution to our stockholders.

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

- market acceptance of our products and product enhancements, and the overall level of sales of our products;
- our ability to control costs and achieve profitability;

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- the supply of key components for our products;
 - our ability to increase revenue revenues and net income;
 - increased research and development expenses and sales and marketing expenses;
 - our need to respond to technological advancements and our competitors' competitors' introductions of new products or technologies;
 - capital improvements to new and existing facilities and enhancements to our infrastructure and systems;

- any acquisitions of businesses, technologies, product lines, or possible strategic transactions or dispositions;
- our relationships with customers and suppliers;
- government budgets, political agendas and other funding issues, including potential delays in government contract awards or commencement of work for a project;
- our ability to successfully secure credit arrangements with banks or other lenders and/or negotiate equity arrangements subject to the state of the financial markets in general; and
- general economic conditions, including the effects of economic slowdowns and international conflicts.

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

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

Our competitors tend to vary across the various product categories in which we participate.

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

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

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

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

Our business depends on our ability to successfully bid on new contracts and renew existing contracts with private and public sector customers. We continually bid on new contracts and negotiate contract renewals on expiring contracts. Contract proposals and negotiations are complex and frequently involve a lengthy bidding and selection process, which are affected by a number of factors, such as market conditions, financing arrangements and required governmental approvals. As a condition to contract award, customers typically require us to provide a surety bond or letter of credit to protect the client should we fail to perform under the terms of the contract. Government entities are also taking more time between contract award and approval to commence work under the contract, which delays our ability to recognize revenues under the contract. If negative market conditions materialize, or if we fail to secure adequate financing arrangements or the required governmental approval or fail to meet other required conditions, we may not be able to pursue, obtain or perform particular projects, which could reduce or eliminate our profitability.

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

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

COVID-19 could continue to have an adverse effect on our business.

COVID-19 has affected and may continue to adversely impact our financial condition and results of operations. Although COVID-19 has entered an endemic stage, it may continue to have an unpredictable and unprecedented impact on the global economy including possible additional supply chain disruptions, workplace dislocations, economic contraction, and negative pressure on some customer budgets and customer sentiment. All of these factors have had or could result in future material negative impacts on our ability to ensure a consistent supply chain for manufacturing of our hardware products, and maintain the effectiveness and productivity of our operations.

Given the uncertainties surrounding the impacts of COVID-19 on the Company's future financial condition and results of operations, we have and may continue to identify and execute various actions to preserve our liquidity, manage cash flow and

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strengthen our financial flexibility. Such actions include, but are not limited to, reducing our discretionary spending, reducing capital expenditures, and implementing restructuring activities (see Note 3, *Restructuring Activities*, to the Financial Statements for more information).

Our products require specialized parts which have become more difficult to source. In some cases, we have had to purchase such parts from third-party brokers at substantially higher prices. Additionally, to mitigate the impact of component shortages, we increased inventory levels for parts in short supply. In the event demand does not materialize, we would need to hold excess inventory for several quarters. Alternatively, we may be unable to source sufficient components at any price, even from third-party brokers, to meet customer demand, resulting in high levels of backlog that we are unable to ship. The Company's tactics to mitigate the current global supply chain issues included re-designing certain circuit boards to accommodate computer chips that are more readily available in the market at more reasonable prices, and by accumulating inventory in the first two quarters for the Fiscal 2023. We have placed non-cancellable inventory orders for certain products in advance of our normal lead times to secure normal and incremental future supply and capacity and may need to continue to do so in the future.

The Company cannot predict the duration or direction of current trends or their sustained impact. As COVID-19 has entered an endemic stage, the Company will continue to assess the effects on its operations. While the spread of COVID-19 has slowed and certain challenges have been abated, uncertainty remains about the duration and extent of the impact of COVID-19 and its resulting impact on global economic conditions. If economic conditions caused by COVID-19 persists or do not recover as currently estimated by management, the Company's financial condition, cash flows and results of operations may be materially impacted.

Industry consolidation may lead to increased competition and may harm our operating results.

There is a continuing trend toward industry consolidation in our markets. We expect this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations. For example, some of our current and potential competitors for transportation infrastructure solutions have made acquisitions, or announced new strategic alliances, designed to position them with the ability to provide end-to-end technology solutions for the transportation industry. Companies that are strategic alliance partners in some areas of our business may acquire or form alliances with our competitors, thereby reducing their business with us. We believe that industry consolidation may result in stronger competitors that are better able to compete as sole-source vendors for public transportation agencies, municipalities, and commercial entities. This could lead to more variability in our operating results and could have a material adverse effect on our business, operating results, and financial condition.

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The ongoing war between Russia and Ukraine

International conflicts could adversely affect our business, financial condition and results of operations.

On February 24, 2022, Russian military forces launched a military attack on Ukraine and sustained conflict and disruption in Ukraine and the region Middle East is likely. Although likely and although the length, impact lengths, impacts and outcome outcomes of the ongoing war wars in Ukraine is and the Middle East are highly unpredictable, this conflict these conflicts could lead to significant market and other disruptions, including significant volatility in commodity prices and supply of energy resources, instability in financial markets, supply chain interruptions, political and social instability, changes in government agency budgets and funding preferences as well as increase in cyberattacks and cyber and corporate espionage. To date we have not experienced any material interruptions in our infrastructure, supplies, technology systems or networks needed to support our operations. We are actively monitoring the Situation situations in Ukraine and the Middle East and assessing its impact the potential impacts on our business. The extent and duration of the war wars and resulting market disruptions could be significant and could potentially have substantial impact on the global economy and our business for an unknown period of time. Any such disruptions may also magnify the impact of other risks described in this Annual Report on Form 10-K.

Increased frequency of severe and extreme weather events associated with climate change could adversely impact our facilities, interfere with intersection construction projects, and have a material impact on our financial condition, cash flows and results of operations

We take climate change and its associated risks seriously. More extreme and volatile temperatures, increased storm intensity and flooding, and more volatile precipitation are among the climate-related events that are most likely to impact our business. We are unable to predict the timing or magnitude of these events. However, we perform ongoing assessments of physical risk, including physical climate risk, to our business and efforts to mitigate these physical risks continue to be implemented on an ongoing basis. Increased frequency of severe and extreme weather events associated with climate change could adversely impact our and our clients' businesses and facilities, interfere with intersection construction projects, cause work stoppages and project delays or cancellations, and have a material impact on our financial condition, cash flows and results of operations.

The availability and regulation of data we purchase and use in certain of our Mobility Data Sets may become more limited due to changes in strategy or financial health of data suppliers, restrictive, and adversely affect performance of our products or the cost of data purchased.

A recent The announcement of by Wejo Group Limited to appoint an administrator due to insolvency, and the change in strategy of Otonomo Technologies Ltd. after being acquired, both reduced the number of suppliers selling provisioning data to us for use in some of our Mobility Data sets. Although similar data can be purchased supplied from other sources, reductions in the number of, or other future changes in, key data sources or availability could adversely affect the breadth, quality and value of our Mobility Data Sets and/or the cost to purchase data. In addition, any future increased data privacy regulation, which could be impacted by which political party controls Congress and/or the White House after the 2024 elections, could constrain our Mobility Data business by limiting data availability and sources and reduce quality of roadway traffic analysis. Any of these occurrences could have a material adverse effect on our reputation, profitability or revenue.

Our business could be negatively affected as a result of actions of activist stockholders or others.

We may be subject to actions or proposals from stockholders or others that might not align with our business strategies or the interests of our other stockholders. Responding to such actions can be costly and time-consuming, disrupt our business and operations, and divert the attention of our Board of Directors, management, and employees from the pursuit of our business strategies. Such activities could interfere with our ability to execute our strategic plan. Activist stockholders or others may create perceived uncertainties as to the future direction of our business or strategy which may be exploited by our competitors and may make it more difficult to attract and retain qualified personnel and potential customers, and may affect our relationships with current customers, vendors, investors, and other third parties. In addition, a proxy contest for the election of directors at our annual meeting would require us to incur significant legal fees and proxy solicitation expenses and require significant time and attention by management and our Board of Directors. The perceived uncertainties as to our future direction also could affect the market price and volatility of our securities.

Our stock repurchase program may adversely affect our liquidity and cause fluctuations in our stock price.

On May 12, 2022, the Board of Directors approved a plan for the Company to acquire up to \$10.0 million of our outstanding common stock for an unspecified length of time (the "2022 Stock Repurchase Program"). During the fiscal year ended Fiscal 2024, we repurchased 39,861 shares for an aggregate price of approximately \$0.2 million, at an average price of \$4.54 per share. From the inception of the 2022 Stock Repurchase Program through March 31, 2024, we repurchased approximately 339,861 shares of our common stock for an aggregate price of approximately \$1.1 million, at an average price per share of \$3.14. As of March 31, 2024, approximately \$8.9 million remained available for the repurchase of our common stock under the 2022 Stock Repurchase Program.

Potential future stock repurchases under the stock share repurchase program could be funded by operating cash flow or excess cash balances. Repurchases under the stock repurchase program may adversely affect our liquidity, which in turn could impact our profitability, financial condition and results of operations. In addition, repurchases under the stock repurchase program will reduce the number of shares of our common stock available for purchase and sale in the public market, which could affect the market price of our common stock. Furthermore, the Inflation Reduction Act of 2022, which was signed into law in August 2022, imposes a non-deductible 1% excise tax on the fair market value of stock repurchases after December 31, 2022, that exceed \$1.0 million in a taxable year, which may impact the tax efficiency of our stock repurchase program.

COVID-19, or other future pandemics, could continue to have an adverse effect on our business.

Although COVID-19 has entered an endemic stage, COVID-19 (including new variants of COVID-19) or other future pandemics may adversely affect the global economic conditions, including possible additional supply chain disruptions, workplace dislocations, economic contraction, and negative pressure on customer budgets and customer sentiment. When COVID-19 was considered a public health emergency, we took actions to preserve our liquidity, manage cash flow and strengthen our financial flexibility. Such actions included, but were not limited to, reducing our discretionary spending, reducing capital expenditures, and implementing restructuring activities.

Our products require specialized parts, some of which became more difficult to source during the COVID-19 pandemic. In some cases, we had to purchase such parts from third-party brokers at substantially higher prices. The Company's strategies to mitigate global supply chain issues included re-designing certain circuit boards to accommodate computer chips that are more readily available in the market at more reasonable prices, and accumulating inventory in the first two quarters of Fiscal 2023. We also placed non-cancellable inventory orders for certain products in advance of our normal lead times to secure normal and incremental future supply and capacity. If the Company encounters additional supply chain constraints again in the future, it may need to further adjust its operations to maintain sufficient liquidity.

Legal and Regulatory Risks

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

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

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

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

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

We may experience adverse impacts related to Artificial Intelligence ("AI") laws.

While we are working to increase our use of AI with initiatives, such as further enhancing our hybrid sensor technologies with integrated AI algorithms to provide precise and detailed detection, tracking and classification of traffic, there is also increasing regulatory scrutiny in the use of machine learning and AI. AI presents risks and challenges that could affect its adoption, such as uncertainty in the legal regulatory environment relating to AI may require significant resources to modify or change our business or product offerings to comply with U.S. and non-U.S. laws, the scale and nature are unknown at this time. For example, on October 30, 2023, the Biden administration issued an Executive Order to, among other things, establish extensive new standards for AI safety and security. Other jurisdictions may decide to adopt similar or more restrictive legislation that may render the use of such technologies challenging or prohibited. These obligations may make it harder for us to use AI in our business, and require us to change our product offerings, or prevent or limit our use of AI. If we cannot use AI, or that use is restricted, our product offerings may be less efficient, or we may be less competitive, which could adversely affect our business, reputation, financial conditions, and results of operations.

Financial and Market Risks

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

We had a GAAP net income of approximately \$3.1 million in Fiscal 2024 and net loss of approximately \$14.9 million \$14.9 million in Fiscal 2023, net loss of \$7.1 million in Fiscal 2022, and we 2023. We cannot assure you ensure that we will be profitable able to maintain profitability in the future. Our ability to operate at a profit in future periods could be impacted by governmental budgetary constraints, government and political agendas, economic instability, supply chain constraints and other items that are not in beyond our control. Furthermore, we rely on operating profits to fund investments in sales and marketing and research and development initiatives. We cannot assure you ensure that our financial performance will sustain a sufficient level to completely support those investments. Most of our expenses are fixed in advance. As such, we generally are unable to reduce our expenses significantly in the short-term to compensate for any unexpected delay or decrease in anticipated revenues or increases in planned investments.

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

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

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

A portion of our engineering and consulting services revenues are is measured and recognized over time using the input method of measuring progress to completion. Our use of this accounting method results in recognition of revenues and profits proportionally over the life of a contract, based generally on the

proportion of costs incurred to date to total costs expected to be incurred for the entire project. The effects of revisions to estimated costs and resulting revenues recognized are recorded when the amounts are known or can be reasonably estimated based on updated information. Such revisions could occur in any period and their effects could be material. Although we have historically made reasonably reliable estimates of the progress towards completion of long-term engineering, program management, construction management or construction contracts, the uncertainties inherent in the estimating process make it possible for actual costs to vary materially from estimates which may result in reductions or reversals of previously recorded revenues and profits.

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

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

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

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

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

- delays in government contracts and funding from time to time and budgetary constraints at the federal, state and local levels;
- our customers' or our ability to access stimulus funding, funding from the federal transportation bills or other government funding;

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- declines in new home and commercial real estate construction and related road and other infrastructure construction;
 - changes in our pricing policies and the pricing policies of our suppliers and competitors, pricing concessions on volume sales, as well as increased price competition in general;
 - the long lead times associated with government contracts;

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- the size, timing, rescheduling or cancellation of significant vendor and customer orders;
- our ability to control costs, including costs associated with strategic alternatives;

- the mix of our products and services sold in a quarter, which has varied and is expected to continue to vary from time to time;
- our ability to develop, introduce, patent, market and gain market acceptance of new products, applications and product enhancements in a timely manner, or at all;
- market acceptance of the products incorporating our technologies and products;
- the introduction of new products by competitors;
- the availability and cost of components used in the manufacture of our products;
- our success in expanding and implementing our sales and marketing programs;
- the effects of technological changes in our target markets;
- the amount of our backlog at any given time;
- timing of backlog fulfillment;
- the nature of our government contracts;
- decrease in revenues derived from key or significant customers;
- deferrals of customer orders in anticipation of new products, applications or product enhancements;
- interruptions or other significant disruption in our supply chain which may negatively impact our ability to ship products and/or the cost of our products;
- risks and uncertainties associated with our international business;
- market condition changes such as industry consolidations that could slow down threaten our ability to procure new business;
- general economic and political conditions;
- our ability to raise additional capital;
- pandemic and epidemic events, such as COVID-19, which may have a continuing impact on our future operating results;
- international wars, conflicts, and acts of terrorism; and
- other factors beyond our control, including but not limited to, natural disasters.

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

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

We have experienced, and may from time to time in the future continue to experience parts shortages, end of life events, sharp increases in component costs and unforeseen quality control issues by our suppliers that may impact our ability to meet demand for our products. COVID-19 has increased the occurrence of such shortages and increased costs for materials. We Although we have transitioned to using multi-sourcing strategies when technically and economically feasible to mitigate supply risk, we historically used, and in some cases continue to use, single suppliers for certain significant key components in our products; however, in light of the current supply chain shortage we have begun to use other suppliers to meet our demand, and products. Additionally, we have had to reengineer products from time to time to address discontinued, obsolete or unavailable components. Our products are also included deployed with other traffic intersection products that also could experience supply issues for their products, which in turn could result in delays in orders for our products. Should any such supply delay or disruption occur, or should a key supplier discontinue operations, our future sales and costs may be materially and adversely affected. Additionally, we rely heavily on select contract manufacturers to produce many of our products and do not have any long-term contracts to guarantee supply of such products. Although we believe our contract manufacturers have sufficient capacity to meet our production schedules for the foreseeable future and we believe we could find alternative contract manufacturing sources for many of our products, if necessary, we could experience a production gap should for any reason our contract manufacturers

become unable to meet our production requirements and the cost of our products could increase, adversely affecting our margins. Further, foreign imports of components in our products subject the Company to risks of changes in, or the imposition of new, export/import requirements, tariffs, work stoppages, delays in shipment, product cost increases due to component shortages, public health issues, such as COVID-19, that could lead to temporary closures of facilities or shipping ports, and other economic uncertainties affecting trade between the U.S. and other countries where we source components for our products. Any such actions could increase the cost to us of such products and cause increases in the prices at which we sell such products, which could adversely affect **the our financial performance of our business, performance.** Similarly, these actions could result in cost increases or supply chain delays that impact third party products (e.g., steel poles) which could lead our customers to delay or cancel planned purchases of our products.

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

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

- political, social and economic instability, as well as international conflicts and acts of terrorism;
- bonding requirements for certain international projects;
- longer accounts receivable payment cycles;
- import and export license requirements and restrictions of the U.S., as well as requirements and restrictions in the other countries in which we operate;
- currency **exchange rate** fluctuations and restrictions, and our ability to repatriate currency from certain foreign regions;
- unexpected changes in regulatory requirements, tariffs and other trade barriers or restrictions;
- required compliance with existing and new foreign regulatory requirements and laws, more restrictive labor laws and obligations, including but not limited to the U.S. Foreign Corrupt Practices Act;
- difficulties in managing and staffing international operations;
- potentially adverse tax consequences;
- reduced protection for intellectual property rights in some countries; and
- pandemic and epidemic events, such as COVID-19, and related government responses, including travel restrictions, quarantines and **"stay-at-home" "stay-at-home"** orders.

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

Any of the factors mentioned above may adversely affect our future international revenues and, consequently, affect our business, financial condition and operating results. Additionally, as we pursue the expansion of our international business,

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

The trading price of our common stock is highly volatile.

The trading price of our common stock has been subject to wide fluctuations in the past, historically fluctuated widely. From March 31, 2020 through March 31, 2021, our common stock has traded at prices as low as \$2.40 per share and as high as \$7.81 per share. The market price of our common stock could continue to fluctuate in the future in response to various factors, including, but not limited to:

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

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

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

Provisions of our certificate of incorporation could make it difficult for a third party to influence or acquire us, even though that might be beneficial to our stockholders. Such provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. For example, under the terms of our certificate of incorporation, our Board of Directors is authorized to issue, without stockholder approval, up to 2,000,000 shares of preferred stock with voting, conversion and other rights and preferences superior to those of our common stock. In addition, our bylaws contain provisions governing the ability of stockholders to submit proposals or make nominations for directors. We may also adopt provisions and agreements from time to time that could make it harder for a potential acquirer.

Our bylaws include a forum selection clause, which may impact the ability of our stockholders to bring actions against us.

Subject to certain limitations, and to the fullest extent permitted by law, our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery in the State of Delaware (or, in the event that the Chancery Court does not have jurisdiction, the federal district court for the District of Delaware or other state courts of the State of Delaware) will be the sole and exclusive forum for: (a) any derivative action or proceeding brought on our behalf; (b) any action asserting a claim of breach of fiduciary duty owed by any of our directors, officers or other employees or our stockholders; (c) any action asserting a claim arising pursuant to any provision of the Delaware General Corporate Law or our certificate of incorporation or bylaws; (d) any action to interpret, apply, enforce or determine the validity of our certificate of incorporation or bylaws; or (e) any action asserting a claim governed by the internal affairs doctrine. These limitations on the forum in which stockholders may initiate action against us could create costs or, inconvenience or otherwise adversely affect our stockholders.

ability to seek legal redress. If a court were to find the forum-selection provisions contained in our bylaws to be unenforceable, we may incur additional costs associated with resolving proceedings in forums other than the Court of Chancery in the State of Delaware and the federal district courts of the United States.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. CYBERSECURITY

Risk Management and Strategy

We have established processes to assess, identify, and manage risks from cybersecurity threats as part of our broader enterprise-wide risk management system and processes, which is overseen by our Board of Directors through our Audit Committee, along with our executive management.

To assess and manage risks from cybersecurity threats, we maintain a cybersecurity risk management program (the "Cybersecurity Program") that employs the Critical Security Controls framework developed by the Center for Internet Security as the foundation. Our Information Security team, composed of members of the Company's Corporate Information Technology ("IT") Department and Software Product Operations team, is tasked with monitoring and assessing, and the day-to-day management of, cybersecurity and operational risks related to information security and system disruption. The Cybersecurity Program includes, among other elements:

- ongoing identification and assessment of cybersecurity threats based on periodic internal and external assessments and monitoring;
- technical and organizational measures designed to protect against, detect, and respond to cybersecurity threats, including documented processes, procedures and technical controls aligned with our information security management system;
- an incident management and response program that continuously monitors the Company's information systems for vulnerabilities, threats, and incidents; manages and takes action to contain incidents that occur; remediates vulnerabilities; and communicates the details of threats and incidents to management, as deemed necessary or appropriate; and

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Table• [organization-wide cybersecurity training and compliance exercises, including formal educational material and compliance testing that is administered to all employees on an annual basis, as well as ad hoc testing and awareness exercises.](#)

The Company also engages external experts to assist in its assessment, identification, and management of **Contents** risks from cybersecurity threats. These experts include cybersecurity consultants that we engage as part of our continuing efforts to evaluate and improve the effectiveness of our Cybersecurity Program, and other cybersecurity service providers that help secure our systems and networks. The Company also uses specialized third-party software tools to identify, monitor and mitigate risks from cybersecurity risks.

Our Cybersecurity Program also addresses cybersecurity risks associated with our use of third-party service providers, in particular those identified as critical to the functioning of our business. To that end, we take cybersecurity considerations into account in the selection of our third-party service providers. We perform cybersecurity diligence on third parties that have access to our systems, data or facilities that house such systems or data, and continually monitor cybersecurity risks identified through such diligence, and we require those third parties to implement appropriate cybersecurity controls with respect to the services they provide to us.

As of the date of this Annual Report, the Company has not identified any risks from cybersecurity threats, including as the result of any previous cybersecurity incidents, that have materially affected or are reasonably likely to materially affect the Company, including our business strategy, results of operations or financial condition, but there can be no assurance that any such risk will not materially affect the Company in the future. For further information about the cybersecurity risks we face, and potential impacts, see Part I, Item 1A, "Risk Factors."

Governance

The Board of Directors is responsible for overseeing our enterprise risk management program. The Audit Committee, which consists solely of independent directors, has been designated by our Board to oversee cybersecurity risks and our processes to identify, prioritize, assess, manage, and mitigate those risks. The Audit Committee receives quarterly updates, or more frequently as needed, on cybersecurity and information technology matters and related risk exposures from our Chief Financial Officer ("CFO").

The CFO works in conjunction with the Chief Technology Officer (“CTO”) to oversee the Information Security Team and the operation of the Cybersecurity Program. Our Information Security team in conjunction with the CTO have an average of 15 years of professional IT and software development management experience, including in the areas of incident response, vulnerability management, network security administration and other governance, risk and compliance areas.

Our executive management, the Audit Committee, and the Board of Directors are notified of any significant cybersecurity incidents through an escalation process that is established in our incident response plan. Pursuant to that plan, upon detection incidents are first reported to and assessed by the Information Security Team. Depending on the nature and severity of an incident, and considering the actual or potential impact, significance, and scope, the plan calls for the Information Security team to notify the executive team, who may in turn notify the Audit Committee and Board of Directors, regarding the detection, mitigation, and remediation of cybersecurity incidents.

ITEM 2. PROPERTIES

Our largest facility is located in Santa Ana, CA where we lease approximately 47,000 square feet of office, manufacturing and warehouse space pursuant to a lease which terminates in March 2027 (see Note 7, *Right-of-Use Assets and Lease Liabilities*, to the Financial Statements for more information).

ITEM 3. LEGAL PROCEEDINGS

The information is set forth under the heading “Litigation and Other Contingencies” (see Note 6, *Commitments and Contingencies*, to the Financial Statements for more information).

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Market Information for Common Stock

Our common stock has traded on the Nasdaq Capital Market under the symbol “ITI” since February 8, 2016. Prior to that, our common stock traded on the New York Stock Exchange under the same symbol.

As of June 26, 2023 June 11, 2024, we had 276 266 holders of record of our common stock according to information furnished by our transfer agent. The actual number of stockholders is greater than this number of record holders, as the total number also includes stockholders who are beneficial owners but whose shares are held in street name by brokers and other nominees.

Securities Authorized for Issuance under Equity Compensation Plans

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

Dividend Policy

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

Recent Sales of Unregistered Securities

Not applicable.

Use of Proceeds from Registered Securities

Not applicable.

Issuer Purchases of Equity Securities

On August 9, 2012, the Board approved a stock repurchase program pursuant to which we could acquire up to \$3.0 million of our outstanding common stock for an unspecified length of time. Under the program, we could repurchase shares from time to time in the open market and privately negotiated transactions and block trades, and could also repurchase shares pursuant to a 10b5-1 trading plan during our closed trading windows. There was no guarantee as to the exact number of shares that would be repurchased. We reserved the right to modify or terminate the repurchase program at any time without prior notice.

On November 6, 2014, the Board approved a \$3.0 million increase to the Company's 2012 stock repurchase program, pursuant to which the Company could continue to acquire shares of its outstanding common stock from time to time for an unspecified length of time. From the inception of the 2012 stock repurchase program through its termination on May 12, 2022, we repurchased approximately 2,458,000 shares of our common stock for an aggregate price of approximately \$4.3 million, at an average price per share of \$1.73. As of March 31, 2023, these repurchased shares had been retired and resumed their status as authorized and unissued shares of our common stock.

On May 12, 2022 the Board of Directors terminated the 2012 stock repurchase program and approved a new plan for the company to acquire up to \$10.0 million of our outstanding common stock for an unspecified length of time. Under the program, we may repurchase shares from time to time in the open market through privately negotiated transactions and through 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. During Fiscal 2023, we repurchased 0.3 million shares, for an aggregate price of approximately \$0.9 million, at an average price of \$2.90 per share. As of March 31, 2023 approximately \$9.1 million remained available for the repurchase of our common stock under our current program. No shares were repurchased purchased by the Company during the three months ended March 31, 2023 March 31, 2024. See Note 10, Stock Repurchase Program, to the Financial Statements for more information.

ITEM 6. RESERVED

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

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

Overview

General

We are a provider of smart mobility infrastructure management solutions. Our cloud-enabled solutions help public transportation agencies, municipalities, commercial entities and other transportation infrastructure providers monitor, visualize, and optimize mobility infrastructure to make mobility safe, efficient, and sustainable for everyone.

Recent Developments

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Impact of COVID-19 on Our

Developments Impacting our Business

The Pandemic materially adversely impacted global economic conditions. As COVID-19

Although COVID-19 has entered an endemic stage, COVID-19 (including new variants of COVID-19) or other future pandemics may continue to have an unpredictable and unprecedented impact, adversely affect the global economic conditions, including possible additional supply chain disruption, disruptions, workplace dislocation, dislocations, economic contraction, and negative pressure on customer budgets and customer sentiment.

Given the uncertainties surrounding the impacts of When COVID-19 on the Company's future financial condition and results of operations, was considered a public health emergency, we have and may continue to identify and execute various took actions to preserve our liquidity, manage cash flow and strengthen our

financial flexibility. Such actions include, included, but are were not limited to, reducing our discretionary spending, reducing capital expenditures, and implementing restructuring activities (see Note 3, *Restructuring Activities*, to the Financial Statements for more information).

activities.

Our products require specialized parts, some of which have become became more difficult to source. source during the COVID-19 pandemic. In some cases, we have had to purchase such parts from third-party brokers at substantially higher prices. Additionally, The Company's strategies to mitigate the impact of component shortages, we increased inventory levels for parts in short supply. In the event demand does not materialize, we would need to hold excess inventory for several quarters. Alternatively, we may be unable to source sufficient components at any price, even from third-party brokers, to meet customer demand, resulting in high levels of backlog that we are unable to ship. The Company's tactics to mitigate the current global supply chain issues included re-designing certain circuit boards to accommodate computer chips that are more readily available in the market at more reasonable prices, and by accumulating inventory in the first two quarters of Fiscal 2023. We have also placed non-cancellable inventory orders for certain products in advance of our normal lead times to secure normal and incremental future supply and capacity and may need to continue to do so in capacity. We curtailed the future.

Due to the supply chain environment, the Company increased inventory by approximately \$2.9 million as part of the Company's supply chain strategy for Fiscal 2023. The cash flow used in operating activities of our continuing operations was approximately \$4.5 million during the twelve months ended March 31, 2023. Cash used during Fiscal 2023 was primarily due to two factors. First, the planned increase in inventory during the first half of Fiscal 2023 and the continued re-design of certain circuit boards as part of the Company's supply chain strategy to help assure the Company has enough product to satisfy customer demand. Second, the net operating loss as a result of higher inventory component costs related to the global supply chain constraints. The increase in inventory purchases and in particular components purchased in the secondary markets was curtailed in the second half of Fiscal 2023, and the Company currently does not expect to continue to accumulate inventory in the same magnitude in future periods. However, if the Company encounters additional supply chain constraints again in the future, it may need to further adjust its operations to have maintain sufficient liquidity.

The Company assessed the impacts of COVID-19 on the estimates and assumptions used in preparing our financial statements. The estimates and assumptions used in our 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 COVID-19, which has entered an endemic stage, and its resulting impact on global economic conditions. If economic conditions caused by COVID-19 do not recover as currently estimated by management, the Company's financial condition, cash flows and results of operations may be materially impacted. The Company will continue to assess the effect on its operations by monitoring the spread of COVID-19 and the actions implemented to combat the virus throughout the world. As a result, our assessment of the impact of COVID-19 may change.

Despite the impact of COVID-19, we believe that the ITS ("Intelligent Traffic Systems") industry in the U.S. should continue to provide new opportunities for the Company although, in the near term, the pace of new opportunities emerging may be restrained and the start dates of awarded projects may be delayed. We believe that our expectations are valid and that our plans for the future continue to be based on reasonable assumptions.

Climate Change

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We take climate change and the its associated risks associated with climate change seriously. Increased frequency of severe and extreme weather events associated with climate change could adversely impact our facilities, interfere with intersection construction projects, cause work stoppages and project delays or cancellations, and have a material impact on our financial condition, cash flows and results of operations. More extreme and volatile temperatures, increased storm intensity and flooding, and more volatile precipitation are among the weather events that are most likely to impact our business. We are unable to predict the timing or magnitude of these events. However, we perform ongoing assessments of physical risk, including physical climate risk, to our business and efforts to mitigate these physical risks continue to be implemented on an ongoing basis.

As a global leader in smart mobility infrastructure management, we are committed to a cleaner, healthier and more sustainable future. Our core business aims to reduce climate impact through our work with public and private-sector partners to improve the efficiency of mobility, which, among other things, has the benefit of reducing vehicle carbon emissions. For example, by reducing vehicle delays and stops through traffic signal timing projects, improving the efficiency and fuel consumption of public transit via signal priority programs, and reducing time spent roadside for heavy-emitting commercial freight vehicles during inspection, our industry-leading portfolio of smart mobility infrastructure management solutions is currently helping cities and states to reduce their carbon footprint. Additionally, we continue to enhance the design of our sensors to withstand increasingly extreme weather conditions.

Acquisition of the Assets of TrafficCast International, Inc. Non-GAAP Financial Measures

On December 6, 2020, the Company entered into the TrafficCast Purchase Agreement with TrafficCast, a privately held company headquartered in Madison, Wisconsin that provides travel information technology, applications and content in addition to customers throughout North America in the media, mobile technology, automotive and public sectors. 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.

On May 6, 2022, approximately \$0.9 million was paid to settle the balance of a security hold back agreed to as part of the acquisition, net of approximately \$0.1 million of post-closing adjustments. As of March 31, 2023, the achievement levels of the revenue targets with respect to the earnout were resolved and the balance remaining of approximately \$0.6 million was accrued results presented in accordance with generally accepted accounting principles in the terms of United States ("GAAP"), we have included the agreement. This item is included in accrued liabilities on the balance sheets.

Simultaneous with closing the transaction, the parties entered into certain ancillary agreements that provided Iteris with ongoing access to mapping and monitoring services that the TrafficCast Business used to support its real-time and predictive travel data and associated content until termination of these agreements on December 6, 2022.

Non-GAAP Financial Measures

Adjusted following non-GAAP financial measures: net income (loss) from continuing operations before interest, taxes, depreciation, amortization, interest expense, stock-based compensation expense, restructuring charges, project loss reserves, other legal expenses, and acquisition earnout payments ("Adjusted EBITDA"); and net income (loss) before depreciation, amortization, stock-based compensation expense, restructuring charges, other legal expenses, acquisition earnout payments and executive severance the tax effect of adjustments ("Adjusted Net Income (Loss)"). Basic and transition costs Diluted Adjusted Net Income (Loss) Per Share ("Basic Adjusted EBITDA" EPS" and "Diluted Adjusted EPS", collectively, "Adjusted EPS") was approximately \$(6.6) million, are calculated as Adjusted Net Income (Loss) divided by our basic and \$4.5 million for the fiscal years ended March 31, 2023 and 2022, diluted weighted-average number of shares outstanding, respectively. Components of Adjusted EBITDA these non-GAAP financial measures may be adjusted from time to time to reflect specific events and circumstances as they occur.

Adjusted EBITDA was \$12.9 million, and \$(6.6) million for the fiscal years ended March 31, 2024 and 2023, respectively.

Adjusted Net Income (Loss) was \$12.7 million and \$(7.0) million for the fiscal years ended March 31, 2024 and 2023, respectively.

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

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

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Adjusted EBITDA, Adjusted Net Income (Loss), Adjusted EPS and the related financial ratios have limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations include:

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

Because of these limitations, Adjusted EBITDA, **Adjusted Net Income (Loss)**, **Adjusted EPS**, and the related financial ratios should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as a measure of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA, **Adjusted Net Income (Loss)**, **Adjusted EPS and the related financial ratios** only as supplemental information. See our audited financial statements contained in this Form 10-K. However, **in spite of despite** the above limitations, we believe that Adjusted EBITDA, **Adjusted Net Income (Loss)**, **Adjusted EPS**, and the related financial ratios are useful to an investor in evaluating our results of operations because these measures:

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

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

EBITDA or Adjusted Net Income (Loss):

- **Income tax expense. taxes.** This amount may be useful to investors because it represents the taxes that might be payable for the period and the change in deferred taxes during the period, and therefore could reduce cash flow available for use in our business.
- **Depreciation expense. expense.** Iteris excludes depreciation expense primarily because it is a non-cash expense. These amounts may be useful to investors because it generally represents the wear and tear on our property and equipment used in our operations.
- **Amortization expense. expense.** Iteris incurs amortization **expense** of intangible assets in connection with acquisitions. Iteris also incurs amortization **expense** related to capitalized software development costs. Iteris excludes these items because it does not believe that these expenses **are reflective of reflect our** ongoing operating results in the period incurred. These amounts may be useful to investors because **it represents they represent** the estimated attrition of our acquired customer base and the diminishing value of product rights.
- **Interest expense. income and expense.** Iteris excludes interest **income and** expense because it does not believe this item **is reflective of reflects our** ongoing business and operating results. This amount may be useful to investors for determining current cash flow. For Fiscal 2023 interest expense includes amortization of the remaining capitalized deferred financing costs due to the termination of the Credit **Agreement (see Note 12, Long-Term Debt, Agreement. For Fiscal 2024 interest income was due to the Financial Statements for more information).** **interest earned from cash held with banks.**
- **Stock-based compensation. compensation.** These expenses consist primarily of expenses from employee and director **equity based equity-based** compensation plans. Iteris excludes stock-based compensation primarily because they are non-cash expenses and Iteris believes that it is useful to

investors to understand the impact of stock-based compensation to its results of operations and current cash flow.

- **Restructuring charges.** These expenses consist primarily of employee separation expenses, facility termination costs, and other expenses associated with Company restructuring activities. Itelis excludes these expenses as it does not believe that these expenses reflect our ongoing operating results in the period incurred. These amounts may be useful to our investors in evaluating our core operating performance.
- **Other legal expenses.** Itelis excludes legal expenses that it believes are infrequent, unusual and not reflective of ongoing operating results in the period incurred. These amounts may be useful to our investors in evaluating our core operating performance.

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- **Project loss reserves.** These We do not adjust for any ordinary course legal expenses. For the fiscal year ended March 31, 2024, other legal expenses consist primarily of expenses incurred to complete a software development contract that will not be recoverable and largely costs related to a specific breach of contract dispute for which the Company previously expected a settlement to be reached, however, due to a change in facts and circumstances that now point to a more protracted and costly process, we included the legal costs of \$2.8 million incurred and capitalized during the year. The matter is currently scheduled to go to trial in September 2024, so related costs for non-recurring engineering activity. Itelis excludes these expenses as it does not believe that these expenses are reflective of ongoing operating results will likely increase in the period incurred. These amounts may be useful to our investors near term. The Company believes that the probability of an outcome resulting in evaluating our core operating performance. a loss is remote. There were no such costs in the prior year periods.
- **Acquisition earnout payments.** These expenses are a result of the TrafficCast International, Inc. acquisition in December, 2020 and are the final earnout payments per the acquisition agreement. Itelis excluded these expenses as it does not believe that these expenses are reflective of reflect our ongoing operating results in the period incurred. These amounts may be useful to our investors in evaluating our core operating performance.
- **Executive severance Tax effect of adjustments.** This amount represents the income tax impact of the adjustments to net income (loss), as the Company believes that its GAAP income tax expense (benefit) as reported is not representative of the income tax impact of the adjustments. The tax effect was determined by recalculating the Company's current and transition costs. Itelis excludes executive severance and transition costs because it does not believe that these expenses are reflective of ongoing operating results in deferred income tax expense after incorporating the period incurred. non-GAAP adjustments listed on the Adjusted Net Income (Loss) table. These amounts may be useful to our investors in evaluating our core operating performance.

Reconciliations The following tables present a reconciliation of historical net income (loss) from continuing operations to Adjusted EBITDA and the presentation of Adjusted EBITDA as a percentage of total net revenues, were as follows:

	Year Ended March 31,	
	2023	2022
	(In thousands)	
Net income (loss) from continuing operations	\$ (14,855)	\$ (6,900)
Income tax expense	135	174
Depreciation expense	615	820
Amortization expense	3,179	3,240
Interest expense	329	—
Stock-based compensation	2,890	3,401
Other adjustments:		
Restructuring charges	707	—
Project loss reserves	—	3,394
Acquisition earnout payments	376	—
Executive severance and transition costs	—	340
Total adjustments	8,231	11,369

Adjusted EBITDA	\$ (6,624)	\$ 4,469
Percentage of total revenues	(4.2)%	3.3 %

and a reconciliation of historical net income (loss) to Adjusted Net Income (Loss) and the presentation of Adjusted EPS.

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Adjusted EBITDA

	Year Ended March 31,	
	2024	2023
	(Amounts in thousands)	
Net income (loss)	\$ 3,131	\$ (14,855)
Provision for income taxes	332	135
Depreciation expense	558	615
Amortization expense	3,286	3,179
Interest (income) expense	(221)	329
Stock-based compensation	2,965	2,890
Other adjustments:		
Restructuring charges	—	707
Other legal expense	2,843	—
Acquisition earnout payments	—	376
Adjusted EBITDA	<u>\$ 12,894</u>	<u>\$ (6,624)</u>
Percentage of total revenues	7.5 %	(4.2)%

Adjusted Net Income (Loss) and Adjusted EPS

	Year Ended March 31,	
	2024	2023
	(In thousands, except for share amounts)	
Net income (loss)	\$ 3,131	\$ (14,855)
Adjustments to net income (loss):		
Depreciation expense	558	615
Amortization expense	3,286	3,179
Stock-based compensation	2,965	2,890
Restructuring charges	—	707
Other legal expense	2,843	—
Acquisition earnout payments	—	376
Tax effect of adjustments	(66)	83
Adjusted Net Income (Loss)	<u>\$ 12,717</u>	<u>\$ (7,005)</u>
Adjusted Net Income (Loss) per share:		
Basic	\$ 0.30	\$ (0.17)

Diluted	\$	0.29	\$	(0.17)
Weighted-average shares used in computing Adjusted Net Income (Loss) per share:				
Basic		42,867		42,374
Diluted		43,904		42,374

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	Year Ended March 31,	
	2024	2023
Net income (loss) per share - basic	\$ 0.07	\$ (0.35)
Adjusted Net Income (Loss) adjustments ¹	0.23	0.18
Adjusted Net Income (Loss) per share - basic	\$ 0.30	\$ (0.17)
	Year Ended March 31,	
	2024	2023
Net income (loss) per share - diluted	\$ 0.07	\$ (0.35)
Adjusted Net Income (Loss) adjustments ¹	0.22	0.18
Adjusted Net Income (Loss) per share - diluted	\$ 0.29	\$ (0.17)

¹Reflects the aggregate adjustments made to net income (loss) to Adjusted Net Income (Loss), as presented in the above table, divided by the GAAP weighted-average number of shares outstanding for the relevant period, as presented above. Due to rounding, some amounts may not compute as shown.

Key Business Metrics

We define Annual Recurring Revenue ("ARR") as revenues recognized under GAAP during a reporting period for our software as a service ("SaaS"), data as a service ("DaaS"), and managed services we provide to our customers. These services typically are secured through binding multi-year contracts or are subject to annual renewals. ARR is an important key performance metric we use in managing our business because it reflects a more predictable and stable component of our revenues, as well as a base from which we can expand our relationships with existing customers. Fluctuations in ARR can reflect a variety of factors including increases or decreases in multi-year contracts, as well as specific contract inception and termination dates because we do not annualize revenues included in ARR.

Backlog is an operational measure representing future unearned revenues amounts believed to be firm that are to be earned under our existing agreements, but it does not represent the total contract award if a firm commitment, purchase order or task order has not yet been issued under the contract and are not included in deferred revenues on our balance sheets. Backlog includes new bookings but does not include announced orders for which definitive contracts have not been executed. We typically expect to recognize revenues in the range of approximately two-thirds to three-quarters of our backlog as of the end of a fiscal year in the subsequent fiscal year. We believe backlog is a useful metric for investors, given its relevance to total orders, although there can be no assurances we will recognize revenues from bookings or backlog timely.

Critical Accounting Policies and Estimates

"Management's" "Management's" Discussion and Analysis of Financial Condition and Results of "Operations" "Operations" is based on our financial statements included herein, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period (see Note 1, *Description of Business and Summary of Significant Accounting Policies*, to the Financial Statements for more information). In preparing our financial statements in accordance with GAAP and pursuant to the rules and regulations of the SEC, we make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue revenues and expenses, and related disclosures of contingent assets and liabilities. We base our estimates, assumptions and judgments on historical experience and other factors that we believe are reasonable. We evaluate our estimates, assumptions and judgments on a regular basis and apply our accounting policies on a

consistent basis. We believe that the estimates, assumptions and judgments involved in the accounting for revenue revenues recognition, goodwill, and income taxes have the

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most potential impact on our financial statements. Historically, our estimates, assumptions and judgments relative to our critical accounting policies have not differed materially from actual results.

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

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Revenue Recognition. Our revenue revenues arrangements are complex in nature and require significant judgement in determining the performance obligation structure. Each Because each contract is unique in nature, and therefore is assessed we assess each individually for appropriate accounting treatment.

Revenues are recognized when control of the promised goods or services are transferred to our customers, in an 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 revenues from contracts with customers, ranging from multi-year agreements to purchase orders.

Product revenue revenues related contracts with customers begin when we acknowledge a purchase order for a specific customer order of product to be delivered in the near term. These purchase orders are generally short-term in nature. Product revenue revenues 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 because transfer of control typically occurs upon shipment or upon customer receipt of the product.

Service revenues sometimes consist of revenues derived from the use of the Company's service platforms and APIs on a subscription basis as well as from maintenance and support. We generate this revenue these revenues from fees monthly active user fees, SaaS fees, hosting and storage fees, and maintenance and support fees. In most cases, the subscription or transaction arrangement is a single performance obligation comprised of comprising 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 in these situations as the customer obtains equal benefit from the service throughout the service period.

Service revenues are also derived from engineering and consulting service contracts with governmental agencies. These contracts generally include performance obligations in which control is transferred over time. For fixed fee contracts, we recognize revenue revenues 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 proportional cost incurred closely depicts the efforts or inputs completed towards the satisfaction of a fixed fee contract performance obligation. Other contracts can be based on a Time & Materials ("T&M") and Cost Plus Fixed Fee ("CPFF") structure, where such contracts are considered to involve variable consideration. However, contractual performance obligations with these fee types qualify for the "Right to Invoice" practical expedient. Under this practical expedient, the Company is allowed to recognize revenue, revenues, 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 or 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.

Goodwill. Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. We test goodwill for impairment in accordance with the provisions of ASC Accounting Standard Codification ("ASC") 350, Intangibles – Goodwill and Other, ("ASC 350"). Goodwill is tested for impairment at least annually at the reporting unit level or whenever events or changes in circumstances indicate that goodwill might be impaired. ASC 350 provides that an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

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The events and circumstances we consider in performing the qualitative assessment include macroeconomic conditions, industry and market considerations, overall financial performance of the reporting units and other relevant entity-specific events. If, after assessing the totality of events or circumstances, an entity determines that the fair value of a reporting unit is not more likely than not, less than its carrying value, then additional impairment testing is not required. However, if an entity concludes otherwise, then it is required to perform an impairment test. The impairment test involves comparing the estimated fair value of a reporting unit with its book value, including goodwill. If the estimated fair value exceeds book value, goodwill is considered not to be impaired. If, however, the fair value of the reporting unit is less than book value, then an impairment loss is recognized in an amount equal to the amount that the book value of the reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to the reporting unit.

The estimates of fair value of the reporting units used in the impairment test are computed using either an income approach, a market approach, or a combination of both. Under the income approach, we utilize the discounted cash flow method to estimate the fair value of the reporting units. Significant assumptions inherent in estimating the fair values include the estimated future cash flows, growth

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assumptions for future revenues (including future gross margin rates, expense rates, capital expenditures and other estimates), and a rate used to discount estimated future cash flow projections to their present value (or estimated fair value) based on estimated weighted average cost of capital (i.e., the selected discount rate). We select assumptions used in the financial forecasts by using historical data, supplemented by current and anticipated market conditions, estimated growth rates, and management's plans. Under the market approach, fair value is derived from metrics of publicly traded companies or historically completed transactions of comparable businesses (i.e., guideline companies). The selection of comparable businesses is based on the markets in which the reporting units operate giving consideration to risk profiles, size, geography, and diversity of products and services. If the estimated fair value exceeds book value, goodwill is considered not to be impaired. If, however, the fair value of a reporting unit is less than its book value, then an impairment loss is recognized in an amount equal to the amount that the book value of the reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to the reporting unit.

During the fourth quarter of fiscal 2024, we performed a qualitative assessment for our annual goodwill impairment testing. After assessing the totality of events and circumstances, we concluded that it was not more likely than not that the fair values of our reporting units were less than their carrying values. Consequently, we did not perform a step one quantitative analysis and determined goodwill was not impaired for any of our reporting units.

Income Taxes. Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the realizability of our deferred tax assets, we review all available positive and negative evidence, including reversal of deferred tax liabilities, potential carrybacks, projected future taxable income, tax planning strategies and recent financial performance. As the Company has sustained a cumulative pre-tax loss over the trailing three fiscal years, we considered it appropriate to maintain valuation allowances of \$18.7 million \$18.5 million and \$14.9 million \$18.7 million against our deferred tax assets at March 31, 2023 March 31, 2024 and March 31, 2022 March 31, 2023, 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. Due to the magnitude of the impact of supply chain issues occurring during Fiscal 2023 and the addition to cumulative pre-tax loss, we currently cannot estimate when sufficient positive evidence may become available to allow us to reach a conclusion that any 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 the level of profitability that we are able to actually achieve.

Recent Accounting Pronouncements

Refer to Note 1, *Description of Business and Summary of Significant Accounting Policies*, to the Financial Statements, included in Part II, Item 8 of this report for a discussion of recent accounting pronouncements.

Analysis of Fiscal 2023 2024 and Fiscal 2022 2023 Results of Operations

Total Revenues. The following table presents details of total revenues for Fiscal 2023 2024 as compared to Fiscal 2022: 2023:

Year Ended March 31,			
2023	2022	\$ Increase	% Change

(In thousands, except percentage)												
Year Ended March 31,												
2024												
2024												
2024												
2023												
\$ Increase												
% Change												
(In thousands, except percentage)												
Product revenues	Product revenues	\$ 85,097	\$ 68,729	\$ 16,368	23.8 %	Product revenues	\$ 91,781	\$ 85,097	\$ 6,684	7.9	7.9 %	
Service revenues	Service revenues	70,955	64,843	6,112	9.4 %	Service revenues	80,206	70,955	9,251	9,251	13.0	13.0 %
Total revenues	Total revenues	\$156,052	\$133,572	\$22,480	16.8 %	Total revenues	\$171,987	\$156,052	\$15,935	10.2	10.2 %	

Product revenues primarily consist of product sales, but also includes OEM include third-party products for the traffic signal markets, as well as third-party product sales for installation under certain construction-type contracts. Product revenues for Fiscal 2023 2024 increased approximately 23.8% 7.9% to \$85.1 million, \$91.8 million, compared to \$68.7 million \$85.1 million in Fiscal 2022, primarily due to 2023. The increase reflects continued strong demand for our sensors. Our circuit board redesign efforts allowed us to ship more sensor units compared to sensors, with revenues growth experienced across most of the prior year period, despite supply chain shortages and constraints, particularly in the second half of Fiscal 2023. product portfolio.

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Service revenues consist of revenues from our software, managed services, systems integration, and consulting services revenues. services. In certain instances, the lack of third-party product availability can impact the timing of systems integration projects and associated revenue revenues recognition. Service revenues for Fiscal 2023 2024 increased approximately 9.4% 13.0% to \$71.0 million, \$80.2 million, compared to \$64.8 million \$71.0 million in Fiscal 2022, 2023. This increase was primarily due to the continued adoption increase of Iteris' ClearMobility Platform and increased software and managed consulting services revenue. Total annual recurring revenue, which we define as revenues from both new and existing projects, with growth supported by increased direct and subcontractor headcount to work on consulting projects, as well as continued growth of software and managed services contracts, revenues. ARR was approximately 25% of total revenue revenues for each of Fiscal 2024 and Fiscal 2023.

Total revenues for Fiscal 2024 increased approximately 10.2% to \$172.0 million, compared to \$156.1 million in Fiscal 2023 and approximately 25% of total revenue for Fiscal 2022. due to the aforementioned reasons.

The Company added approximately \$170.3 million \$181.6 million of net new bookings, or potential revenue revenues under binding agreements, during Fiscal 2023, 2024. The Company's Company's total ending backlog increased approximately 14% 8.4% to approximately \$114.2 million \$123.8 million as of March 31, 2023 March 31, 2024, as compared to approximately \$99.9 million \$114.2 million as of March 31, 2022 March 31, 2023.

Backlog is an operational measure representing future unearned revenue amounts believed to be firm that are to be earned under our existing agreements, but it does not represent the total contract award if a firm purchase order or task order has not yet been issued under the contract, and are not included in deferred revenue on our balance sheets. Backlog includes new bookings but does not include announced orders for which definitive contracts have not been executed. We believe backlog is a useful metric for investors, given its relevance to total orders, but there can be no assurances we will recognize revenue from bookings or backlog timely or ever.

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Gross Profit. The following tables present details of our gross profit for Fiscal 2023 2024 compared to Fiscal 2022: 2023:

Year Ended March 31,

		2023	2022	\$ Increase (decrease)	% Change						
(In thousands, except percentage)											
Year Ended March 31,											
2024											
2024						2023	\$ Increase	% Change			
(In thousands, except percentage)						(In thousands, except percentage)					
Product gross profit	Product gross profit	\$22,084	\$28,228	\$ (6,144)	(21.8 %)	Product gross profit	\$ 41,234	\$ 22,084	\$ 19,150	86.7	86.7 %
Service gross profit	Service gross profit	19,934	19,165	769	4.0 %	Service gross profit	23,352	19,934	3,418	17.1	17.1 %
Total gross profit	Total gross profit	\$42,018	\$47,393	\$ (5,375)	(11.3 %)	Total gross profit	\$ 64,586	\$ 42,018	\$ 22,568	53.7	53.7 %
Product gross margin as a % of product revenues	Product gross margin as a % of product revenues	26.0 %	41.1 %								
Service gross margin as a % of service revenues	Service gross margin as a % of service revenues	28.1 %	29.6 %								
Service gross margin as a % of service revenues	Service gross margin as a % of service revenues										
Total gross margin as a % of total revenues	Total gross margin as a % of total revenues	26.9 %	35.5 %								
Total gross margin as a % of total revenues	Total gross margin as a % of total revenues										

Our product gross margin as a percentage of product revenues for Fiscal 2023 decreased 2024 increased approximately 1,510 1,890 basis points compared to Fiscal 2022, 2023. The decline increase was primarily due to global alleviating the Company's supply chain constraints that prevented issues experienced in the Company previous fiscal year and realizing the gross margin benefits from sourcing certain electronics components (most notably semiconductors) through traditional channels at normal prices the introduction of our alternative circuit boards and resulted in approximately \$16.0 million higher cost for Fiscal 2023 than

otherwise would have occurred. To maintain customer loyalty, increase market penetration, and build buffer stock to reduce future shipping disruptions, the Company sourced various components from electronics brokers (or aftermarket brokers) at significantly elevated prices. The Company saw other elements of our supply chain improvement in the second half of Fiscal 2023, aided by the release of new circuit board designs containing components more readily available from traditional supplier channels at more reasonable prices. plan.

Our service gross margin as a percentage of service revenues for Fiscal 2023 decreased 150 2024 increased 100 basis points compared to Fiscal 2022 2023 primarily due to a higher slightly lower proportion of cost of revenue revenues related to subcontractors and higher costs for cost of data we purchased in the during current year.

Our total gross margin as a percentage of total revenues for Fiscal 2023 decreased 860 2024 increased 1,070 basis points compared to Fiscal 2022 2023 primarily as a result of the aforementioned reasons.

We plan to continue to focus on securing new contracts and to extend and/or continue our existing relationships with both key public-sector and private-sector customers. While we believe our ability to obtain additional large contracts will contribute to overall revenue revenues growth, the mix of subcontractor revenue revenues and third-party product sales to our public-sector customers will likely affect the related total gross profit from period to period, as total revenues derived from subcontractors and third-party product sales generally have lower gross margins than revenues generated by our own products professional services consultants and professional services. products.

General and Administrative Expense

General and administrative expense for Fiscal 2023 decreased 2024 increased approximately 12% 8% to \$22.1 million, \$23.9 million, compared to \$25.1 million \$22.1 million in Fiscal 2022 2023. The increase was primarily due to restructuring activities additional legal fees described above under "Non-GAAP Financial Measures-Other legal expenses," and the Company's continued cost control measures. use of consulting services for various areas of assistance, partially offset by lower salaries and wages attributable to general and administrative activities.

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Sales and Marketing Expense

Sales and marketing expense for Fiscal 2023 2024 increased approximately 20% 11% to \$25.3 million, compared to \$22.8 million compared to \$18.9 million in Fiscal 2022 2023. The increase was primarily due to the planned addition of an increase in headcount and higher sales and sales support representatives to drive revenue growth, commissions resulting in higher compensation and benefit costs. from revenues increases.

Research and Development Expense

Research and development expense for Fiscal 2023 2024 increased approximately 13% 20% to \$8.3 million, \$10.0 million, compared to \$7.4 \$8.3 million in Fiscal 2022, 2023. The overall increase was primarily due to the continued investment in research and development activities largely focused on redesigning printed circuit boards for our sensors, improving our existing software related offerings, and the re-design development of certain circuit boards as part of the Company's supply chain management program. new products.

We plan to continue to invest in the development of further enhancements and new functionality of our Iteris ClearMobility Platform, which includes among other things our software portfolio and our Vantage sensors.

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

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

Impairment of Goodwill

Based on our goodwill impairment testing for Fiscal 2023, we believe the carrying value of our goodwill was not impaired, as the estimated fair values of our reporting units exceeded their carrying values. If factors such as our actual financial results, or the plans and estimates used in future goodwill impairment

analyses, are lower than our current estimates used to assess impairment of our goodwill, we could incur goodwill impairment charges in the future.

Amortization of Intangible Assets

Amortization expense for intangible assets subject to is recorded in both cost of revenues and operating expenses. Total amortization was approximately \$3.2 million \$3.3 million for both Fiscal 2023 2024 and \$3.2 million for Fiscal 2022, 2023. Approximately \$0.5 million \$0.7 million and \$0.6 million of the intangible asset amortization was recorded to cost of revenues, and approximately \$2.6 million and \$2.7 million \$2.6 million was recorded to amortization expense for Fiscal 2023 2024 and Fiscal 2022, 2023, respectively, in the statements statement of operations.

Interest Other Income (Expense), Net

Net interest expense other income (expense) was approximately \$0.3 million \$0.4 million and \$0.0 million \$0.1 million in Fiscal 2023 2024 and Fiscal 2022, 2023, respectively. The increase in net interest expense other income in the current year was primarily due to an increase in gains related to our Non-qualified Deferred Compensation plan.

Interest Income (Expense)

Net interest income (expense) was approximately \$0.2 million and \$(0.3) million in Fiscal 2024 and Fiscal 2023, respectively. The increase in net interest income in the current year was primarily due to a decrease in amortization of capitalized deferred financing costs and commitment fees upon termination of our Credit Agreement with Capital One, (see Note 12, Long-Term Debt, to coupled with an increased cash balance and the Financial Statements for more information).interest rates associated with those accounts.

Income Taxes

The following table presents our provision for income taxes for Fiscal 2023 2024 and Fiscal 2022: 2023:

	Year Ended March 31,			Year Ended March 31,	
	2023	2022		2024	2023
	(In thousands, except percentage)			(In thousands, except percentage)	
Provision for income taxes	\$135	\$174			
Effective tax rate	(0.9)%	(2.5)%	Effective tax rate	9.6 %	(0.9) %

For Fiscal 2023 2024 and Fiscal 2022, 2023, the difference between the statutory and the effective tax rate was primarily attributable to the valuation allowance recorded against our deferred tax assets.

In assessing the realizability of our deferred tax assets, we review all available positive and negative evidence, including reversal of deferred tax liabilities, potential carrybacks, projected future taxable income, tax planning strategies and recent financial performance. As the Company has sustained a cumulative pre-tax loss, over the trailing three fiscal years, we considered it appropriate to maintain valuation

allowances of \$18.7 million \$18.5 million and \$14.9 million \$18.7 million against our deferred tax assets at March 31, 2023 March 31, 2024 and 2022, 2023, respectively. We will intend to continue to reassess the appropriateness of maintaining a full valuation allowance. allowance on our deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances.

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

At **March 31, 2023** **March 31, 2024**, we had **\$23.5** **\$7.9** million of federal net operating loss carryforwards that do not **expire as a result of recent tax law changes**. **expire**. We also had **\$16.4** **\$10.0** million of state net operating loss carryforwards that begin to expire in 2031. Although the impact cannot be precisely determined at this time, we believe that our net operating loss carryforwards will provide reductions in our future income tax payments, that would otherwise be higher using statutory tax rates.

Litigation and Other Contingencies

As a provider of traffic engineering services, hardware products, software and other various solutions for the traffic industry, the Company is, and may in the future from time to time be, involved in disputes, proceedings, or litigation relating to claims arising out of its operations in the normal course of business, such as intellectual property infringement and contractual matters. In addition, as noted under "Non-GAAP Financial Measures" above, we have been incurring legal expenses, related to a specific breach of contract dispute, that we believe are infrequent, unusual and not reflective of ongoing operating results. While the Company cannot accurately predict the outcome of any such disputes, proceedings, or litigation, including the matter described below, the Company is not a party to any legal dispute, proceeding or litigation, the outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on the Company's business, results of operations, financial position or cash flows.

The Company agreed to accept a \$1.0 million return of inventory sold by the Company during Fiscal 2023, at the request of a prime contractor and related to a project that has been delayed. The Company is a subcontractor to the prime contractor on the delayed project, and there currently are no known issues with the product, nor is there currently any contention that there are issues with the product. Up to mid-July 2023 the Company believed the probability of the occurrence of a loss associated with this matter was remote. After meeting with the prime contractor beginning in mid-July 2023, the Company agreed to reassess the situation and agreed on August 7, 2023, to accept the inventory return. For the year ended March 31, 2024, we recognized a pretax loss contingency of \$0.2 million, comprised of \$1.0 million in accrued liabilities representing the sale value of the inventory and \$0.8 million in prepaid expenses and other current assets representing the estimated value of the inventory to be returned in the future. The inventory was returned, and the accrued liability was paid. As of March 31, 2024, there were no outstanding contingencies related to this inventory.

Liquidity and Capital Resources

Cash Flows

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

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

At **March 31, 2023** **March 31, 2024**, we had **\$24.8** **\$32.6** million in working capital, **excluding current liabilities** which included \$26.0 million in cash and cash equivalents and restricted cash. This compares to working capital of **discontinued operations**, **\$24.8** million at March 31, 2023, which included \$16.7 million in cash and cash equivalents. This compares to working capital of **\$35.2** million at March 31, 2022, which included **\$23.8** million in cash equivalents and **cash equivalents**. **restricted cash**.

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The following table summarizes our cash flows from continuing operations for Fiscal **2023** **2024** and Fiscal **2022**: **2023**:

Year Ended
March 31,

		2023	2022
		(In thousands)	
Year Ended		Year Ended	
March 31,		March 31,	
2024		2023	
(In thousands)		(In thousands)	
Net cash provided by (used in):	Net cash provided by (used in):		
Operating activities	Operating activities		
Operating activities	Operating activities	\$(4,507)	\$(5,593)
Investing activities	Investing activities	(1,874)	999
Financing activities	Financing activities	(372)	1,563

Operating Activities. Net cash provided by operating activities for Fiscal 2024 was \$11.4 million and primarily reflects our net income from operations of \$3.1 million, which included \$9.0 million of non-cash items including lease expense, depreciation expense, stock-based compensation, and amortization of intangible assets, coupled with \$0.7 million of outflows from changes in working capital.

Net cash used by in operating activities of our continuing operations for Fiscal 2023 of \$4.5 million was \$4.5 million and primarily reflects the result of our net loss from continuing operations of approximately \$14.9 million, which included \$8.9 million of non-cash items including lease expense, depreciation expenses, stock-based compensation, and amortization of intangible assets. Changes in the balances of operating assets and liabilities provided inflows of approximately \$1.5 million in total, as the benefit of strong overall working capital management in relation to revenue growth was offset by higher cost of inventory due to supply chain disruption. Net cash used in operating activities due to discontinued operations was \$0.3 million.

Net cash used by operating activities of our continuing operations for Fiscal 2022 of \$5.6 million was primarily the result of our net loss from continuing operations of approximately \$6.9 million, which included \$13.1 million of non-cash items including lease expense, depreciation expenses, stock-based compensation, and amortization of intangible assets, coupled with approximately \$1.8 million \$1.5 million of outflows inflows from changes in working capital. Net cash used in operating activities due to in Fiscal 2023 included \$0.3 million used in discontinued operations was \$0.1 million. operations.

Investing Activities. Net cash used by in investing activities during Fiscal 2024 was primarily the result of our continuing operations approximately \$0.6 million of property and equipment purchases, and \$2.5 million of capitalized software development costs, primarily in VantageARGUS CV and ClearGuide.

Net cash used in investing activities during Fiscal 2023 was primarily the result of approximately \$0.5 million of property and equipment purchases, and approximately \$1.3 million of capitalized software development costs, primarily in VantageLive! and ClearGuide, respectively. Net cash provided by investing activities from discontinued operations was \$0.0 million.

Net cash provided by investing activities of our continuing operations during Fiscal 2022 was primarily the result of approximately \$3.1 million in proceeds from the sale and maturity of short-term investments which were partially offset by approximately \$0.5 million of property and equipment purchases, and approximately \$1.6 million of capitalized software development costs, primarily in VantageLive! and ClearGuide, respectively. Net cash provided by investing activities from discontinued operations was \$1.5 million. ClearGuide.

Financing Activities. Net cash used provided by financing activities of our continuing operations during Fiscal 2023 2024 was primarily the result of approximately \$0.1 \$0.5 million and \$0.5 million \$0.6 million of cash proceeds from the exercise of stock options and purchases of Employee Stock Purchase Plan ("ESPP" ("ESPP") shares, respectively, which were offset partially by repurchases of common stock of approximately \$0.9 million \$0.2 million.

Net cash provided by used in financing activities of our continuing operations during Fiscal 2022 2023 was primarily the result of approximately \$1.3 million \$0.1 million and \$0.4 million \$0.5 million of cash proceeds from the exercise of stock options and purchases of ESPP shares, respectively. respectively, offset by repurchases of common stock of \$0.9 million.

Off-Balance Sheet Arrangements

We do not have any other material off-balance sheet arrangements at March 31, 2023 March 31, 2024.

Seasonality

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Iteris, Inc. (the "Company") as of **March 31, 2023** **March 31, 2024** and **2022**, **2023**, the related statements of operations, **stockholder's** **stockholders'** equity, and cash flows, for each of the two years in the period ended **March 31, 2023** **March 31, 2024**, 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, 2023** **March 31, 2024** and **2022**, **2023**, and the results of its operations and its cash flows for each of the two years in the period ended **March 31, 2023** **March 31, 2024**, 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, 2023** **March 31, 2024**, 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 29, 2023** **June 13, 2024**, expressed an unqualified opinion on the Company's internal control over financial reporting.

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 to the financial statements**

Critical Audit Matter Description

The Company's service revenues within the Services and Software revenue streams, primarily derive 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, 2023** **March 31, 2024**, the Company recognized service revenues from contracts with customers of **\$71.0 million** **\$80.2 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 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:

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- 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 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 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 unidentified.
- We selected a sample of expenditures and determined whether the 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 29, 2023 13, 2024

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

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Iteris, Inc.
Balance Sheets
(In thousands, except par value)

		March 31,			
		2023	2022		
		March 31,		March 31,	
		2024		2024	2023
Assets	Assets				
Current assets:	Current assets:				
Current assets:					
Current assets:					

Cash and cash equivalents			
Cash and cash equivalents			
Cash and cash equivalents	Cash and cash equivalents	\$ 16,587	\$ 23,689
Restricted cash	Restricted cash	140	120
Trade accounts receivable, net of allowance for doubtful accounts of \$357 and \$903 at March 31, 2023 and 2022, respectively		23,809	25,628
Trade accounts receivable, net of allowance of \$351 and \$357 at March 31, 2024 and 2023, respectively			
Trade accounts receivable, net of allowance of \$351 and \$357 at March 31, 2024 and 2023, respectively			
Trade accounts receivable, net of allowance of \$351 and \$357 at March 31, 2024 and 2023, respectively			
Unbilled accounts receivable	Unbilled accounts receivable	8,349	8,470
Inventories	Inventories	10,841	7,980
Prepaid expenses and other current assets	Prepaid expenses and other current assets	3,128	4,076
Total current assets	Total current assets	62,854	69,963
Property and equipment, net	Property and equipment, net	1,297	1,392
Right-of-use assets	Right-of-use assets	8,345	11,382
Intangible assets, net	Intangible assets, net	10,190	11,780
Goodwill	Goodwill	28,340	28,340
Other assets	Other assets	768	1,120
Noncurrent assets of discontinued operations		—	6
Total assets	Total assets	\$111,794	\$123,983
Liabilities and stockholders' equity			

Liabilities and stockholders' equity

Current liabilities:

Current liabilities:

Trade accounts payable

Trade accounts payable

Trade accounts payable	Trade accounts payable	\$ 12,943	\$ 11,926
Accrued payroll and related expenses	Accrued payroll and related expenses	12,923	11,409
Accrued liabilities	Accrued liabilities	5,453	5,623
Deferred revenue		6,720	5,779
Current liabilities of discontinued operations		—	163

Deferred revenues

Total current liabilities	Total current liabilities	38,039	34,900
Lease liabilities	Lease liabilities	7,641	10,763
Deferred income taxes	Deferred income taxes	422	337
Unrecognized tax benefits	Unrecognized tax benefits	79	105
Other long-term liabilities	Other long-term liabilities	2,707	2,456
Noncurrent liabilities of discontinued operations		—	172

Total liabilities	Total liabilities	48,888	48,733
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Commitments and contingencies (Note 6)

Commitments and contingencies (Note 6)

Stockholders' equity:

Stockholders' equity:

Preferred stock, \$1.00 par value:	Preferred stock, \$1.00 par value:		
Authorized shares—2,000		—	—
Issued and outstanding shares—none		—	—

Preferred stock, \$1.00 par value:

Preferred stock, \$1.00 par value:

Authorized shares—2,000 issued and outstanding shares—none

Authorized shares—2,000 issued and outstanding shares—none

Authorized shares—2,000 issued and outstanding shares—none

Common stock, \$0.10 par value:	Common stock, \$0.10 par value:		
Authorized shares—	Authorized shares—70,000 at March 31, 2023 and March 31, 2022		
Issued and outstanding shares—42,808 at March 31, 2023 and 42,416 at March 31, 2022		4,282	4,242
Treasury Stock		(891)	—

Authorized shares—70,000 at March 31, 2024 and 2023 issued and outstanding shares—42,972 at March 31, 2024 and 42,808 at March 31, 2023

Authorized shares—70,000 at March 31, 2024 and 2023 issued and outstanding shares—42,972 at March 31, 2024 and 42,808 at March 31, 2023

Authorized shares—70,000 at March 31, 2024 and 2023 issued and outstanding shares—42,972 at March 31, 2024 and 42,808 at March 31, 2023

Treasury stock

Additional paid-in capital	Additional paid-in capital	190,082	186,720
Accumulated deficit	Accumulated deficit	(130,567)	(115,712)
Total stockholders' equity		62,906	75,250
Total liabilities and stockholders' equity		\$111,794	\$123,983

Total stockholders' equity

Total liabilities
and
stockholders'
equity

See accompanying Notes to the Financial Statements.

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

		Year Ended March 31,			
		2023	2022		
		Year Ended March 31,		Year Ended March 31,	
		2024		2024	2023
Product revenues	Product revenues	\$ 85,097	\$ 68,729		
Service revenues	Service revenues	70,955	64,843		
Total revenues	Total revenues	156,052	133,572		
Cost of product revenues	Cost of product revenues	63,013	40,501		
Cost of service revenues	Cost of service revenues	51,021	45,678		
Cost of revenues	Cost of revenues	114,034	86,179		
Gross profit	Gross profit	42,018	47,393		
Operating expenses:	Operating expenses:				
General and administrative	General and administrative	22,083	25,131		
Sales and Marketing		22,802	18,929		
General and administrative					
General and administrative					
Sales and marketing					
Research and development	Research and development	8,321	7,354		
Amortization of intangible assets	Amortization of intangible assets	2,620	2,673		

Restructuring charges	Restructuring charges	707	—
Total operating expenses	Total operating expenses	56,533	54,087
Operating income (loss)	Operating income (loss)	(14,515)	(6,694)
Non-operating income (expense):	Non-operating income (expense):		
Other income (expense)		124	(18)
Other income, net			
Other income, net			
Other income, net			
Interest income (expense)	Interest income (expense)	(329)	(14)
Income (loss) from continuing operations before income taxes		(14,720)	(6,726)
Income (loss) before income taxes			
Provision for income taxes	Provision for income taxes	(135)	(174)
Net income (loss) from continuing operations		(14,855)	(6,900)
Loss from discontinued operations before gain on sale, net of tax		—	(180)
Net income (loss) from discontinued operations, net of tax		—	(180)
Net income (loss)	Net income (loss)	\$ (14,855)	\$ (7,080)
Income (loss) per share - basic:			
Income (loss) per share from continuing operations		\$ (0.35)	\$ (0.16)
Income per share from discontinued operations		\$ 0.00	\$ 0.00
Net income (loss) per share		\$ (0.35)	\$ (0.16)
Income (loss) per share - diluted:			
Income (loss) per share from continuing operations		\$ (0.35)	\$ (0.16)
Income per share from discontinued operations		\$ 0.00	\$ 0.00
Net income (loss) per share		\$ (0.35)	\$ (0.16)
Shares used in basic per share calculations		42,374	42,222

Shares used in diluted per share calculations	42,374	42,222
Net income (loss) per share:		
Net income (loss) per share:		
Net income (loss) per share:		
Basic		
Basic		
Basic		
Diluted		
Weighted-average shares used in computing net income (loss) per share:		
Basic		
Basic		
Basic		
Diluted		

See accompanying Notes to the Financial Statements.

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

	Common Stock		Treasury Stock		Additional Paid-In Capital		Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Capital	Accumulated Deficit	
Balance at March 31, 2021 (as previously reported)	41,687	4,170	—	—	181,828	(107,019)	78,979
Correction (Note 1)	—	—	—	—	—	(1,613)	(1,613)
Balance at March 31, 2021 (as corrected)	41,687	4,170	—	—	181,828	(108,632)	77,366
Stock option exercises	489	48	—	—	1,282	—	1,330
Issuance of shares pursuant to Employee Stock Purchase Plan	95	9	—	—	427	—	436
Stock-based compensation	—	—	—	—	3,401	—	3,401

Issuance of shares pursuant to vesting of restricted stock units, net of payroll withholding taxes	145	15	—	—	(218)	—	(203)
Net loss	—	—	—	—	—	(7,080)	(7,080)

		Common Stock				Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
		Shares							
Balance at March 31, 2022									
Balance at March 31, 2022	Balance at March 31, 2022	42,416	4,242	—	—	186,720	(115,712)		75,250
Stock option exercises	Stock option exercises	60	7	—	—	98	—		105
Issuance of shares pursuant to Employee Stock Purchase Plan	Issuance of shares pursuant to Employee Stock Purchase Plan	180	19	—	—	471	—		490
Stock-based compensation	Stock-based compensation	—	—	—	—	2,890	—		2,890
Issuance of shares pursuant to vesting of restricted stock units, net of payroll withholding taxes	Issuance of shares pursuant to vesting of restricted stock units, net of payroll withholding taxes	152	14	—	—	(97)	—		(83)
Treasury stock purchases	Treasury stock purchases	—	—	300	(884)	—	—		(884)
Deferred shares held within rabbi trust	Deferred shares held within rabbi trust	—	—	69	(7)	—	—		(7)
Net loss	Net loss	—	—	—	—	—	(14,855)		(14,855)
Balance at March 31, 2023	Balance at March 31, 2023	42,808	\$ 4,282	369	\$ (891)	\$ 190,082	\$ (130,567)		\$ 62,906
Stock option exercises									

Issuance of shares pursuant to Employee Stock Purchase Plan
Stock-based compensation
Issuance of shares pursuant to vesting of restricted stock units, net of payroll withholding taxes
Issuance of shares pursuant to vesting of performance stock units, net of payroll withholding taxes
Treasury stock purchases
Retirement of treasury stock
Deferred shares held within rabbi trust
Net income
Balance at March 31, 2024

See accompanying Notes to the Financial Statements.

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

	Year Ended March 31,		Year Ended March 31,	
	2024		2023	
Cash flows from operating activities				
Net income (loss)				
Net income (loss)				
Net income (loss)				
		Year Ended March 31,		
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
		2023	2022	
Cash flows from operating activities				
Net income (loss)		\$ (14,855)	\$ (7,080)	
Less: Net income (loss) from discontinued operations		—	(180)	
Net income (loss) from continuing operations		(14,855)	(6,900)	
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Project Loss		—	3,394	
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Right-of-use asset non-cash expense				
Right-of-use asset non-cash expense				
Right-of-use asset non-cash expense	Right-of-use asset non-cash expense	2,114	2,515	
Deferred income tax	Deferred income tax	59	(485)	
Depreciation of property and equipment	Depreciation of property and equipment	615	820	

Stock-based compensation	Stock-based compensation	2,890	3,401
Amortization of intangible assets	Amortization of intangible assets	3,179	3,240
Loss on disposal of equipment	Loss on disposal of equipment	8	177
Other	Other	(7)	—
Changes in operating assets and liabilities, net of effects of discontinued operations and acquisitions:			
Changes in operating assets and liabilities:			
Trade accounts receivable	Trade accounts receivable	1,819	(6,608)
Unbilled accounts receivable and deferred revenue			
		1,385	148
Trade accounts receivable			
Trade accounts receivable			
Unbilled accounts receivable and deferred revenues			
Inventories	Inventories	(2,861)	(2,914)
Prepaid expenses and other assets	Prepaid expenses and other assets	1,300	(2,495)
Trade accounts payable and accrued expenses	Trade accounts payable and accrued expenses	1,253	2,683
Operating lease liabilities	Operating lease liabilities	(1,406)	(2,569)
Net cash provided by (used in) operating activities - continuing operations	Net cash provided by (used in) operating activities - continuing operations	(4,507)	(5,593)

Net cash used in operating activities - discontinued operations	Net cash used in operating activities - discontinued operations	(329)	(128)
Net cash provided by (used in) in operating activities	Net cash provided by (used in) in operating activities	(4,836)	(5,721)
Cash flows from investing activities	Cash flows from investing activities		
Purchases of property and equipment	Purchases of property and equipment	(528)	(466)
Maturities of investments		—	3,100
Purchases of property and equipment	Purchases of property and equipment		
Capitalized software development costs	Capitalized software development costs	(1,346)	(1,635)
Net cash provided by (used in) investing activities - continuing operations		(1,874)	999
Net cash provided by investing activities - discontinued operations		—	1,500
Net cash provided by (used in) investing activities		(1,874)	2,499
Capitalized software development costs	Capitalized software development costs		
Capitalized software development costs	Capitalized software development costs		
Net cash used in investing activities			
Cash flows from financing activities	Cash flows from financing activities		
Cash flows from financing activities			
Cash flows from financing activities			
Repurchases of common stock			

Repurchases of common stock			
Repurchases of common stock	Repurchases of common stock	(884)	—
Proceeds from stock option exercises	Proceeds from stock option exercises	105	1,330
Proceeds from ESPP purchases	Proceeds from ESPP purchases	490	436
Tax withholding payments for net share settlements of restricted stock units	Tax withholding payments for net share settlements of restricted stock units	(83)	(203)
Net cash provided by (used in) financing activities - continuing operations		(372)	1,563
Tax withholding payments for net share settlements of performance stock units			
Net cash provided by (used in) financing activities			
Net cash provided by (used in) financing activities			
Net cash provided by (used in) financing activities	Net cash provided by (used in) financing activities	(372)	1,563
Increase (decrease) in cash, cash equivalents and restricted cash	Increase (decrease) in cash, cash equivalents and restricted cash	(7,082)	(1,659)
Cash, cash equivalents and restricted cash at beginning of period	Cash, cash equivalents and restricted cash at beginning of period	23,809	25,468
Cash, cash equivalents and restricted cash at end of period	Cash, cash equivalents and restricted cash at end of period	\$ 16,727	\$ 23,809

Supplemental cash flow information:		
Cash paid during the year for:		
Income taxes	\$	— \$ 223
Supplemental schedule of non-cash investing and financing activities:		
Issuance of common stock for vested restricted stock units		
	\$	14 \$ 15
Lease liabilities arising from obtaining right-of-use assets		
	\$	313 \$ 2,544
Capitalized software development costs		
	\$	243 \$ —

See accompanying Notes to the Financial Statements.

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Iteris, Inc.
Statements of Cash Flows
(In thousands)
(Continued)

	Year Ended March 31,	
	2024	2023
Supplemental cash flow information:		
Cash paid during the year for:		
Income taxes	\$ 247	\$ —
Supplemental schedule of non-cash investing and financing activities:		
Lease liabilities arising from obtaining right-of-use assets	\$ 997	\$ 313
Capitalized software development costs in accounts payable and accrued liabilities	\$ 220	\$ 243

See accompanying Notes to the Financial Statements.

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Iteris, Inc.
Notes to Financial Statements
March 31, 2023

2024

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Iteris, Inc. (referred to collectively in this report as "Iteris" "Iteris", the "Company" "Company", "we" "we", "our" "our", and "us" "us") is a provider of smart mobility infrastructure management solutions. Our cloud-enabled solutions help public transportation agencies, municipalities, commercial entities and other transportation infrastructure providers monitor, visualize, and optimize mobility infrastructure to make mobility safe, efficient and sustainable for everyone.

As a pioneer in intelligent transportation systems ("ITS" "ITS") technology, our intellectual property, advanced detection sensors, mobility and traffic data, software-as-a-service ("SaaS" "SaaS") offerings, mobility consulting services, and 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.

We believe our products, solutions and services increase vehicle and pedestrian safety and decrease congestion within our communities, while also reducing environmental impact, including vehicle carbon emissions.

We continue to make significant investments to leverage our existing technologies and further enhance our advanced sensors, mobility intelligence software, mobility data sets, mobility consulting services and cloud-enabled managed services. As we are always mindful of capital allocation, we apply significant effort to evaluate and prioritize these investments. Likewise, 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 Impacting our Business

COVID-19 Update

The COVID-19 pandemic (the "Pandemic") materially adversely impacted global economic conditions. As Although COVID-19 has entered an endemic stage, COVID-19 (including new variants of COVID-19) or other future pandemics may continue to have an unpredictable and unprecedented impact on adversely affect the global economy, economic conditions, including possible additional supply chain disruptions, workplace dislocations, economic contraction, and negative pressure on customer budgets and customer sentiment.

Given the uncertainties surrounding the impacts of When COVID-19 on the Company's future financial condition and results of operations, was considered a public health emergency, we have and may continue to identify and execute various took actions to preserve our liquidity, manage cash flow and strengthen our financial flexibility. Such actions include, included, but are were not limited to, reducing our discretionary spending, reducing capital expenditures, and implementing restructuring activities (see Note 3, Restructuring Activities, to the Financial Statements for more information).

Our products require specialized parts, some of which have become became more difficult to source. source during the COVID-19 pandemic. In some cases, we have had to purchase such parts from third-party brokers at substantially higher prices. Additionally, The Company's strategies to mitigate the impact of component shortages, we increased inventory levels for parts in short supply. In the event demand does not materialize, we would need to hold excess inventory for several quarters. Alternatively, we may be unable to source sufficient components, even from third-party brokers, at any price, to meet customer demand, resulting in high levels of backlog that we are unable to ship. The Company's tactics to mitigate the current global supply chain issues included re-designing certain circuit boards to accommodate computer chips that are more readily available in the market at more reasonable prices, and by accumulating inventory in the first two quarters of the fiscal year ended March 31, 2023 ("Fiscal 2023" 2023"). We have also placed non-cancellable inventory orders for certain products in advance of our normal lead times to secure normal and incremental future supply and capacity and may need to continue to do so in capacity.

The Company curtailed the future.

Due to the supply chain environment, the Company increased inventory by approximately \$2.9 million as part of the Company's supply chain strategy for Fiscal 2023. The cash flow used in operating activities of our continuing operations was approximately \$4.5 million during the twelve months ended March 31, 2023. Cash used during Fiscal 2023 was primarily due to two factors. First, the planned increase in inventory during the first half of Fiscal 2023 and continued re-design of certain circuit boards as part of the Company's supply chain strategy to help assure the Company has enough product to satisfy

customer demand. Second, the net operating loss as a result of higher inventory component costs related to the global supply chain constraints. The increase in inventory purchases and in particular components purchased in the secondary markets was curtailed in the second half of Fiscal 2023, and the Company currently does not expect to continue to accumulate inventory in the same magnitude in future periods. However, if the Company encounters additional supply chain constraints again in the future, it may need to further adjust its operations to have maintain sufficient liquidity.

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 applied certain beneficial provisions of the CARES Act, including the payroll tax deferral and the alternative minimum tax acceleration. As of March 31, 2023, the Company had repaid all amounts deferred under the CARES Act (see Note 5, *Income Taxes*, to the Financial Statements for more information).

COVID-19 has had an impact on the Company's human capital. While our Santa Ana product and commercial operations facility has remained open throughout the Pandemic, many of our employees worked remotely during the past three years. With the recent easing of COVID-19 restrictions imposed by local and state authorities, a larger portion of our workforce has returned to our various facilities while others continue to work remotely. The Company's information technology infrastructure has proven sufficiently flexible to minimize disruptions in required duties and responsibilities. Additionally, we have been able to timely file financial reports. We believe we have the infrastructure to efficiently work remotely during COVID-19's current endemic stage and well into the future.

The Company assessed the impacts of COVID-19 on the estimates and assumptions used in preparing our financial statements. The estimates and assumptions used in our 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 COVID-19, which has entered an endemic stage, and its resulting impact on global economic conditions. If economic conditions caused by COVID-19 do not recover as currently estimated by management, the Company's financial condition, cash flows and results of operations may be materially impacted. The Company will continue to assess the effect on its operations by monitoring the impact of COVID-19 and the actions implemented to combat the virus throughout the world. As a result, our assessment of the impact of COVID-19 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") and assume certain specified liabilities of the TrafficCast Business.

On May 6, 2022, approximately \$0.9 million was paid to settle the balance of security hold back agreed to as part of the acquisition, net of approximately \$0.1 million of post-closing adjustments. As of March 31, 2023, the achievement levels of the revenue targets with respect to the earnout were resolved and the balance remaining of approximately \$0.6 million was accrued in accordance with the terms of the agreement. This item is included in accrued liabilities on the balance sheets.

Simultaneous with closing the transaction, the parties entered into certain ancillary agreements that provided Iteris with ongoing access to mapping and monitoring services that the TrafficCast Business used to support its real-time and predictive travel data and associated content until termination of these agreements on December 6, 2022.

Restructuring Activities

To help offset recent increases in supply chain costs, on May 12, 2022, the Board of Directors of Iteris, Inc. approved additional restructuring activities to better position the Company for increased profitability and growth. The Company incurred employee separation costs in relation to these activities, which were included in restructuring charges on the statement of operations (see Note 3, *Restructuring Activities*, to the Financial Statements for more information).

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Basis of Presentation

Our financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP" ("GAAP")).

Use of Estimates

The preparation of 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 financial statements include, but are not limited to, recoverability of long-lived and intangible assets; fair value of acquired intangible assets and goodwill; estimates of future cash flows used to assess the recoverability of the impairment of goodwill; collectability of accounts receivable and related allowance for doubtful accounts; receivable; 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; 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

Our revenue arrangements are complex in nature and require significant judgement in determining the performance obligation structure. Each contract is unique in nature and therefore is assessed individually for appropriate accounting treatment.

Revenues are recognized when control of the promised goods or services are transferred to our customers, in an 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 revenues from contracts with customers, ranging from purchase orders to multi-year agreements to purchase orders.

agreements.

Product revenue related revenue-related contracts with customers begin when we acknowledge a purchase order for a specific customer order of product to be delivered in the near term. These purchase orders are generally short-term in nature. Product revenue is revenues are 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 sometimes consist of include revenues derived from maintenance support and the use of the Company's service platforms and Application Programming Interfaces ("APIs") APIs on a subscription basis. basis as well as from maintenance and support. We generate this revenue these revenues from fees for maintenance and support, monthly active user fees, SaaS fees, and hosting and storage fees, and maintenance and support fees. In most cases, the subscription or transaction arrangement is a single performance obligation comprised of comprising 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 in these situations as the customer obtains equal benefit from the service throughout the service period.

Service revenues are also derived from long-term engineering and consulting service contracts with governmental agencies. These contracts generally include performance obligations in which control is transferred over time. For fixed fee contracts, we recognize revenue revenues 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 proportional cost incurred closely depicts the efforts or inputs completed towards the satisfaction of a fixed fee contract performance obligation. Other contracts can be based on a Time & Materials ("T&M") and Cost Plus Fixed Fee ("CPFF") structure, where such contracts are considered to involve variable consideration. However, contractual performance obligations with these fee types qualify for the "Right to Invoice" practical expedient. Under this practical expedient, the Company is allowed to recognize revenue, revenues, 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 or 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.

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

We generally estimate variable consideration at the most likely amount to which we expect to be entitled and in certain cases based on the expected value, which requires judgment. We include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenues 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, managed services, 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 Revenues

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

Trade Accounts Receivable and Contract Balances

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

The Company maintains an allowance for doubtful accounts credit losses to provide for the estimated amount of receivables that will not be collected. The Company estimates allowances for expected credit losses on trade accounts receivable and contract assets as required by the Current Expected Credit Loss ("CECL") model, as per Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments - Credit Losses (Topic 326). 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 balance sheet. For example, we would record a contract asset if we record revenue revenues 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 to** capitalize the costs of fulfilling a contract. Such costs **would be are** 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, 2023** both **March 31, 2024** and **2022, 2023**, there was approximately \$0.5 million **and \$0.6 million, respectively**, of contract fulfillment costs, which are presented in the accompanying 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.

A contract loss is recorded if the expected costs of fulfilling the contract exceeds the expected consideration from the customer. During the twelve months ended March 31, 2022, due to delays in the completion of a software development contract with a customer, the Company recorded an estimated loss on the contract of approximately \$3.4 million, charged to cost of sales, of which approximately \$0.9 million related to previously capitalized software development costs and the remainder reduced the balance of the related contract fulfillment costs. The terms of the contract have since been amended to a time and materials structure, and no further additional contract losses are expected for this contract. During the twelve months ended March 31, 2023, no amounts were recorded for contract losses. The estimates and assumptions used in these assessments were based upon management's judgment and may be subject to change as new events occur and additional information is obtained. If the future estimated costs to fulfill a contract exceed the expected consideration from the customer, the Company's financial condition, cash flows, and results of operations may be materially impacted.

Transaction Price Allocated to the Remaining Performance Obligations

As of **March 31, 2023** **March 31, 2024** and **2022, 2023**, 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 or reassess the estimate each reporting period.

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

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

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

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

Deferred Revenue Revenues

Deferred **revenue revenues** in the accompanying balance sheets is comprised of **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 two** 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. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC" ("FDIC")) up to \$250,000. As of **March 31, 2023** **March 31, 2024**, the Company had approximately **\$16.2 million** **\$25.4 million** of deposits at financial institutions in excess of the FDIC insured limit.

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

We currently have, and historically have had, a diverse customer base. For Fiscal 2023 2024 and the fiscal year ended March 31, 2022 ("March 31, 2023" ("Fiscal 2022" 2023)), no individual customer represented greater than 10% of our total revenues. As of March 31, 2023 March 31, 2024 and 2022, 2023, 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" 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 management's estimate of assumptions that market participants would use in pricing the assets or liabilities.

The Company applies fair value accounting for all financial instruments on a recurring basis. The Company's 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, 2023 both March 31, 2024 and 2022 2023 restricted cash was \$0.1 million and \$0.1 million, respectively, related to cash restricted for shares purchased under the Employee Stock Purchase Plan ("ESPP" ("ESPP")) (see Note 9, *Employee Benefit Plans*, to the Financial Statements for more information).

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

March 31,			
2023	2022		
<u>March 31,</u>		<u>March 31,</u>	
<u>2024</u>	<u>2024</u>	<u>2023</u>	
(In thousands)		(In thousands)	

Cash and cash equivalents	Cash and cash equivalents	\$16,587	\$23,689
Restricted cash	Restricted cash	140	120
		<u>\$16,727</u>	<u>\$23,809</u>
	\$		

Accounts Receivable and

Allowance for Doubtful Accounts Credit Loss

Accounts We record accounts receivable are recorded net of the allowance for doubtful accounts, credit losses. The allowance is established in accordance with the CECL model. We estimate the allowance for doubtful accounts is estimated credit losses based on the Company's 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' customers' financial condition. In cases where we are aware of circumstances that may impair a specific customer's 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 allowance reflects our best estimate of probable losses associated with the accounts receivable balance. Our assessment is based on historical experience, current information and reasonable and supportable forecasts. Accounts receivables with similar risk characteristics are evaluated collectively and accounts receivables that do not share similar risk characteristics are evaluated individually. Risk characteristics relevant to the Company's accounts receivable include account balance and aging status. Adjustments to the allowance for credit losses are recorded through bad debt expense, which is included in operating expenses on the accompanying statements of operations. The Company writes-off writes off accounts receivable against the allowance when a determination is made it determines that the balance is uncollectible and collection of the receivable is no longer being actively pursued. The allowance for doubtful accounts was approximately \$0.4 million and \$0.9 million as of March 31, 2023 and 2022, respectively.

Inventories

Inventories consist of raw materials, work-in-process and finished goods 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. When determining useful life, the Company considers the contractual term of any agreement related to the asset, the historical performance of the asset, the Company's 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.

Capitalized Software Development Cost

The Company accounts for costs incurred to develop software for internal use in accordance with ASC 350-40, Intangibles — Internal Use Software ("ASC 350-40"). Under ASC 350-40, the costs incurred during the application development stage, which include costs of software configuration and interface design,

coding, installation and testing are required to be capitalized. Costs incurred during the preliminary project design along with post-implementation stages of internal use software are expensed as incurred and included in research and development in the statements of operations.

Goodwill

Goodwill represents the excess of the aggregate purchase price over the fair value of net identifiable assets acquired in a business combination. We test goodwill for impairment in accordance with the provisions of Accounting Standard Codification ("ASC") 350, Intangibles – Goodwill is not amortized and Other, ("ASC 350"). Goodwill is tested for impairment at least annually at the reporting unit level or whenever events or changes in circumstances indicate that the carrying value may not goodwill might 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 impaired. ASC 350 provides that an entity has the option to first perform a assess qualitative assessment factors to determine if whether the existence of events or circumstances leads to a determination that 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 amount.

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The events and circumstances we consider in performing the qualitative assessment include macroeconomic conditions, industry and proceed directly to the quantitative impairment tests. The first step of the impairment test involves comparing the fair value market considerations, overall financial performance of the reporting unit to its net book value, including goodwill, units and other relevant entity-specific events. If, after assessing the net book value exceeds its fair value, the Company would perform the second step totality 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 entity determines that the fair value of a reporting unit is below not more likely than not, less than its carrying amount, value, then goodwill additional impairment testing is not considered required. However, if an entity concludes otherwise, then it is required to be impaired and no further testing is required. If perform an impairment test. The impairment test involves comparing the carrying amount estimated fair value of a reporting unit exceeds the reporting unit's with its book value, including goodwill. The estimates of fair value, the amount by which the carrying value of the goodwill exceeds its implied reporting units used in the impairment test are computed using either an income approach, a market approach, or a combination of both. Under the income approach, we utilize the discounted cash flow method to estimate the fair value if any, of the reporting units. Significant assumptions inherent in estimating the fair values include the estimated future cash flows, growth assumptions for future revenues (including future gross margin rates, expense rates, capital expenditures and other estimates), and a rate used to discount estimated future cash flow projections to their present value (or estimated fair value) based on estimated weighted average cost of capital (i.e., the selected discount rate). We select assumptions used in the financial forecasts by using historical data, supplemented by current and anticipated market conditions, estimated growth rates, and management's plans. Under the market approach, fair value is recognized as an impairment loss. We monitor derived from metrics of publicly traded companies or historically completed transactions of comparable businesses (i.e., guideline companies). The selection of comparable businesses is based on the indicators for goodwill impairment testing between annual tests. In prior years the Company had two operating and reportable segments, Roadway Sensors ("RWS") and Transportation Systems ("SYS"), markets in which also represented the reporting units operate giving consideration to risk profiles, size, geography, and diversity of products and services. If the estimated fair value exceeds book value, goodwill is considered not to be impaired. If, however, the fair value of a reporting unit is less than its book value, then an impairment loss is recognized in an amount equal to the amount that the book value of the reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to the reporting unit.

During the fourth quarter of fiscal 2024, we performed a qualitative assessment for purposes of our annual goodwill impairment testing. In Fiscal 2021, After assessing the Company underwent totality of events and circumstances, we concluded that it was not more likely than not that the fair values of our reporting units were less than their carrying values. Consequently, we did not perform a reorganization after which the Company also reassessed the reporting unit conclusion step one quantitative analysis and determined that there are three goodwill was not impaired for any of our reporting units and a single operating and reportable segment. As of March 31, 2023, there were no indicators of goodwill impairment. units.

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 might 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. During the twelve months ended March 31, 2022, approximately \$0.9 million of previously capitalized software development costs was charged to cost of sales due to the expected modification of

a contract with a customer. See discussion on contract fulfillment costs for further details. During the fiscal years ended March 31, 2023, March 31, 2024 and 2022, 2023, 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 maintain a full valuation allowance against our deferred tax assets for the fiscal years ended March 31, 2023, March 31, 2024 and 2022, 2023. We will continuously reassess the appropriateness of our 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.

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Stock-Based Compensation

We record stock-based compensation in our 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 in the 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 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.

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 year warranty from the original invoice date on all products, materials and workmanship. Products sold to various original equipment manufacturer customers sometimes carry longer warranties. Defective We will either repair or replace 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 product revenues at the time revenue revenues for that product is recognized. The accrued warranty reserve is included within accrued liabilities in the accompanying balance sheets. We do not provide any service-type warranties.

Loss Contingencies

We are subject to legal actions that arise in the ordinary course of business. The Company recognizes a liability for a contingency when it is probable that liability has been incurred and when the amount of loss can be reasonably estimated. When a range of probable loss can be estimated, the Company accrues the most likely amount of such loss at no less than the minimum of the range. The Company expenses legal defense costs as incurred.

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Repair and Maintenance Costs

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

Comprehensive Income (Loss)

The difference between net Net income (loss) and was the same as comprehensive income (loss) was de minimis for Fiscal 2023 2024 and Fiscal 2022, 2023.

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 standard update requires that certain financial assets be measured at amortized cost net of an allowance for estimated credit losses such that the net receivable represents the present value of expected cash collection. In addition, this standard update requires that certain financial assets be measured at amortized cost reflecting an allowance for estimated credit losses expected to occur over the life of the assets. The estimate of credit losses must be based on all relevant information including historical information, current conditions and reasonable and supportable forecasts that affect the collectability of the amounts. In November 2019, the FASB issued ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815) and Leases (Topic 842): Effective Dates, which defers deferred 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 is now be effective for our Fiscal 2024. The Company adopted the standard with an immaterial expected credit loss and no adjustment to the opening balance.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280), which is intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant expenses. This ASU is applicable to our Annual Report on Form 10-K for the fiscal year 2024 beginning April 1, 2023; however, early ending March 31, 2025, and subsequent interim periods. Early adoption is permitted and the amendments in this ASU should be applied retroactively. We are currently evaluating the impact of this ASU on our financial statement disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740), which includes amendments that further enhance income tax disclosures, primarily through standardization and disaggregation of rate reconciliation categories and income taxes paid by jurisdictions. This ASU is applicable to our Annual Report on Form 10-K for the fiscal year ending March 31, 2026. Early adoption is permitted and the amendments in this ASU should be applied prospectively. Retrospective application is permitted. We are currently evaluating the timing and impact of adopting this ASU 2016-13 on our financial statements, statement disclosures.

Immaterial Correction of Prior Period Financial Statements

Subsequent to the issuance of the financial statements for the year ended March 31, 2022, we identified misstatements in Unbilled accounts receivable and Deferred revenue related to contract activity prior to the fiscal year ended March 31, 2021. As described in Note 1, *Description of Business and Summary of Significant Accounting Policies*, to the Financial Statements, under the heading *Trade Accounts Receivable and Contract Balances*, contract assets and refund liabilities arise from time-to-time based on the difference in timing between the satisfaction of performance obligations and the receipt of consideration thereunder. Such misstatements relate to balances for contract assets and refund liabilities we determined should have previously been eliminated based on a combination of contract age and cessation of activity associated with certain contracts.

The Company evaluated the materiality of the errors both quantitatively and qualitatively in accordance with Staff Accounting Bulletin (“SAB”) No. 99 – *Materiality*, and SAB No. 108 – *Considering the Effects of Prior Period Misstatements When Quantifying Misstatements in Current Year Financial Statements* and determined the effect of the misstatements were not material to the previously issued financial statements. We determined to restate the accompanying financial statements as of and for the year ended March 31, 2022 to correct for this matter.

The cumulative impact of the corrections is shown in the tables below. Because these corrections occurred at a time preceding the periods presented herein, all corrections are limited to the balance sheet as shown below.

Balance Sheet (in thousands):

	March 31, 2022		
	As Previously Reported	Correction	As Corrected
Assets			
Current assets:			
Unbilled accounts receivable	\$ 10,870	\$ (2,400)	\$ 8,470
Total current assets	\$ 72,363	\$ (2,400)	\$ 69,963
Total assets	\$ 126,383	\$ (2,400)	\$ 123,983
Liabilities and stockholders' equity			
Current liabilities:			
Deferred revenue	\$ 6,566	\$ (787)	\$ 5,779
Total current liabilities	\$ 35,687	\$ (787)	\$ 34,900
Total liabilities	\$ 49,520	\$ (787)	\$ 48,733
Stockholders' equity:			
Accumulated deficit	\$ (114,099)	\$ (1,613)	\$ (115,712)
Total stockholders' equity	\$ 76,863	\$ (1,613)	\$ 75,250
Total liabilities and stockholders' equity	\$ 126,383	\$ (2,400)	\$ 123,983

The associated correction to the net operating losses and valuation allowance components of deferred tax assets as of March 31, 2022 are reflected in Note 5, *Income Taxes*, to the Financial Statements, which had no net impact to deferred tax assets.

2. Supplementary Financial Information

Inventories, net

The following table presents details regarding our inventories, net:

	March 31,	
	2023	2022

		Gross		Net		Gross		Net	
		Carrying	Accumulated	Book	Carrying	Accumulated	Book	Carrying	Book
		Amount	Amortization	Value	Amount	Amortization	Value	Amount	Value
(In thousands)									
		March 31, 2024				March 31, 2023			
		Gross		Net		Gross		Net	
		Carrying	Accumulated	Book	Carrying	Accumulated	Book	Carrying	Book
		Amount	Amortization	Value	Amount	Amortization	Value	Amount	Value
(In thousands)									
Technology	Technology	\$ 4,986	\$ (3,444)	\$ 1,542	\$ 4,986	\$ (2,519)	\$ 2,467		
Customer contracts / relationships	Customer contracts / relationships	9,550	(4,371)	5,179	9,550	(2,959)	6,591		
Trade names and non-compete agreements	Trade names and non-compete agreements	782	(770)	12	782	(753)	29		
Capitalized software development costs	Capitalized software development costs	7,489	(4,032)	3,457	5,900	(3,207)	2,693		
Total	Total	\$22,807	\$ (12,617)	\$10,190	\$21,218	\$ (9,438)	\$11,780		

Amortization expense for intangible assets subject to amortization was approximately \$3.2 million \$3.3 million and \$3.2 million for Fiscal 2023 2024 and Fiscal 2022, 2023, respectively. Approximately \$0.5 million \$0.7 million and \$0.6 million of the intangible asset amortization was recorded to cost of revenues, and approximately \$2.6 million and \$2.7 million \$2.6 million was recorded to amortization expense for Fiscal 2023 2024 and Fiscal 2022, 2023, respectively, in the statements of operations. The weighted average remaining useful lives of the intangible assets as of March 31, 2023 March 31, 2024 is 3.4 years.

We have one indefinite useful life intangible asset, with de minimis carrying value, which was included in trade names and non-compete 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 4 years. Our net capitalized software development costs of approximately \$3.5 million and \$2.7 million \$5.2 million as of March 31, 2024 primarily consisted of our VantageARGUS CV software development costs of \$3.1 million and Oracle Enterprise Resource Planning system design and implementation costs of approximately \$1.1 million \$0.9 million, which have useful lives of 5 and \$1.4 million 10 years, respectively. Our net capitalized software development costs of approximately \$3.5 million as of March 31, 2023, primarily consisted of Oracle Enterprise Resource Planning system design and 2022, respectively, implementation costs of \$1.1 million, which has a useful life of 10 years.

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As of March 31, 2023 March 31, 2024, the future estimated amortization expense is as follows: follows (in thousands):

Year Ending March 31,	Year Ending March 31,	
(In thousands)	(In thousands)	
2024		3,550
2025		
2025	2025	3,070
2026	2026	1,845
2027	2027	1,095
2028	2028	618

2029			
Thereafter	Thereafter		—
		\$	10,178
	\$		

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

Goodwill

The following table presents Goodwill was \$28.3 million as of March 31, 2024 and 2023. There was no change to the goodwill carrying value of our goodwill for during Fiscal 2023 and 2024 or Fiscal 2022:

	Total
Balance—March 31, 2023	
Goodwill	\$ 36,310
Acquired goodwill	—
Accumulated impairment losses	(7,970)
	\$ 28,340
Balance—March 31, 2022	
Goodwill	\$ 36,310
Acquired goodwill	—
Accumulated impairment losses	(7,970)
	\$ 28,340

2023.

Warranty Reserve Activity

Warranty reserve is recorded as accrued liabilities in the accompanying balance sheets. The following table presents activity with respect to the warranty reserve:

	Year Ended March 31,			
	2023	2022		
	(In thousands)			
	Year Ended March 31,	Year Ended March 31,		
	2024	2024	2023	
	(In thousands)	(In thousands)		
Balance at beginning of fiscal year	Balance at beginning of fiscal year	\$616	\$569	
Additions charged to cost of revenues	Additions charged to cost of revenues	343	238	

Warranty claims	Warranty claims	(201)	(191)
Balance at end of fiscal year	Balance at end of fiscal year	\$758	\$616

Earnings (Loss) Per Share

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

	Year Ended March 31,	
	2023	2022
	(In thousands, except per share amounts)	
Numerator:		
Net income (loss) from continuing operations	\$ (14,855)	\$ (6,900)
Net income (loss) from discontinued operations, net of tax	—	(180)
Net income (loss)	<u>\$ (14,855)</u>	<u>\$ (7,080)</u>
Denominator:		
Weighted average common shares used in basic computation	42,374	42,222
Dilutive stock options	—	—
Weighted average common shares used in diluted computation	<u>42,374</u>	<u>42,222</u>
Basic:		
Net income (loss) per share from continuing operations:	\$ (0.35)	\$ (0.16)
Net income (loss) per share from discontinued operations:	\$ —	\$ —
Net income (loss) per basic share	<u>\$ (0.35)</u>	<u>\$ (0.16)</u>
Diluted:		
Net income (loss) per share from continuing operations:	\$ (0.35)	\$ (0.16)
Net income (loss) per share from discontinued operations:	\$ —	\$ —
Net income (loss) per diluted share	<u>\$ (0.35)</u>	<u>\$ (0.16)</u>

	Year Ended March 31,	
	2024	2023
	(In thousands, except per share amounts)	
Numerator:		
Net income (loss)	<u>\$ 3,131</u>	<u>\$ (14,855)</u>
Denominator:		
Weighted average common shares used in basic computation	42,867	42,374
Dilutive stock options and other dilutive awards	1,037	—
Weighted average common shares used in diluted computation	<u>43,904</u>	<u>42,374</u>
Net income (loss) per basic share	\$ 0.07	\$ (0.35)
Net income (loss) per diluted share	\$ 0.07	\$ (0.35)

The following instruments were excluded for purposes of calculating weighted average common share equivalents in the computation of diluted net income (loss) per share from continuing operations as their effect would have been anti-dilutive for the years ended March 31, 2023, March 31, 2024 and 2022; 2023:

		Year Ended March 31,	
		2023	2022
		(In thousands)	
Year Ended March 31,		Year Ended March 31,	
2024		2024	2023
(In thousands)		(In thousands)	
Stock options	Stock options	5,886	3,857
Restricted stock units	Restricted stock units	457	386

3. Restructuring Activities

On May 12, 2022, the Board of Directors of Iteris, Inc. approved restructuring activities to better position the Company for increased profitability and growth. During the twelve months ended March 31, 2023, the Company incurred approximately \$0.7 million related to employee separation costs in relation to these activities which were included in restructuring charges on the unaudited condensed statement of operations.

As of March 31, 2023, we had accrued approximately \$0.2 million for severance and benefits related to Payments made during Fiscal 2024 towards the restructuring activities in accrued payroll and related expenses in the accompanying balance sheet. Our restructuring activities during Fiscal 2023 liability at March 31, 2023 were as follows (in thousands):

Balance at March 31, 2022	\$	—
Charged to expenses		707
Cash payments		(465)
Balance at March 31, 2023	\$	242
Cash payments		(242)
Balance at March 31, 2024	\$	—

4. Fair Value Measurements

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

We did not have any material financial assets or liabilities measured at fair value on a recurring basis using Level 3 inputs as of March 31, 2023, March 31, 2024 or 2022; 2023. Our non-financial assets, such as goodwill, intangible assets and 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 nonrecurring basis, generally when there is a transaction involving those assets. In Fiscal 2023 and Fiscal 2022, Level 3 inputs were used to evaluate the goodwill of the Company. In Fiscal 2022, Level 3 inputs were used to evaluate the fair value of the contingent consideration related to the acquisition of TrafficCast. As of March 31, 2023, the inputs related to determination of the balance of the earnout were resolved and the final balance due of \$0.6 million was accrued in accordance with the terms of the agreement. Accordingly, assets such as of March 31, 2023, there were no items measured at fair value with Level 3 inputs. a

purchase transaction, a business combination or an adjustment for impairment. No other non-financial assets were measured at fair value as of March 31, 2023, March 31, 2024 and March 31, 2022, March 31, 2023.

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, 2024			
	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Estimated Fair Value
(In thousands)				
Assets:				
Level 1:				
Securities held in deferred compensation plan ⁽¹⁾	\$ 1,539	\$ (542)	\$ 650	\$ 1,647
Total	\$ 1,539	\$ (542)	\$ 650	\$ 1,647
Liabilities:				
Level 1:				
Deferred compensation plan liabilities ⁽²⁾	\$ 1,415	\$ (485)	\$ 633	\$ 1,563
Total	\$ 1,415	\$ (485)	\$ 633	\$ 1,563

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	As of March 31, 2023			
	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Estimated Fair Value
(In thousands)				
Assets:				
Level 1:				
Securities held in deferred compensation plan ⁽¹⁾	\$ 1,426	\$ (437)	\$ 321	\$ 1,310
Total	\$ 1,426	\$ (437)	\$ 321	\$ 1,310
Liabilities:				
Level 1:				
Deferred compensation plan liabilities ⁽²⁾	\$ 1,201	\$ (296)	\$ 563	\$ 1,468
Level 3:				
Contingent Consideration ⁽³⁾	\$ 600	\$ —	\$ —	\$ 600
Transfers out ⁽³⁾	(600)	—	—	(600)
Subtotal	—	—	—	—
Total	\$ 1,201	\$ (296)	\$ 563	\$ 1,468

As of March 31, 2022			
Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Estimated Fair Value
(In thousands)			

As of March 31, 2023				As of March 31, 2023			
Amortized Cost		Amortized Cost		Gross Unrealized Loss	Gross Unrealized Gain	Estimated Fair Value	
(In thousands)				(In thousands)			
Assets:							
Level 1:	Level 1:						
Money market funds		\$ 71	\$ —	\$ —	\$ 71		
Level 1:							
Level 1:							
Securities held in deferred compensation plan (1)	Securities held in deferred compensation plan (1)	998	(106)	73	965		
Subtotal		1,069	(106)	73	1,036		
Level 2:							
Commercial paper		7,499	—	—	7,499		
Corporate notes and bonds		—	—	—	—		
US treasuries		7,798	—	—	7,798		
Subtotal		15,297	—	—	15,297		
Securities held in deferred compensation plan (1)							
Securities held in deferred compensation plan (1)							
Total	Total	\$16,366	\$ (106)	\$ 73	\$16,333		
Liabilities:							
Level 1:	Level 1:						
Level 1:							
Level 1:							
Deferred compensation plan liabilities (2)							
Deferred compensation plan liabilities (2)							
Deferred compensation plan liabilities (2)	Deferred compensation plan liabilities (2)	\$ 1,013	\$ (106)	\$ 72	\$ 979		
Level 3:	Level 3:						
Contingent consideration (3)	Contingent consideration (3)	\$ 600	\$ —	\$ —	\$ 600		
Contingent consideration (3)							
Contingent consideration (3)							
Transfers out (3)							
Subtotal							

Federal			
State	State	51	66
Total deferred tax provision	Total deferred tax provision	85	99
Provision for income taxes on continuing operations		135	174
Income (loss) from continuing operations, net of taxes		<u>\$(14,855)</u>	<u>\$(6,900)</u>
Provision for income taxes			
Income (loss), net of taxes			

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

	Year Ended March 31,	
	2023	2022
	(In thousands)	
Provision (benefit) for income taxes at statutory rates	\$ (3,091)	\$ (1,422)
State income taxes net of federal benefit	(423)	(559)
Tax credits	(434)	(141)
Compensation charges	156	34
Change in valuation allowance	3,849	2,169
Other	78	93
Provision for income taxes	<u>\$ 135</u>	<u>\$ 174</u>

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	Year Ended March 31,	
	2024	2023
	(In thousands)	
Provision for (benefit from) income taxes at statutory rates	\$ 727	\$ (3,091)
State income taxes net of federal benefit	195	(423)
Tax credits	(981)	(434)
Compensation charges	612	156

Change in valuation allowance	(271)	3,849
Other	50	78
Provision for income taxes	\$ 332	\$ 135

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

	March 31,	
	2023	2022 (as corrected)
	(In thousands)	
Deferred tax assets:		
Net operating losses	\$ 5,962	\$ 4,320
Capitalized R&D	2,866	1,808
Credit carry-forwards	4,868	4,530
Deferred compensation and payroll	3,290	2,902
Bad debt allowance and other reserves	914	1,299
Property and equipment	729	297
Acquired intangibles	294	129
Other, net	518	171
Total deferred tax assets	19,441	15,456
Valuation allowance	(18,741)	(14,892)
Total deferred tax assets, net of valuation allowance	700	564
Deferred tax liabilities:		
Goodwill	(1,122)	(901)
Total deferred tax liabilities	(1,122)	(901)
Net deferred tax liabilities	\$ (422)	\$ (337)

The impact to our fiscal year 2022 deferred tax assets as a result of the corrections described in Note 1, *Description of Business and Summary of Significant Accounting Policies*, to the Financial Statements, was an increase of \$0.3 million to the net operating losses from \$4.0 million to \$4.3 million, and an equal increase to our valuation allowance from \$14.6 million to \$14.9 million.

	March 31,	
	2024	2023
	(In thousands)	
Deferred tax assets:		
Net operating losses	\$ 2,317	\$ 5,962
Capitalized R&D	4,733	2,866
Credit carry-forwards	5,366	4,868
Deferred compensation and payroll	3,660	3,290
Bad debt allowance and other reserves	1,237	914
Property and equipment	860	729
Lease liabilities	2,203	—
Acquired intangibles	214	294
Other, net	547	518
Total deferred tax assets	21,137	19,441
Valuation allowance	(18,470)	(18,741)
Total deferred tax assets, net of valuation allowance	2,667	700
Deferred tax liabilities:		
Goodwill	(1,294)	(1,122)

Right-of-use assets	(1,888)	—
Total deferred tax liabilities	(3,182)	(1,122)
Net deferred tax liabilities	\$ (515)	\$ (422)

At **March 31, 2023** **March 31, 2024**, we had **\$3.7** **\$4.2** million in federal research credits that begin to expire in 2031 and **\$1.4** **\$1.3** million in state tax credits that **begin** **began** to expire in **2023** **2024**. We had **\$23.5** **\$7.9** million of federal net operating loss carryforwards at **March 31, 2023** **March 31, 2024** that do not expire as a result of recent tax law changes. We also had **\$16.4** **\$10.0** million of state net operating loss carryforwards at **March 31, 2023** **March 31, 2024** 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 **\$18.7 million** **\$18.5 million** and **\$14.9** **\$18.7** million against our deferred tax assets at **March 31, 2023** **March 31, 2024** and **2022, 2023**, 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. **Due to the magnitude of the impact of supply chain issues occurring during Fiscal 2023 and the addition to cumulative pre-tax loss**, we currently cannot estimate when sufficient positive evidence may become available to allow us to reach a conclusion that any 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 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, 2023. 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. As of March 31, 2023, the Company had repaid all amounts deferred under the CARES Act.

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Unrecognized Tax Benefits

As of **March 31, 2023** **March 31, 2024** and **2022, 2023**, our gross unrecognized tax benefits were approximately **\$1.3** **\$1.5** million and **\$1.2** **\$1.3** million, respectively, of which approximately **\$1.2 million** **\$1.5 million** and **\$1.1** **\$1.2** million, respectively, are netted against certain noncurrent deferred tax assets. The amounts that would affect our effective tax rate if recognized are approximately **\$1.2 million** **\$1.4 million** and **\$1.1** **\$1.2** 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,	
		2023	2022
		(In thousands)	
		Year Ended March 31,	Year Ended March 31,
		2024	2023
		(In thousands)	
Gross unrecognized tax benefits at beginning of year	Gross unrecognized tax benefits at beginning of year	\$1,198	\$1,079
Increases for tax positions taken in prior years	Increases for tax positions taken in prior years	22	—

Decreases for tax positions taken in prior years	Decreases for tax positions taken in prior years	(36)	(29)
Increases for tax positions taken in the current year	Increases for tax positions taken in the current year	116	159
Lapse in statute of limitations	Lapse in statute of limitations	(16)	(11)
Gross unrecognized tax benefits at March 31		<u>\$1,284</u>	<u>\$1,198</u>
Gross unrecognized tax benefits			

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, 2020** **March 31, 2021** or later, and state and local income tax examination for fiscal tax years ended **March 31, 2019** **March 31, 2020** or later. However, if net operating loss carryforwards that originated in earlier tax years are utilized in the future, the amount of such NOLs from such earlier years remain subject to review by tax authorities.

6. Commitments and Contingencies

Litigation and Other Contingencies

As a provider of traffic engineering services, hardware products, software and other various solutions for the traffic industry, the Company is, and may in the future from time to time, be involved in **disputes, proceedings, or litigation** relating to claims arising out of its operations in the normal course of **business, business, such as intellectual property infringement and contractual matters**. While the Company cannot accurately predict the outcome of any such **disputes, proceedings, or litigation, including the matter below**, the Company is not a party to any legal **dispute, proceedings, or litigations**, the outcome of which, in **management's management's** opinion, individually or in the aggregate, would have a material effect on the **Company's Company's business**, results of operations, financial position or cash flows.

The Company agreed to accept a **\$1.0 million return of inventory sold by the Company during Fiscal 2023, at the request of a prime contractor and related to a project that has been delayed**. The Company is a subcontractor to the prime contractor on the delayed project, and there currently are no known issues with the product, nor is there currently any contention that there are issues with the product. Up to mid-July 2023 the Company believed the probability of the occurrence of a loss associated with this matter was remote. After meeting with the prime contractor beginning in mid-July 2023, the Company agreed to reassess the situation and agreed on August 7, 2023, to accept the inventory return. For the year ended March 31, 2024, we recognized a pretax loss contingency of \$0.2 million, comprised of \$1.0 million in accrued liabilities representing the sale value of the inventory and \$0.8 million in prepaid expenses and other current assets representing the estimated value of the inventory to be returned in the future. The inventory was returned, and the accrued liability was paid. As of March 31, 2024, there were no outstanding contingencies related to this inventory.

7. Right-of-Use Assets and Lease Liabilities

We have various operating leases for our offices, office equipment and vehicles in the United States. These leases expire at various times through **2029, 2030**. Certain lease agreements contain renewal options from 1 year to 5 years, rent abatement, and escalation clauses that are factored into our determination of lease payments when appropriate.

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The table below presents lease-related assets and liabilities recorded on the balance sheet as **follows: follows (in thousands):**

	Classification	March 31, 2023
		(In thousands)
Assets		
Operating lease right-of-use-assets	Right-of-use assets	\$ 8,345
Total operating lease right-of-use-assets		\$ 8,345

Liabilities		
Operating lease liabilities (short-term)	Accrued liabilities	\$ 2,339
Operating lease liabilities (long-term)	Lease liabilities	7,641
Total operating lease liabilities		\$ 9,980

	Classification	March 31, 2024	March 31, 2023
Assets			
Operating lease right-of-use-assets	Right-of-use assets	\$ 7,237	\$ 8,345
Total operating lease right-of-use-assets		\$ 7,237	\$ 8,345
Liabilities			
Operating lease liabilities (short-term)	Accrued liabilities	\$ 2,233	2,339
Operating lease liabilities (long-term)	Lease liabilities	6,210	7,641
Total operating lease liabilities		\$ 8,443	\$ 9,980

Lease Costs

For each of Fiscal 2023 2024 and Fiscal 2022, 2023, lease costs totaled approximately \$2.6 million and \$2.9 million, respectively. The Company currently has no variable lease costs. million.

Supplemental Information

The table below presents supplemental information related to operating leases during the fiscal year ended March 31, 2023 (in thousands, except weighted average information): March 31, 2024 and 2023:

Cash paid for amounts included in the measurement of operating lease liabilities	\$ 1,755
Right-of-use assets obtained in exchange for new operating lease liabilities	313
Weighted average remaining lease term	3.9
Weighted average discount rate	4.8 %

	March 31, 2024	March 31, 2023
(Dollars in thousands)		
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 2,727	\$ 1,755
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 997	\$ 313
Weighted average remaining lease term	3.7	3.9
Weighted average discount rate	5.0 %	4.8 %

Undiscounted Cash Flows

The table below reconciles the undiscounted cash flows for each of the first five years and the total of the remaining years to the operating lease liabilities recorded on the balance sheet as of March 31, 2023 March 31, 2024 (in thousands):

Fiscal Year Ending March 31,	Fiscal Year Ending March 31,	Operating Leases	Fiscal Year Ending March 31,	Operating Leases
(In thousands)				
2024		\$ 2,739		
2025	2025	2,479		
2026	2026	2,149		
2027	2027	2,178		
2028	2028	1,286		
2029				
Thereafter	Thereafter	204		
Total lease payments	Total lease payments	11,035		
Less imputed interest	Less imputed interest	(1,055)		
Present value of future lease payments	Present value of future lease payments	9,980		
Less current obligations under leases	Less current obligations under leases	(2,339)		
Long-term lease obligations	Long-term lease obligations	\$ 7,641		

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8. 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, 2023**, **March 31, 2024** and **2022, 2023**, there were no outstanding shares of preferred stock, and we do not currently have plans to issue any shares of preferred stock.

Common Stock Reserved for Future Issuance

The following summarizes common stock reserved for future issuance at **March 31, 2023** and **March 31, 2024**:

	Number of Shares (In thousands)
Stock options outstanding	6,287,585
Restricted stock units outstanding	497,793
Performance stock units outstanding	83,117
Authorized for future issuance grant under stock incentive plans plan	2,398,159
Total common stock reserved for future issuance at March 31, 2023 March 31, 2024	9,265,836

9. Employee Benefit Plans

Stock Incentive Plans

In September 2007, our stockholders approved We currently maintain two stock incentive plans, the 2007 Omnibus Incentive Plan (the "2007 Plan" "2007 Plan") and the 2016 Omnibus Incentive Plan (the "2016 Plan"). Each of these plans allows for the issuance of stock options, stock appreciation rights, restricted stock ("RSUs"), which provides that options to purchase shares of our unissued common performance-based restricted stock may be granted units ("PSUs"), 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. The 2007 Plan also allows for Options expire no more than ten years after the issuance date of stock grant and generally vest at the rate of 25% on each of the first 4 years anniversaries of the grant date. Stock appreciation rights, restricted stock, restricted stock units ("RSUs") 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 shares issuance under the plans although we may only grant future awards from the 2016 Plan.

In September 2007, our stockholders approved 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 4 years 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. In September 2021, our stockholders approved an amendment of the 2016 Plan to increase the number of shares of common stock authorized for issuance under the 2016 Plan by an additional 3,360,000 shares to a total of 9,263,602 shares.

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, 2023 March 31, 2024, there were approximately 2.4 million 1.6 million shares of common stock available for future grant or issuance under the 2016 Plan. Total stock options vested and expected to vest were approximately 6.3 million 5.9 million as of March 31, 2023 March 31, 2024.

Stock Options

A summary of activity in the Omnibus Incentive Plans with respect to our stock options for Fiscal 2023 2024 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, 2022	5,943	\$ 4.32	6.5	974
Granted	943	3.20		
Exercised	(61)	2.93		
Forfeited	(241)	4.90		
Expired	(297)	5.02		
Options outstanding at March 31, 2023	6,287	4.11	6.2	4,976

As of March 31, 2023, approximately 4,082,662 stock options were exercisable.

	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, 2023	6,287	\$ 4.11		
Granted	475	4.13		
Exercised	(173)	3.03		
Forfeited	(417)	4.04		
Expired	(314)	4.77		
Options outstanding at March 31, 2024	5,858	4.11	5.5	\$ 5,410
Options vested and exercisable at March 31, 2024	4,268	4.16	4.4	\$ 3,879

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 1 year and 3 year 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 2023 2024 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, 2022	451	\$ 4.12	7.5	1,271

# of Shares		# of Shares		Weighted Average Price Per Share	
(In thousands)					
RSUs outstanding at March 31, 2023					
RSUs outstanding at March 31, 2023					
RSUs outstanding at March 31, 2023					
Granted	Granted	290	3.29		
Vested and released	Vested and released	(202)	5.33		
Forfeited	Forfeited	(42)	5.23		
RSUs outstanding at March 31, 2023		<u>497</u>	3.05	1.3	2,326
RSUs outstanding at March 31, 2024					

Performance Stock Units

The Company has approved a total "target" number of 212,216 PSUs for our executive officers with performance and service-based vesting conditions. The actual number of units that ultimately vest will range from 0% to 200% of the original units awarded based on level of achievement. Between 0% and 160% of the PSUs will be eligible to vest based on average annual performance during the three-year performance period relative to the revenues per share and cash flow from operations objectives to be established by the Compensation Committee at the beginning of each year. In addition, the final PSU vesting based on the revenues per share and cash flow from operations performance will be subject to a modifier between .75x-1.25x based on the Company's total shareholder return relative to the Russell 2000 during the performance period, for a maximum achievement percentage of 200% of the "target" number of PSUs. The PSUs are amortized over a service period of 3 years. The value and the derived service period of the PSUs were estimated using the Monte-Carlo simulation model.

In accordance with ASC 718 - Compensation – Stock Compensation, grant date is a date at which a grantor and a grantee reach a mutual understanding of the key terms and conditions of a share-based payment award. For PSU awards with performance conditions to be established by the Compensation Committee at a future date, the grant date does not occur until the vesting conditions are established and communicated to the employees.

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The following table summarizes the details of the performance stock units:

# of Shares	Weighted Average Price Per Share	Weighted Average Remaining Life	Aggregate Intrinsic Value
(In thousands)	Share	Life	Value

average period of approximately 2.7 years for stock options, 1.7 years for RSUs and 1.3 years for PSUs. If there are any modifications or cancellations of the underlying unvested awards, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional stock options, RSUs or other stock-based awards.

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

		Year Ended March 31,				Year Ended March 31,	
		2023	2022			2024	2023
Expected life— years	Expected life— years	7.5	7.2	Expected life—years		6.3	7.5
Risk-free interest rate	Risk-free interest rate	3.6 %	1.5 %	Risk-free interest rate		4.2 %	3.6 %
Expected volatility of common stock	Expected volatility of common stock	51 %	49 %	Expected volatility of common stock		52 %	51 %
Dividend yield	Dividend yield	0 %	0 %	Dividend yield		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,	
		2023	2022

		(In thousands, except per share amounts)	
		Year Ended March 31, 2024	Year Ended March 31, 2023
		(In thousands, except per share amounts)	(In thousands, except per share amounts)
Weighted average grant date fair value per share of options granted	Weighted average grant date fair value per share of options granted	\$ 1.67	\$ 2.58
Intrinsic value of options exercised	Intrinsic value of options exercised	\$ 141	\$ 1,966

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, 2023**, **March 31, 2024** and **2022, 2023**.

We sponsor a defined contribution 401(k) plan (the "**401(k) Plan**" "**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 **\$1.8 million**, **\$2.0 million** and **\$1.8 million** for Fiscal **2023**, **2024** and Fiscal **2022, 2023**, 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** **Company's** common stock at 95% of the lower of the fair market **price** 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 elect to contribute 1-15% of their eligible gross pay up to a \$0.03 million annual stock value limit. During Fiscal **2023**, **2024** and Fiscal **2022, 2023**, **173,273** and **180,000** and **95,000** shares, respectively, were purchased.

As of **March 31, 2023**, **March 31, 2024** and **2023**, approximately \$0.1 million of cash was restricted for the purchase of shares under the ESPP and is recorded as restricted cash in the accompanying balance sheets.

Deferred Compensation Plan

Effective October 1, 2020, the Company adopted the Iteris, Inc. Non-Qualified Deferred Compensation Plan (the "**DC Plan**" "**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 regardless of employment status, and the assets held within this trust are subject to the claims of the **Company's Company's** creditors.

As of **March 31, 2023** **March 31, 2024**, the amount invested under the DC Plan totaled approximately **\$1.3 million** **\$1.6 million** and **are is** 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 balance sheets.

As of **March 31, 2023** **March 31, 2024**, the vested amounts under the DC Plan totaled **\$1.5 million** **\$1.6 million** and are included in accrued payroll and related expenses on the balance sheets. Changes in the deferred compensation plan liabilities are recorded as an adjustment to compensation expense.

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As of **March 31, 2023** **March 31, 2024**, **68,627** **147,991** equity awards were deferred and held in the rabbi trust. The shares deferred and held in the rabbi trust are classified as treasury stock, and the liability to participating employees **are is** classified as deferred compensation obligations in the **stockholders' stockholders'** equity section of the 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.

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.

The Board of Directors 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.

There were no awards granted under the Inducement Plan during the fiscal years ended March 31, 2023 and 2022. No further awards will be granted under the Inducement Plan, although the outstanding awards under the Inducement Plan remain outstanding in accordance with their terms.

10. Stock Repurchase Program

On August 9, 2012, the Board approved a stock repurchase program pursuant to which we could acquire up to \$3.0 million of our outstanding common stock for an unspecified length of time. Under the program, we could repurchase shares from time to time in the open market and privately negotiated transactions and block trades, and could also repurchase shares pursuant to a 10b5-1 trading plan during our closed trading windows. There was no guarantee as to the exact number of shares that would be repurchased. We reserved the right to modify or terminate the repurchase program at any time without prior notice.

On November 6, 2014, the Board approved a \$3.0 million increase to the Company's 2012 stock repurchase program, pursuant to which the Company could continue to acquire shares of its outstanding common stock from time to time for an unspecified length of time. From the inception of the 2012 stock repurchase program on through its termination on May 12, 2022, we repurchased approximately 2,458,000 shares of our common stock for an aggregate price of approximately \$4.3 million, at an average price per share of \$1.73. As of March 31, 2023, these repurchased shares had been retired and resumed their status as authorized and unissued shares of our common stock.

On May 12, 2022 the Board of Directors terminated the 2012 stock repurchase program and approved a new plan for the **company Company** to acquire up to **\$10.0 million** **\$10 million** of our outstanding common stock for an unspecified length of **time, time** (the "2022 Stock Repurchase Program"). Under the **program, 2022 Stock Repurchase Program**, we may repurchase shares from time to time in the open market and **in** 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** 2022 Stock Repurchase Program at any time without prior notice. During the fiscal year ended **March 31, 2023** March 31, 2024, we repurchased **0.3 million** 39,861 shares, for an aggregate price of approximately **\$0.9 million**, **\$0.2 million**, at an average price of **\$2.90** \$4.54 per share. From the inception of the 2022 Stock Repurchase Program through March 31, 2024, we repurchased approximately 339,861 shares of our common stock for an aggregate price of approximately \$1.1 million, at an average price per share of \$3.14. As of **March 31, 2023** March 31, 2024, these repurchased shares had been retired and resumed their status as authorized and unissued shares of our common stock. As of March 31, 2024 approximately **\$9.1 million** **\$8.9 million** remained available for the repurchase of our common stock under our **current program**. 2022 Stock Repurchase Program.

11. Business Segments, Significant Customer and Geographic Information

Business Segments

The **Company's** **Company's** Chief Operating Decision Maker ("CODM" ("CODM"), who is our Chief Executive Officer, reviews the **Company's** **Company's** results on a consolidated basis and our financial results are presented under a single **reporting reportable** segment in order to provide the most accurate representation of **Company's** **the Company's** performance.

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, 2023** March 31, 2024 and **2022, 2023**. The Company had no long-lived assets located outside the U.S. as of **March 31, 2023** March 31, 2024 and **2022, 2023**.

The Company had **approximately 0% of de minimis** revenues, derived from shipments to, or contract, service and other revenues, from external customers located outside the U.S. for the years ended **March 31, 2023** March 31, 2024 and **2022**.

12. Long-Term Debt

On January 25, 2022, Iteris, Inc., entered into a Credit Agreement (the "Credit Agreement") with Capital One, National Association, as agent.

The Credit Agreement provided for a \$20 million revolving credit facility with a maturity date of January 24, 2026. In addition, the Company had the ability from time to time to increase the revolving commitments up to an additional aggregate amount not to exceed \$40 million, subject to receipt of lender commitments and certain conditions precedent. The Credit Agreement that evidenced the facility contained customary representations, warranties, covenants, and events of default. The Credit Agreement was collateralized by substantially all of our property and assets, including intellectual property. The Credit Agreement also contained certain restrictions and covenants that required the Company to maintain, on an ongoing basis, (i) a leverage ratio of no greater than 3.00 to 1.00 and (ii) a fixed charge coverage ratio of not less than 1.25 to 1.00. The leverage ratio also determined the applicable interest rate under the Credit Agreement. Borrowings under the revolving credit facility accrued interest at a rate equal to either Secured Overnight Financing Rate ("SOFR") or a specified base rate, at the Company's option, plus an applicable margin. The applicable margins ranged from 2.00% to 2.80% per annum for SOFR loans and 1.00% to 1.80% per annum for base rate loans. The revolving credit facility was subject to a commitment fee payable on the unused revolving credit facility commitments ranging from 0.25% to 0.35%, that was dependent on the Company's leverage ratio.

On September 12, 2022, the Company voluntarily terminated the Credit Agreement and expensed the remaining capitalized deferred financing costs. The Company had not borrowed against the Credit Agreement since its inception, but the Company continued to incur customary fees thereunder prior to this termination. In connection with the termination of the Credit Agreement, all liens securing such obligations and guarantees of such obligations were released. Amortization of the deferred financing costs and commitment fees on the unused revolving credit facility commitments of \$0.3 million are included in Interest Income (Expense), net on the statement of operations. As of March 31, 2023, no amounts of capitalized deferred financing costs remained. **2023**.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

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

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of **March 31, 2023** **March 31, 2024**, our disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Commission's Commission's rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management was required to apply its judgment in evaluating the cost-benefit relationship of such controls and procedures.

(b) Changes in internal control

There was no significant change in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fourth quarter of Fiscal **2023** **2024** that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

(c) Inherent Limitations on Internal Control

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

(d) Management's Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting is a process designed under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, to provide reasonable assurance regarding the reliability of financing reporting and the preparation of financial statements for external purposes in accordance with **U.S generally accepted accounting principles**. **U.S. GAAP**.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria set forth in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective at a reasonable assurance level as of **March 31, 2023** **March 31, 2024**.

The effectiveness of our internal control over financial reporting as of **March 31, 2023** **March 31, 2024** has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Iteris, Inc. (the "Company") as of **March 31, 2023** **March 31, 2024**, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of **March 31, 2023** **March 31, 2024**, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the financial statements as of and for the year ended **March 31, 2023** **March 31, 2024**, of the Company and our report dated **June 29, 2023** **June 13, 2024**, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte & Touche LLP

Costa Mesa, CA

June **29, 2023** **13, 2024**

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ITEM 9B. OTHER INFORMATION

(a) None.

(b) During the three months ended **March 31, 2024**, none of the Company's directors or officers adopted, modified or terminated a Rule 10b5-1 trading arrangement, and none of the Company's directors or officers adopted, modified or terminated a non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K of the Securities Act of 1933, as amended), except that Joe Bergera terminated the Rule 10b5-1 trading arrangement he had previously adopted as disclosed in our Form 10-Q for the quarter ended **December 31, 2023**.

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ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 will be either (i) included in an amendment to this Annual Report on Form 10-K ("the Form 10-K Amendment" "Amendment") or (ii) incorporated by reference to our Definitive Proxy Statement to be filed with the SEC in connection with our 2023 2024 Annual Meeting of Stockholders (the "2023 2024 Proxy Statement" "Statement") under the headings "Executive Compensation and Other Information—Executive Officers," "Election of Directors," "Corporate Governance," "Board Meetings and "Delinquent Committees," and "Delinquent Section 16(a) Reports."

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 will be either (i) included in the a Form 10-K Amendment or is (ii) incorporated by reference to our 2023 2024 Proxy Statement under the heading "Executive Compensation and Other Information" and "Election of Directors."

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

The information required by Item 12 will be either (i) included in the a Form 10-K Amendment or is (ii) incorporated by reference to our 2023 2024 Proxy Statement under the heading "Equity Compensation Plan Information" and "Stock Ownership of Certain Beneficial Owners and Management."

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

The information required by Item 13 will be either (i) included in the a Form 10-K Amendment or is (ii) incorporated by reference to our 2023 2024 Proxy Statement under the heading "Corporate Governance, Board Meetings and Committees" and "Additional Matters—Certain Transactions with Related Persons."

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 will be either (i) included in the a Form 10-K Amendment or is (ii) incorporated by reference to our 2023 2024 Proxy Statement under the heading "Matters Related to Independent Registered Public Accounting Firm."

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

1. *Financial Statements.*

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

2. *Financial Statement Schedules.*

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

3. *Exhibits.*

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

Exhibit Index

Exhibit Number	Description	Reference
2.1 †	Asset Purchase Agreement, dated May 2, 2020, by and among Iteris, Inc., ClearAg, Inc., and DTN, LLC* LLC	Exhibit 2.1 to the registrant's registrant's Current Report on Form 8-K as filed with the SEC on May 6, 2020
4.1 3.1	Restated Certificate of Incorporation of the registrant Iteris, Inc. as filed with the Delaware Secretary of State on October 12, 2018	Exhibit 3.1 to the Registrant's registrant's Current Report on Form 8-K as filed with the Commission SEC on October 15, 2018
4.2 3.2	Restated Bylaws of the Registrant, as amended through August 6, 2018	Exhibit 3.1 to the Registrant's registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 as filed with the Commission SEC on August 7, 2018
4.3 4.1	Specimen common stock certificate	Exhibit 4.1 to the Registrant's registrant's Registration Statement on Form 8-A (File No. 001-08762), as filed with the Commission SEC on December 8, 2004
4.4 4.2	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 Filed herewith
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 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 Agreement, 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 registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 as filed with the SEC on August 14, 2007
10.4	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 registrant's Annual Report on Form 10-K for the year ended March 31, 2014 as filed with the SEC on September 4, 2014

Exhibit Number	Description	Reference
10.5	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 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 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.	Exhibit 10.7 to the registrant's Annual Report on Form 10-K for the year ended March 31, 2021 filed with the SEC on June 1, 2021
10.8 *	Iteris, Inc. Employee Stock Purchase Plan	Exhibit 10.4 to the registrant's 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 (Amended and Restated as of July 2015)	Exhibit 10.19 Appendix A to the registrant's Annual Report on Form 10-K for the year ended March 31, 2012 registrant's Definitive Proxy Statement as filed with the SEC on June 11, 2012 July 29, 2015
10.10 *	Forms of Stock Option Agreements under the 2007 Omnibus Incentive Plan	Exhibit 10.20 to the registrant's 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 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 Iteris, Inc. 2016 Omnibus Incentive Plan	Exhibit 10.1 99.1 to registrant's Current Report Registration Statement on Form 8-K S-8 (File No. 333-228210) as filed with the SEC on September 16, 2021 November 6, 2018
10.13 *	Form of Performance Stock Unit Issuance Agreement for use with 2016 Omnibus Incentive Plan** Plan	Exhibit 10.1 to the registrant's 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 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 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 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 *	Letter Amendment to Employment Agreement, dated January 30, 2023, between Iteris, Inc. and Douglas Groves	Exhibit 10.2 to the registrant's Current Report on Form 8-K as filed with the SEC on February 2, 2023
10.19 *	Iteris, Inc. Amended and Restated Executive Severance Plan	Exhibit 10.20 to the registrant's 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 *	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

Exhibit Number	Description	Reference
10.21 *	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
10.22 *	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
10.23 10.18 *	Iteris, Inc. Deferred Compensation Plan Effective Date October 1, 2020	Exhibit 10.5 to the registrant's registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2020 as filed with the SEC on February 2, 2021
10.24 10.19 *	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 registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2020 as filed with the SEC on February 2, 2021
10.25 10.20 *	2016 Omnibus Incentive Plan (Amended and Restated effective September 9, 2021)	Exhibit 10.1 to the registrant's Current Report on Form 8-K as filed with the SEC on September 9, 2021

Exhibit Number	Description	Reference
10.26	Credit Agreement, dated as of January 25, 2022, by and between Iteris, Inc. and Capital One, National Association	Exhibit 10.1 to the registrant's Current Report on Form 8-K as filed with the SEC on January 28, 2022
10.27 *	Severance Agreement, dated December 30, 2021, between Iteris, Inc. and Ramin Massoumi	Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2021 as filed with the SEC on February 3, 2022
10.28 10.21 *	Employment Agreement, dated January 30, 2023, between Iteris, Inc. and Kerry Shiba	Exhibit 10.1 to the registrant's Current Report on Form 8-K as filed with the SEC on February 2, 2023
23	Consent of Independent Registered Public Accounting Firm, dated June 29, 2023 June 13, 2024	Filed herewith
24	Power of Attorney	Filed herewith (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	Filed herewith
31.2	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	Filed herewith
32.2	Certification of the Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.INS 97	Incentive Compensation Clawback Policy	XBRL Instance Document Filed herewith
101.INS	Inline XBRL Instance Document	Filed herewith
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Filed herewith

Exhibit Number	Description	Reference
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith
101.DEF	Inline XBRL Taxonomy Definition Presentation Linkbase Document	Filed herewith
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	Filed herewith

† Pursuant Certain confidential portions and/or the schedules and attachments to this exhibit have been omitted from this filing pursuant to a confidential treatment request filed with the SEC, or Item 601(a)(5) or 601(b)(10) of Regulation S-K, certain appendices to this agreement have been omitted, as

applicable. The Company agrees to furnish supplementally an unredacted copy of the exhibit to the Securities and Exchange Commission, SEC upon its request, any or all of such omitted appendices. request.

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

ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURES

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

Dated: June 29, 2023 June 13, 2024

ITERIS, INC.
(Registrant)

By

/s/ JOE BERGERA

Joe Bergera
Chief Executive Officer
(Principal Executive Officer)

POWER OF ATTORNEY

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

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

Signature	Title	Date
/s/ JOE BERGERA Joe Bergera	Director, President and Chief Executive Officer (principal executive officer) (Principal Executive Officer)	June 29, 2023 13, 2024
/s/ KERRY A. SHIBA Kerry A. Shiba	Senior Vice President and Chief Financial Officer, Treasurer, and Secretary (principal financial (Principal Financial and accounting Accounting officer)	June 29, 2023 13, 2024
/s/ THOMAS L. THOMAS Thomas L. Thomas	Chairman Chair of the Board	June 29, 2023 13, 2024
/s/ GARY HALL Gary Hall	Director	June 13, 2024
/s/ GERARD M. MOONEY Gerard M. Mooney	Director	June 29, 2023 13, 2024
/s/ LAURA L. SIEGAL Laura L. Siegal	Director	June 29, 2023 13, 2024
/s/ KIMBERLY VALENTINE-POSKA Kimberly Valentine-Poska	Director	June 13, 2024
/s/ DENNIS W. ZANK Dennis W. Zank	Director	June 29, 2023 13, 2024

DESCRIPTION OF ITERIS, INC. COMMON STOCK

The following description of Iteris, Inc.'s common stock is a summary. This summary is subject to the General Corporation Law of Delaware (the "DGCL") and the complete text of Iteris, Inc.'s Restated Certificate of Incorporation (the "certificate of incorporation") and Restated Bylaws (the "bylaws") filed as Exhibits 3.1 and 3.2, respectively, to the Annual Report on Form 10-K of which this exhibit is a part, and are incorporated by reference herein. We encourage you to read our certificate of incorporation, our bylaws and the applicable provisions of the DGCL for additional information.

General

Our authorized capital stock consists of 70,000,000 shares of common stock, \$0.10 par value per share, and 2,000,000 shares of preferred stock, \$1.00 par value per share. As of June 11, 2024, we had 42,975,222 shares of common stock issued and outstanding.

Listing

Our common stock is listed on The Nasdaq Capital Market under the trading symbol "ITI."

Voting Rights

Holders of our common stock are entitled to one vote for each share held of record on all matters to be voted on by the stockholders. There is no cumulative voting in the election of directors.

Dividends

Subject to limitations under applicable law and preferences that may apply to any outstanding shares of our preferred stock, holders of the common stock are entitled to receive dividends when, as and if declared by the Board out of funds legally available therefor.

Liquidation

In the event of the Company's liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in all assets remaining available for distribution to them after payment of liabilities and after provision has been made for any preferred stock having preference over the common stock.

Holders of shares of common stock, as such, have no conversion, preemptive or other subscription rights, and there are no redemption provisions applicable to the common stock.

Rights and Preferences

The common stock has no preemptive, conversion or other rights to subscribe for additional securities. There are no redemption or sinking fund provisions applicable to our common stock. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

Fully Paid and Nonassessable

All outstanding shares of our common stock are, and all shares of common stock to be outstanding upon completion of the offering will be, validly issued, fully paid and nonassessable.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare Inc.

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Exhibit 4.2

Certain Anti-Takeover Effects

We are subject to Section 203 of the DGCL. This statute regulating corporate takeovers prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for three years following the date that the stockholder became an interested stockholder, unless:

- prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

Section 203 defines a business combination to include:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition involving the interested stockholder of 10% or more of the assets of the corporation;
- subject to exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by the entity or person.

Certificate of Incorporation and Bylaw Provisions

Provisions of our certificate of incorporation and bylaws may have the effect of making it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, control of our company by means of a tender offer, a proxy contest or otherwise. These provisions may also make the removal of incumbent officers and directors more difficult. These provisions are intended to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of Iteris to first negotiate with us. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions may make it more difficult for stockholders to take specific corporate actions and could have the effect of delaying or preventing a change in our control. In particular, our certificate of incorporation and bylaws provide for the following:

Special Meetings of Stockholders.

Special meetings of our stockholders may be called only by the chairman of the board of directors, our president, a majority of the members of the board of directors, or by one or more stockholders holding shares in the aggregate entitled to cast not less than 10% of the votes at the special meeting.

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Advance Notice Requirement.

Stockholder proposals to be brought before an annual meeting of our stockholders must comply with advance notice procedures. These advance notice procedures require timely notice and apply in several situations, including stockholder proposals and nominations of persons for election to the board of directors. Generally, to be timely, notice must be received at our principal executive offices not less than 90 days nor more than 120 days prior to the first anniversary date of the annual meeting for the preceding year.

Amendment of Bylaws and Certificate of Incorporation.

The approval of not less than 66 2/3% of the outstanding shares of our capital stock entitled to vote is required to amend provisions of our bylaws discussed above under "Advance Notice Requirement". This provisions could make it more difficult to circumvent the anti-takeover provisions of our certificate of incorporation and our bylaws.

Issuance of Undesignated Preferred Stock.

Our board of directors is authorized to issue, without further action by the stockholders, up to 2,000,000 shares of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by the board of directors. As of June 11, 2024, we did not have any shares of preferred stock outstanding. The existence of authorized but unissued shares of preferred stock enables our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise.

Limitation of Liability and Indemnification of Officers and Directors

As permitted by Section 102 of the DGCL, we have adopted provisions in our certificate of incorporation and bylaws that limit or eliminate the personal liability of our directors for a breach of their fiduciary duty of care as a director. The duty of care generally requires that, when acting on behalf of the corporation, directors exercise an informed business judgment based on all material information reasonably available to them. Consequently, a director will not be personally liable to us or our stockholders for monetary damages or breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- pursuant to Section 174 of the General Corporation Law of the State of Delaware; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability do not affect the availability of equitable remedies such as injunctive relief or rescission. Our certificate of incorporation also authorizes us to indemnify our officers, directors and other agents to the fullest extent permitted under Delaware law.

As permitted by Section 145 of the DGCL, our bylaws provide that:

- we may indemnify our directors, officers, and employees to the fullest extent permitted by the DGCL, subject to limited exceptions;
- we may advance expenses to our directors, officers and employees in connection with a legal proceeding to the fullest extent permitted by the DGCL, subject to limited exceptions; and
- the rights provided in our bylaws are not exclusive.

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We have entered, and intend to continue to enter, into separate indemnification agreements with each of our directors and officers which may be broader than the specific indemnification provisions contained in the DGCL. These indemnification agreements may require us, among other things, to indemnify our officers and directors against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct. These indemnification agreements also may require us to advance any expenses incurred by the directors or officers as a result of any proceeding against them as to which they could be indemnified. We have also purchased a policy of directors' and officers' liability insurance that insures our directors and officers against the cost of defense, settlement or payment of a judgment in some circumstances.

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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, 333-146459, and 333-261022 on Form S-8 and Registration Statement Nos. 333-235699 and 333-256898 on Form S-3 of our reports dated June 29, 2023, June 13, 2024, relating to the financial statements of Iteris, Inc. and the effectiveness of Iteris, Inc.'s internal control over financial reporting appearing in this Annual Report on Form 10-K for the year ended March 31, 2023, March 31, 2024.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California

June 29, 2023, June 13, 2024

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

I, Joe Bergera, certify that:

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board board of Directors directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 29, 2023 June 13, 2024

/s/ JOE BERGERA

Joe Bergera

Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

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

I, Kerry A. Shiba, certify that:

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

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: ~~June 29, 2023~~ June 13, 2024

/s/ KERRY A. SHIBA

Kerry A. Shiba

*Senior Vice President and Chief Financial Officer, Treasurer, and Secretary
(Principal Financial and Accounting Officer)*

Exhibit 32.1

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

In connection with the Annual Report of Iteris, Inc. (the "Company") on Form 10-K for the fiscal year ended ~~March 31, 2023~~ March 31, 2024, as filed with the Securities and Exchange Commission (the "Report"), I, Joe Bergera, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: ~~June 29, 2023~~ June 13, 2024

/s/ JOE BERGERA

Joe Bergera

*Chief Executive Officer
(Principal Executive Officer)*

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

Exhibit 32.2

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

In connection with the Annual Report of Iteris, Inc. (the "Company") on Form 10-K for the fiscal year ended ~~March 31, 2023~~ March 31, 2024 as filed with the Securities and Exchange Commission (the "Report"), I, Kerry A. Shiba, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 29, 2023 June 13, 2024

/s/ KERRY A. SHIBA

Kerry A. Shiba

Senior Vice President and Chief Financial Officer, Treasurer, and Secretary
(Principal Financial and Accounting Officer)

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

Exhibit 97

Incentive Compensation Clawback Policy Iteris, Inc.

Amended as of July 27, 2023

This policy supersedes all incentive compensation clawback policies previously adopted by the Iteris, Inc. Board of Directors

I. INTRODUCTION

The Board of Directors (the "**Board**") of Iteris, Inc. (the "**Company**") believes that it is in the best interests of the Company and its stockholders to create and maintain a culture that emphasizes integrity and accountability, and that reinforces the Company's pay-for-performance compensation philosophy. The Board has therefore adopted this policy which provides for the recoupment of certain executive compensation in the event of an accounting restatement resulting from material noncompliance with financial reporting requirements under the federal securities laws (the "**Policy**"). This Policy is designed to comply with Section 10D of the Securities Exchange Act of 1934 (the "**Exchange Act**").

II. ADMINISTRATION

This Policy shall be administered by the Board's Compensation Committee. Any determinations made by the Compensation Committee shall be final and binding on all affected individuals.

III. STATEMENT OF POLICY

This Policy covers the Company's current and former executive officers, as determined by the Board in accordance with Section 10D of the Exchange Act and the listing standards of the national securities exchange on which the Company's securities are listed, and such other employees who may from time to time be deemed subject to the Policy by the Board (collectively refer to as "**covered persons**").

In the event the Company is required to prepare an accounting restatement of its financial statements due to the Company's material noncompliance with any financial reporting requirement under the securities laws, the Compensation Committee will require reasonably prompt reimbursement or forfeiture of any excess Incentive Compensation (as defined below) received by any covered person during the three completed fiscal years immediately preceding the date on which the Company is required to prepare an accounting restatement.

The amount to be recovered will be the excess of the Incentive Compensation paid to the covered person based on the erroneous data over the Incentive Compensation that would have been paid to the covered person had it been based on the restated results, as determined by the Compensation Committee in accordance with Rule 10D-1 of the Exchange Act and the listing standards of the national securities exchange on which the Company's securities are listed. Such amount must be computed without regard to any taxes paid. If the Compensation Committee cannot determine the amount of excess Incentive Compensation received by the covered person directly from the information in the accounting restatement, then it will make its determination based on a reasonable estimate of the effect of the accounting restatement.

IV. INCENTIVE COMPENSATION

For purposes of this Policy, “**Incentive Compensation**” means any of the following compensation that is granted, earned, or vested during the Covered Period (as defined below) based wholly or in part on the attainment of a performance measure based on the attainment of a financial reporting measure:

- Annual bonuses and other short- and long-term cash incentives;
- Stock options;
- Stock appreciation rights;
- Restricted stock;

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- Restricted stock units;
- Performance shares;
- Performance units; or
- Other equity-based incentive compensation awards.

Financial reporting measures include:

- Earnings measures such as earnings per share;
- Company stock price;
- Total shareholder return;
- Revenues;
- Net income;
- Earnings before interest, taxes, depreciation, and amortization (EBITDA);
- Liquidity measures such as working capital or operating cash flow; or
- Return measures such as return on invested capital or return on assets.

For purposes of this Policy, “**Covered Period**” means the three completed fiscal years immediately preceding the date on which the Company is required to prepare a restatement, based on the earlier of: (a) the date the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an accounting restatement; or (b) the date a court, regulator, or other legally authorized body directs the Company to prepare an accounting restatement.

Notwithstanding the foregoing, Incentive Compensation will not include any amounts to the extent application of this Policy to such amounts would be prohibited by applicable law or a covered employee’s wages or base salary.

I. METHOD OF RECOUPMENT

The Compensation Committee will determine, in its sole discretion, the method for recouping Incentive Compensation hereunder which may include, without limitation:

- requiring reimbursement of cash Incentive Compensation previously paid;
- seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer, or other disposition of any equity-based awards;
- cancelling outstanding vested or unvested equity awards; and/or
- taking any other remedial and recovery action permitted by law, as determined by the Compensation Committee.

The Compensation Committee shall recover any excess Incentive Compensation in accordance with this Policy unless such recovery would be impracticable, as determined by the Compensation Committee in accordance with Rule 10D-1 of the Exchange Act and the listing standards of the national securities exchange on which the Company’s securities are listed.

V. EXCEPTIONS

Subject to the discretion of the Compensation Committee, recovery of Incentive Compensation is not required in circumstances where (i) the Incentive Compensation was received by a person before beginning service as an executive officer or (ii) if that person did not serve as an executive officer at any time during the Covered Period.

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VI. NO INDEMNIFICATION

The Company shall not indemnify any covered persons against the loss of any Incentive Compensation recovered by the Company pursuant to this Policy.

VII. INTERPRETATION

The Compensation Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate or advisable for the administration of this Policy. It is intended that this Policy be interpreted in a manner that is consistent with the requirements of Section 10D of the Exchange Act and any applicable rules or standards adopted by the Securities and Exchange Commission or any national securities exchange on which the Company's securities are listed.

VIII. EFFECTIVE DATE

This Policy shall be effective as of the date it is adopted by the Board (the "**Effective Date**") and shall apply to Incentive Compensation that is approved, awarded or granted to covered persons on or after the Effective Date.

IX. AMENDMENT; TERMINATION

The Board may amend this Policy from time to time in its discretion, including as it deems necessary to reflect any changes in applicable law and to comply with any rules or standards adopted by a national securities exchange on which the Company's securities are listed. The Board may terminate this Policy at any time.

X. OTHER RECOUPMENT RIGHTS

The Compensation Committee may require that any employment agreement, equity award agreement, or similar agreement entered into on or after the Effective Date shall, as a condition to the grant of any benefit thereunder, require a covered person to agree to abide by the terms of this Policy. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company pursuant to the terms of any similar policy in any employment agreement, equity award agreement, or similar agreement and any other legal remedies available to the Company.

XI. SUCCESSORS

This Policy shall be binding and enforceable against all covered persons and their beneficiaries, heirs, executors, administrators or other legal representatives.

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

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