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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023

OR

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

For the transition period from to

Commission file number: 001-08762

ITERIS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-2588496** (I.R.S. Employer Identification No.)
1250 S. Capital of Texas Hwy., Building 1 , Suite 330 **Austin , Texas** (Address of principal executive office)	**78746** (Zip Code)

(512) 382-9669
(Registrant's telephone number, including area code)

(Former address, if changed since last report)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ☐

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

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

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

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

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

As of November 3, 2023, there were 42,822,803 shares of our common stock outstanding.

ITERIS, INC.
Quarterly Report on Form 10-Q

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Unless otherwise indicated in this report, the "Company," "we," "us" and "our" refer to Iteris, Inc. ClearMobility ®, Iteris®, and Vantage® are among, but not all of, the trademarks of Iteris, Inc. Any other trademarks or trade names mentioned herein are the property of their respective owners.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2023	March 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 20,161	$ 16,587
Restricted cash	449	140
Trade accounts receivable, net of allowance for doubtful accounts of $ 360 and $ 357 at September 30, 2023 and March 31, 2023, respectively	24,929	23,809
Unbilled accounts receivable	8,562	8,349
Inventories	10,781	10,841
Prepaid expenses and other current assets	4,079	3,128
Total current assets	68,961	62,854
Property and equipment, net	1,325	1,297
Right-of-use assets	7,509	8,345
Intangible assets, net	9,968	10,190
Goodwill	28,340	28,340
Other assets	502	768
Total assets	$ 116,605	$ 111,794
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$ 14,942	$ 12,943
Accrued payroll and related expenses	10,837	12,923
Accrued liabilities	5,654	5,453
Deferred revenue	7,322	6,720
Total current liabilities	38,755	38,039
Lease liabilities	6,560	7,641
Deferred income taxes	463	422
Unrecognized tax benefits	37	79
Other long-term liabilities	3,224	2,707
Total liabilities	49,039	48,888
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $ 1.00 par value:		
Authorized shares — 2,000		
Issued and outstanding shares — none	—	—
Common stock, $ 0.10 par value:		
Authorized shares - 70,000 at September 30, 2023 and March 31, 2023		
Issued and outstanding shares — 42,823 at September 30, 2023 and 42,808 at March 31, 2023	4,283	4,282
Treasury stock	(9)	(891)
Additional paid-in capital	192,037	190,082
Accumulated deficit	(128,745)	(130,567)
Total stockholders' equity	67,566	62,906
Total liabilities and stockholders' equity	$ 116,605	$ 111,794

See accompanying Notes to Unaudited Condensed Financial Statements

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2023	2022	2023	2022
Product revenues	$ 23,398	$ 20,788	$ 47,056	$ 37,169
Service revenues	20,165	18,471	40,052	35,757
Total revenues	43,563	39,259	87,108	72,926
Cost of product revenues	13,086	20,026	25,190	31,683
Cost of service revenues	14,213	12,682	28,851	24,533
Cost of revenues	27,299	32,708	54,041	56,216
Gross profit	16,264	6,551	33,067	16,710
Operating expenses:				
General and administrative	6,344	4,978	12,145	11,405
Sales and marketing	6,236	5,674	12,526	10,872
Research and development	2,565	2,173	4,673	4,309
Amortization of intangible assets	651	651	1,302	1,319
Restructuring charges	—	—	—	707
Total operating expenses	15,796	13,476	30,646	28,612
Operating income (loss)	468	(6,925)	2,421	(11,902)
Non-operating income (expense):				
Other income, net	48	117	247	94
Interest income (expense), net	2	(300)	70	(332)
Income (loss) before income taxes	518	(7,108)	2,738	(12,140)
Benefit from (provision for) income taxes	33	(289)	(62)	(122)
Net income (loss)	$ 551	$ (7,397)	$ 2,676	$ (12,262)
Net income (loss) per common share				
Basic net income (loss) per share	$ 0.01	$ (0.17)	$ 0.06	$ (0.29)
Diluted net income (loss) per share	$ 0.01	$ (0.17)	$ 0.06	$ (0.29)
Shares used in basic per share calculations	42,742	42,288	42,654	42,334
Shares used in diluted per share calculations	43,713	42,288	43,677	42,334

See accompanying Notes to Unaudited Condensed Financial Statements

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

	Six Months Ended September 30,	
	2023	**2022**
Cash flows from operating activities		
Net income (loss)	$ 2,676	$ (12,262)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Right-of-use asset non-cash expense	1,027	2,122
Deferred income taxes	(1)	14
Depreciation of property and equipment	286	308
Stock-based compensation	1,396	1,544
Amortization of intangible assets	1,570	1,626
Changes in operating assets and liabilities:		
Trade accounts receivable	(1,120)	(912)
Unbilled accounts receivable and deferred revenue	906	(1,320)
Inventories	60	(4,894)
Prepaid expenses and other assets	(685)	503
Trade accounts payable and accrued expenses	(199)	1,123
Operating lease liabilities	(1,182)	(1,486)
Net cash provided by (used in) operating activities	4,734	(13,634)
Net cash used in operating activities - discontinued operations	—	(329)
Net cash provided by (used in) operating activities	4,734	(13,963)
Cash flows from investing activities		
Purchases of property and equipment	(314)	(378)
Capitalized software development costs	(1,125)	(670)
Net cash used in investing activities	(1,439)	(1,048)
Cash flows from financing activities		
Proceeds from stock option exercises	344	45
Proceeds from ESPP purchases	268	232
Tax withholding payments for net share settlements of restricted stock units	(24)	(59)
Repurchases of common stock	—	(884)
Net cash provided by (used in) financing activities	588	(666)
Increase (decrease) in cash, cash equivalents and restricted cash	3,883	(15,677)
Cash, cash equivalents and restricted cash at beginning of period	16,727	23,809
Cash, cash equivalents and restricted cash at end of period	$ 20,610	$ 8,132
Supplemental cash flow information:		
Supplemental schedule of non-cash investing and financing activities:		
Lease liabilities arising from obtaining right-of-use assets	$ 128	$ 155
Capitalized software development costs in accounts payable and accrued liabilities	$ 466	$ —

See accompanying Notes to Unaudited Condensed Financial Statements

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

	THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2023						
	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance at March 31, 2023	42,808	$ 4,282	369	$ (891)	$ 190,082	$ (130,567)	$ 62,906
Stock option exercises	60	6	—	—	251	—	257
Issuance of shares pursuant to vesting of restricted stock units, net of payroll withholding taxes	1	—	—	—	(6)	—	(6)
Stock-based compensation	—	—	—	—	525	—	525
Net income	—	—	—	—	—	2,125	2,125
Balance at June 30, 2023	42,869	$ 4,288	369	$ (891)	$ 190,852	$ (128,442)	$ 65,807
Stock option exercises	44	4	—	—	83	—	87
Issuance of shares pursuant to Employee Stock Purchase Plan	92	9	—	—	259	—	268
Stock-based compensation	—	—	—	—	871	—	871
Issuance of shares pursuant to vesting of restricted stock units, net of payroll withholding taxes	78	8	—	—	(12)	—	(4)
Issuance of shares pursuant to vesting of performance stock units, net of payroll withholding taxes	40	4	—	—	(18)	—	(14)
Treasury stock retirement	(300)	(30)	(300)	884	—	(854)	—
Deferred shares held within rabbi trust	—	—	22	(2)	2	—	—
Net income	—	—	—	—	—	551	551
Balance at September 30, 2023	42,823	$ 4,283	91	$ (9)	$ 192,037	$ (128,745)	$ 67,566

	THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2022						
	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance at March 31, 2022	42,416	$ 4,242	—	$ —	$ 186,720	$ (115,712)	$ 75,250
Stock option exercises	1	—	—	—	1	—	1
Issuance of shares pursuant to vesting of restricted stock units, net of payroll withholding taxes	4	—	—	—	24	—	24
Stock-based compensation	—	—	—	—	848	—	848
Treasury stock purchases	—	—	300	(884)	—	—	(884)
Net loss	—	—	—	—	—	(4,865)	(4,865)
Balance at June 30, 2022	42,421	$ 4,242	300	$ (884)	$ 187,593	$ (120,577)	$ 70,374
Stock option exercises	27	3	—	—	41	—	44
Issuance of shares pursuant to Employee Stock Purchase Plan	84	9	—	—	223	—	232
Stock-based compensation	—	—	—	—	696	—	696
Issuance of shares pursuant to vesting of restricted stock units, net of payroll withholding taxes	108	11	—	—	(94)	—	(83)
Net loss	—	—	—	—	—	(7,397)	(7,397)
Balance at September 30, 2022	42,640	$ 4,265	300	$ (884)	$ 188,459	$ (127,974)	$ 63,866

See accompanying Notes to Unaudited Condensed Financial Statements

Iteris, Inc.
Notes to Unaudited Condensed Financial Statements
September 30, 2023

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Iteris, Inc. (referred to collectively in this report as "Iteris", the "Company", "we", "our", and "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") technology, our intellectual property, advanced detection sensors, mobility and traffic data, software-as-a-service ("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 carbon emissions.

We continue to make significant investments to leverage our existing technologies and further enhance our advanced detection sensors, software as a service 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. Each of 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 filed with, or furnished to, the U.S. Securities and Exchange Commission ("SEC").

Recent Developments

COVID-19 Update

The World Health Organization determined that COVID-19 no longer fits the definition of a public health emergency and the U.S. government announced that the declaration of a public health emergency associated with COVID-19 expired on May 11, 2023. Although COVID-19 has entered an endemic stage, the continuing impacts of COVID-19 remain and are expected to continue to remain as a serious endemic threat for an indefinite future period and COVID-19 (or other future pandemics) may continue to 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.

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 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, 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 tactics 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 the fiscal year ended March 31, 2023 ("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.

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 maintain sufficient liquidity.

Restructuring Activities

To help offset increases in supply chain costs in Fiscal 2023, 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 unaudited condensed statement of operations. Refer to Note 3, *Restructuring Activities*, for more information.

Basis of Presentation

Our unaudited condensed financial statements have been prepared in accordance with the rules of the SEC for interim reporting, which permit certain footnotes or other financial information that are normally required by generally accepted accounting principles in the U.S. (“GAAP”) to be condensed or omitted. These unaudited condensed financial statements should be read in conjunction with the Company’s audited financial statements and related notes included in its Annual Report on Form 10-K for Fiscal 2023, filed with the SEC on June 29, 2023. All intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three and six months ended September 30, 2023 are not necessarily indicative of the results to be expected for fiscal year ended March 31, 2024 ("Fiscal 2024") or any other future periods.

Use of Estimates

The preparation of unaudited condensed 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; estimates of future cash flows used to assess the recoverability of the impairment of goodwill; collectability of 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; 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 evaluation.

Revenue Recognition

The Company recognizes revenues 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 from contracts with customers, ranging from purchase orders to multi-year agreements.

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

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

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

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

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

The Company's typical performance obligations include the following:

Performance Obligation	When Performance Obligation is Typically Satisfied	When Payment is Typically Due	How Standalone Selling Price is Typically Estimated
Product Revenues			
Standard purchase orders for delivery of a tangible product	Upon shipment (point in time)	Within 30 days of delivery	Observable transactions
Engineering services where the deliverable is considered a product	As work is performed (over time)	Within 30 days of services being invoiced	Estimated using a cost-plus margin approach
Service Revenues			
Engineering, 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

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

Trade Accounts Receivable and Contract Balances

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

The Company maintains an allowance for doubtful accounts to provide for the estimated amount of receivables that will not be collected. 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 on the accompanying unaudited condensed balance sheets. For example, we would record a contract asset if we record revenue on a professional services engagement, but are not entitled to bill until we achieve specified milestones.

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

Contract Fulfillment Costs

The Company evaluates whether or not we should capitalize the costs of fulfilling a contract. Such costs would be capitalized when they are not within the scope of other standards and: (1) are directly related to a contract; (2) generate or enhance resources that will be used to satisfy performance obligations; and (3) are expected to be recovered. There were approximately $ 0.4 million and $ 0.5 million of contract fulfillment costs as of September 30, 2023 and March 31, 2023, respectively, which are presented in the accompanying unaudited condensed balance sheets as prepaid expense. These costs primarily relate to the satisfaction of performance obligations related to the set-up of SaaS platforms. These costs are amortized on a straight-line basis over the estimated useful life of the SaaS platform.

Transaction Price Allocated to the Remaining Performance Obligations

As of September 30, 2023 and March 31, 2023, the aggregate amount of transaction price allocated to remaining performance obligations was immaterial, primarily as a result of the termination provisions within our contracts, which make the duration of the accounting term of the contract one year or less.

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 Accounting Standards Codification ("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

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

Concentration of Credit Risk

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

Cash and cash equivalents consist primarily of demand deposits and money market funds maintained with 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") up to $ 250,000 . As of September 30, 2023, the Company had approximately $ 20.1 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, the Middle East and South America. We generally do not require collateral or other security from our domestic customers. We maintain an allowance for doubtful accounts for potential credit losses, which losses have historically been within management's expectations.

We currently have, and historically have had, a diverse customer base. For the three and six months ended September 30, 2023 and 2022, no individual customer represented greater than 10 % of our total revenues. As of September 30, 2023 and March 31, 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* for fair value provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

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

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

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

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

Cash, Cash Equivalents and Restricted Cash

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

As of September 30, 2023 and March 31, 2023, restricted cash was $ 0.4 million and $ 0.1 million, respectively, consisting of cash restricted for shares purchased under the Employee Stock Purchase Plan ("ESPP") (see Note 8, *Stock-Based Compensation*, for further details on the ESPP).

Cash, cash equivalents and restricted cash presented in the accompanying unaudited condensed statements of cash flows consisted of the following:

	September 30,	
	2023	2022
	(In thousands)	
Cash and cash equivalents	$ 20,161	$ 7,991
Restricted cash	449	141
	$ 20,610	$ 8,132

Allowance for Doubtful Accounts

We record accounts receivable net of the allowance for doubtful accounts. The allowance is established in accordance with the CECL model. We estimate the allowance for doubtful accounts based on the Company's assessment of its ability to collect on customer accounts receivable. The collectability of our accounts receivable is evaluated through review of outstanding invoices and ongoing credit evaluations of our customers' financial condition. In cases where we are aware of circumstances that may impair a specific customer's ability to meet its financial obligations subsequent to the original sale, we will record an allowance against amounts due, and thereby reduce the net recognized accounts receivable to the amount we reasonably believe will be collected. The 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 doubtful accounts are recorded through bad debt expense, which is included in operating expenses on the accompanying unaudited condensed statements of operations. The Company writes off accounts receivable against the allowance when it determines that the balance is uncollectible and collection of the receivable is no longer being actively pursued.

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 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 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.

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 along with post-implementation stages of internal use software are expensed as incurred and included in research and development in the unaudited condensed 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. Goodwill is not amortized and is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In the valuation of goodwill, management must make assumptions regarding estimated future cash flows to be derived from the Company's business. If these estimates or their related assumptions change in the future, the Company may be required to record impairment for these assets.

The Company has the option to first perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value. However, the Company may elect to bypass the qualitative assessment and proceed directly to the quantitative impairment tests. The first step of the impairment test involves comparing the fair value of the reporting unit to its net book value, including goodwill. If the net book value exceeds its fair value, the Company would perform the second step of the goodwill impairment test to determine the amount of the impairment loss. We perform an annual quantitative assessment of our goodwill during the fourth fiscal quarter, or more frequently, to determine if any events or circumstances exist, such as an adverse change in business climate or a decline in overall industry demand, that would indicate that it would more likely than not reduce the fair value of a reporting unit below its carrying amount, including goodwill. If events or circumstances do not indicate that the fair value of a reporting unit is below its carrying amount, then goodwill is not considered to be impaired and no further testing is required. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the amount by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss. We monitor the indicators for goodwill impairment testing between annual tests. During the six months ended September 30, 2023 and 2022, there was no goodwill impairment.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets, including property, equipment and intangible assets (other than goodwill) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We determine whether the carrying value of an asset or asset group is recoverable, based on comparisons to undiscounted expected future cash flows the asset or asset group is expected to generate. If an asset is not recoverable, we record an impairment loss equal to the amount by which the carrying value of the asset exceeds its fair value. During the six months ended September 30, 2023 and 2022, there was no impairment to our long-lived and intangible assets.

Income Taxes

We utilize the asset and liability method of accounting for income taxes, under which deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more-likely-than-not that some or all of the deferred tax assets will not be realized, which increases our income tax expense in the period such determination is made. As such, as of September 30, 2023, we determined it was appropriate to record a full valuation allowance against our deferred tax assets. We will continuously reassess the appropriateness of maintaining a valuation allowance.

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

Stock-Based Compensation

We record stock-based compensation in our unaudited condensed 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.

Warranty

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

Repair and Maintenance Costs

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

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.

Comprehensive Income (Loss)

Net income (loss) was the same as comprehensive income (loss) for the three and six months ended September 30, 2023 and September 30, 2022.

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 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 is now effective for our Fiscal 2024. The Company adopted the standard with an immaterial expected credit loss and no adjustment to the opening balance.

Immaterial Correction of Prior Period Financial Statements

Subsequent to the issuance of the financial statements for the three and six months ended September 30, 2022 and as similarly disclosed in the Company's annual financial statements for Fiscal 2023, we identified misstatements in unbilled accounts receivable and deferred revenue related to contract activity prior to the fiscal year ended March 31, 2021. 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 determined the effect of the misstatements were not material to the previously issued financial statements. We determined to restate the accompanying condensed statement of stockholders' equity for the six months ended September 30, 2022 to correct for this matter, which resulted in an increase to accumulated deficit of $ 1.6 million and decrease in total stockholders' equity of $ 1.6 million as of September 30, 2022 from amounts previously reported of $(126,361) and $ 65,479 , respectively.

Because these corrections occurred at a time preceding the periods presented herein, all corrections were limited to the condensed statement of stockholders' equity.

2. Supplemental Financial Information

Inventories

The following table presents details of our inventories, net of reserves:

	September 30, 2023	March 31, 2023
	(In thousands)	
Raw materials	$ 7,771	$ 7,840
Work in process	106	315
Finished goods	2,904	2,686
	$ 10,781	$ 10,841

Property and Equipment

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

	September 30, 2023	March 31, 2023
	(In thousands)	
Equipment	$ 6,631	$ 6,359
Leasehold improvements	824	824
Accumulated depreciation	(6,130)	(5,886)
	$ 1,325	$ 1,297

Depreciation expense was approximately $ 0.1 million for each of the three-month periods ended September 30, 2023 and September 30, 2022. Of the total depreciation expense, approximately half was recorded to cost of revenues, and approximately half was recorded to operating expenses for each period.

Depreciation expense was approximately $ 0.3 million for each of the six-month periods ended September 30, 2023 and September 30, 2022. Of the total depreciation expense, approximately $ 0.1 million was recorded to cost of revenues, and approximately $ 0.2 million was recorded to operating expenses for each of those periods.

Intangible Assets

The following table presents details of our net intangible assets:

	September 30, 2023			March 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
	(In thousands)					
Technology	$ 4,986	$ (3,907)	$ 1,079	$ 4,986	$ (3,444)	$ 1,542
Customer contracts / relationships	9,550	(5,078)	4,472	9,550	(4,371)	5,179
Trade names and non-compete agreements	782	(770)	12	782	(770)	12
Capitalized software development costs	8,839	(4,434)	4,405	7,489	(4,032)	3,457
Total	$ 24,157	$ (14,189)	$ 9,968	$ 22,807	$ (12,617)	$ 10,190

Amortization expense for intangible assets subject to amortization was approxima tely $ 0.8 million in total for each of the three-month periods ended September 30, 2023 and September 30, 2022. Of the total amortization expense, approximately $ 0.1 million was recorded to cost of revenues and approximately $ 0.7 million was recorded to operating expenses for each period.

Amortization expense was approximately $ 1.6 million in total for each of the six-month periods ended September 30, 2023 and September 30, 2022. Of the total amortization expense, approximately $ 0.3 million was recorded to cost of revenues, and approximately $ 1.3 million was recorded to operating expenses for each period.

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

As of September 30, 2023, future estimated amortization expense was as follows:

Year Ending March 31,	
(In thousands)	
2024	$ 1,796
2025	3,519
2026	2,295
2027	1,727
2028	619
	$ 9,956

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

Warranty Reserve Activity

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

	Six Months Ended September 30,	
	2023	2022
	(In thousands)	
Balance at beginning of fiscal year	$ 758	$ 616
Additions charged to cost of sales	245	104
Warranty claims	(167)	(67)
Balance at end of reporting period	$ 836	$ 653

Earnings (Loss) Per Share

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2023	2022	2023	2022
	(In thousands, except per share amounts)			
Numerator:				
Net income (loss)	$ 551	$ (7,397)	$ 2,676	$ (12,262)
Denominator:				
Weighted average common shares used in basic computation	42,742	42,288	42,654	42,334
Stock options and other dilutive awards	971	—	1,023	—
Weighted average common shares used in diluted computation	43,713	42,288	43,677	42,334
Net income (loss) per common share				
Basic net income (loss) per share	$ 0.01	$ (0.17)	$ 0.06	$ (0.29)
Diluted net income (loss) per share	$ 0.01	$ (0.17)	$ 0.06	$ (0.29)

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2023	2022	2023	2022
	(In thousands)			
Stock options	3,213	5,534	3,287	5,626
Restricted stock units	525	345	402	395

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.

The restructuring activities during the three and six months ended September 30, 2023 were as follows (in thousands):

Balance at March 31, 2023	$ 242
Cash payments	(197)
Balance at June 30, 2023	45
Cash payments	(45)
Balance at September 30, 2023	$ —

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. 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 hierarchy that prioritizes the inputs used to measure fair value.

We did not have any material financial assets or liabilities measured at fair value on a recurring basis using Level 3 inputs as of September 30, 2023 or March 31, 2023. Our non-financial assets, such as goodwill, intangible assets and property and equipment, are measured at fair value on a nonrecurring basis, generally when there is a transaction involving those assets such as a purchase transaction, a business combination or an adjustment for impairment. No non-financial assets were measured at fair value at September 30, 2023 and March 31, 2023.

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

	As of September 30, 2023 (In thousands)			
	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Estimated Fair Value
Assets:				
Level 1:				
Securities held in deferred compensation plan *(1)*	$ 1,598	$ (483)	$ 427	$ 1,542
Total	$ 1,598	$ (483)	$ 427	$ 1,542
Liabilities:				
Level 1:				
Deferred compensation plan liabilities *(2)*	$ 1,613	$ (298)	$ 596	$ 1,911
Total	$ 1,613	$ (298)	$ 596	$ 1,911

	As of March 31, 2023 (In thousands)			
	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Estimated Fair Value
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
Transfer out	(600)			(600)
Subtotal	—	—	—	—
Total	$ 1,201	$ (296)	$ 563	$ 1,468

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

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

(3) As of March 31, 2023, the balance of contingent consideration was short-term and included in accrued liabilities in the Company's balance sheets. As of September 30, 2023, the balance had been paid in full.

Unrealized losses related to investments are due to interest rate fluctuations as opposed to credit quality. In addition, we do not intend to sell, and it is not more likely than not that, we would be required to sell, any of our investments before recovery of their cost basis. As a result, there was no other-than-temporary impairment for these investments as of September 30, 2023.

5. Income Taxes

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

Income tax benefit was less than $0.1 million, or 6.4 % of pretax income, for the three months ended September 30, 2023 as compared to income tax expense of $(0.3) million, or (3.9)% of pretax loss, for the three months ended September 30, 2022. Income tax expense was $(0.1) million, or (2.3)% of pretax income, for the six months ended September 30, 2023 as compared to income tax expense of $(0.1) million, or (1.0)% of pretax loss, for the six months ended September 30, 2022.

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. We previously recorded a full valuation allowance against our deferred tax assets due to our cumulative pre-tax losses, and we continue to maintain a valuation allowance against our deferred tax assets. We intend to continue maintaining a full valuation allowance on our deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change on the basis of the level of profitability that we are able to actually achieve.

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, 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 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, unaudited condensed 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. In the three months ended June 30, 2023, 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. In the three months ended September 30, 2023, the inventory was returned, and the accrued liability was paid. As of September 30, 2023, 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 U.S. These leases expire at various times through 2029. 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.

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

	Classification	September 30, 2023	March 31, 2023
		(In thousands)	
Assets			
Operating lease right-of-use-assets	Right-of-use assets	$ 7,509	$ 8,345
Total operating lease right-of-use-assets		$ 7,509	$ 8,345
Liabilities			
Operating lease liabilities (short-term)	Accrued liabilities	$ 2,319	$ 2,339
Operating lease liabilities (long-term)	Lease liabilities	6,560	7,641
Total lease liabilities		$ 8,879	$ 9,980

Lease Costs

We recorded approximately $ 0.6 million and $ 1.2 million of lease costs in our unaudited condensed statements of operations for the three and six months ended September 30, 2023, respectively, as compared to approximately $ 0.6 million and $ 1.3 million for the three and six months ended September 30, 2022, respectively. The Company currently has no variable lease costs.

Supplemental Information

Information related to the Company right-of-use assets and related operating lease liabilities were as follows:

	Six Months Ended September 30, 2023	Six Months Ended September 30, 2022
Cash paid for amounts included in the measurement of operating lease liabilities (in thousands)	$ 1,346	$ 706
Weighted average remaining lease term (in years)	3.5	4.3
Weighted average discount rate	4.7 %	4.8 %

Maturities of Lease Liabilities

Maturities of lease liabilities as of September 30, 2023 were as follows:

Fiscal Year Ending March 31,	Operating Leases
(In thousands)	
2024	$ 1,348
2025	2,483
2026	2,178
2027	2,207
2028	1,315
Thereafter	204
Total lease payments	9,735
Less imputed interest	(856)
Present value of future lease payments	8,879
Less current obligations under leases	(2,319)
Long-term lease obligations	$ 6,560

8. Stock-Based Compensation

We currently maintain two stock incentive plans, the 2007 Omnibus Incentive Plan and the 2016 Omnibus Incentive Plan (the “2016 Plan”). Of these plans, we may only grant future awards from the 2016 Plan. The 2016 Plan allows for the issuance of stock options, stock appreciation rights, restricted stock, time-restricted stock units (“RSUs"), performance-based restricted stock units ("PSUs”), cash incentive awards and other stock-based awards. At September 30, 2023, there were approximately 1.7 million shares of common stock available for grant or issuance under the 2016 Plan. Total stock options vested and expected to vest were approximately 5.9 million as of September 30, 2023.

Stock Options

A summary of activity with respect to our stock options for the six months ended September 30, 2023 is as follows:

	Shares	Weighted-Average Exercise Price
	(In thousands)	
Options outstanding at March 31, 2023	6,287	$ 4.11
Granted	266	4.06
Exercised	(104)	3.22
Forfeited	(403)	4.04
Expired	(195)	4.85
Options outstanding at September 30, 2023	5,851	4.10

Restricted Stock Units

A summary of activity with respect to our RSUs, which entitle the holder to receive one share of our common stock for each RSU upon vesting, for the six months ended September 30, 2023 is as follows:

	Shares	Weighted-Average Grant Date Fair Value
	(In thousands)	
RSUs outstanding at March 31, 2023	497	$ 4.12
Granted	274	4.08
Vested and released	(80)	3.39
Forfeited	(45)	4.12
RSUs outstanding at September 30, 2023	646	4.19

Performance Stock Units

The Board has approved PSUs to our executive officers and certain Vice Presidents. Between 0 % and 160 % of the PSUs will be eligible to vest based on 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 for the span of the full three-year performance period, with a maximum achievement percentage of 200 % of the "target" number of PSUs. The PSUs are amortized over a derived service period of three years . The value and the derived service period of the PSUs were estimated using the Monte-Carlo simulation model.

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

	Shares	Weighted-Average Grant Date Fair Value
	(In thousands)	
PSUs outstanding at March 31, 2023	83	$ 4.45
Granted	223	2.60
Vested and released	(43)	4.98
Forfeited	(59)	3.61
PSUs outstanding at September 30, 2023	204	2.56

Stock-Based Compensation Expense

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2023	2022	2023	2022
	(In thousands)			
Cost of revenues	$ 58	$ 78	$ 143	$ 142
General and administrative	513	347	715	965
Sales and marketing	157	116	291	194
Research and development	144	155	247	243
Total stock-based compensation	$ 872	$ 696	$ 1,396	$ 1,544

As of September 30, 2023, there was approximately $ 3.2 million, $ 1.6 million and $ 0.3 million of unrecognized compensation expense related to unvested stock options, RSUs and PSUs, respectively. This expense is currently expected to be recognized over a weighted average period of approximately 2.5 years for stock options, 1.7 years for RSUs and 2.1 years for PSUs. If there are any modifications or cancellations of the underlying unvested awards, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional stock options, RSUs or other stock-based awards.

Other Stock-Based Compensation Plans

We currently maintain an Employee Stock Purchase Plan (“ESPP”) that allows employees to have a percentage of their base compensation withheld to purchase the Company’s common stock at 95 % of the lower of the fair market at the beginning of the offering period and on the last trading day of the offering period. There are two offering periods during a calendar year, which consist of the six months beginning each January 1 and July 1. Employees may contribute 1 - 15 % of their eligible gross pay up to a $ 0.03 million annual stock value limit. In July 2023, 92,097 shares related to the first offering period of Fiscal 2024 were purchased. In July 2022, 84,426 shares related to the first offering period of Fiscal 2023 were purchased.

Deferred Compensation Plan

Effective October 1, 2020, the Company adopted the Iteris, Inc. Deferred Compensation Plan (the "DC Plan"). The DC Plan consists of two plans, one that is intended to be an unfunded arrangement for eligible employees who are part of a select group of management or highly compensated employees of the Company within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, and one for the benefit of non-employee members of our board of directors. Key employees, including our executive officers, and our non-employee directors who are notified regarding their eligibility to participate and delivered the DC Plan enrollment materials are eligible to participate in the DC Plan. Under the DC Plan, we provide participants with the opportunity to make annual elections to defer a percentage of their eligible cash compensation and equity awards. A participant is always 100% vested in his or her own elective cash deferrals and any earnings thereon. Elective deferrals of equity awards are credited to a bookkeeping account established in the name of the participant with respect to an equivalent number of shares of our common stock, and such credited shares are subject to the same vesting conditions as are applicable to the equity award subject to the election. The Company established a rabbi trust to finance our obligations under the DC Plan with corporate-owned life insurance policies on participants, and the assets held within this trust are subject to the claims of the Company's creditors. The assets and liabilities are recorded at their fair value, which represents their respective amortized cost values plus any unrealized gains or losses. Refer to Note 4, *Fair Value Measurements*, for further detail on the DC Plan.

9. 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 September 30, 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 approved a new plan for the Company to acquire up to $ 10.0 million of its outstanding common stock for an unspecified length of time. Under the 2022 stock repurchase program, we may repurchase shares from time to time in the open market and privately negotiated transactions and block trades and may also repurchase shares pursuant to a 10b5-1 trading plan during our closed trading windows. 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 the quarter ended September 30, 2023, there were no repurchases. As of September 30, 2023 approximately $ 9.1 million remained available for the repurchase of our common stock under our current program.

During the quarter ended September 30, 2023, the Company retired 300,000 shares of Treasury Stock which previously were repurchased under the Company’s 2022 stock repurchase program. These repurchased shares resumed their status as authorized and unissued shares of our common stock.

10. Business Segments

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

11. 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 unaudited condensed statement of operations. As of September 30, 2023, no amounts of capitalized deferred financing costs remained.

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

Forward-Looking Statements

This report, including the following discussion and analysis, contains forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that are based on our current expectations, estimates and projections about our business and our industry, and reflect management’s beliefs and certain assumptions made by us based upon information available to us as of the date of this report. When used in this report and the information incorporated herein by reference, the words “expect,” “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, expenses, profitability, capital needs, backlog, manufacturing capabilities, the market acceptance of our products and services, competition, the impacts of any current or future litigation, the impacts 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, the impacts of any future volatility or instability in national or international political conditions, any shutdown of the United Sates federal government or any default on its debt obligations, future impacts of COVID-19, 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 report in conjunction with our 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 in Part II. Item 1A of this report, before deciding to invest in our Company or to maintain or increase your investment. We undertake no obligation to revise or update publicly any forward-looking statement for any reason, including to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Overview

General

We are a provider of smart mobility infrastructure management solutions. 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

Impact of COVID-19 on Our Business

The World Health Organization determined that COVID-19 no longer fits the definition of a public health emergency and the U.S. government announced that the declaration of a public health emergency associated with COVID-19 expired on May 11, 2023. Although COVID-19 has entered an endemic stage, the continuing impacts of COVID-19 remain and are expected to continue to remain as a serious endemic threat for an indefinite future period and COVID-19 (or other future pandemics) may continue to 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.

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 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, 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 tactics 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 the fiscal year ended March 31, 2023 ("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.

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 maintain sufficient liquidity.

Climate Change

We take climate change and the 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, 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 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.

Non-GAAP Financial Measures

Net income (loss) before interest, taxes, depreciation, amortization, stock-based compensation expense, restructuring charges, project loss reserves, other legal expenses, and executive severance and transition costs ("Adjusted EBITDA") was approximately $2.9 million and $6.9 million for the three and six months ended September 30, 2023, respectively, as compared to approximately $(5.2) million and $(7.6) million for the three and six months ended September 30, 2022, respectively.

When viewed with our financial results prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") and accompanying reconciliations, we believe Adjusted EBITDA and the related financial ratio 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 below. Adjusted EBITDA and the related financial ratio, as presented in this Quarterly Report on Form 10-Q ("Form 10-Q"), are supplemental measures of our performance that are not required by or presented in accordance with GAAP. They are not a measurement of our financial performance under GAAP and should not be considered as alternatives to net income (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 non-GAAP operating performance measures internally as complementary financial measures to evaluate the performance and trends of our businesses. We present Adjusted EBITDA and the related financial ratios, as applicable, because we believe that measures such as these provide useful information with respect to our ability to meet our operating commitments.

Adjusted EBITDA and the related financial ratios have limitations as 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 do not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;
- They do not reflect changes in, or cash requirements for, our working capital needs;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- They are not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- They do not reflect the impact on earnings of charges resulting from matters unrelated to our ongoing operations; and

- Other companies in our industry may calculate Adjusted EBITDA differently than we do, whereby limiting its usefulness as comparative measures.

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

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

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

- *Income tax.* 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.* 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.* Iteris incurs amortization of intangible assets in connection with acquisitions. Iteris also incurs amortization related to capitalized software development costs. Iteris excludes these items because it does not believe that these expenses are reflective of ongoing operating results in the period incurred. These amounts may be useful to investors because they represent the estimated attrition of our acquired customer base and the diminishing value of product rights.
- *Interest income and expense.* Iteris excludes interest income and expense because it does not believe this item is reflective of ongoing business and operating results. This amount may be useful to investors for determining current cash flow. For the three and six months ended September 30, 2022, interest expense includes amortization of the remaining capitalized deferred financing costs due to the termination of the Credit Agreement in Fiscal 2023 (see Note 11, *Long-Term Debt*, to the Financial Statements for more information).
- *Stock-based compensation.* These expenses consist primarily of expenses from employee and director equity-based compensation plans. Iteris excludes stock-based compensation primarily because they are non-cash expenses and Iteris believes that it is useful to investors to understand the impact of stock-based compensation to its results of operations and current cash flow.
- *Other legal expenses.* Iteris 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. We do not adjust for any ordinary course legal expenses. For the three and six months ended September 30, 2023, other legal expenses consist of 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 $0.6 million incurred during the three months ended September 30, 2023, and in addition included related expenses of $0.4 million incurred during the three months ended June 30, 2023 in results for the six months ended September 30, 2023. The Company believes that an outcome resulting in a loss is remote. There were no such costs in the prior year periods.
- *Restructuring charges.* These expenses consist primarily of employee separation expenses, facility termination costs, and other expenses associated with Company restructuring activities. Iteris excludes these expenses as it does not believe that these expenses are reflective of ongoing operating results in the period incurred. These amounts may be useful to our investors in evaluating our core operating performance.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2023	2022	2023	2022
	(In Thousands)			
Net income (loss)	$ 551	$ (7,397)	$ 2,676	$ (12,262)
(Benefit from) provision for income taxes	(33)	289	62	122
Depreciation expense	136	149	286	308
Amortization expense	787	804	1,570	1,626
Interest (income) expense	(2)	300	(70)	332
Stock-based compensation	872	696	1,396	1,544
Other adjustments:				
Restructuring charges	—	—	—	707
Other legal expenses	604	—	1,019	—
Adjusted EBITDA	$ 2,915	$ (5,159)	$ 6,939	$ (7,623)
Percentage of total revenues	6.7 %	(13.1) %	8.0 %	(10.5) %

Critical Accounting Policies and Estimates

"Management's Discussion and Analysis of Financial Condition and Results of Operations" is based on our unaudited condensed 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 periods (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 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 recognition, goodwill, and income taxes have the 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.

Recent Accounting Pronouncements

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

Analysis of Quarterly Results from Continuing Operations

Total Revenues. The following table presents details of total revenues for the three and six months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		$ Increase (decrease)	% Change
	2023	2022		
	(In thousands, except percentages)			
Product revenues	$ 23,398	$ 20,788	$ 2,610	12.6 %
Service revenues	20,165	18,471	1,694	9.2 %
Total revenues	$ 43,563	$ 39,259	$ 4,304	11.0 %

	Six Months Ended September 30,		$ Increase (decrease)	% Change
	2023	2022		
	(In thousands, except percentages)			
Product revenues	$ 47,056	$ 37,169	$ 9,887	26.6 %
Service revenues	40,052	35,757	4,295	12.0 %
Total revenues	$ 87,108	$ 72,926	$ 14,182	19.4 %

Product revenues primarily consist of product sales, but also includes OEM products for the traffic signal markets, as well as third-party product sales for installation under certain construction-type contracts. Product revenues for the three months ended September 30, 2023 increased 12.6% to $23.4 million, as compared to $20.8 million in the corresponding period in the prior year, primarily due to continued strong demand for our sensors and our circuit board redesign efforts allowing us to reduce the impact of supply chain issues constraining our ability to ship product in the prior year.

Service revenues consist of software, managed services, systems integration, and consulting services revenues. In certain instances, the lack of third-party product availability can impact the timing of systems integration projects and associated revenue recognition. Service revenues for the three months ended September 30, 2023 increased 9.2% to $20.2 million, compared to $18.5 million in the corresponding period in the prior year. This increase was due to continued acceleration of consulting services revenue. Total annual recurring revenue, which we define as revenue from software and managed service contracts, was approximately 25% of total revenue for both the three months ended September 30, 2023 and September 30, 2022.

Total revenues for the three months ended September 30, 2023 increased 11.0% to $43.6 million, compared to $39.3 million in the corresponding period in the prior year due to the aforementioned reasons.

Product revenues for the six months ended September 30, 2023 increased 26.6% to $47.1 million, compared to $37.2 million in the corresponding period in the prior year, primarily due to continued strong demand for our sensors and our circuit board redesign efforts allowing us to reduce the impact of supply chain issues that constrained our ability to ship product in the prior year.

Service revenues for the six months ended September 30, 2023 increased 12.0% to $40.1 million, compared to $35.8 million in the corresponding period in the prior year. This increase was due to continued acceleration of consulting services revenue. Total annual recurring revenue, which we define as revenue from software and managed service contracts, was approximately 25% of total revenue for the six months ended September 30, 2023 and 27% of total revenue for the same period last year.

Total revenues for the six months ended September 30, 2023 increased 19.4% to $87.1 million, compared to $72.9 million in the corresponding period in the prior year due to the aforementioned reasons.

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 commitment, 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 typically expect to recognize revenue 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 revenue from bookings or backlog timely.

The Company added approximately $43.8 million of new bookings, or potential revenue under binding agreements, during the second quarter of fiscal 2024. The Company's total ending backlog increased 10.9% to approximately $124.0 million as of September 30, 2023, as compared to approximately $111.8 million as of September 30, 2022. Our backlog as of September 30, 2023 set an all-time record for the Company.

Gross Profit and Gross Margin

The following tables present details of our gross profit for the three and six months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		$	%
	2023	2022	Increase (decrease)	Change
	(In thousands, except percentages)			
Product gross profit	$ 10,312	$ 762	$ 9,550	1,253.3 %
Service gross profit	5,952	5,789	163	2.8 %
Total gross profit	$ 16,264	$ 6,551	$ 9,713	148.3 %
Product gross margin as a % of product revenues	44.1 %	3.7 %		
Service gross margin as a % of service revenues	29.5 %	31.3 %		
Total gross margin as a % of total revenues	37.3 %	16.7 %		

	Six Months Ended September 30,		$ Increase (decrease)	% Change
	2023	2022		
	(In thousands, except percentages)			
Product gross profit	$ 21,866	$ 5,486	$ 16,380	298.6 %
Service gross profit	11,201	11,224	(23)	(0.2)%
Total gross profit	$ 33,067	$ 16,710	$ 16,357	97.9 %
Product gross margin as a % of product revenues	46.5 %	14.8 %		
Service gross margin as a % of service revenues	28.0 %	31.4 %		
Total gross margin as a % of total revenues	38.0 %	22.9 %		

Our product gross margin as a percentage of product revenues for the three and six months ended September 30, 2023 increased approximately 4,040 basis points and 3,170 basis points, respectively, compared to the corresponding period in the prior year. The increase was primarily due to continued improvement in the Company's supply chain, demonstrating we are realizing the anticipated gross margin benefits from the introduction of our alternative circuit boards and other elements of our supply chain improvement plan.

Our service gross margin as a percentage of service revenues for the three and six months ended September 30, 2023 decreased approximately 180 basis points and 340 basis points respectively, compared to the corresponding period in the prior year, primarily due to a higher proportion of cost of revenue related to subcontractors and higher costs for data we purchased during the three and six months ended September 30, 2023.

Our total gross margin as a percentage of total revenues for the three and six months ended September 30, 2023 increased approximately 2,060 basis points and 1,510 basis points, as compared to the corresponding prior year periods due to 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 growth, the mix of subcontractor revenue 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 and professional services.

General and Administrative

General and administrative expense for the three months ended September 30, 2023 increased approximately 27.4% to $6.3 million, compared to $5.0 million for the three months ended September 30, 2022. General and administrative expense for the six months ended September 30, 2023 increased approximately 6.5% to $12.1 million, compared to $11.4 million for the six months ended September 30, 2022. The increase for the three and six months ended September 30, 2023 as compared to the three and six months ended September 30, 2022 was primarily due to the additional legal fees described above under "Non-GAAP Financial Measures—Other legal expenses," the use of consulting services for various areas of assistance, increased stock compensation tied to the attainment of specific performance benchmarks, and recruiting.

Sales and Marketing

Sales and marketing expense for the three months ended September 30, 2023 increased approximately 9.9% to $6.2 million compared to $5.7 million for the three months ended September 30, 2022. Sales and marketing expense for the six months ended September 30, 2023 increased approximately 15.2% to $12.5 million compared to $10.9 million for the six months ended September 30, 2022. The increase was primarily due to more earned sales commissions driven by increases in revenue, increased headcount, and additional work on large design and build sales proposals.

Research and Development

Research and development expense for the three months ended September 30, 2023 increased approximately 18.0% to $2.6 million, compared to $2.2 million for the three months ended September 30, 2022. Research and development expense for the six months ended September 30, 2023 increased approximately 8.4% to $4.7 million, compared to $4.3 million for the six months ended September 30, 2022. The overall increase was primarily due to the continued investment in research and development activities largely focused on improving our existing software related offerings and the development of new software 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 development costs were capitalized into intangible assets in the Company's unaudited condensed 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 investment may result in increases in research and development costs, as well as additional capitalized software assets in future periods.

Amortization of Intangible Assets

Amortization expense for intangible assets is recorded in both cost of revenues and operating expenses. Total amortization was approximately $0.8 million for each of the three months ended September 30, 2023 and 2022, and approximately $1.6 million for each of the six months ended September 30, 2023 and 2022.

Income Taxes

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

Income tax benefit was less than $0.1 million, or 6.4% of pretax income, for the three months ended September 30, 2023 as compared to income tax expense of $(0.3) million, or (3.9)% of pretax loss, for the three months ended September 30, 2022. Income tax expense was $(0.1) million, or (2.3)% of pretax income, for the six months ended September 30, 2023 as compared to income tax expense of $(0.1) million, or (1.0)% of pretax loss, for the six months ended September 30, 2022.

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. We previously recorded a full valuation allowance against our deferred tax assets due to our cumulative pre-tax losses, and we continue to maintain a valuation allowance against our deferred tax assets. We intend to continue maintaining a full valuation allowance on our deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change on the basis of the level of profitability that we are able to actually achieve.

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. 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, unaudited condensed results of operations, financial position or cash flows.

The Company agreed to accept a $1.0 million 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. In the three months ended June 30, 2023, 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. In the three months ended September 30, 2023, the inventory was returned, and the accrued liability was paid. As of September 30, 2023, 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 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 September 30, 2023, we had $30.2 million in working capital, which included $20.6 million in cash and cash equivalents and restricted cash. This compares to working capital of $24.8 million at March 31, 2023, which included $16.7 million in cash and cash equivalents and restricted cash.

Operating Activities. Net cash provided from operating activities of our continuing operations for the six months ended September 30, 2023 was approximately $4.7 million, which compares to net cash used in operating activities of our continuing operations of approximately $(13.6) million for the same period in the prior year. The $18.3 million year-over-year improvement is primarily due to the $14.9 million increase in net income, coupled with lower cash consumed by inventory and collections on unbilled accounts receivable and deferred revenue. This was partially offset by increased prepaid expenses and cash consumed with the paying down of accounts payable and accrued expenses.

Investing Activities. Net cash used in investing activities of our continuing operations during the six months ended September 30, 2023 of approximately $1.4 million, compared to net cash used of $1.0 million for the same period in the prior year. The increase was largely due to a $0.5 million increase in capitalized software development costs.

Financing Activities. Net cash provided from financing activities of our continuing operations during the six months ended September 30, 2023 was $1.3 million higher than the same period in the prior year, primarily driven by a $0.3 million increase in cash proceeds from the exercises of stock options and our repurchases of $0.9 million of common stock in the prior year.

Off Balance Sheet Arrangements

We did not have any material off balance sheet arrangements as of September 30, 2023.

Seasonality

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Controls

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

Inherent Limitations on Internal Controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth in Note 6, *Commitments and Contingencies*, under the heading “Litigation and Other Contingencies” to our Unaudited Condensed Financial Statements, included in Part I, Item 1 of this report, is incorporated herein by reference.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in “Item 1A. Risk Factors” of our Annual Report on Form 10-K from the year ended March 31, 2023, filed with the SEC on June 29, 2023. Refer to Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended March 31, 2023, filed with the SEC on June 29, 2023, for a discussion of factors that could materially affect our business, financial condition, results of operations, or future results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES, USE OF PROCEEDS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Recent Sales of Unregistered Securities

Not applicable.

Use of Proceeds from Registered Securities

Not applicable.

Purchases of Equity Securities by the Issuer

During the quarter ended September 30, 2023, there were no repurchases.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

Exhibit Number	Description	Where Located
3.1	Restated Certificate of Incorporation of the Registrant, as filed with the Delaware Secretary of State on October 12, 2018	*Exhibit 3.1 to the Registrant's Current Report on Form 8-K as filed with the SEC on October 15, 2018*
3.2	Restated Bylaws of the Registrant, as amended through August 6, 2018	*Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, as filed with the SEC on August 7, 2018*
31.1	Certification of the Principal Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*Filed herewith*
31.2	Certification of the Principal Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*Filed herewith*
32.1	Certification of the Chief Executive Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*Furnished herewith*
32.2	Certification of the Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*Furnished herewith*
101.INS	Inline XBRL Instance Document – The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.	*Filed herewith*
101.SCH	Inline XBRL Taxonomy Extension Schema Document	*Filed herewith*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	*Filed herewith*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	*Filed herewith*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	*Filed herewith*

101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	*Filed herewith*
104.1	Cover Page Interactive Data File – The cover page interactive data file does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document	*Filed herewith*

SIGNATURES

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

Date: November 9, 2023	ITERIS, INC.
	(Registrant)
	By /s/ JOE BERGERA
	Joe Bergera
	Chief Executive Officer
	(Principal Executive Officer)
	By /s/ KERRY A. SHIBA
	Kerry A. Shiba
	Chief Financial Officer, Treasurer and Secretary
	(Principal Financial and Accounting Officer)

EXHIBIT 31.1

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

I, Joe Bergera, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Iteris, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2023

/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 quarterly report on Form 10-Q of Iteris, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2023

/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 Quarterly Report of Iteris, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Joe Bergera, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 9, 2023

/s/ JOE BERGERA

Joe Bergera

Chief Executive Officer

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

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 Quarterly Report of Iteris, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kerry A. Shiba, Senior Vice President and Chief Financial Officer, Treasurer, and Secretary 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: November 9, 2023

/s/ KERRY A. SHIBA

Kerry A. Shiba

Senior Vice President and Chief Financial Officer, Treasurer, and Secretary

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.