ITERIS, INC.
Form 10-Q
February 07, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2018

OR

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

For the transition period from to

Commission file number: 001-08762

ITERIS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-2588496** (I.R.S. Employer Identification No.)
1700 Carnegie Avenue, Suite 100 **Santa Ana, California** (Address of principal executive office)	**92705** (Zip Code)

(949) 270-9400

(Registrant s telephone number, including area code)

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 o

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

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

Large accelerated filer	o	Accelerated filer	o
Non accelerated filer	o	Smaller reporting company	x
		Emerging growth company	o

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. o

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

As of February 4, 2019, there were 33,352,741 shares of our common stock outstanding.

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ITERIS, INC.

Quarterly Report on Form 10-Q

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Unless otherwise indicated in this report, the Company, we, us and our refer to Iteris, Inc. and its wholly-owned subsidiary, ClearAg, Inc. CheckPoint , ClearAg®, ClearPath Weather®, CVIEW-Plus , Edge®, EdgeConnect , EMPower®, EvapoSmart , IMFocus , inspect , iPeMS®, Iteris®, Iteris SPM , Next®, P10 , P100 , PedTrax®, Pegasus , SmartCycle®, SmartCycle Bike Indicator , SmartSpan®, SPM (logo), TransitHelper®, UCRLink , Vantage®, VantageLive! , VantagePegasus®, VantageRadius , Vantage Vector®, Velocity®, VersiCam and WeatherPlot® are among, but not all of, the trademarks of Iteris, Inc. Any other trademarks or trade names mentioned herein are the property of their respective owners.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Iteris, Inc.

Unaudited Consolidated Balance Sheets

(In thousands, except par values)

	December 31, 2018	March 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 7,173	$ 10,152
Short-term investments	3,730	5,319
Trade accounts receivable, net of allowance for doubtful accounts of $451 and $333 at December 31, 2018 and March 31, 2018, respectively	14,305	12,866
Unbilled accounts receivable	5,602	7,473
Inventories	3,823	2,921
Prepaid expenses and other current assets	747	1,165
Total current assets	35,380	39,896
Property and equipment, net	2,283	2,333
Intangible assets, net	3,254	3,751
Goodwill	15,150	15,150
Other assets	1,756	1,756
Total assets	$ 57,823	$ 62,886
Liabilities and stockholders equity		
Current liabilities:		
Trade accounts payable	$ 8,694	$ 7,838
Accrued payroll and related expenses	6,222	7,398
Accrued liabilities	2,379	2,358
Deferred revenue	3,920	4,900
Total current liabilities	21,215	22,494
Deferred rent	501	638
Deferred income taxes	65	65
Unrecognized tax benefits	148	168
Total liabilities	21,929	23,365
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 December 31, 2018 and March 31, 2018		
Issued and outstanding shares - 33,297 at December 31, 2018 and 33,186 at March 31, 2018	3,334	3,318
Additional paid-in capital	141,671	139,722
Accumulated deficit	(109,111)	(103,519)

Total stockholders equity		35,894		39,521
Total liabilities and stockholders equity	$	57,823	$	62,886

See accompanying notes.

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Iteris, Inc.

Unaudited Consolidated Statements of Operations

(In thousands, except per share amounts)

	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2017
Product revenues	$ 11,088	$ 11,995	$ 35,418	$ 35,620
Service revenues	12,052	14,031	37,614	42,837
Total revenues	$ 23,140	$ 26,026	$ 73,032	$ 78,457
Cost of product revenues	6,814	7,299	20,210	20,438
Cost of service revenues	7,434	8,784	24,077	28,203
Total cost of revenues	14,248	16,083	44,287	48,641
Gross profit	8,892	9,943	28,745	29,816
Operating expenses:				
Selling, general and administrative	9,450	9,098	28,160	26,948
Research and development	1,887	1,946	5,888	5,554
Amortization of intangible assets	61	18	191	84
Total operating expenses	11,398	11,062	34,239	32,586
Operating loss	(2,506)	(1,119)	(5,494)	(2,770)
Non-operating income (expense):				
Other income (expense), net	8	(9)	41	(14)
Interest income, net	10	3	90	8
Loss from continuing operations before income taxes	(2,488)	(1,125)	(5,363)	(2,776)
Benefit (provision) for income taxes	24	1,373	(21)	1,407
Income (loss) from continuing operations	(2,464)	248	(5,384)	(1,369)
Gain on sale of discontinued operation, net of tax		95		258
Net income (loss)	$ (2,464)	$ 343	$ (5,384)	$ (1,111)
Income (loss) per share from continuing operations - basic and diluted	$ (0.07)	$ 0.01	$ (0.16)	$ (0.04)
Gain per share from sale of discontinued operation - basic and diluted	$	$ 0.00	$	$ 0.01
Net income (loss) per share - basic and diluted	$ (0.07)	$ 0.01	$ (0.16)	$ (0.03)
Shares used in basic per share calculations	33,297	32,877	33,247	32,670
Shares used in diluted per share calculations	33,297	34,258	33,247	32,670

See accompanying notes.

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Iteris, Inc.

Unaudited Consolidated Statements of Cash Flows

(In thousands)

	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2017
Cash flows from operating activities		
Net loss	$ (5,384)	$ (1,111)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Deferred income taxes	(20)	(1,381)
Depreciation of property and equipment	661	593
Stock-based compensation	1,555	1,325
Amortization of intangible assets	823	525
Gain on sale of discontinued operation, net of tax		(258)
Loss on disposal of equipment		15
Changes in operating assets and liabilities, net of effects of discontinued operation:		
Accounts receivable	(1,439)	654
Unbilled accounts receivable and deferred revenue, net	379	(114)
Inventories	(902)	(722)
Prepaid expenses and other assets	615	491
Accounts payable and accrued expenses	(436)	98
Net cash provided by operating activities	(4,148)	115
Cash flows from investing activities		
Purchases of property and equipment	(611)	(988)
Purchases of investments	(4,079)	
Sales and maturities of investments	5,668	
Capitalized software development costs	(326)	(1,834)
Net proceeds from sale of discontinued operation	107	402
Net cash provided by investing activities	759	(2,420)
Cash flows from financing activities		
Proceeds from stock option exercises	62	986
Proceeds from ESPP purchases	353	
Tax withholding payments for net share settlements of restricted stock units	(5)	(79)
Net cash provided by financing activities	410	907
Decrease in cash and cash equivalents	(2,979)	(1,398)
Cash and cash equivalents at beginning of period	10,152	18,201
Cash and cash equivalents at end of period	$ 7,173	$ 16,803
Supplemental cash flow information:		
Cash paid during the period for: Income taxes	$ 1	$ 128
Supplemental schedule of non-cash investing and financing activities:		
Capitalized software development costs included in accounts payable and accrued expenses	$	$ 227

See accompanying notes.

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Iteris, Inc.

Notes to Unaudited Consolidated Financial Statements

December 31, 2018

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Iteris, Inc. (referred to collectively with its wholly-owned subsidiary, ClearAg, Inc., in this report as Iteris, the Company, we, our and us) is a provider of essential applied informatics that enable smart transportation and digital agriculture. Municipalities, government agencies, crop science companies, farmers and agronomists use our solutions to make roads safer and travel more efficient, as well as farmlands more sustainable, healthy and productive. As a pioneer in intelligent transportation systems (ITS) technology for more than two decades, our intellectual property, products, software-as-a-service offerings and weather forecasting systems offer a comprehensive range of ITS solutions to customers throughout the U.S. and internationally. In the agribusiness markets, we have combined our intellectual property with enhanced atmospheric, land surface and agronomic modeling techniques to offer smart content and analytic solutions that provide analytical support to large enterprises in the agriculture industry, such as seed and crop protection companies, integrated food companies, and agricultural equipment manufacturers and service providers. We believe our products, solutions and services improve and safely optimize mobility within our communities, while minimizing environmental impact on the roads we travel and the lands we farm. We continue to make significant investments to leverage our existing technologies and further expand both our advanced detection sensors and performance analytics systems in the transportation infrastructure market, while supporting the agriculture market with our smart content and digital farming platform. Iteris was incorporated in Delaware in 1987.

Basis of Presentation

Our unaudited consolidated financial statements include the accounts of Iteris, Inc. and its subsidiary, and have been prepared in accordance with the rules of the U.S. Securities and Exchange Commission (SEC) for interim reporting, which permit certain footnotes or other financial information that are normally required by generally accepted accounting principles in the United States of America (GAAP) to be condensed or omitted. These unaudited consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and related notes included in its Annual Report on Form 10-K, as amended, for the fiscal year ended March 31, 2018 (Fiscal 2018). All intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three and nine month periods ended December 31, 2018 are not necessarily indicative of the results to be expected for the fiscal year ending March 31, 2019 (Fiscal 2019) or any other periods.

The results of continuing operations for all periods presented in the unaudited consolidated financial statements exclude our former Vehicle Sensors segment, which has been classified as a discontinued operation. See Note 3, Sale of Vehicle Sensors, for further discussion related to the discontinued operation presentation.

Use of Estimates

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

Revenue Recognition

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

On April 1, 2018, the Company adopted ASU 2014-09, including its subsequent amendments as codified under ASC Topic 606 (ASC 606), using the modified retrospective approach to apply ASC 606 to all contracts that were not completed as of the beginning of Fiscal Year 2019. ASC 606 is a comprehensive new revenue recognition principle that requires a company to recognize revenue to depict the transfer of promised goods or services to a customer at an amount that reflects the consideration it expects to be entitled to in exchange for those goods or services. Results for reporting periods beginning after March 31, 2018 are presented under ASC 606, while prior period amounts and disclosures are not adjusted and continue to be reported under the accounting standards in effect for the prior period. As a result, the Company recognized the cumulative effect of initially applying ASC 606 as an increase to the opening balance of accumulated deficit in the amount of approximately $0.2 million as of April 1, 2018. The impact of the adoption of the new standard is immaterial to the Company s consolidated balance sheet, statement of operations, and cash flows.

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

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

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

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

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

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

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

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

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

The Company s typical performance obligations include the following:

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

Disaggregation of Revenue

The Company disaggregates revenue from contracts with customers into reportable segments and the nature of the products and services. See Note 10 for our revenue by reportable segment.

Trade Accounts Receivable and Contract Balances

We classify our right to consideration in exchange for goods and services as either a receivable or a contract asset. A receivable is a right to consideration that is unconditional (i.e. only the passage of time is required before payment is due). We present such receivables in trade accounts receivable, net in our unaudited consolidated balance sheet at their net estimated realizable value. The Company maintains an allowance for doubtful accounts to provide for the estimated amount of receivables that will not be collected. If warranted, the allowance is increased by the Company s provision for doubtful accounts, which is charged against income. All recoveries on receivables previously charged off are included in income, while direct charge-offs of receivables are deducted from the allowance.

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

Our contract assets and liabilities are reported in a net position on a contract basis at the end of each reporting period.

Contract Fulfillment Costs

The Company evaluates whether or not we should capitalize the costs of fulfilling a contract. Such costs would be capitalized when they are not within the scope of other standards and: (1) are directly related to a contract; (2) generate or enhance resources that will be used to satisfy performance obligations; and (3) are expected to be recovered. As of December 31, 2018, we capitalized approximately $224,000 of contract fulfillment costs which are presented in the accompanying unaudited consolidated balance sheet as prepaid and other current assets. These costs primarily relate to the satisfaction of performance obligations related to the set up of SaaS platforms. These costs are amortized on a straight-line basis over the estimated useful life of the SaaS platform.

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Transaction Price Allocated to the Remaining Performance Obligations

As of December 31, 2018, the aggregate amount of transaction price allocated to remaining performance obligations was immaterial primarily as a result of termination provisions within our contracts which make the duration of the accounting term of the contract one year or less.

Practical Expedients and Exemptions

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

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

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

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

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

Deferred Revenue

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

Concentration of Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk consist principally of cash and cash equivalents and trade accounts receivable. Cash and cash equivalents consist primarily of demand deposits and money market funds maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with high quality financial institutions, and therefore are believed to have minimal credit risk.

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

We have historically had a diverse customer base. For the three and nine months ended December 31, 2018, one individual customer represented approximately 11% and 14%, respectively, of our total revenues and no other individual customer represented greater than 10% of our total revenues. For the three and nine months ended December 31, 2017, one individual customer represented approximately 20% and 22%, respectively, of our total revenues and no other individual customer represented greater than 10% of our total revenues. As of December 31, 2018, no individual customer represented greater than 10% our total accounts receivable. As of March 31, 2018, one customer represented approximately 13% of our total accounts receivable, and no other individual customer represented greater than 10% of our total accounts receivable.

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Fair Values of Financial Instruments

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

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

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

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

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

Cash and Cash Equivalents

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

Investments

The Company s investments are classified as either held-to-maturity, available-for-sale or trading, in accordance with FASB ASC 320, Capital Investments Capital Debt and Capital Equity Capital Securities (ASC 320). Held-to-maturity securities are those securities that the Company has the positive intent and ability to hold until maturity. Trading securities are those securities that the Company intends to sell in the near term. All other securities not included in the held-to-maturity or trading category are classified as available-for-sale. Held-to-maturity securities are recorded at amortized cost which approximates fair market value. Trading securities are carried at fair value with unrealized gains and losses charged to earnings. Available-for-sale securities are carried at fair value with unrealized gains and losses recorded within accumulated other comprehensive loss as a separate component of stockholders equity. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available (see Note 4). Under FASB ASC 320-10-35, a security is considered to be other-than-temporarily impaired if the present value of cash flows expected to be collected are less than the security s amortized cost basis (the difference being defined as the Credit Loss) or if the fair value of the security is less than the security s amortized cost basis and the investor intends, or will be required, to sell the security before recovery of the security s amortized cost basis. If an other-than-temporary impairment exists, the charge to earnings is limited to the amount of Credit Loss if the investor does not intend to sell the security, and will not be required to sell the security, before recovery of the security s amortized cost basis. Any remaining difference between fair value and amortized cost is recognized in other comprehensive loss, net of applicable taxes. The Company evaluates whether the decline in fair value of its investments is other-than-temporary at each quarter-end. This evaluation consists of a review by management, and includes market pricing information and maturity dates for the securities held, market and economic trends in the industry and information on the issuer s financial condition and, if applicable, information on the guarantors financial condition. Factors considered in determining whether a loss is temporary include the length of time and extent to which the investment s fair value has been less than its cost basis, the financial condition and near-term prospects of the issuer and guarantors, including any specific events which may influence the operations of the issuer and the Company s intent and ability to retain the investment for a reasonable period of time sufficient to allow for any anticipated recovery of fair value.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets were approximately $747,000 as of December 31, 2018. Prepaid expenses and other current assets were $1.2 million as of March 31, 2018 and included approximately $130,000 of cash designated as collateral on performance bonds, as required under certain of our Transportation Systems contracts in the Middle East. The performance bonds required us to maintain 100% cash value of the bonds as collateral in a bank that is local to the purchasing agency. The performance bond collateral was required throughout the delivery of our services and was maintained in the local bank until the contract was closed by the purchasing agency. The requirements on the remaining performance bonds, and the related cash collateral restrictions, were released during the quarter ended June 30, 2018.

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Allowance for Doubtful Accounts

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

Inventories

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

Property and Equipment

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

Goodwill and Long-Lived Assets

We perform an annual qualitative assessment of our goodwill during the fourth fiscal quarter, or more frequently, to determine if any events or circumstances exist, such as an adverse change in business climate or a decline in overall industry demand, that would indicate that it would more likely than not reduce the fair value of a reporting unit below its carrying amount, including goodwill. If 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 further testing is required, we perform a two-step process. The first step involves comparing the fair value of our reporting unit to its carrying value, including goodwill. If the carrying value of the reporting unit exceeds its fair value, the second step of the test is performed by comparing the carrying value of the goodwill in the reporting unit to its implied fair value. An impairment charge is recognized for the excess of the carrying value of goodwill over its implied fair value. We determine the fair values of our reporting units using the income valuation approach, as well as other generally accepted valuation methodologies.

In Fiscal 2017, we adopted the provisions issued by the FASB that were intended to simplify goodwill impairment testing. This guidance permits us to eliminate the second step of the goodwill impairment test, and eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. If the carrying amount of a reporting unit exceeds the reporting unit s fair value, the amount by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss. We monitor the indicators for goodwill impairment testing between annual tests. As of December 31, 2018, we determined that no adjustments to the carrying value of goodwill were required.

We test long-lived assets and purchased intangible assets (other than goodwill) for impairment if we believe indicators of impairment exist. We determine whether the carrying value of an asset or asset group is recoverable, based on comparisons to undiscounted expected future cash flows the asset or asset group is expected to generate. If an asset is not recoverable, we record an impairment loss equal to the amount by which the carrying value of the asset exceeds its fair value. We primarily use the income valuation approach to determine the fair value of our long lived assets and purchased intangible assets. As of December 31, 2018, there was no impairment to our long-lived and intangible assets.

Income Taxes

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

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

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Stock-Based Compensation

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

Research and Development Expenditures

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

Warranty

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

Comprehensive Loss

The difference between net loss and comprehensive loss was de minimis for the three and nine months ended December 31, 2018. Comprehensive loss equaled net loss for three and nine months ended December 31, 2017.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02). The pronouncement requires an entity to recognize assets and liabilities for the rights and obligations created by leases on the entity s balance sheet for both finance and operating leases. For leases with a term of 12 months or less, an entity can elect to not recognize lease assets and lease liabilities and expense the lease over a straight-line basis for the term of the lease. ASU 2016-02 will require new disclosures that depict the amount, timing, and uncertainty of cash flows pertaining to an entity s leases. ASU 2016-02 requires entities to adopt the new standard using a modified retrospective approach for annual and interim periods beginning after December 15, 2018. Early adoption of ASU 2016-02 is permitted. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements* (ASU 2018-11). In issuing ASU 2018-11, the FASB decided to provide another transition method in addition to the existing transition method by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company is currently evaluating the impact the guidance will have on its consolidated financial statements. The Company currently expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption. Therefore, the Company expects this adoption will result in a material increase in the long-term assets and long-term liabilities on its consolidated balance sheets. Enhanced disclosures will also be required to give financial statement users the ability to assess the amount, timing and uncertainty of cash flows arising from leases. The Company plans to adopt the standard in the first quarter of fiscal year ended March 31, 2020 and is currently continuing its assessment, which may identify other impacts the revised standard will have on the consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740), and Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (ASU 2018-05). ASU 2018-05 adds various SEC paragraphs pursuant to the issuance of the December 2017 SEC Staff Accounting Bulletin (SAB) No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), which was effective immediately. The SEC issued SAB 118 to address concerns about reporting entities ability to timely comply with the accounting requirements to recognize all of the effects of the Tax Cuts and Jobs Act (the Tax Act) in the period of enactment. SAB 118 allows disclosure that timely determination of some or all of the income tax effects from the Tax Act are incomplete by the due date of the financial statements and if possible to provide a reasonable estimate. The Company has accounted for the tax effects of the Tax Act under the guidance of SAB 118, on a provisional basis. The Company s accounting for certain income tax effects is incomplete, but the Company has determined what it believes are reasonable estimates for those effects and has recorded provisional amounts in its consolidated financial statements as of December 31, 2018 and March 31, 2018.

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In June 2018, the FASB issued ASU No. 2018-07, Compensation Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting(ASU 2018-07), which expand the scope of Topic 718, Compensation Stock Compensation to include share-based payment transaction for acquiring goods and services from nonemployees. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. The adoption of ASU 2018-07 is not expected to have a material impact on our consolidated financial statements.

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

In August 2018, the FASB issued ASU No. 2018-15, Intangibles Goodwill and Other Internal Use Software (subtopic 350-40): Customer s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (ASU 2018-15), which clarifies the accounting for implementation costs in cloud computing arrangements. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, and early adoption is permitted. We are currently evaluating the impact of ASU 2018-15 on our consolidated financial statements.

2. Supplemental Financial Information

Inventories

The following table presents details of our inventories:

		December 31, 2018		March 31, 2018
		(In thousands)		
Materials and supplies	$	1,562	$	1,745
Work in process		1,334		232
Finished goods		927		944
	$	3,823	$	2,921

Property and Equipment, net

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

	December 31	March 31,

	2018	2018
	(In thousands)	
Equipment	$ 6,568	$ 6,053
Leasehold improvements	2,939	2,880
Accumulated depreciation	(7,224)	(6,600)
	$ 2,283	$ 2,333

Depreciation expense was approximately $198,000 and $661,000 for the three and nine months ended December 31, 2018, respectively. Depreciation expense was approximately $205,000 and $593,000 for the three and nine months ended December 31, 2017, respectively.

Intangible Assets

There are no indefinite lived intangible assets on our unaudited consolidated balance sheets. The following table presents details of our net intangible assets:

	December 31, 2018			March 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
			(In thousands)			
Technology	$ 1,856	$ (1,856)	$	$ 1,856	$ (1,856)	$
Customer contracts / relationships	750	(750)		750	(750)	
Trade names and non-compete agreements	1,110	(1,110)		1,110	(1,102)	8
Capitalized software development costs	5,433	(2,179)	3,254	5,108	(1,365)	3,743
Total	$ 9,149	$ (5,895)	$ 3,254	$ 8,824	$ (5,073)	$ 3,751

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Amortization expense for intangible assets subject to amortization was approximately $273,000 and $823,000 for the three and nine months ended December 31, 2018, respectively. Amortization expense for intangible assets subject to amortization was approximately $202,000 and $525,000 for the three and nine months ended December 31, 2017, respectively. Approximately $212,000 and $632,000 of the intangible asset amortization was recorded to cost of revenues, and approximately $61,000 and $191,000 was recorded to amortization expense for the three and nine months ended December 31, 2018, respectively, in the consolidated statements of operations. Approximately $184,000 and $441,000 of the intangible asset amortization was recorded to cost of revenues, and approximately $18,000 and $84,000 was recorded to amortization expense for the three and nine months ended December 31, 2017, respectively, in the consolidated statements of operations.

As of December 31, 2018, our net capitalized software development costs of approximately $3.3 million is primarily associated with our Oracle Enterprise Resource Planning (ERP) system design and implementation of approximately $2.1 million, which has a useful life of 10 years beginning Fiscal 2019.

As of December 31, 2018, future estimated amortization expense is as follows:

Fiscal Year Ending March 31, (In thousands)		
Remainder of 2019	$	280
2020		870
2021		521
2022		302
2023		244
Thereafter		1,037
	$	3,254

Warranty Reserve Activity

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

	Nine Months Ended December 31,			
	2018		**2017**	
	(In thousands)			
Balance at beginning of fiscal year	$	403	$	278
Additions charged to cost of sales		509		512
Warranty claims		(361)		(400)
Balance at end of period	$	551	$	390

Earnings Per Share

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
	(In thousands, except par values)			
Numerator:				
Income (loss) from continuing operations	$ (2,464)	$ 248	$ (5,384)	$ (1,369)
Gain on sale of discontinued operation, net of tax		95		258
Net income (loss)	$ (2,464)	$ 343	$ (5,384)	$ (1,111)
Denominator:				
Weighted average common shares used in basic computation	33,297	32,877	33,247	32,670
Dilutive stock options		1,274		
Dilutive restricted stock units		107		
Weighted average common shares used in diluted computation	33,297	34,258	33,247	32,670
Net income (loss) per share:				
Basic	$ (0.07)	$ 0.01	$ (0.16)	$ (0.03)
Diluted	$ (0.07)	$ 0.01	$ (0.16)	$ (0.03)

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
	(In thousands)			
Stock options	5,225	3,607	4,515	3,770
Restricted stock units	181	246	155	256

3. Sale of Vehicle Sensors

On July 29, 2011, we completed the sale (the Asset Sale) of substantially all of our assets used in connection with our prior Vehicle Sensors segment to Bendix Commercial Vehicle Systems LLC (Bendix), a member of Knorr Bremse Group. In connection with the Asset Sale, we are entitled to additional consideration in the form of the following performance and royalty related earn-outs: Bendix was obligated to pay us an amount in cash equal to 85% of revenue associated with royalties received under our license and distribution agreements with Audiovox Electronics Corporation and Valeo Schalter and Sensoren GmbH through December 31, 2017, subject to certain reductions and limitations set forth in the asset purchase agreement. From the date of the Asset Sale, through December 31, 2018, we received approximately $2.7 million in connection with royalty-related earn-outs provisions for a total of $18 million in cash received from the Asset Sale.

In accordance with applicable accounting guidance, we determined that the Vehicle Sensors segment, which constituted one of our operating segments, qualified as a discontinued operation. For the nine months ended December 31, 2018 and 2017, we recorded a gain on sale of discontinued operation of approximately $0 and $258,000, respectively, net of tax, related to the earn-out provisions of the asset purchase agreement for the Asset Sale.

4. Fair Value Measurements

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

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 December 31, 2018 and March 31, 2018. 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 December 31, 2018			
	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Estimated Fair Value
	(In thousands)			
Level 1:				
Money market funds	$ 2,008	$	$	$ 2,008
Subtotal	2,008			2,008
Level 2:				
Certificates of deposit				
Commercial paper				
Corporate notes and bonds	2,180	(4)		2,176
US Treasuries	799	(0)		799
US Government agencies	754			754
Subtotal	3,733	(4)		3,729
Total	$ 5,741	$ (4)	$	$ 5,737

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

5. Income Taxes

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

Income tax benefit for the three months ended December 31, 2018 was approximately $24,000, or 1.0% of the pre-tax loss as compared with a benefit of approximately $1.4 million, or 122.0% of pre-tax loss for the three months ended December 31, 2017. Income tax expense for the nine months ended December 31, 2018 was approximately $21,000, or (0.4%) of the pre-tax loss as compared with a benefit of approximately $1.4 million, or 50.7% of pre-tax loss for the nine months ended December 31, 2017.

In assessing the realizability of our deferred tax assets, we review all available positive and negative evidence, including reversal of deferred tax liabilities, potential carrybacks, projected future taxable income, tax planning strategies and recent financial performance. As we have experienced a cumulative pre-tax loss over the trailing three years, we continue to maintain a valuation allowance against our deferred tax assets.

The Tax Act was enacted on December 22, 2017 and the Company accounted for the effects of the Tax Act in the period of enactment. Also, on December 22, 2017, the SEC issued guidance under SAB 118 directing taxpayers to consider the impact of the Tax Act as provisional when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. In accordance with SAB 118, the income tax effects of the Tax Act represent the Company s best estimate based on its current interpretation of the enacted legislation. The Company is accumulating data to finalize the underlying calculations and evaluate other aspects of this Tax Act, or in certain cases, the U.S. Treasury is expected to issue further guidance on the application of certain provisions of the Tax Act. In accordance with SAB 118, the income tax effects of the Tax Act discussed above are considered provisional and will be finalized in the current fiscal year.

6. Commitments and Contingencies

Litigation and Other Contingencies

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

Related Party Transaction

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

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7. 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, restricted stock units (RSUs), cash incentive awards and other stock-based awards. At December 31, 2018, there were approximately 2.5 million shares of common stock available for grant or issuance under the 2016 Plan. Total stock options vested and expected to vest were approximately 5.1 million as of December 31, 2018.

Stock Options

A summary of activity with respect to our stock options for the nine months ended December 31, 2018 is as follows:

	Number of Shares (In thousands)	Weighted Average Exercise Price Per Share
Options outstanding at March 31, 2018	4,124	$ 3.58
Granted	1,038	4.20
Exercised	(25)	2.27
Forfeited	(76)	4.93
Expired	(1)	4.91
Options outstanding at December 31, 2018	5,060	3.69

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 nine months ended December 31, 2018 is as follows:

	Number of Shares (In thousands)
RSUs outstanding at March 31, 2018	144
Granted	62
Vested	(59)
Forfeited	(24)
RSUs outstanding at December 31, 2018	123

Stock-Based Compensation Expense

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
	(In thousands)			
Cost of revenues	$ 35	$ 16	$ 104	$ 47
Selling, general and administrative expense	444	398	1,303	1,167
Research and development expense	51	33	148	111
Total stock-based compensation expense	$ 530	$ 447	$ 1,555	$ 1,325

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At December 31, 2018, there was approximately $5.2 million and $461,000 of unrecognized compensation expense related to unvested stock options and RSUs, respectively. This expense is currently expected to be recognized over a weighted average period of approximately 2.9 years for stock options and 1.4 years for RSUs. If there are any modifications or cancellations of the underlying unvested awards, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional stock options, RSUs or other stock-based awards.

Other Stock-Based Compensation Plans

Beginning January 1, 2018, the Company adopted an Employee Stock Purchase Plan (ESPP) which allows employees to have a percentage of their base compensation withheld to purchase the Company s common stock at 95% of the lower of the fair market at the beginning of the offering period and on the last trading day of the offering period. There are two offering periods during a calendar year, which consist of the six months beginning each January 1 and July 1. Employees may contribute 1-15% of their eligible gross pay up to a $25,000 annual stock value limit. 35,808 shares were purchased related to the first offering period of Fiscal 2019 in June 2018. 52,760 shares were purchased related to the second offering period of Fiscal 2019 in December 2018. There were no share purchases in Fiscal 2018. The ESPP is considered a non-compensatory plan and accordingly no compensation expense is recorded in connection with this benefit.

8. Stock Repurchase Program

On August 9, 2012, our Board of Directors approved a new stock repurchase program pursuant to which we may acquire up to $3 million of our outstanding common stock for an unspecified length of time. Under the program, we may repurchase shares from time to time in the open market and privately negotiated transactions and block trades, and may also repurchase shares pursuant to a 10b5-1 trading plan during our closed trading windows, to the extent such a 10b5-1 plan is in place. There is no guarantee as to the exact number of shares that will be repurchased. We may modify or terminate the repurchase program at any time without prior notice. On November 6, 2014, our Board of Directors approved a $3.0 million increase to the Company s existing stock repurchase program, pursuant to which the Company may continue to acquire shares of its outstanding common stock from time to time for an unspecified length of time. For the nine months ended December 31, 2018 and 2017, we did not repurchase any shares. As of December 31, 2018, approximately $1.7 million remained available for the repurchase of our common stock under our current stock repurchase program. From inception of the program in August 2011 through December 31, 2018, we repurchased approximately 3,422,000 shares of our common stock for an aggregate price of approximately $5.6 million, at an average price per share of $1.63. As of December 31, 2018, all repurchased shares have been retired and resumed their status as authorized and unissued shares of our common stock.

9. Investments

Our investments consisted of the following:

	As of December 31, 2018			
	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Estimated Fair Value
	(In thousands)			
Cash and cash equivalents	$ 2,008	$	$	$ 2,008
Short-term investments	3,733	(4)		3,729
Long-term investments				
Total	$ 5,741	$ (4)	$	$ 5,737

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

Unrealized losses related to these investments are due to interest rate fluctuations as opposed to credit quality. In addition, we do not intend to sell, and it is not more likely than not that, we would be required to sell, these investments before recovery of their cost basis. As a result, there is no other-than-temporary impairment for these investments as of December 31, 2018.

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10. Business Segment Information

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

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

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

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

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

The following table sets forth selected unaudited consolidated financial information for our reportable segments for the three and nine months ended December 31, 2018 and 2017:

	Roadway Sensors	Transportation Systems	Agriculture and Weather Analytics	Total
		(In thousands)		
Three Months Ended December 31, 2018				
Product revenues	$ 10,165	$ 923	$	$ 11,088
Service revenues	69	10,410	1,573	12,052
Total revenues	$ 10,234	$ 11,333	$ 1,573	$ 23,140
Segment income (loss)	1,153	1,147	(1,138)	1,162
Three Months Ended December 31, 2017				
Product revenues	$ 11,008	$ 987	$	$ 11,995
Service revenues	34	12,584	1,413	14,031
Total revenues	$ 11,042	$ 13,571	$ 1,413	$ 26,026
Segment income (loss)	2,048	2,207	(1,815)	2,440

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	Roadway Sensors	Transportation Systems	Agriculture and Weather Analytics	Total
		(In thousands)		
Nine Months Ended December 31, 2018				
Product revenues	$ 31,926	$ 3,492	$	$ 35,418
Service revenues	145	33,384	4,085	37,614
Total revenues	$ 32,071	$ 36,876	$ 4,085	$ 73,032
Segment income (loss)	5,463	4,276	(3,869)	5,870
Nine Months Ended December 31, 2017				
Product revenues	$ 33,438	$ 2,182	$	$ 35,620
Service revenues	145	39,210	3,482	42,837
Total revenues	$ 33,583	$ 41,392	$ 3,482	$ 78,457
Segment income (loss)	7,384	6,472	(5,882)	7,974

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
		(In thousands)		
Segment income (loss):				
Total income from reportable segments	$ 1,162	$ 2,440	$ 5,870	$ 7,974
Unallocated amounts:				
Corporate and other expenses	(3,607)	(3,541)	(11,173)	(10,660)
Amortization of intangible assets	(61)	(18)	(191)	(84)
Other expense, net	8	(9)	41	(14)
Interest income, net	10	3	90	8
Loss from continuing operations before income taxes	$ (2,488)	$ (1,125)	$ (5,363)	$ (2,776)

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

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

Overview

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

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

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

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

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

See Note 10 of Notes to Unaudited Consolidated Financial Statements, included in Part I, Item 1 of this report, for further details on our reportable segments.

Critical Accounting Policies and Estimates

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

See Note 1 for a discussion of changes to our accounting policies as a result of adopting ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) during the quarter ended December 31, 2018.

Recent Accounting Pronouncements

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

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Results of Operations

The following table sets forth unaudited statement of operations data as a percentage of total revenues for the periods indicated:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Product revenues	47.9%	46.1%	48.5%	45.4%
Service revenues	52.1	53.9	51.5	54.6
Total revenues	100.0	100.0	100.0	100.0
Cost of product revenues	29.4	28.0	27.7	26.1
Cost of service revenues	32.2	33.8	33.0	35.9
Total cost of revenues	61.6	61.8	60.7	62.0
Gross profit	38.4%	38.2%	39.3%	38.0%
Operating expenses:				
Selling, general and administrative	40.8	35.0	38.6	34.3
Research and development	8.2	7.5	8.1	7.1
Amortization of intangible assets	0.3	0.1	0.3	0.1
Total operating expenses	49.3	42.6	47.0	41.5
Operating loss	(10.9)	(4.4)	(7.7)	(3.5)
Non-operating income (expense):				
Other income (expense), net	0.0	(0.0)	0.1	(0.0)
Interest income, net	0.0	0.0	0.1	0.0
Loss from continuing operations before income taxes	(10.9)	(4.4)	(7.5)	(3.5)
Benefit (provision) for income taxes	0.1	5.3	(0.0)	1.9
Income (loss) from continuing operations	(10.8)	0.9	(7.5)	(1.6)
Gain on sale of discontinued operation, net of tax		0.3		0.3
Net income (loss)	(10.8)%	1.2%	(7.5)%	(1.3)%

Analysis of Quarterly Results of Operations

***Total Revenues*.** Total revenues are comprised of sales from our Roadway Sensors, Transportation Systems and Agriculture and Weather Analytics segments.

The following tables present our total revenues for the three and nine months ended December 31, 2018 and 2017:

Three Months Ended December 31,		$	%
2018	2017	Increase	Change

	(In thousands, except percentages)			
Product revenues	$ 11,088	$ 11,995	$ (907)	-7.6%
Service revenues	12,052	14,031	(1,979)	-14.1%
Total revenues	$ 23,140	$ 26,026	$ (2,886)	-11.1%

	Nine Months Ended December 31, 2018	2017	$ Increase	% Change
	(In thousands, except percentages)			
Product revenues	$ 35,418	$ 35,620	$ (202)	-0.6%
Service revenues	37,614	42,837	(5,223)	-12.2%
Total revenues	$ 73,032	$ 78,457	$ (5,425)	-6.9%

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Product revenues primarily consist of Roadway Sensors product sales, but also include OEM products for the traffic signal markets, as well as Transportation Systems third-party product sales for installation under certain construction-type contracts. Product revenues for the three months ended December 31, 2018 decreased 7.6% to $11.1 million, as compared to $12.0 million in the corresponding period in the prior year, primarily due to a decrease in unit sales from our distribution of certain OEM products for the traffic intersection market, largely in our Texas markets, as a result of the delayed finalization of certain statewide purchase programs.

Service revenues primarily consist of Transportation Systems engineering services, but also includes service revenues generated by our Roadway Sensors segment, and our Agriculture and Weather Analytics segment. Service revenues for the three months ended December 31, 2018 decreased 14.1% to $12.1 million, compared to $14.0 million in the corresponding period in the prior year, primarily due to lower Transportation Systems traffic engineering service revenues. The decline in Transportation Systems revenues was largely the result of the transition from being the prime contractor on certain large contracts during Fiscal 2018, to the sub-contracting party with a reduced scope, and to a lesser extent, due to reduced billable hours by our engineers in the current year period primarily due to increased bid/proposal activities in the current period. Total revenues for the three months ended December 31, 2018 decreased 11.1% to $23.1 million, compared to $26.0 million in the corresponding period in the prior year. The decrease in total revenues was primarily due to an approximate 16.5% decrease in Transportation Systems revenues, an approximate 7.3% decrease in Roadway Sensors revenues, which were offset in part by an approximate 11.3% increase in Agriculture and Weather Analytics revenues.

Product revenues for the nine months ended December 31, 2018 decreased 0.6% to $35.4 million, compared to $35.6 million in the corresponding period in the prior year, primarily due to a decrease in both our sales of our core Roadway Sensors video detection products, as well as unit sales from our distribution of certain OEM products for the traffic intersection market, both of which largely reflect continued underperformance in our Texas markets. This decrease in product revenues was offset in part by an increase in Transportation Systems third-party product sales for installation under certain construction-type contracts that we classify as product revenues.

Service revenues for the nine months ended December 31, 2018 decreased 12.2% to $37.6 million, compared to $42.8 million in the corresponding period in the prior year, primarily due to lower Transportation Systems traffic engineering service revenues as a result of the transition from being the prime contractor on certain large contracts awarded in the fiscal year ended March 31, 2016 (Fiscal 2016), to the sub-contracting party. Total revenues for the nine months ended December 31, 2018 decreased 6.9% to $73.0 million, compared to $78.5 million in the corresponding period in the prior year. The decrease in total revenues was primarily due to an approximate 10.9% decrease in Transportation Systems revenues, an approximate 4.5% decrease in Roadway Sensors revenues, offset in part by an approximate 17.3% increase in Agriculture and Weather Analytics revenues.

Roadway Sensors revenues for the three months ended December 31, 2018 included approximately $10.2 million in product revenues and approximately $69,000 of service revenues, reflecting a decrease in total revenues of approximately $808,000 or 7.3%, compared to the corresponding prior year period. Roadway Sensors revenues for the nine months ended December 31, 2018 included approximately $31.9 million in product revenues and $145,000 of service revenues, reflecting a decrease in total revenues of approximately $1.5 million or 4.5%, compared to the corresponding prior year period. The decrease in Roadway Sensors revenues during the three months ended December 31, 2018 was primarily due to lower unit sales from our distribution of certain OEM products for the traffic intersection market, which declined approximately $724,000 or 43.8% to approximately $928,000 in the current period, primarily resulting from the aforementioned delayed finalization of certain statewide purchase programs. The decrease in Roadway Sensors revenues during the nine months ended December 31, 2018 was also impacted by lower unit sales from our distribution of certain OEM products for the traffic intersection market, which declined approximately $1.1 million or 31.3% to approximately $2.4 million in the current period, as well as a decrease of approximately $409,000 or 1.4% in our core Roadway Sensors video detection products. Both decreases were primarily due to the aforementioned delayed finalization of certain statewide purchase programs. While OEM products generally have lower gross margins than our core video detection products, we believe the offering of OEM products can benefit sales of our core products by providing a more comprehensive suite of traffic solutions for our customers. Going forward, we plan to grow revenues by focusing on our core domestic intersection market, and refine and deliver products that address the needs of this market, primarily our Vantage processors and camera systems and our Vantage Vector video/radar hybrid sensor, as well as our SmartCycle, Velocity, PedTrax and SmartSpan products.

Transportation Systems revenues for the three months ended December 31, 2018 included approximately $10.4 million of service revenues, and approximately $923,000 of sales of third-party products purchased for installation under certain construction-type contracts, reflecting a decrease in total revenues of approximately $2.2 million or 16.5%, compared to the corresponding prior year period. Revenues for the nine months ended December 31, 2018 included approximately $33.4 million of service revenues, and approximately $3.5 million of third-party product sales and revenues derived under certain construction-type contracts that we classify as product revenues, reflecting a decrease in total revenues of approximately $4.5 million or 10.9%, compared to the corresponding prior year period. The decreases during the three and nine month periods ended December 31, 2018 was primarily due to the transition from being the prime contractor to a sub-contractor on certain large contracts awarded in Fiscal 2016, and the timing of backlog fulfilment on certain other projects. Transportation Systems added approximately $8.2 million of new backlog during the third quarter of Fiscal 2019. Transportation Systems backlog decreased to approximately $45.3 million as of December 31, 2018, compared to approximately $46.0 million as of December 31, 2017. We plan to continue to focus on securing new contracts and to extend and/or continue our existing relationships with key agencies related to projects in their final project phases. While we believe our ability to obtain additional large contracts will contribute to overall revenue growth, the mix of sub-consulting content and third-party product sales will likely affect the related total gross profit from period to period, as total revenues derived from sub-consultants and third-party product sales generally have lower gross margins than revenues generated by our professional services.

Agriculture and Weather Analytics revenues for the three months ended December 31, 2018 included no product revenue and approximately $1.6 million of service revenues, largely consisting of subscription revenues, reflecting an increase of approximately $160,000 or 11.3%, compared to the corresponding period in the prior year. Revenues for the nine months ended December 31, 2018 included no product revenue and approximately $4.1 million of service revenues, reflecting an increase of approximately $603,000 or 17.3%, compared to the corresponding period in the prior year. We plan to continue to focus on commercial opportunities in the digital agriculture technology markets by offering APIs, software applications, content, and modeling services to provide analytics and decision support services that leverage our digital weather, soil and agronomic content and applications

Gross Profit. The following tables present details of our gross profit for the three and nine months ended December 31, 2018 and 2017:

	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017	$ Increase	% Change
	(In thousands, except percentages)			
Product gross margin	$ 4,274	$ 4,696	$ (422)	-9.0%
Service gross margin	4,618	5,247	(629)	(12.0)%
Total gross margin	$ 8,892	$ 9,943	$ (1,051)	-10.6%
Product gross profit as a % of product revenues	38.5%	39.1%		
Service gross profit as a % of service revenues	38.3%	37.4%		
Total gross margin as a % of total revenues	38.4%	38.2%		

	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2017	$ Increase	% Change
	(In thousands, except percentages)			
Product gross margin	$ 15,208	$ 15,182	$ 26	0.2%
Service gross margin	13,537	14,634	(1,097)	(7.5)%
Total gross margin	$ 28,745	$ 29,816	$ (1,071)	-3.6%
Product gross profit as a % of product revenues	42.9%	42.6%		
Service gross profit as a % of service revenues	36.0%	34.2%		
	39.4%	38.0%		

Total gross margin as a % of total revenues	

Our product gross profit as a percentage of product revenues for the three months ended December 31, 2018 decreased 60 basis points, as compared to the corresponding period in the prior year, primarily due to one time inventory charges that were experienced in the current period. Product gross profit as a percentage of product revenues for the nine months ended December 31, 2018 was relatively consistent with the corresponding prior period in the prior year. Our service gross profit as a percentage of service revenues for the three months and nine months ended December 31, 2018 increased 92 and 183 basis points, respectively, as compared to the corresponding periods in the prior year, primarily due to the timing of certain extension contracts, the contract mix and a decrease in the amount of related sub-consulting content of such contracts in the current periods. Sub-consulting content generally results in lower gross margins than our workforce.

Our total gross profit as a percentage of total revenues for the three months ended December 31, 2018 was relatively consistent with the corresponding period in the prior year. Our total gross profit as a percentage of total revenues increased approximately 136 basis points for the nine months ended December 31, 2018 as compared to the corresponding period in the prior year, primarily due to the timing of certain extension contracts, the contract mix and a decrease in the amount of related sub-consulting content of such contracts in the current periods .

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

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

Selling, General and Administrative Expense

Selling, general and administration expense for the three months ended December 31, 2018 increased approximately 3.9% to $9.5 million, compared to $9.1 million for the three months ended December 31, 2017. The overall increase was primarily due to increased bid/proposal activities in Transportations Systems in the current period.

Selling, general and administration expense for the nine months ended December 31, 2018 increased approximately 4.5% to $28.2 million, compared to $26.9 million for the nine months ended December 31, 2017. The overall increase was primarily due to planned headcount increases in general and administrative positions, as well as increases in the Transportations Systems and Roadway Sensors salesforce headcount, all of which resulted in higher salary and personnel-related costs.

Research and Development Expense

Research and development expense for the three months ended December 31, 2018 was relatively consistent with the three months ended December 31, 2017, at $1.9 million for both periods.

Research and development expense for the nine months ended December 31, 2018 increased approximately 6.0% to $5.9 million, compared to $5.6 million for the nine months ended December 31, 2017. The overall increase was primarily due to continued investment in research, discovery and development activities largely focused on our software related product offerings.

We plan to continue to invest in the development of our ClearAg and ClearPath Weather solutions, our iPeMS software offering. In addition, we intend to continue to invest in further enhancements and functionality in our Vantage products family.

During Fiscal 2018, we successfully released Iteris SPM, our cloud-based signal performance measures application. In Fiscal 2017, we released our VantageLive! platform as well as a number of generally available advisory applications, including our Harvest Advisory and Nitrogen Advisory. Certain development costs were capitalized into intangible assets in the consolidated balance sheets; in both the current and prior year periods; however, certain costs did not meet the criteria for capitalization under GAAP and are included in research and development expense. Going forward, we expect to continue to invest in our solutions. This continued investment may result in increases in research and development costs, as well as additional capitalized software in future periods.

Amortization of Intangible Assets

Amortization of intangible assets was approximately $61,000 and $18,000 for the three months ended December 31, 2018 and 2017, respectively. Amortization of intangible assets was approximately $191,000 and $84,000 for the nine months ended December 31, 2018 and 2017, respectively. The increase in amortization in the current periods was primarily due to amortization related to our Oracle ERP system design and development, which was placed in service in April 2018.

Interest Income, Net

Net interest income was approximately $10,000 and $3,000 for the three months ended December 31, 2018 and 2017, respectively. Net interest income was approximately $90,000 and $8,000 for the nine months ended December 31, 2018 and 2017, respectively. The increase in net interest income in the current periods was primarily due to interest earned on investments purchased and held during the current periods.

Income Taxes

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

Income tax benefit for the three months ended December 31, 2018 was approximately $24,000, or 1.0% percent of the pre-tax loss as compared with a benefit of approximately $1.4 million, or 122.0% of pre-tax loss for the three months ended December 31, 2017. Income tax expense for the nine months ended December 31, 2018 was approximately $21,000, or (0.4%) of the pre-tax loss as compared with a benefit of approximately $1.4 million, or 50.7% of pre-tax loss for the nine months ended December 31, 2017.

In assessing the realizability of our deferred tax assets, we review all available positive and negative evidence, including reversal of deferred tax liabilities, potential carrybacks, projected future taxable income, tax planning strategies and recent financial performance. As we have experienced a cumulative pre-tax loss over the trailing three years, we continue to maintain a valuation allowance against our deferred tax assets.

The Tax Act was enacted on December 22, 2017 and the Company accounted for the effects of the Tax Act in the period of enactment. Also, on December 22, 2017, the SEC issued guidance under SAB 118 directing taxpayers to consider the impact of the Tax Act as provisional when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. In accordance with SAB 118, the income tax effects of the Tax Act represent the Company s best estimate based on its current interpretation of the enacted legislation. The Company is accumulating data to finalize the underlying calculations and evaluate other aspects of this Tax Act, or in certain cases, the U.S. Treasury is expected to issue further guidance on the application of certain provisions of the Tax Act. In accordance with SAB 118, the income tax effects of the Tax Act discussed above are considered provisional and will be finalized in the current fiscal year.

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

At December 31, 2018, we had $14.2 million in working capital, which included $7.2 million in cash and cash equivalents, as well as $3.7 million in short-term investments. This compares to working capital of $17.4 million at March 31, 2018, which included $10.2 million in cash and cash equivalents as well as $5.3 million in short-term investments.

The following table summarizes our cash flows for the nine months ended December 31, 2018 and 2017:

	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2017
	(In thousands)	
Net cash provided by (used in):		
Operating activities	$ (4,148)	$ 115
Investing activities	759	(2,420)
Financing activities	410	907

Operating Activities. Cash used in our operations for the nine months ended December 31, 2018 was primarily the result of approximately $3.0 million in non-cash items for deferred income taxes, depreciation, stock-based compensation, and amortization, offset by a decrease of approximately $1.8 million from changes in working capital coupled with our net loss of approximately $5.4 million.

Cash provided by our operations for the nine months ended December 31, 2017 was primarily the result of approximately $819,000 in non-cash items for deferred income taxes, depreciation, stock-based compensation, amortization, gain on sales of discontinued operations and loss on disposal of equipment, coupled with an increase of approximately $408,000 from changes in working capital, partially offset by our net loss of approximately $1.1 million.

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Investing Activities. Net cash provided by our investing activities during the nine months ended December 31, 2018 was primarily the result of approximately $5.7 million in proceeds from the sale and maturity of short-term investment and approximately $107,000 in proceeds from the last earn-out payment related to the sale of the assets of the Vehicle Sensors segment in 2011. These investments were partially offset by purchases of approximately $4.1 million of short-term investments and approximately $611,000 of property and equipment, as well as approximately $326,000 of capitalized software development, primarily in the Roadway Sensors business segments related to VantageLive! developments.

Net cash used in our investing activities during the nine months ended December 31, 2017 was primarily the result of approximately $988,000 for purchases of property and equipment primarily related to leasehold improvement to our corporate headquarters, and approximately $1.8 million of capitalized software development, primarily related to the development of our new Oracle ERP system, and to a lesser extent, in the Agriculture and Weather Analytics and Roadway Sensors business segments related to ClearAg assets and VantageLive! developments. These investments were partially offset by approximately $402,000 in proceeds from the earn-out provision included in the sale of the Vehicle Sensors segment.

Financing Activities. Net cash provided by financing activities during the nine months ended December 31, 2018 was the result of approximately $353,000 of cash proceeds from the purchase of ESPP shares and approximately $62,000 of cash proceeds from the exercise of stock options. Net cash provided by financing activities during the nine months ended December 31, 2017 was the result of approximately $986,000 of cash proceeds from the exercises of stock options, partially offset by approximately $79,000 of tax withholding payments for net share settlements of RSUs.

Off Balance Sheet Arrangements

Other than our operating leases, we did not have any other material off balance sheet arrangements at December 31, 2018.

Seasonality

We have historically experienced seasonality, particularly with respect to our Roadway Sensors segment, which adversely affects such sales in our third and fourth fiscal quarters due to a reduction in intersection construction and repairs during the winter months due to inclement weather conditions, with the third fiscal quarter generally impacted the most by inclement weather. We have also experienced seasonality, particularly with respect to our Transportation Systems segment, which adversely impacts our third fiscal quarter due to the increased number of holidays, causing a reduction in available billable hours. In addition, we have experienced some seasonality related to certain ClearPath Weather services, which adversely impacts such sales in our first and second fiscal quarters, mainly because these services are generally not required during Spring and Summer months when weather conditions are comparatively milder.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. The primary objective of our investment activities is to preserve principal and liquidity while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we maintain our investments portfolio in a variety of available-for-sale fixed debt securities, including both government and corporate obligations and money market funds. Investments in fixed rate interest bearing instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in prevailing interest rates. Due in part to these factors, we may suffer losses in principal if we need the funds prior to maturity and choose to sell securities that have declined in market value due to changes in interest rates or perceived credit risk related to the securities issuers.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective 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 are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act 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.

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Changes in Internal Controls

During the fiscal quarter covered by this report, there has been no significant change in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that 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 under the heading Litigation and Other Contingencies in Note 6 of Notes to Unaudited Consolidated Financial Statements, included in Part I, Item 1 of this report, is incorporated herein by reference. For additional discussion of risks associated with any legal proceedings, see Risk Factors below.

ITEM 1A. RISK FACTORS

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

Because we depend on government contracts and subcontracts, we face additional risks related to contracting with federal, state and local governments, including budgetary issues and fixed price contracts. A significant portion of our revenues are derived from contracts with governmental agencies, either as a general contractor, subcontractor or supplier. We anticipate that revenue from government contracts will continue to remain a significant portion of our revenues. Government business is, in general, subject to special risks and challenges, including:

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

- other government budgetary constraints, cut-backs, delays or reallocation of government funding, including without limitation, changes in the new administration, repeal of government purchasing programs and the possible repeal of Proposition Six in California;

- delays related to possible and actual shutdown of the federal government for any reason, such as due to lack of funding;

- performance bond requirements;

- long purchase cycles or approval processes;

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- competitive bidding and qualification requirements, as well as our ability to replace large contracts once they have been completed;

- changes in government policies and political agendas;

- maintenance of relationships with key government entities from whom a substantial portion of our revenue is derived;

- milestone requirements and liquidated damage and/or contract termination provisions for failure to meet contract milestones;

- adverse weather conditions may cause delays, such as, evacuations and flooding due to hurricanes can result in our inability to perform work in affected areas; and

- international conflicts or other military operations that could cause the temporary or permanent diversion of government funding from transportation or other infrastructure projects.

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

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

We recently expanded our Agriculture and Weather Analytics capabilities to address a new market segment, the agricultural market, which

may not broadly accept our technologies and new products. The application of digital analytics to the agricultural market is a relatively new development that has required us to invest, and is expected to continue to require us to invest, in additional research and development, and sales and marketing without any guarantee of a commensurate increase in revenues. The introduction of any new Agriculture and Weather Analytics products and services could have longer than expected sales cycles, which could adversely impact our operating results. We cannot assure you that seed and crop protection, integrated food companies, growers or other companies in the agribusiness markets will perceive the value proposition of our Agriculture and Weather Analytics or that our new ClearAg products for this market will achieve broad market acceptance in the near future or at all. If the agricultural market fails to understand and appreciate the benefit of our Agriculture and Weather Analytics products or chooses not to adopt our technologies, our business, financial condition and results of operations will be adversely affected.

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

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Our profitability could be adversely affected if we are not able to maintain adequate utilization of our Transportation Systems workforce. The cost of providing our Transportation Systems engineering and consulting services, including the extent to which we utilize our workforce, affect our profitability. The rate at which we utilize our workforce is affected by a number of factors, including:

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

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

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

If we do not keep pace with rapid technological changes and evolving industry standards, we will not be able to remain competitive, and the demand for our products will likely decline. Our markets are in general characterized by the following factors:

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

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

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

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

If our security measures are breached and unauthorized access is obtained to our customer s personal and/or proprietary data in connection with our web-based and mobile application services, we may incur significant liabilities, our services may be perceived as not being secure and customers may curtail or stop using our services, we could incur significant liability to our customers and to individuals or businesses whose information was being stored, our business may suffer and our reputation will be damaged. Because techniques used to obtain unauthorized access to, or to sabotage, systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose sales and customers.

The markets in which we operate are highly competitive and have many more established competitors, which could adversely affect our revenues or the market acceptance of our products. We compete with numerous other companies in our target markets including, but not limited to, large, multi-national corporations and many smaller regional engineering firms.

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

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

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

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

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

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

Our failure to successfully secure new contracts and renew existing contracts could reduce our revenues and profitability. Our business depends on our ability to successfully bid on new contracts and renew existing contracts with private and public sector customers. Contract proposals and negotiations are complex and frequently involve a lengthy bidding and selection process, which are affected by a number of factors, such as market conditions, financing arrangements and required governmental approvals. For example, a customer may require us to provide a surety bond or letter of credit to protect the client should we fail to perform under the terms of the contract. If negative market conditions continue, or if we fail to secure adequate financing arrangements or the required governmental approval or fail to meet other required conditions, we may not be able to pursue particular projects, which could reduce or eliminate our profitability

Declines in the value of securities held in our investment portfolio can affect us negatively. As of December 31, 2018, the value of securities available for sale and held to maturity within our investment portfolio was $5.7 million, which is generally determined based upon market values available from third-party sources. The value of our investment portfolio may fluctuate as a result of market volatility and economic or financial market conditions. Declines in the value of securities held in our investment portfolio negatively impact our levels of capital and liquidity. Further, to the extent that we experience unrealized losses in our portfolio of investment securities from declines in securities values that management determines to be other than temporary, the book value of those securities will be adjusted to their estimated recovery value and we will recognize a charge to earnings in the quarter during which we make that determination. Although we have policies and procedures in place to assess and mitigate potential impacts of market risks, including hedging-related strategies, those policies and procedures are inherently limited because they cannot anticipate the existence or future development of currently unanticipated or unknown risks. Accordingly, we could suffer adverse effects as a result of our failure to anticipate and manage these risks properly.

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

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

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

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

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

Uncertainties in the interpretation and application of the new revenue recognition standard ASC 606 could materially affect our revenue recognition. We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the U.S. These principles are subject to interpretation by the SEC and various bodies formed to create and interpret appropriate accounting principles and guidance. A change in these principles or guidance, or in their interpretations, may have a material effect on our reported results, as well as our processes and related controls, and may retroactively affect previously reported results. As discussed in Note 1 to the Consolidated Financial Statements (Description of Business and Summary of Significant Accounting Policies Recent Accounting Pronouncements), effective April 1, 2018, FASB issued ASU 2014-09, Revenue from Contracts with Customers. We believe that ASC 606 and related revenue recognition policies will not result in a material change to our consolidated financial statements, and will not cause any significant changes to the amount and timing of our recognition of future revenue and cost. However, uncertainties in future guidance of the interpretation and application of ASC 606 could materially affect our revenue and cost recognition. We are continuing to evaluate the effect that ASC 606 will have on our financial statements and related disclosures, and preliminary assessments are subject to change.

SEC rules require that when we release our quarterly financial results, we must provide year-over-year comparisons to results for the corresponding quarter of the previous fiscal year. Accordingly, following each quarter of Fiscal 2019, we will present quarterly results for the corresponding period of Fiscal 2018 that retrospectively apply ASC 606 to our Fiscal 2018 results which were originally prepared utilizing the prior accounting guidance. These retrospective Fiscal 2018 presentations are considered to be preliminary, and are subject to the final retrospective presentations of Fiscal 2018 results that we will provide with our annual report on Form 10-K for Fiscal 2019. If the final retrospective presentation of our financial statements for Fiscal 2018 is perceived by investors to differ significantly from our previously provided preliminary presentations, it may result in fluctuations in our stock price.

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Uncertainties in the interpretation and application of the Tax Act could materially affect our tax obligations and effective tax rate. The Tax Act was enacted on December 22, 2017, and significantly affected U.S. tax law by changing how the U.S. imposes income tax on multinational corporations. The U.S. Department of Treasury has broad authority to issue regulations and interpretative guidance that may significantly impact how we will apply the law and impact our results of operations in the period issued. The Tax Act requires complex computations not previously provided in U.S. tax law. As such, the application of accounting guidance for such items is currently uncertain. Further, compliance with the Tax Act and the accounting for such provisions require accumulation of information not previously required or regularly produced. As a result, we have provided a provision on the effect of the Tax Act in our financial statements. As additional regulatory guidance is issued by the applicable taxing authorities, and the accounting treatment is clarified, we plan to perform additional analysis on the application of the law, and may need to refine our estimates in calculating the impact of such further guidance. As such, our final analysis may be different from our current provisional amounts, which could materially affect our tax obligations and effective tax rate.

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

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

Our quarterly operating results fluctuate as a result of many factors. Therefore, we may fail to meet or exceed the expectations of securities analysts and investors, which could cause our stock price to decline. Our quarterly revenues and operating results have fluctuated and are likely to continue to vary from quarter to quarter due to a number of factors, many of which are not within our control. Factors that could affect our revenues include, among others, the following:

- delays in government contracts and funding from time to time, federal government shutdowns, and budgetary constraints at the federal, state and local levels;

- our ability to access stimulus funding, funding from the federal highway bill or other government funding;

- declines in new home and commercial real estate construction and related road and other infrastructure construction;

- changes in our pricing policies and the pricing policies of our suppliers and competitors, pricing concessions on volume sales, as well as increased price competition in general;

- the long lead times associated with government contracts or contracts with large enterprise customers;

- the size, timing, rescheduling or cancellation of significant customer orders;

- our ability to control costs;

- our ability to raise additional capital;

- the mix of our products and services sold in a quarter, which has varied and is expected to continue to vary from time to time;

- seasonality due to general winter weather conditions (as well as the adverse impact on revenues in certain regions impacted from time to time by hurricanes and other extreme conditions);

- seasonality with respect to revenues from our ClearPath Weather and related weather forecasting services due to the decrease in revenues generated for such services during the spring and summer time periods;

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- our ability to develop, introduce, patent, market and gain market acceptance of new products, applications and product enhancements in a timely manner, or at all;
- market acceptance of the products incorporating our technologies and products;
- the introduction of new products by competitors;
- the availability and cost of components used in the manufacture of our products;
- our success in expanding and implementing our sales and marketing programs;
- the effects of technological changes in our target markets;
- the amount of our backlog at any given time;
- the nature of our government contracts;
- decrease in revenues derived from key or significant customers;
- deferrals of customer orders in anticipation of new products, applications or product enhancements;
- risks and uncertainties associated with our international business;
- market condition changes such as industry structure consolidations that could slow down our ability to procure new business;

- general economic and political conditions;
- international conflicts and acts of terrorism; and
- other factors beyond our control, including but not limited to, natural disasters.

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

Supply shortages or production gaps could materially and adversely impact our sales and financial results. We have in the past experienced, and may from time to time in the future continue to experience parts shortages or unforeseen quality control issues by our suppliers that may impact our ability to meet demand for our products. We have historically used and continue to use single suppliers for certain significant components in our products, and have had to reengineer products from time to time to address obsolete components, especially in our Roadway Sensors products. Our Roadway Sensors products are also included with other traffic intersection products that also could experience supply issues for their products, which in turn could result in delays in orders for our products. Should any such supply delay or disruption occur, or should a key supplier discontinue operations, our future sales will likely be materially and adversely affected. Additionally, we rely heavily on select contract manufacturers to produce many of our products and do not have any long-term contracts to guarantee supply of such products. Although we believe our contract manufacturers have sufficient capacity to meet our production schedules for the foreseeable future and we believe we could find alternative contract manufacturing sources for many of our products, if necessary, we could experience a production gap if for any reason our contract manufacturers were unable to meet our production requirements and our cost of goods sold could increase, adversely affecting our margins. Further, the federal government has created the potential for significant changes in trade policies, including tariffs and government regulations affecting trade between the U.S. and other countres where we source components for our Roadway Sensors products. Any such actions could increase the cost to us of such products and cause increases in the prices at which we sell such products, which could adversely affect the financial performance of our Roadway Sensors business.

We may engage in acquisitions of companies or technologies that may require us to undertake significant capital infusions and could result in disruptions of our business and diversion of resources and management attention. We have completed two acquisitions since November 2011 and, in the future, we may acquire additional complementary businesses, products, and technologies. Acquisitions may require significant capital infusions and, in general, acquisitions also involve a number of special risks, including:

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

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- the failure to retain or integrate key acquired personnel;

- the challenge of assimilating diverse business cultures, and the difficulties in integrating the operations, technologies and information system of the acquired companies;

- increased costs to improve managerial, operational, financial and administrative systems and to eliminate duplicative services;

- the incurrence of unforeseen obligations or liabilities;

- potential impairment of relationships with employees or customers as a result of changes in management; and

- increased interest expense and amortization of acquired intangible assets, as well as unanticipated accounting charges.

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

Our international business operations may be threatened by many factors that are outside of our control. While we historically have had limited international sales, revenues and operational experience, we have been expanding our distribution capabilities for our Roadway Sensors segment internationally, particularly in Europe and in South America. We plan to continue to expand our international efforts, but we cannot assure you that we will be successful in such efforts. International operations subject us to various inherent risks including, among others:

- political, social and economic instability, as well as international conflicts and acts of terrorism;

- bonding requirements for certain international projects;

- longer accounts receivable payment cycles;

- import and export license requirements and restrictions of the U.S. and each other country in which we operate;

- currency fluctuations and restrictions, and our ability to repatriate currency from certain foreign regions;

- unexpected changes in regulatory requirements, tariffs and other trade barriers or restrictions;

- required compliance with existing and new foreign regulatory requirements and laws, more restrictive labor laws and obligations, including but not limited to, the U.S. Foreign Corrupt Practices Act;

- difficulties in managing and staffing international operations;

- potentially adverse tax, duty and tariff consequences; and

- reduced protection for intellectual property rights in some countries.

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

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

We may need to raise additional capital in the future, which may not be available on terms acceptable to us, or at all. We have historically experienced volatility in our earnings and cash flows from operations from year to year. On September 1, 2017, we filed a registration statement on a Form S-3, utilizing a shelf registration process, and may consider a new equity financing in the future. Should the credit markets further tighten or our business declines, we may need or choose to raise additional capital to fund our operations, to repay indebtedness, pursue acquisitions or expand our operations. Such additional capital may be raised through bank borrowings, or other debt or equity financings. We cannot assure you that any additional capital will be available on a timely basis, on acceptable terms, or at all, and such additional financing may result in further dilution to our stockholders.

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

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

- government budgets, political agendas and other funding issues, including potential delays in government contract awards;

- our ability to successfully negotiate credit arrangements with our bank and the state of the financial markets in general; and

- general economic conditions, including the effects of the economic slowdowns and international conflicts.

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

The trading price of our common stock is highly volatile. The trading price of our common stock has been subject to wide fluctuations in the past. From December 31, 2015 through December 31, 2018, our common stock has traded at prices as low as $1.89 per share and as high as $8.17 per share. The market price of our common stock could continue to fluctuate in the future in response to various factors, including, but not limited to:

- quarterly variations in operating results;

- our ability to control costs, improve cash flow and sustain profitability;

- our ability to raise additional capital;

- shortages announced by suppliers;

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- announcements of technological innovations or new products or applications by our competitors, customers or us;
- transitions to new products or product enhancements;
- acquisitions of businesses, products or technologies;
- the impact of any litigation;
- changes in investor perceptions;
- government funding, political agendas and other budgetary constraints;
- changes in stock market analyst recommendations regarding our common stock, other comparable companies or our industry in general;
- changes in earnings estimates or investment recommendations by securities analysts; and
- international conflicts, political unrest and acts of terrorism.

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

Certain provisions of our charter documents may hinder stockholders ability to influence our company or discourage a third party from acquiring us and may adversely affect the price of our common stock. Certain provisions of our certificate of incorporation could make it difficult for a third party to influence or acquire us, even though that might be beneficial to our stockholders. Such provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. For example, under the terms of our certificate of incorporation, our Board of Directors is authorized to issue, without stockholder approval, up to 2,000,000 shares of preferred stock with voting, conversion and other rights and preferences superior to those of our common stock. In addition, our bylaws contain provisions governing the ability of stockholders to submit proposals or make nominations for directors, and we recently eliminated cumulative voting for directors and implemented majority voting directors of the company.

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

In August 2011, our Board of Directors approved a stock repurchase program pursuant to which we were authorized to acquire up to $3.0 million of our outstanding common stock from time to time through August 2012. On August 9, 2012, our Board of Directors approved a new stock repurchase program pursuant to which we may acquire up to $3.0 million of our outstanding common stock for an unspecified length of time. Under the new program, we may repurchase shares from time to time in open-market and privately negotiated transactions and block trades, and may also repurchase shares pursuant to an existing or future 10b5-1 trading plan to facilitate repurchases during our closed trading windows. There is no guarantee as to the exact number of shares that will be repurchased. We may modify or terminate the repurchase program at any time without prior notice. On November 6, 2014, our Board of Directors approved a $3.0 million increase to our existing stock repurchase program, pursuant to which we may continue to acquire shares of our outstanding common stock from time to time for an unspecified length of time.

For the three and nine months ended December 31, 2018, we did not repurchase any shares. As of December 31, 2018, there was approximately $1.7 million of remaining funds available under the stock repurchase program. From inception of the program in August 2011 through December 31, 2018, we repurchased approximately 3,422,000 shares of our common stock for an aggregate price of approximately $5.6 million, at an average price per share of $1.63. As of December 31, 2018, all repurchased shares have been retired and returned to their status as authorized and unissued shares of our common stock. As of December 31, 2018, approximately $1.7 million remains available for the repurchase of our common stock under our current program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

Exhibit Number	Description	Where Located
31.1	Certification of the Principal Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*Filed herewith*
31.2	Certification of the Principal Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*Filed herewith*
32.1	Certification of the Chief Executive Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*Furnished herewith*
32.2	Certification of the Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*Furnished herewith*
101.INS	XBRL Instance Document	*Filed herewith*
101.SCH	XBRL Taxonomy Extension Schema Document	*Filed herewith*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	*Filed herewith*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	*Filed herewith*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	*Filed herewith*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	*Filed herewith*

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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.

Dated: February 7, 2019	ITERIS, INC. (Registrant)	
	By	/s/ JOE BERGERA Joe Bergera Chief Executive Officer (Principal Executive Officer)
	By	/s/ ANDREW C. SCHMIDT Andrew C. Schmidt Chief Financial Officer (Principal Financial Officer)