

ITERIS, INC.
Form 10-Q
February 01, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2007

OR

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

For the transition period from to

Commission file number: 001-08762

ITERIS, INC.

(Exact name of registrant as specified in its charter)

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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)

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(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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As of January 31, 2008, the registrant had 33,304,527 shares of common stock outstanding.

ITERIS, INC.

**Quarterly Report on Form 10-Q
For the Three and Nine Months Ended December 31, 2007**

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Unless otherwise indicated in this report, the Company, we, us and our collectively refer to Iteris, Inc. and its former subsidiary, Meyer, Mohaddes Associates, Inc., which was dissolved effective April 2006.

AutoVue®, Iteris®, Vantage® and eAccess are among the trademarks of Iteris, Inc. Any other trademarks or trade names mentioned herein are the property of their respective owners.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ITERIS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

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| | December 31, 2007 (unaudited) | March 31, 2007 |
|---|-------------------------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 679 | \$ 35 |
| Trade accounts receivable, net of allowance for doubtful accounts of \$812 and \$664 at December 31, 2007 and March 31, 2007, respectively | 12,607 | 11,493 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 5,149 | 3,689 |
| Inventories, net of reserve for inventory obsolescence of \$910 and \$844 at December 31, 2007 and March 31, 2007, respectively | 4,400 | 6,379 |
| Deferred income taxes | 611 | 494 |
| Prepaid expenses and other current assets | 413 | 385 |
| Total current assets | 23,859 | 22,475 |
| Property and equipment, net | 3,496 | 1,712 |
| Deferred income taxes | 2,645 | 2,533 |
| Intangible assets, net | 294 | 404 |
| Goodwill | 27,774 | 27,774 |
| Other assets | 386 | 352 |
| Total assets | \$ 58,454 | \$ 55,250 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Trade accounts payable | \$ 3,206 | \$ 3,542 |
| Accrued payroll and related expenses | 3,822 | 3,527 |
| Accrued liabilities | 2,168 | 1,618 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 1,199 | 847 |
| Revolving line of credit | 199 | 4,015 |
| Current portion of long-term debt | 570 | 1,947 |
| Total current liabilities | 11,164 | 15,496 |
| Deferred rent | 1,963 | |
| Deferred compensation plan liability | 669 | 730 |
| Other non-current liabilities | 97 | 163 |
| Long-term debt | 9,565 | 9,760 |
| Total liabilities | 23,458 | 26,149 |
| Commitments and contingencies | | |
| Redeemable common stock, none issued and outstanding at December 31, 2007 and 1,219 shares issued and outstanding at March 31, 2007 | | 3,414 |
| Stockholders' equity: | | |
| Preferred stock, \$1.00 par value, 2,000 shares authorized, none issued and outstanding at December 31, 2007 and March 31, 2007 | | |
| Common stock, \$0.10 par value, 70,000 and 50,000 shares authorized, 33,264 and 30,601 shares issued or issuable and outstanding, at December 31, 2007 and March 31, 2007, respectively | 3,326 | 3,060 |
| Additional paid-in capital | 135,278 | 130,425 |
| Common stock held in trust, 167 and 311 shares at December 31, 2007 and March 31, 2007, respectively | (202) | (374) |
| Notes receivable from employees | | (5) |
| Accumulated deficit | (103,442) | (107,438) |
| Accumulated other comprehensive income | 36 | 19 |
| Total stockholders' equity | 34,996 | 25,687 |
| Total liabilities and stockholders' equity | \$ 58,454 | \$ 55,250 |

See accompanying notes to unaudited condensed consolidated financial statements.

ITERIS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

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| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|------------------------------------|----------|-----------------------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Net sales and contract revenues: | | | | |
| Net sales | \$ 9,176 | \$ 8,575 | \$ 30,215 | \$ 26,498 |
| Contract revenues | 6,187 | 5,913 | 17,881 | 16,272 |
| Total net sales and contract revenues | 15,363 | 14,488 | 48,096 | 42,770 |
| Costs of net sales and contract revenues: | | | | |
| Cost of net sales(a) | 4,631 | 4,746 | 15,302 | 14,800 |
| Cost of contract revenues(a) | 4,232 | 4,066 | 11,938 | 10,618 |
| Gross profit | 6,500 | 5,676 | 20,856 | 17,352 |
| Operating expenses: | | | | |
| Selling, general and administrative(a) | 4,041 | 3,879 | 12,820 | 11,865 |
| Research and development(a) | 1,002 | 1,038 | 2,623 | 2,812 |
| Deferred compensation plan | 290 | (29) | 299 | (61) |
| Amortization of intangible assets | 37 | 37 | 110 | 110 |
| Total operating expenses | 5,370 | 4,925 | 15,852 | 14,726 |
| Operating income | 1,130 | 751 | 5,004 | 2,626 |
| Non-operating income (expense): | | | | |
| Other income (expense), net | (3) | (5) | 41 | (650) |
| Interest expense, net | (314) | (390) | (1,046) | (1,200) |
| Income before income taxes | 813 | 356 | 3,999 | 776 |
| Income tax benefit (provision) | 141 | (46) | 221 | 545 |
| Net income | \$ 954 | \$ 310 | \$ 4,220 | \$ 1,321 |
| Earnings per share: | | | | |
| Basic | \$ 0.03 | \$ 0.01 | \$ 0.13 | \$ 0.05 |
| Diluted | \$ 0.03 | \$ 0.01 | \$ 0.12 | \$ 0.04 |
| Weighted average shares outstanding: | | | | |
| Basic | 32,914 | 30,438 | 32,568 | 29,238 |
| Diluted | 35,256 | 33,813 | 34,674 | 33,067 |

(a) Includes stock-based compensation expense as follows:

| | | | | |
|---|-------|-------|--------|--------|
| Cost of net sales | \$ 1 | \$ 3 | \$ 3 | \$ 12 |
| Cost of contract revenues | 3 | 8 | 9 | 56 |
| Selling, general and administrative expense | 77 | 46 | 190 | 147 |
| Research and development expense | 1 | 2 | 5 | 18 |
| Total | \$ 82 | \$ 59 | \$ 207 | \$ 233 |

See accompanying notes to unaudited condensed consolidated financial statements.

ITERIS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

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| | Nine Months Ended December 31, | |
|---|-----------------------------------|----------|
| | 2007 | 2006 |
| Cash flows from operating activities | | |
| Net income | \$ 4,220 | \$ 1,321 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization of property and equipment | 443 | 405 |
| Change in deferred tax assets | (229) | (512) |
| Stock-based compensation expense | 207 | 233 |
| Amortization of deferred gain on sale leaseback transaction | (165) | (213) |
| Amortization of debt discount | 155 | 155 |
| Amortization of intangible assets | 110 | 110 |
| Amortization of deferred financing costs | 104 | 103 |
| Issuance of warrants for services | | 22 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,114) | (443) |