ITERIS, INC.
Form 10-Q
November 14, 2016
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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 September 30, 2016

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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 November 3, 2016, there were 32,186,185 shares of common stock outstanding.

ITERIS, INC.

Quarterly Report on Form 10-Q

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Unless otherwise indicated in this report, the Company, we, us and our refer to Iteris, Inc. and its wholly-owned subsidiary. Abacus®, ClearAg®, ClearPath 511®, ClearPath Weather®, Edge®, EdgeConnect , iPerform®, iPeMS®, Iteris®, Next®, P10 , P100 , PedTrax , Pegasus , Radius , Reverse 511 , RZ 4 , SmartCycle®, SmartSpan®, TransitHelper®, Vantage®, VantageNext®, VantagePegasus®, VantageRadius , Vantage Vector®, VantageView , Velocity®, and VersiCam are among 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)

		September 30, 2016		March 31, 2016
Assets				
Current assets:				
Cash and cash equivalents	$	15,713	$	16,029
Trade accounts receivable, net of allowance for doubtful accounts of $378 and $714 at September 30, 2016 and March 31, 2016, respectively		12,459		13,241
Costs and estimated earnings in excess of billings on uncompleted contracts		6,983		5,250
Inventories		2,774		3,153
Prepaid expenses and other current assets		2,022		1,505
Total current assets		39,951		39,178
Property and equipment, net		2,168		2,139
Intangible assets, net		1,058		951
Goodwill		17,318		17,318
Other assets		327		434
Total assets	$	60,822	$	60,020
Liabilities and stockholders equity				
Current liabilities:				
Trade accounts payable	$	6,661	$	5,469
Accrued payroll and related expenses		4,668		5,719
Accrued liabilities		1,448		1,445
Billings in excess of costs and estimated earnings on uncompleted contracts		2,403		2,294
Total current liabilities		15,180		14,927
Deferred rent		699		750
Deferred income taxes		692		685
Unrecognized tax benefits		202		196
Total liabilities		16,773		16,558
Commitments and contingencies (Note 7)				
Stockholders equity:				
Preferred stock, $1.00 par value:				
Authorized shares - 2,000				
Issued and outstanding shares - none				
Common stock, $0.10 par value:				
Authorized shares - 70,000 at September 30, 2016 and March 31, 2016 Issued and outstanding shares - 32,186 at September 30, 2016 and 32,048 at March 31, 2016		3,219		3,205
Additional paid-in capital		136,076		135,424
Accumulated deficit		(95,246)		(95,167)
Total stockholders equity		44,049		43,462
Total liabilities and stockholders equity	$	60,822	$	60,020

See accompanying notes.

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Iteris, Inc.

Unaudited Consolidated Statements of Operations

(In thousands, except per share amounts)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Six Months Ended September 30, 2016	Six Months Ended September 30, 2015
Total revenues	$ 24,060	$ 20,573	$ 47,986	$ 38,938
Cost of revenues	14,605	12,690	29,122	23,417
Gross profit	9,455	7,883	18,864	15,521
Operating expenses:				
Selling, general and administrative	7,858	6,286	15,663	12,776
Research and development	1,698	2,074	3,308	3,575
Amortization of intangible assets	84	92	169	184
Total operating expenses	9,640	8,452	19,140	16,535
Operating loss	(185)	(569)	(276)	(1,014)
Non-operating income (expense):				
Other (expense) income, net	(2)	4	(6)	4
Interest income, net	4	4	5	7
Loss from continuing operations before income taxes	(183)	(561)	(277)	(1,003)
Benefit for income taxes	8	112	7	310
Loss from continuing operations	(175)	(449)	(270)	(693)
Gain on sale of discontinued operation, net of tax	135	54	191	106
Net loss	$ (40)	$ (395)	$ (79)	$ (587)
Loss per share from continuing operations - basic and diluted	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.02)
Gain per share from sale of discontinued operation - basic and diluted	$ 0.01	$ 0.00	$ 0.01	$ 0.00
Net loss per share - basic and diluted	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.02)
Shares used in basic and diluted per share calculations	32,117	31,935	32,085	32,069

See accompanying notes.

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Iteris, Inc.

Unaudited Consolidated Statements of Cash Flows

(In thousands)

	Six Months Ended September 30, 2016	Six Months Ended September 30, 2015
Cash flows from operating activities		
Net loss	$ (79)	$ (587)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred income taxes	13	(325)
Depreciation of property and equipment	361	316
Stock-based compensation	486	196
Amortization of intangible assets	354	267
Gain on sale of discontinued operation, net of tax	(191)	(106)
Loss on disposal of equipment	12	54
Changes in operating assets and liabilities, net of effects of discontinued operation:		
Accounts receivable	782	(1,720)
Net costs and estimated earnings in excess of billings	(1,624)	678
Inventories	379	(96)
Prepaid expenses and other assets	(190)	(241)
Accounts payable and accrued expenses	(24)	94
Net cash provided by (used in) operating activities	279	(1,470)
Cash flows from investing activities		
Purchases of property and equipment	(401)	(485)
Capitalized software development costs	(461)	
Net proceeds from sale of discontinued operation	88	94
Net cash used in investing activities	(774)	(391)
Cash flows from financing activities		
Repurchases of common stock		(1,194)
Proceeds from stock option exercises	214	254
Tax withholding payments for net share settlements of restricted stock units	(35)	(23)
Net cash provided by (used in) financing activities	179	(963)
Decrease in cash and cash equivalents	(316)	(2,824)
Cash and cash equivalents at beginning of period	16,029	21,961
Cash and cash equivalents at end of period	$ 15,713	$ 19,137
Supplemental cash flow information:		
Cash paid during the quarter for:		
Interest	$ 9	$ 9
Income taxes	47	38

See accompanying notes.

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Iteris, Inc.

Notes to Unaudited Consolidated Financial Statements

September 30, 2016

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Iteris, Inc. (referred to collectively with its wholly-owned subsidiary, Iteris Michigan, LLC, in this report as Iteris, the Company, we, our and is a provider of intelligent information solutions for both the traffic management and global agribusiness markets. We are focused on the development and application of advanced technologies and software-based information systems that reduce traffic congestion, provide measurement, management and predictive traffic and weather analytics, and improve the safety of surface transportation systems infrastructure. By combining our unique intellectual property, products, decades of experience in traffic management, weather forecasting solutions and information technologies, we offer a broad range of Intelligent Transportation Systems (ITS) solutions to customers throughout the U.S. and internationally. We believe our products, services and solutions, in conjunction with sound traffic management, minimize the environmental impact of traffic congestion. In the agribusiness markets, we have combined our unique intellectual property with enhanced soil, land surface and agronomy modeling techniques to create a set of ClearAg solutions. These solutions provide analytical support to large enterprises in the agriculture market and field specific advisories to individual producers. We continue to make significant investments to leverage our existing technologies and further expand our software-based information systems to offer solutions to the precision agriculture technology markets. 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 for the fiscal year ended March 31, 2016 (Fiscal 2016), filed with the SEC on June 20, 2016. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three and six month periods ended September 30, 2016 are not necessarily indicative of the results to be expected for the fiscal year ending March 31, 2017 (Fiscal 2017) or any other periods.

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

As of April 1, 2016, certain operations that were previously within the Agriculture and Weather Analytics segment (formerly known as our Performance Analytics segment), specifically our performance measurement and information management solution, iPeMS, and related traffic analytic consulting services, were reassigned to the Transportation Systems segment to better align our traffic analytics capabilities, resources and initiatives. All prior segment information presented in this report has been reclassified to reflect this change.

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 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, costs to complete long-term contracts, indirect cost rates used in cost plus contracts, contract reserves, the valuation of purchased intangible assets and goodwill, the valuation of equity instruments and 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

Product revenues and related costs of sales are recognized when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery under the terms of the arrangement has occurred, (iii) the price to the customer is fixed or determinable, and (iv) collection of the receivable is reasonably assured. These criteria are typically met at the time of product shipment but, in certain circumstances, may not be met until receipt or acceptance by the customer. Accordingly, at the date revenue is recognized, the significant obligations or uncertainties concerning the sale have been resolved.

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Transportation Systems revenues are derived primarily from long-term contracts with governmental agencies. When appropriate, revenues are recognized using the percentage of completion method of accounting, whereby revenue is recognized as contract performance progresses and is determined based on the relationship of costs incurred to total estimated costs. Any anticipated losses on contracts are charged to earnings when identified. Changes in job performance and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and revenues and are recognized in the period in which the revisions are determined. Profit incentives are included in revenues when their realization is reasonably assured. Certain of our revenues are recognized as services are performed and amounts are earned, which is measured by time incurred or other contractual milestones or output measures. Revenues accounted for in this manner generally relate to certain fixed fee professional services, cost plus fixed fee or time and materials contracts. Revenues for ongoing operations and maintenance services contracts are generally accounted for ratably as the services are performed throughout the term of the contract. Payments received in advance of services performed are deferred and recognized when the related services are performed.

We recognize revenue from the sale of deliverables that are part of a multiple element arrangement in accordance with applicable accounting guidance that establishes a relative selling price hierarchy permitting the use of an estimated selling price to determine the allocation of arrangement consideration to a deliverable in a multiple element arrangement where neither vendor specific objective evidence (VSOE) nor third party evidence (TPE) of fair value is available for that deliverable. In the absence of VSOE or TPE of the stand alone selling price for one or more delivered or undelivered elements in a multiple element arrangement, we are required to estimate the selling prices of those elements. Overall arrangement consideration is allocated to each element (both delivered and undelivered items) that has stand alone value based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on our estimated selling prices.

Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts

Costs and estimated earnings in excess of billings on uncompleted contracts in the accompanying consolidated balance sheets represent unbilled amounts earned and reimbursable under services sales arrangements. At any given period-end, a large portion of the balance in this account represents the accumulation of labor, materials and other costs that have not been billed due to timing, whereby the accumulation of each month s costs and earnings are not administratively billed until the subsequent month. Also included in this account are amounts that will become billable according to contract terms, which usually require the consideration of the passage of time, achievement of milestones or completion of the project.

Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts

Billings in excess of costs and estimated earnings on uncompleted contracts in the accompanying consolidated balance sheets is comprised of cash collected from customers and billings to customers on contracts in advance of work performed, advance payments negotiated as a contract condition, estimated losses on uncompleted contracts, project-related legal liabilities and other project-related reserves. The unearned amounts are expected to be earned within the next twelve months.

We record provisions for estimated losses on uncompleted contracts in the period in which such losses become known. The cumulative effects of revisions to contract revenues and estimated completion costs are recorded in the accounting period in which the amounts become evident and can be reasonably estimated. These revisions can include such items as the effects of change orders and claims, warranty claims, liquidated damages or other contractual penalties and adjustments for contract closeout settlements.

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 the Middle East, Europe, South America and Asia. We generally do not require collateral or other security from our domestic customers. We maintain an allowance for doubtful accounts for potential credit losses, which losses have historically been within management s expectations.

We have historically had a diverse customer base. For the three and six months ended September 30, 2016, one individual customer represented greater than 10% of our total revenues. For the three and six months ended September 30, 2015, no individual customer represented more than 10% of our total revenues.

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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.

Cash and Cash Equivalents

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

Prepaid Expenses and Other Current Assets

Included in prepaid expenses and other current assets was approximately $540,000 of cash designated as collateral on performance bonds, as required under certain of our Transportation Systems contracts in the Middle East. The performance bonds require 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 is required throughout the delivery of our services and is maintained in the local bank until the contract is closed by the purchasing agency. We expect these requirements, and the related cash collateral restrictions, to remain in place through our fiscal year end March 31, 2017.

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 market. 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 evaluate goodwill on an annual basis in our fourth fiscal quarter or more frequently if we believe indicators of impairment exist. We have determined that our reporting units for purposes of testing for goodwill impairment are identical to our reportable segments for financial reporting purposes. We adopted the provisions issued by the Financial Accounting Standards Board (FASB) that were intended to simplify goodwill impairment testing. This guidance permits us to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we conduct a two step goodwill impairment test. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their carrying values. We determine the fair values of our reporting units using the income valuation approach, as well as other generally accepted valuation methodologies. If the carrying amount of a reporting unit exceeds the reporting unit s fair value, we perform the second step of the goodwill impairment test. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit s goodwill with the carrying value of that goodwill. 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 September 30, 2016, management determined that no adjustments to the carrying value of its goodwill and intangible assets 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 September 30, 2016, there was no impairment to our long-lived and intangible assets.

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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.

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

Stock-Based Compensation

We record stock-based compensation in our unaudited 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.

Shipping and Handling Costs

Shipping and handling costs are included as cost of revenues in the period during which the products ship.

Sales Taxes

Sales taxes are presented on a net basis (excluded from revenues) in the consolidated unaudited statements of operations.

Warranty

We generally provide a one to three year warranty from the original invoice date on all products, materials and workmanship. Products sold to various original equipment manufacturer customers sometimes carry longer warranties. Defective products will be either repaired or replaced, usually at our option, upon meeting certain criteria. We accrue a provision for the estimated costs that may be incurred for product warranties relating to a product as a component of cost of sales at the time revenue for that product is recognized. The accrued warranty reserve is included within accrued liabilities in the accompanying unaudited consolidated balance sheets.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which establishes principles for reporting revenue and cash flows arising from an entity s contracts with customers. This new revenue recognition standard will replace most of the recognition guidance within GAAP. This guidance was deferred by ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,* issued by the FASB in August 2015, and is now effective for fiscal years beginning on or after December 15, 2017 with early adoption permitted as of the original effective date. In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers: Principal versus Agent Considerations*, which further clarifies the implementation guidance in ASU 2014-09. In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, to expand the guidance on identifying performance obligations and licensing within ASU 2014-09. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*, which amends the guidance in the new revenue standard on collectibility, noncash consideration, presentation of sales tax, and transition. The amendments are intended to address implementation issues that were raised by stakeholders and provide additional practical expedients to reduce the cost and complexity of applying the new revenue standard. These standards are effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. We are currently evaluating the impact that these standards will have on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory* (ASU 2015-11) to simplify the guidance on the measurement of inventory. Under the new standard, an entity should measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The standard is effective for interim and annual periods beginning after December 15, 2016. We do not anticipate a significant impact on our consolidated financial statements upon adoption of ASU 2015-11.

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In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes* (ASU 2015-17) to simplify the presentation of deferred taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. ASU 2015-17 is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. The standard may be adopted prospectively or retrospectively and early adoption is permitted. We early adopted ASU 2015-17, prospectively, in our fourth quarter of Fiscal 2016, which did not have a material impact on our consolidated financial statements.

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. Companies are required 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. We are currently evaluating the impact of ASU 2016-02 on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09), which is intended to simplify several aspects of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. The guidance will be effective for the fiscal year beginning after December 15, 2016, including interim periods within that year. We are currently evaluating the impact of ASU 2016-09 on our consolidated financial statements.

2. Supplemental Financial Information

Inventories

The following table presents details of our inventories:

	September 30, 2016	March 31, 2016
	(In thousands)	
Materials and supplies	$ 1,278	$ 1,754
Work in process	464	217
Finished goods	1,032	1,182
	$ 2,774	$ 3,153

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:

	September 30, 2016		March 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Technology	$ 1,856	$ (1,780)	$ 1,856	$ (1,708)
Customer contracts / relationships	750	(684)	750	(622)
Trade names and non-compete agreements	1,110	(1,042)	1,110	(1,008)
Capitalized software development costs	1,449	(601)	988	(415)
Total	$ 5,165	$ (4,107)	$ 4,704	$ (3,753)

As of September 30, 2016, future estimated amortization expense is as follows:

Year Ending March 31, (In thousands)	
Remainder of 2017	$ 272
2018	405
2019	325
2020	56
Thereafter	
	$ 1,058

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Warranty Reserve Activity

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

	Six Months Ended September 30,	
	2016	2015
	(In thousands)	
Balance at beginning of fiscal year	$ 193	$ 181
Additions charged to cost of sales	88	126
Warranty claims	(78)	(105)
Balance at end of period	$ 203	$ 202

Comprehensive Income

Comprehensive income is equal to net income for all periods presented in the accompanying unaudited consolidated statements of operations.

Loss Per Share

The following table sets forth the reconciliation of weighted average common shares used in basic per share computations and weighted average common shares used in diluted per share computations in the unaudited consolidated financial statements:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Denominator:				
Weighted average common shares used in basic computation	32,117	31,935	32,085	32,069
Dilutive stock options				
Dilutive restricted stock units				
Weighted average common shares used in diluted computation	32,117	31,935	32,085	32,069

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 September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Stock options	3,367	3,616	3,339	3,013
Restricted stock units	175	184	174	235

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 is 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 September 30, 2016, we received approximately $1.7 million in connection with the royalty related earn-out provisions for a total of $15.4 million in cash from the asset sale.

In accordance with applicable accounting guidance, we determined that the Vehicle Sensors segment, which constituted one of our operating segments at the time of the Asset Sale, qualified as a discontinued operation. For the six months ended September 30, 2016 and 2015, we recorded a gain on sale of discontinued operation of approximately $191,000 and $106,000, 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 non-recurring basis, generally when there is a transaction involving those assets such as a purchase transaction, a business combination or an adjustment for impairment. No non-financial assets were measured at fair value during the six months ended September 30, 2016 and 2015.

5. Credit Facility

We had a $12.0 million revolving line of credit with California Bank & Trust (CB&T), which expired on October 1, 2016. We were obligated to pay an unused line fee of 0.15% per annum applied to the average unused portion of the revolving line of credit during the preceding month. We chose not to renew our line of credit as we do not foresee a need to utilize credit within the next twelve months. As of September 30, 2016 and 2015, no amounts were outstanding under the credit facility with CB&T.

6. Income Taxes

The following table sets forth our provision for income taxes, along with the corresponding effective tax rates:

Three Months Ended