



Strictly Private & Confidential

February 20, 2021

Via Email: JJB@iteris.com

Iteris, Inc.
1700 Carnegie Avenue
Santa Ana, California 92705-5551

Attention: Joe Bergera, President & Chief Executive Officer

Dear Joe:

I appreciate the time you took to speak with me yesterday about Rekor's interest in a combination with Iteris and to explore the mutual benefits we think it can achieve. Because our businesses intersect and we seem to have shared goals, Rekor has followed the recent history of Iteris and recognizes its leadership in the market for advanced traffic management solutions. We are confident that we can enhance that market position. As the leader in developing AI based vehicle recognition software systems, Rekor is now providing customers around the globe with a wide range of capabilities that were previously unavailable at a reasonable cost. With them, we are dramatically expanding the capabilities of existing sensor arrays and opportunistically unlocking the full potential of the latest advances in camera, communications and data processing technology.

Rekor's groundbreaking products and services can provide Iteris' customer base with the advanced safety, maintenance and environmental data we both know they are looking for at the right price. As a leader in mobility systems, you must be aware of the unprecedented challenges and opportunities that exist now. The need for revenue generation and cost reductions are real and immediate. They also coincide with a renewed commitment to infrastructure, the environment and safety. We are convinced that now, more than ever, a strategic combination of Iteris and Rekor can make the dream of truly intelligent roadways a reality. With our leadership in technology development and your leadership in delivering and supporting trusted roadway technology, we could together become a dominant force in the industry and create significant long-term value for both of our shareholders. There are many ways in which the resources of our two companies complement each other. We are looking forward to an open and collaborative dialogue with Iteris as we work toward the near-term realization of this important contribution to the wealth of our shareholders and the health and safety of our world.

Summary of Our Proposal

For the foregoing reasons, and with the support of my Board of Directors, I am pleased to submit to you the following proposal. Rekor is prepared to combine with Iteris in a cash-and-stock transaction pursuant to which Iteris shareholders would receive \$8.15 to \$8.50 per share in aggregate value for each outstanding share of Iteris' stock they own. The merger consideration would consist of approximately \$1.39 per share in cash and between 0.399 and 0.420 shares of Rekor stock. Pro forma for the combination, Iteris' shareholders would own approximately 30% of the combined company. Our proposal would deliver a significant and compelling premium of between approximately

37% and 43% to Iteris' most recent closing price, and offers the opportunity for shareholders to participate in the significant upside potential of the combined company.

The Compelling Logic for a Combination

Over the past year, Rekor has been transitioning into a pure play, AI-based software Company. Our focus has been on using AI techniques to develop vehicle and mobility analytics software for a broad array of uses. The results have been dramatic, and our solutions have quickly gained acceptance in the public safety, parking and transportation sectors for their reliability, usability and demonstrable cost effectiveness. But we've also found that our improved cost/performance capabilities have opened up new markets for vehicle and mobility solutions in both the government and commercial sectors. Our software enables smarter, quicker, cost-competitive vehicle recognition solutions for security, revenue recovery and enhancement, public safety, toll collection, brand loyalty, parking operations and logistics, as well as traffic management. In just a few short years, our solutions have been adopted and are in use today in more than 80 countries on almost 14,000 lanes of traffic, by hundreds of customers including some of the world's largest companies and governments.

Rekor's software can turn most IP cameras into highly accurate and affordable vehicle recognition devices without the need to install expensive new infrastructure. This power is leveraged by the ability of our platforms to simultaneously service multi-agency missions. As customers replace and redeploy multiple proprietary, hardware-centric legacy systems, they can seamlessly implement a unified system that supports multiple missions.

But the power of our solutions isn't just being recognized by governmental agencies. As businesses seek more efficient ways to connect with customers, we've seen increased demand for vehicle identification in commercial end-markets, especially in hospitality and retail. For restaurant and retail owners, our AI-driven technology supports contactless payments, creates alerts of priority customer arrivals, and monitors queues and service time management. Real time data from our software is integrated with other data to improve the customer experience at the drive-through and increase the efficiency and throughput of fast-food providers. As an example, MasterCard has partnered with Rekor to enhance the drive-thru and curbside pickup experience at quick service restaurants such as White Castle.

In today's COVID-19 environment, government agencies are increasingly focused on maximizing revenue from existing sources given potential shortfalls in agency budgets, which brings automated traffic enforcement and adjacent sources of income into sharp focus for these agencies. An example of this is the State of Oklahoma's Uninsured Vehicle Enforcement Division (UVED) program, where Rekor has been chosen to identify, serve notices and collect fees for the State from uninsured vehicle owners. This is a large revenue opportunity for us, and we expect to win similar mandates from the States of Texas, New York and Florida. Here, the ability to install our software on existing camera and sensor arrays positions us for immediate deployment by these revenue starved agencies. Since our software platforms use open APIs and can be easily integrated with other customer software systems, they become even more cost effective when used across multiple agencies. For example, the same system used by the DMV for identifying uninsured motor vehicles or lapsed registrations, can be used by the DOT for highway maintenance and traffic management and by law enforcement agencies to provide alerts for vehicles of interest.

Our software products are highly complementary to Iteris' existing product portfolio and can be quickly deployed on Iteris' cameras, sensors and back-end infrastructure. Our edge processing capabilities will enable analytics and decision making at the end points, including intersections or even individual sensors. With significant upsell / cross-

sell opportunities across the Roadway Sensors and Transportation Systems divisions at Iteris, there will be significant opportunities for the combined company to provide expanded offerings to existing customers and become a full-service provider for new customers with recurring annual contracts. As municipalities evolve towards smarter cities, and businesses seek greater efficiency and automation around customer experience, we believe Rekor and Iteris together will be ideally positioned to gain market share from competitors that use legacy LPR software or lack a scaled footprint. We also believe the combined business can further consolidate the fragmented market for smart mobility infrastructure management.

Management and Employees

Iteris is a world-class organization with world-class talent. Iteris' management and employees possess critical knowledge and experience that we believe are essential to the continued success of the combined company. We also value the long-term trust that Iteris has cultivated with its customers and appreciate that long term personal relationships are a vital part of that. As a result, we envision ongoing and important roles for key members of the Iteris' management team. We look forward to working together with you to develop the optimal post-transaction integration plan.

Significant Value Creation for Shareholders

The most compelling logic behind the combination of our industry-leading companies is that it will provide significant value to our respective shareholders and other key constituencies, including employees and customers:

- **A Market Leader for the Future.** By combining the resources of leaders in vehicle recognition and traffic management, the combined company will be positioned to play a dominant role in the development of the intelligent roadways and smart cities of the future. The combination creates a formidable competitor that is well-positioned to drive long-term value creation and capitalize on the current market opportunity for software-driven traffic management solutions that leverage Rekor's competitive technological advantages and Iteris' extensive footprint. The combination would immediately create a diversified, competitive and efficient company, which would be well-positioned to grow and generate significant shareholder value in the current challenging environment.
- **Significant Revenue and Cost Opportunities.** We believe that the combination will drive significant value creation because we can provide our customers with both revenue and cost savings opportunities, with the value accretion shared by both sets of shareholders. The combination will accelerate Iteris' move towards a cloud-deployed, software-based and on-demand / virtual delivery model. It will also diversify Iteris' end market and provide an entry into commercial market use cases. We also anticipate significant revenue and cost synergies for the combined company through cross-marketing and development of each Company's market leading product portfolios and solutions.
- **Market Leading Product Portfolio and Footprint.** With a market-leading portfolio of vehicle recognition, traffic management and urban mobility products and services solutions, the combined company will be a technologically disruptive, scaled player poised for rapid growth across government and commercial end markets. Rekor's market leading, AI-based vehicle recognition software systems and multi-use platforms will provide a powerful capability complementary to Iteris' current portfolio of hardware, software and services solutions and will create significant new opportunities. The combined portfolio of software driven, hardware-agnostic and high-accuracy vehicle recognition and traffic management systems that can easily

integrate with other business process workflows will be truly disruptive, with the potential for significant market share gains and shareholder value creation.

- **Improved Financial Flexibility.** Together, our combined companies will have greater operating leverage and will benefit from the improved cash flow associated with a larger footprint and truly global scale. We believe that these characteristics will also create value as a result of additional financial flexibility and a lower all-in cost of capital, and will be more attractive to investors and capital providers.
- **Significant Value Creation for Iteris Shareholders.** We believe that the combination will be highly compelling for Iteris shareholders, as it will result in an immediate premium for Iteris shares and significant value creation, through both the synergies noted above, as well as benefits from a re-rating of Iteris' trading multiple, the value accretion from which would be shared among both sets of shareholders. We also expect that both sets of shareholders will benefit from improved trading liquidity and investor appreciation for our combined story.

Next Steps & Timing

As with any proposal of this nature, the ability to proceed to a definitive transaction is conditioned upon the satisfactory completion of confirmatory due diligence and definitive documentation of the terms of the transaction. Upon your indication of a desire to proceed, we envision engaging with Iteris management on expedited due diligence, so as to confirm and agree on a formal valuation and key terms for the proposed combination in approximately two weeks. Our due diligence investigation would also consist of an expedited review of customary comprehensive business, financial, tax, industry, legal, environmental and related areas, and evaluation of materials available based on subsequent information requests, most of which we would expect to be available in a customary virtual data room.

We and our advisors stand by, ready to proceed with all due haste, and we are confident that we can complete our diligence process to execute a definitive transaction within 21 days of your desire to proceed upon the terms of our formal proposal. Following signing of a definitive agreement, we are highly confident that all regulatory requirements could be met and approvals in connection with the transaction would be received in a timely manner. We have retained Houlihan Lokey as our financial advisor and Cooley LLP as our legal counsel and they stand at-the-ready to proceed towards a definitive transaction.

We are formally submitting this proposal to you to ensure that we appropriately convey our view of the merits of a value-enhancing transaction and our hope to be able to proceed with such a combination expeditiously. Given the significant value and our desire to move quickly towards a certain outcome, we believe this proposal represents an attractive opportunity for Iteris and its shareholders to achieve greater size, scale and renewed focus through leading technology, and position the combined company for long-term success.

This proposal is a non-binding summary of proposed terms and does not constitute an offer capable of acceptance or an obligation or commitment of Rekor to acquire Iteris, nor does it give any party any rights or claims in the event that Rekor, for any reason, withdraws this expression of interest or terminates discussions. Any binding commitment to make an offer or purchase will be made, as appropriate, only upon completion of satisfactory due diligence and negotiation and execution of a definitive agreement, as well as formal approval by Rekor's Board of Directors. Neither party is under any obligation to enter into a definitive agreement related to the matters described herein, whether as a result of this letter or otherwise.

We look forward to and the courtesy of your reply by February 23, 2021, and the opportunity to work together on this exciting transaction.

In the meantime, if you have any questions regarding our proposal or would like to discuss it further, please feel free to contact me at +1 (917) 453-5100 or rberman@rekor.ai. At this time, it is our intention to treat this proposal as highly confidential, and we trust that you will afford it the same treatment.

On behalf of Rekor, I thank you for your consideration of this proposal and I look forward to your response and advancing our discussions to the next stage.

Very truly yours,

A handwritten signature in black ink, appearing to read "R. Berman", with a long horizontal flourish extending to the right.

Robert A. Berman
President & Chief Executive Officer
Rekor Systems, Inc.