

ITERIS, INC.  
Form DEF 14A  
July 29, 2008

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  X

Filed by a Party other than the Registrant  O

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

ITERIS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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**ITERIS, INC.**

**NOTICE OF THE ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD SEPTEMBER 19, 2008**

To the Stockholders of Iteris, Inc.:

NOTICE IS HEREBY GIVEN that the 2008 Annual Meeting of Stockholders (the Annual Meeting ) of Iteris, Inc., a Delaware corporation, will be held on September 19, 2008 at 10:00 a.m. Pacific Time, at our principal executive offices located at 1700 Carnegie Avenue, Suite 100, Santa Ana, CA 92705, for the following purposes, as more fully described in the proxy statement accompanying this Notice:

1. To elect seven directors to serve on the Board of Directors until the next annual meeting of stockholders. The nominees for election are Richard Char, Kevin C. Daly, Ph.D., Gregory A. Miner, Abbas Mohaddes, John W. Seazholtz, Joel Slutzky and Thomas L. Thomas.
2. To ratify the appointment of McGladrey & Pullen, LLP as our independent auditors for the fiscal year ending March 31, 2009.
3. To transact any other business which may properly come before the Annual Meeting or any adjournment(s) or postponement(s) thereof.

All stockholders of record as of the close of business on July 22, 2008 are entitled to notice of and to vote at the Annual Meeting and at any postponement(s) or adjournment(s) thereof. You are cordially invited to be present and to vote at this Annual Meeting. Whether or not you plan to attend, it is important that your shares be represented and voted at the Annual Meeting. You can vote your shares by completing and returning the enclosed proxy card. If your shares are held in street name, that is, your shares are held in the name of a brokerage firm, bank or other nominee, in lieu of a proxy card you should receive from that institution an instruction form for voting by mail and you may also be eligible to vote your shares electronically over the Internet or by telephone. Should you receive more than one proxy card or voting instruction form because your shares are held in multiple accounts or registered in different names or addresses, please sign, date and return each proxy card or voting instruction form to ensure that all of your shares are voted. You may revoke your proxy at any time prior to the Annual Meeting. If you attend the Annual Meeting and vote by ballot, any proxy that you previously submitted will be revoked automatically and only your vote at the Annual Meeting will be counted. For further information, please see the discussion of voting rights and proxies beginning on page 1 of the enclosed proxy statement.

BY ORDER OF THE BOARD OF DIRECTORS

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Abbas Mohaddes  
Chief Executive Officer and President

Santa Ana, California

July 29, 2008

**YOUR VOTE IS VERY IMPORTANT REGARDLESS OF THE NUMBER OF SHARES YOU OWN. PLEASE READ THE ATTACHED PROXY STATEMENT CAREFULLY, COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE AND RETURN IT IN THE ENCLOSED ENVELOPE.**



**ITERIS, INC.**  
**1700 Carnegie Avenue, Suite 100**  
**Santa Ana, California 92705**

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**PROXY STATEMENT**  
**FOR THE 2008 ANNUAL MEETING OF STOCKHOLDERS**  
**TO BE HELD SEPTEMBER 19, 2008**

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**General**

These proxy materials and the enclosed proxy card are being furnished in connection with the solicitation of proxies by the Board of Directors of Iteris, Inc., a Delaware corporation ( Iteris or the Company ), to be voted at the 2008 Annual Meeting of Stockholders (the Annual Meeting ) to be held on September 19, 2008 and at any adjournment(s) or postponement(s) of the meeting. The Annual Meeting will be held at 10:00 a.m. Pacific Time, at our principal executive offices located at 1700 Carnegie Avenue, Suite 100, Santa Ana, CA 92705. These proxy materials and the form of proxy are expected to be mailed to our stockholders who are entitled to vote at the Annual Meeting on or about August 6, 2008.

**Purpose of Meeting**

The specific proposals to be considered and acted upon at the Annual Meeting are summarized in the accompanying Notice of the Annual Meeting of Stockholders and are described in more detail in this proxy statement.

**Voting Rights**

The record date for determining those stockholders who are entitled to notice of, and to vote at, the Annual Meeting has been fixed as July 22, 2008. At the close of business on the record date, 33,968,502 shares of our common stock, par value \$0.10 per share, were outstanding and no shares of our preferred stock were outstanding. Each stockholder is entitled to one vote for each share of common stock held by such stockholder as of the record date.

The presence in person or by proxy of the holders of a majority of the outstanding shares of the common stock entitled to vote will constitute a quorum for the transaction of business at the Annual Meeting. If a quorum is not present, the Annual Meeting will be adjourned until a quorum is obtained.

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In the election of directors under Proposal One, directors will be elected by a plurality of the common stock entitled to vote and present in person or represented by proxy at the Annual Meeting, unless cumulative voting is in effect. Pursuant to our bylaws, no stockholder is entitled to cumulate his or her votes for candidates other than those whose names have been placed in nomination prior to the commencement of voting and unless at least one stockholder has given notice prior to commencement of voting of his or her intention to cumulate votes. If any stockholder has given such notice, then each stockholder may cumulate votes by multiplying the number of shares of common stock the stockholder is entitled to vote by the number of directors to be elected. The number of cumulative votes thus determined may be voted all for one candidate or distributed among several candidates, at the discretion of the stockholder. The candidates receiving the highest number of votes, up to the number of directors to be elected, will be elected. If cumulative voting is in effect, the persons named in the accompanying proxy will vote the shares of common stock covered by proxies received by them (unless authority to vote for directors is withheld) among the named candidates as they determine.

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With regard to Proposal Two, the affirmative vote of the holders of a majority of our common stock present or represented by proxy and entitled to vote at the Annual Meeting is being sought.

All votes will be tabulated by the inspector of election appointed for the Annual Meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes. Broker non-votes occur when brokers who hold stock in street name return proxy cards stating that they do not have authority to vote the stock which they hold on behalf of beneficial owners. Abstentions and broker non-votes are counted as present for purposes of determining the presence or absence of a quorum for the transaction of business. With regard to Proposal One, broker non-votes and votes marked withheld will not be counted towards the tabulation of votes cast on such proposal presented to the stockholders. With regard to Proposal Two, abstentions will be counted towards the tabulation of votes cast on such proposal presented to the stockholders and will have the same effect as negative votes, whereas broker non-votes will not be counted for purposes of determining whether such proposal has been approved and will not have the effect of negative votes.

### **Voting**

You may vote by one of three ways: (i) by mail, (ii) electronically over the Internet or by telephone, or (iii) by ballot in person at the Annual Meeting. If you are a registered holder, that is, your shares are registered in your own name through our transfer agent, you may vote by returning a completed proxy card in the enclosed postage-paid envelope. If your shares are held in street name, that is, your shares are held in the name of a brokerage firm, bank or other nominee, in lieu of a proxy card you should receive a voting instruction form from that institution by mail. The voting instruction form should indicate whether the institution has a process for beneficial holders to vote over the Internet or by telephone. Stockholders who vote over the Internet or by telephone need not return a proxy card or voting instruction form by mail, but may incur costs, such as usage charges, from telephone companies or Internet service providers. If your voting instruction form does not reference Internet or telephone information, please complete and return the paper voting instruction form in the self-addressed, postage-paid envelope provided.

If you are a registered holder, you may also vote your shares in person at the Annual Meeting. If your shares are held in street name and you wish to vote in person at the meeting, you must obtain a proxy issued in your name from the record holder and bring it with you to the Annual Meeting. We recommend that you vote your shares in advance as described above so that your vote will be counted if you later decide not to attend the Annual Meeting.

### **Proxies**

Please use the enclosed proxy card to vote by mail. If your shares are held in street name, then in lieu of a proxy card you should receive from that institution an instruction form for voting by mail, the Internet or by telephone. Should you receive more than one proxy card or voting instruction form because your shares are held in multiple accounts or registered in different names or addresses, please be sure to complete, sign, date and return each proxy card or voting instruction form to ensure that all of your shares will be voted. Only proxy cards and voting instruction forms that have been signed, dated and timely returned (or otherwise properly voted by Internet or telephone) will be counted in the quorum and voted. Properly executed proxies will be voted in the manner directed by the stockholders. If the proxy does not specify how the shares represented thereby are to be voted, the proxy will be voted FOR the election of the directors proposed by the Board under Proposal One unless the authority to vote for the election of any director is withheld and, if no contrary instructions are given, the proxy will be voted FOR the ratification of the selection of the independent auditors under Proposal Two.

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The enclosed proxy also grants the proxy holders discretionary authority to vote on any other business that may properly come before the Annual Meeting as well as any procedural matters. We have not been notified by any stockholder of his or her intent to present a stockholder proposal at the Annual Meeting.

If your shares are held in your name, you may revoke or change your vote at any time before the Annual Meeting by filing a notice of revocation or another signed proxy card with a later date with our Secretary at our principal executive offices. If your shares are held in street name, you should contact the record holder to obtain instructions if you wish to revoke or change your vote before the Annual Meeting. If you attend the Annual Meeting and vote by ballot, any proxy that you submitted previously to vote the same shares will be revoked automatically and only your vote at the Annual Meeting will be counted. *Please note, however, that if your shares are held in street name, your vote in person at the Annual Meeting will not be effective unless you have obtained and present a proxy issued in your name from the record holder.* Attendance at the Annual Meeting will not, by itself, revoke a proxy.



**Solicitation**

The enclosed proxy is being solicited by our Board of Directors. We will bear the entire cost of proxy solicitation, including the costs of preparing, assembling, printing and mailing this proxy statement, the proxy card and any additional material furnished to the stockholders. Copies of the solicitation materials will be furnished to brokerage houses, fiduciaries and custodians holding shares in their names that are beneficially owned by others so that they may forward this solicitation material to such beneficial owners. In addition, we may reimburse such persons for their reasonable expenses in forwarding the solicitation materials to the beneficial owners. The original solicitation of proxies by mail may be supplemented by a solicitation by personal contact, telephone, facsimile, email or any other means by our directors, officers or employees. No additional compensation will be paid to these individuals for any such services.

In the discretion of management, we reserve the right to retain a professional firm of proxy solicitors to assist in solicitation of proxies. Although we do not currently expect to retain such a firm, it estimates that the fees of such firm would range from \$5,000 to \$20,000 plus out-of-pocket expenses, all of which would be paid by us.

**PROPOSAL ONE:**

**ELECTION OF DIRECTORS**

Our bylaws provide for a Board of Directors consisting of not less than seven nor more than eleven members. The exact number may be changed, within such limits, by a resolution duly adopted by the Board or by the stockholders. The number of directors constituting the full Board is currently set at seven. All directors are elected annually and hold office until the next annual meeting of stockholders and until their successors are duly elected and qualified.

On the recommendation of the Nominating and Corporate Governance Committee, our Board of Directors selected and approved the following persons as nominees for election at the Annual Meeting to serve until the next annual meeting of stockholders, or until their successors are duly elected and qualified or until their earlier resignation or removal: Richard Char, Kevin C. Daly, Ph.D., Gregory A. Miner, Abbas Mohaddes, John W. Seazholtz, Joel Slutzky and Thomas L. Thomas. Each nominee for election is currently a member of our Board of Directors and has agreed to serve if elected. We have no reason to believe that any of the nominees will be unavailable to serve. In the event any of the nominees named herein is unable to serve or declines to serve at the time of the Annual Meeting, the persons named in the enclosed proxy will exercise discretionary authority to vote for substitutes. Unless otherwise instructed, the proxy holders will vote the proxies received by them FOR the nominees named above.

**Stockholder Approval**

The seven candidates receiving the highest number of affirmative votes, present in person or represented by proxies and entitled to vote at the Annual Meeting, will be elected as our directors. However, if cumulative voting is in effect, the proxy holders will have the right to cumulate and allocate votes among those nominees standing for election as such proxy holders in their discretion elect.

**Recommendation of the Board of Directors**

**Our Board of Directors recommends a vote FOR the seven director nominees listed above.**

**Directors and Nominees**

The following table sets forth certain information, as of July 1, 2008, concerning our directors and director nominees.

<b>Name</b>	<b>Age</b>	<b>Current Position(s) with Iteris</b>	<b>Director Since</b>
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Richard Char(1)	49	Director	2005
Kevin C. Daly, Ph.D.(2)(3)	63	Director and Assistant Secretary	1993
Gregory A. Miner	53	Chairman of the Board	1998
Abbas Mohaddes	51	Chief Executive Officer, President, Assistant Secretary and Director	2005
John W. Seazholtz(1)(2)(3)	71	Director	1998
Joel Slutzky (3)	69	Director and Assistant Secretary	1969
Thomas L. Thomas(1)(2)(3)	59	Director	1999

- 
- (1) Member of the Audit Committee.
  - (2) Member of the Compensation Committee.
  - (3) Member of the Nominating and Corporate Governance Committee.

**Abbas Mohaddes** has served as our Chief Executive Officer and President since March 2007, as an Assistant Secretary since May 2004 and as a director since September 2005. Prior to his promotion in March 2007, Mr. Mohaddes served as our Executive Vice President and a General Manager from October 2004. He was the Executive Vice President of our former Iteris, Inc. subsidiary (the Iteris Subsidiary ) from March 2004 to October 2004 and its Secretary from September 2001 to October 2004. Prior to that, he served as the Senior Vice President

and Director of Transportation Systems of the Iteris Subsidiary from May 2000 to March 2004 and as its Vice President and Deputy Director of Transportation from October 1998 to May 2000. Mr. Mohaddes also served as President and Chief Executive Officer of Meyer, Mohaddes Associates, Inc. ( MMA ), an ITS and transportation firm that he co-founded in 1991, which was acquired by the Iteris Subsidiary in October 1998 and dissolved in April 2006. Mr. Mohaddes is a founding and a current board member of ITS America and a member of several trade organizations including Transportation Research Board, Institute of Transportation Engineers, and the Design/Build Institute of America.

**Richard Char** has served as a director since September 2005. Since June 2006, Mr. Char has served as Senior Vice President of Corporate Development and General Counsel at Blackhawk Network, Inc., a provider of prepaid merchant gift cards and network branded cards. From March 2003 to April 2005, Mr. Char served as the President and Chief Executive Officer of IC Media, a developer of CMOS image sensors that was acquired in April 2005 by MagnaChip Semiconductors, a developer and manufacturer of mixed-signal and digital multimedia semiconductors. Prior to joining IC Media, from March 1999 to January 2002, Mr. Char was Managing Director with the Technology Group of Credit Suisse First Boston. From 1997 to 1999, Mr. Char was Co-Head of Technology Investment Banking at Cowen & Company and from 1984 to 1997, he was a partner in the law firm of Wilson Sonsini Goodrich & Rosati. Mr. Char received his A.B. degree from Harvard College and his J.D. degree from Stanford Law School.

**Kevin C. Daly, Ph.D.** has served as a director since 1993. Dr. Daly assumed the responsibility of Chief Executive Officer of iStor Networks, Inc., a leading supplier of network storage solutions, in August 2007. He has also served as the Chief Executive Officer of MAXxess Systems, Inc., a provider of electronic security solutions, since November 2005. From June 2002 to June 2005, Dr. Daly was the Chief Executive Officer of Avamar Technologies, Inc., a provider of high availability storage software solutions. Dr. Daly was Chief Technical Officer of Quantum Corporation's Storage Solutions Group from October 2001 to July 2002. Dr. Daly is also a member of the Board of Directors of Danka Business Systems PLC and iStor Networks Inc.

**Gregory A. Miner** has served as a director since 1998 and as our Chairman of the Board of Directors since October 2004. Mr. Miner is also the Managing Partner of Merchant Capital Source, LLC, a company that provides working capital financing solutions to merchants. Prior to that, Mr. Miner served as our Chief Executive Officer from February 2002 to October 2004 and as our Chief Financial Officer from January 1994 to October 2004. He also served as our Chief Operating Officer from 1998 to 2002 and as the Chairman of the Board of the Iteris Subsidiary from December 2003 to October 2004. Mr. Miner has served in various capacities for our other subsidiaries from time to time. From December 1984 until joining us, Mr. Miner served as the Vice President, Chief Financial Officer and a director of Laser Precision Corporation, a manufacturer of telecommunications test equipment. Mr. Miner is a Certified Public Accountant and, from 1979 to 1984, was employed by Deloitte Haskins and Sells (now known as Deloitte & Touche LLP) in various capacities, the most recent of which was Audit Manager.

**John W. Seazholtz** has served as a director since May 1998. From May 1998 to April 2000, Mr. Seazholtz served as the President and Chief Executive Officer of Telesoft America, Inc. He retired in April 1998 as the Chief Technology Officer of Bell Atlantic after 36 years of service with that company and its predecessor. Mr. Seazholtz was a senior officer of Bell Atlantic from 1986, serving in various positions, including the positions of Vice President, Operations and Engineering, Vice President, Marketing, Vice President of New Services, and Vice President, Technology and Information Systems. Mr. Seazholtz currently serves as the Chairman of the Board of Westell Technologies, Inc.

**Joel Slutzky** has served as a director since he co-founded our company in 1969. Mr. Slutzky was the Chairman of the Board of Directors from 1969 to October 2004 and our Chief Executive Officer from 1975 to February 2002. Mr. Slutzky also served as the Chairman of the Board of the Iteris Subsidiary until December 2003 and served in various capacities for our other subsidiaries from time to time. Mr. Slutzky currently serves on the Board of Directors of Project Tomorrow, an organization focused on improving Kindergarten through 12th grade science education in Orange County, California and the Butterfly Connection, an organization that promotes creativity and critical thinking skills in K-12 education.



**Thomas L. Thomas** has served as a director since May 1999. Mr. Thomas served as the Chairman of the Board, President and Chief Executive Officer of HAHT Commerce, a provider of software applications that enable companies to use the Internet to conduct business, from February 2000 until February 2004 when HAHT Commerce was sold to Global Exchange Services, or GXS. Mr. Thomas currently serves as the President and Chief Operating Officer of GXS, a provider of business-to-business EDI and supply chain management solutions. Mr. Thomas was previously the President and Chief Executive Officer of Ajuba Solutions, a provider of B2B integration solution software, which was sold to Interwoven in October 2000. From April 1999 until January 2000, he served as the President, Chief Executive Officer and Chairman of the Board of Vantive Corporation, a customer relationship management software vendor which was acquired by Peoplesoft in January 2000. Prior to that, from September 1995 to April 1999, Mr. Thomas served as the Senior Vice President of e-Business and Information Services and Chief Information Officer at 3Com Corporation. From 1993 to 1995, Mr. Thomas served as a Vice President and the Chief Information Officer of Dell Computer Corporation. From 1987 to 1993, he served as the Vice President of Management Information Systems at Kraft General Foods, and at Sara Lee Corporation from 1981 to 1987. Mr. Thomas also serves on the Board of Directors of Interwoven, Inc.

### **Family Relationships**

There are no family relationships among any of our directors, director nominees or executive officers.

## **CORPORATE GOVERNANCE**

### **Code of Ethics and Business Conduct**

Our Board of Directors has adopted a Code of Ethics and Business Conduct which applies to all directors, officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) and employees. The full text of our Code of Ethics and Business Conduct is available on the Investor Relations section of our website at [www.iteris.com](http://www.iteris.com). We intend to disclose future amendments to certain provisions of the Code of Ethics and Business Conduct, and any waivers of provisions of the Code of Ethics required to be disclosed under the rules of the Securities and Exchange Commission ( SEC ), at the same location on our website.

### **Director Independence**

The Board of Directors has determined that Messrs. Char, Daly, Seazholtz, Slutzky and Thomas each satisfies the requirements for independence under the listing standards of the American Stock Exchange.

### **Board Meetings and Committees**

We currently have several standing committees of the Board of Directors, including the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee. The Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee each has a written charter that is reviewed annually and revised as appropriate. A copy of each committee's charter is

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available on the Investor Relations section of our website at [www.iteris.com](http://www.iteris.com).

During the fiscal year ended March 31, 2008 ( Fiscal 2008 ), the Board of Directors and the various committees of the Board held the following number of meetings: Board of Directors six; Audit Committee nine; Compensation Committee one; and Nominating and Corporate Governance Committee one. During Fiscal 2008, no director attended fewer than 75% of the aggregate of the total number of meetings of the Board of Directors and the total number of meetings of any committees of the Board held while he was serving on the Board or such committee.

**Audit Committee.** The current members of our Audit Committee are Messrs. Char, Seazholtz and Thomas. Each member of the Audit Committee is independent under the current listing standards of the American Stock Exchange and the SEC rules regarding audit committee memberships. The Board has identified Mr. Char as the member of the Audit Committee who qualifies as an audit committee financial expert under applicable SEC rules and regulations governing the composition of the Audit Committee.

The Audit Committee oversees on behalf of the Board (a) the conduct of the accounting and financial reporting processes, the audits of our financial statements and the integrity of our audited financial statements and other financial reports; (b) the performance of our internal accounting and financial controls function; (c) the engagement, replacement, compensation, qualifications, independence and performance of our independent auditors; and (d) the portions of the Code of Ethics and Business Conduct and related policies regarding our accounting, internal accounting controls or auditing matters.

The Audit Committee meets privately with our independent auditors, and the independent auditors have unrestricted access to and report directly to the Audit Committee. The Audit Committee has selected McGladrey & Pullen, LLP as our independent auditors for the fiscal year ending March 31, 2009 and is recommending that our stockholders ratify this appointment at the Annual Meeting.

**Compensation Committee.** The current members of our Compensation Committee are Messrs. Daly, Seazholtz and Thomas. The Board has concluded that each member of the Compensation Committee is independent under the listing standards of the American Stock Exchange.

The Compensation Committee (a) evaluates officer and director compensation policies, goals, plans and programs; (b) determines the cash and non-cash compensation of our executive officers as defined in the rules promulgated under Section 16 of the Securities Exchange Act of 1934, as amended (the Exchange Act); (c) reviews and makes recommendations to the Board with respect to our equity-based and other incentive compensation plans for employees; (d) evaluates the performance of our executive officers; (e) assists the Board in evaluating potential candidates for executive officer positions and oversee management succession planning; and (f) produces the Committee report required by the applicable rules and regulations of the SEC and other regulatory bodies for inclusion in our annual proxy statement.

**Nominating and Corporate Governance Committee.** The current members of the Nominating and Corporate Governance Committee are Messrs. Daly, Seazholtz, Slutzky and Thomas. The Board has determined that each of the members of this committee are independent under the listing standards of the American Stock Exchange.

The primary purposes of the Nominating and Corporate Governance Committee are to (a) identify, screen and review individuals qualified to serve as directors; (b) select or recommend to the Board of Directors the selection of nominees for election at the next annual meeting of stockholders; (c) recommend to the Board of Directors candidates to fill any vacancies on the Board; (d) oversee the implementation and monitoring the effectiveness of our corporate governance policies and developing and recommending to the Board modifications and or additions to such policies; and (e) review on a regular basis our overall corporate governance and recommend improvements when necessary.

In connection with their recommendations regarding the size and composition of the Board, the Nominating and Corporate Governance Committee reviews the appropriate qualities and skills required of directors in the context of the then current make-up of the Board. This includes an assessment of each candidate's independence, personal and professional integrity, financial literacy or other professional or business experience relevant to an understanding of our business, ability to think and act independently and with sound judgment, and ability to serve our company's and our stockholders' long-term interests. These factors, and others as considered useful by the Nominating and Corporate Governance Committee, are reviewed in the context of an assessment of the perceived needs of the Board at a particular point in time. As a result, the priorities and emphasis of the Nominating and Corporate Governance Committee and of the Board may change from time to time to take into account changes in business and other trends, and the portfolio of skills and experience of current and prospective directors. The Nominating and Corporate Governance Committee leads the search for and selects, or recommends that the Board select, candidates for election to the Board. Consideration of new director candidates typically involves a series of committee discussions, review of information concerning candidates and interviews with selected candidates. Candidates for nomination to our Board typically have been suggested by other members of the Board or by our executive officers. From time to time, the Nominating and Corporate Governance Committee may engage the services of a third-party search firm to identify director candidates.

The Nominating and Corporate Governance Committee will consider candidates for directors recommended by our stockholders who meet the eligibility requirements for submitting stockholder proposals for inclusion in our next proxy statement. This committee will evaluate such recommendations applying its regular nominee criteria. Eligible stockholders wishing to recommend a nominee must submit such recommendation in writing to the Chair, Nominating and Corporate Governance Committee, care of our corporate Secretary, by the





deadline for stockholder proposals set forth in our last proxy statement, specifying the following information: (a) the name and address of the nominee, (b) the name and address of the stockholder making the nomination, (c) a representation that the nominating stockholder is a stockholder of record of our stock entitled to vote at the next annual meeting and intends to appear in person or by proxy at such meeting to nominate the person specified in the notice, (d) the nominee's qualifications for membership on the Board, (e) a resume of the candidate's business experience and educational background as well as all of the information that would be required in a proxy statement soliciting proxies for the election of the nominee as a director, (f) a description of all direct or indirect arrangements or understandings between the nominating stockholder and the nominee and any other person or persons (naming such person or persons) pursuant to whose request the nomination is being made by the stockholder, (g) all other companies to which the nominee is being recommended as a nominee for director, and (h) a signed consent of the nominee to cooperate with reasonable background checks and personal interviews, and to serve as a director, if elected. In connection with its evaluation, the Nominating and Corporate Governance Committee may request additional information from the candidate or the recommending stockholder, and may request an interview with the candidate. The Nominating and Corporate Governance Committee has the discretion to decide which individuals to recommend for nomination as directors.

No candidates for director nominations were submitted to the Nominating and Corporate Governance Committee by any stockholder in connection with the election of directors at the Annual Meeting. Each of the director nominees standing for election at this Annual Meeting is a current director.

#### **Compensation of Directors**

Non-employee directors receive an annual fee of \$12,000 per year, paid quarterly, in addition to \$1,500 for each Board meeting attended in person and \$250 for each telephone conference Board meeting. All directors are reimbursed for their out-of-pocket expenses incurred in attending meetings of our Board of Directors and its committees.

Non-employee directors were also eligible to receive periodic option grants pursuant to the Directors' Automatic Option Grant Program under our 2007 Omnibus Incentive Plan (the "2007 Plan"). Under the 2007 Plan, each non-employee director receives an option to purchase 20,000 shares of common stock upon his initial appointment to the Board of Directors and an additional option to purchase 5,000 shares of common stock on the date of each annual meeting after his appointment, provided he has served on the Board for at least six months. Each option granted to non-employee directors under the Directors' Automatic Option Grant Program will have an exercise price equal to the fair market value of the common stock on the grant date and a maximum term of ten years, subject to earlier termination following the optionee's cessation of service as a Board member. Prior to the adoption of the 2007 Plan, non-employee directors received option grants pursuant to the Automatic Option Grant Program of our 1997 Stock Incentive Plan (the "1997 Plan"), having substantially the same terms as the grants provided under the 2007 Plan.

#### **Stockholder Communications**

The Board has implemented a process by which stockholders may send written communications directly to the attention of the Board, any committee of the Board or any individual Board member, care of our corporate Secretary. The name of any specific intended Board recipient should be noted in the communication. Our corporate Secretary will be primarily responsible for collecting, organizing and monitoring communications from stockholders and, where appropriate depending on the facts and circumstances outlined in the communication, providing copies of such communications to the intended recipients. Communications will be forwarded to directors if they relate to appropriate and important substantive corporate or Board matters. Communications that are of a commercial or frivolous nature or otherwise inappropriate for the Board's consideration will not be forwarded to the Board. Stockholders who wish to communicate with the Board can write to the corporate Secretary at Iteris, Inc., 1700 Carnegie Avenue, Suite 100, Santa Ana, California 92705.

**Annual Meeting Attendance**

We do not have a formal policy regarding attendance by members of our Board of Directors at annual meetings of our stockholders; however, directors are encouraged to attend all such meetings. Four of our current directors attended our 2007 annual meeting of stockholders.

**PROPOSAL TWO:**

**RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS**

The accounting firm of McGladrey & Pullen, LLP was engaged to serve as our independent auditors for the fiscal year ended March 31, 2008. The Audit Committee of the Board of Directors has selected that firm to continue in this capacity for the fiscal year ending March 31, 2009. We are asking our stockholders to ratify the selection by the Audit Committee of McGladrey & Pullen, LLP as our independent auditors to audit our consolidated financial statements for the fiscal year ending March 31, 2009 and to perform other appropriate services. Stockholder ratification of the selection of McGladrey & Pullen, LLP as our independent auditors is not required by our bylaws or otherwise. In the event that the stockholders fail to ratify the appointment, the Audit Committee will reconsider its selection. Even if the selection is ratified, the Audit Committee, in its sole discretion, may direct the appointment of a different independent accounting firm at any time during the year if the committee feels that such a change would be in the best interests of us and our stockholders.

A representative of McGladrey & Pullen, LLP is expected to be present at the Annual Meeting to respond to stockholders' questions, and that representative will have the opportunity to make a brief presentation to the stockholders if he or she so desires and will be available to respond to appropriate questions from stockholders.

**Stockholder Approval**

The affirmative vote of a majority of the common stock, present or represented by proxy and entitled to vote at the Annual Meeting will be required for ratification of the selection of McGladrey & Pullen, LLP as our independent auditors for the fiscal year ending March 31, 2009.

**Recommendation of the Board of Directors**

**The Board of Directors recommends that the stockholders vote FOR the ratification and approval of the selection of McGladrey & Pullen, LLP as our independent auditors for the fiscal year ending March 31, 2009.**

**FEES PAID TO INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM****Principal Accountant Fees**

The following table presents the aggregate fees billed for the indicated services performed by McGladrey & Pullen, LLP for the fiscal years ended March 31, 2007 and 2008:

	Fiscal Year Ended March 31,	
	2007	2008
Audit Fees	\$ 368,000	\$ 412,000
Audit-Related Fees	48,000	77,000
Tax Fees	—	—
All Other Fees	—	—
Total Fees	\$ 416,000	\$ 489,000

**Audit Fees.** Audit fees consist of fees billed by McGladrey & Pullen, LLP for professional services rendered in connection with the audit of our annual consolidated financial statements and review of those consolidated financial statements included in our quarterly reports on Forms 10-Q and other regulatory filings.

**Audit-Related Fees.** Audit-related fees consist of fees billed for professional services that are reasonably related to the performance of the audit or review of our consolidated financial statements but are not reported under Audit Fees. Such fees include, among other things, fees for registration statements, fees for internal control reviews and assistance with meeting the requirements of Section 404 of the Sarbanes-Oxley Act and certain consultations concerning financial accounting and reporting standards.

**Tax Fees.** There were no tax fees billed to us by McGladrey & Pullen, LLP during the fiscal years ended March 31, 2007 and 2008.

**All Other Fees.** There were no other fees billed to us by McGladrey & Pullen, LLP during the fiscal years ended March 31, 2007 and 2008.

**Determination of Independence**

McGladrey & Pullen, LLP did not provide any non-audit related services during the fiscal years ended March 31, 2007 and 2008.

**Audit Committee Pre-Approval Policies and Procedures**

All engagements for services by McGladrey & Pullen, LLP or other independent registered public accountants are subject to prior approval by the Audit Committee; however, de minimis non-audit services may instead be approved in accordance with applicable SEC rules. The prior approval of the Audit Committee was obtained for all services provided by McGladrey & Pullen, LLP in the fiscal year ended March 31, 2008.

**AUDIT COMMITTEE REPORT**

The following is the report of the Audit Committee with respect to our audited consolidated financial statements for the fiscal year ended March 31, 2008 included in our Annual Report on Form 10-K for that year.

**Review with Management**

The Audit Committee has reviewed and discussed the audited consolidated financial statements with our management.

**Review and Discussions with Independent Auditors**

The Audit Committee has discussed with our independent auditors, McGladrey & Pullen, LLP, the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU Section 380), as amended, which includes, among other items, matters related to the conduct of the audit of our consolidated financial statements.

The Audit Committee has received the written disclosures and the letter from McGladrey & Pullen, LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as amended, and has discussed with McGladrey & Pullen, LLP the independence of McGladrey & Pullen, LLP from the Company.

**Conclusion**

Based on the review and discussions referred to above in this report, the Audit Committee recommended to our Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for the year ended March 31, 2008 for filing with the SEC.

Submitted by the Audit Committee  
of the Board of Directors:

Richard Char  
John W. Seazholtz  
Thomas L. Thomas

## EXECUTIVE COMPENSATION AND OTHER INFORMATION

### Executive Officers and Key Employees

The table below sets forth certain information, as of July 1, 2008, regarding our executive officers and a key employee.

Name	Age	Capacities in Which Served
Abbas Mohaddes	51	Chief Executive Officer, President, Assistant Secretary and Director
Alan Clelland	56	Senior Vice President and General Manager
Gregory McKhann	45	Senior Vice President and General Manager
Francis Memole	50	Senior Vice President and General Manager
James S. Miele	40	Vice President, Chief Financial Officer and Secretary
Todd Kreter	48	Vice President of Engineering

The following is a brief description of the capacities in which each of the above persons has served during the past five years. The biography of Mr. Mohaddes appears earlier in this proxy statement. See Proposal One: Election of Directors.

**Alan Clelland** has served as a Senior Vice President and General Manager since October 2007. Prior to joining us, from May 2000 to September 2007, Mr. Clelland worked at the Siemens ITS business unit of Siemens Energy & Automation, Inc., serving in the role of Marketing Director then as Director of Consulting. From August 1998 to April 2000, Mr. Clelland was Senior Vice President, Operations for Gardner Systems, an ITS consulting company. Prior to that, from May 1996 to July 1998, Mr. Clelland was Marketing Director of TransCore, a company of Science Applications International Corporation (SAIC). From May 1987 to April 1996, he was a Senior Associate, then Associate Vice President at JHK & Associates, Inc., a transportation engineering company, which was acquired by SAIC. Mr. Clelland's prior experience also includes working as the International Product Marketing Manager for Power Semiconductors in the Elcoma Division of Philips BV, The Netherlands and in local government traffic engineering, university research, manufacturing and consulting. Mr. Clelland holds a B.Sc. degree in Physics and Electronic Engineering from the University of Leeds in the United Kingdom.

**Gregory McKhann** has served as a Senior Vice President and General Manager since October 2004. Mr. McKhann was a Senior Vice President of the Iteris Subsidiary from March 2004 to October 2004, its Vice President and General Manager of Roadway Sensors from December 1998 to March 2004, its Vice President, Strategic Business Development from October 1999 to May 2000 and the Marketing Director of our ITS division (which became the Iteris Subsidiary) from July 1997 to October 1999. Prior to joining us, Mr. McKhann served as a Business Development Manager at Rockwell International from 1990 to 1997. While at Rockwell, Mr. McKhann was one of the founding members of the Rockwell Transportation Systems business unit. Prior to 1990, Mr. McKhann held a variety of Engineering and Project Management positions at Rockwell International.

**Francis Memole** has served as a Senior Vice President and General Manager since October 2004. Mr. Memole was a Senior Vice President of the Iteris Subsidiary from March 2004 to October 2004, its Vice President of Vehicle Sensors from December 1998 to March 2004 and the Marketing Director of our ITS division (which became the Iteris Subsidiary) from June 1997 to December 1998. Prior to joining us, Mr. Memole was one of the founding members of the Rockwell Transportation Systems business unit at Rockwell International. At Rockwell, Mr. Memole was also involved in the Transportation Systems and In-Vehicle Systems business initiatives.



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**James S. Miele** has served as our Vice President of Finance and Chief Financial Officer since October 2004 and as the Secretary since March 2004. Mr. Miele was our Controller from October 2003 to October 2004 and the Controller of the Iteris Subsidiary from April 2001 to October 2004. Prior to that, from October 1998 to June 2000, Mr. Miele served as an audit manager at Ernst & Young LLP, supervising financial statement audits for a variety of public and privately held companies. Mr. Miele also served in Ernst & Young's Assurance and Advisory Business Services group from 1994 to 1998. Mr. Miele is a Certified Public Accountant and holds a B.S. degree in Accounting from San Diego State University.

**Todd Kreter** has served as our Vice President of Engineering since November 2007. Prior to joining Iteris, from June 2004 to January 2007, Mr. Kreter was the VP Global Services at Quantum Corporation where he managed the company's worldwide customer service organization. From May 1998 to June 2004, Mr. Kreter held several positions, including VP Operations, VP Engineering and VP Quality, at Quantum Corporation. From 1994 to 1998, Mr. Kreter held management positions in engineering and operations with ATL Products, Inc. where he was responsible for the design, development and production of various products. Mr. Kreter holds an executive M.B.A. from Stanford/AEA and a B.S. degree in mechanical engineering from California State University, Fullerton.

## **Compensation Discussion and Analysis**

### ***General Compensation Policy***

The guiding principle of our compensation policies is to align executive compensation with Company objectives and business strategies as well as with financial and operational performance. In keeping with this principle, the Compensation Committee seeks to:

- (1) Attract and retain qualified senior executives who can play a significant role in the achievement of Company goals;
- (2) Reward executives for strategic management and the long-term enhancement of stockholder value; and
- (3) Create a performance-oriented environment that rewards performance with respect to our financial and operational goals.

The Compensation Committee meets periodically to review and recommend for approval by the Board of Directors, the salaries, bonuses and benefit plans for our executive officers and key associates. Our Chief Executive Officer provides recommendations to the Compensation Committee with respect to compensation matters, including executive compensation, and we utilize independent third party salary survey data as reference points. However, the final decisions regarding the compensation of our executive officers are made by the Compensation Committee. In measuring the executive officers' contributions to the Company, the Compensation Committee considers a number of factors, including our revenue growth, net income and other financial performance measurements, as well as qualitative and non-financial measures such as key milestone achievements.

In Fiscal 2008, the annual compensation for the named executive officers included base salaries, cash bonuses and stock option grants. In setting the total compensation payable to our named executive officers for Fiscal 2008, the Compensation Committee sought to make such compensation competitive with that provided by other companies with which we compete for executive talent while providing short and long-term incentives for the achievement of measurable corporate and individual performance objectives in keeping with the compensation principles described above. The primary components of our executive compensation program for the fiscal year ending March 31, 2009 ( Fiscal 2009 ) are expected to continue to consist of base salaries, cash incentive opportunities and long-term equity incentive opportunities in the form of stock options. In the future, such long-term equity opportunities may also include other types of equity instruments including, but not limited to, restricted stock or restricted stock units. Executives also participate in employee benefit programs available to the broader employee population.

Our compensation plans and the amount of each compensation element to pay our named executive officers are generally developed and determined on an individual, case-by-case basis utilizing a number of factors, including publicly available data from independent outside sources, including the American Electronics Association annual survey of executive compensation, our general business conditions and objectives, as well as our subjective determination with respect to the executive's individual contributions to such objectives. For our executive officers, the Compensation Committee has adopted a policy of setting total compensation at approximately the 75th to 100th percentile level of comparable companies in order to effectively recruit and retain key executives. The cash compensation, including the base salaries and bonuses, for Fiscal 2008 for our executive officers was established generally at the higher end of such percentile range, while the equity compensation generally was at the lower end of such range.

## *Elements of Compensation*

### *Base Salary*

We seek to provide our senior management with a base salary appropriate to their roles and responsibilities, and to provide them with a level of stability and certainty each year. We establish salaries for the named executive officers by considering the salaries of officers at comparably sized companies according to data obtained by the Compensation Committee from independent outside sources, including the American Electronics Association annual survey of executive compensation. Our Chief Executive Officer does not participate in the discussions regarding his own compensation but does provide input to the Compensation Committee regarding the compensation of other executive officers. We have generally established base salaries for our executive officers at the higher end of our target percentile range, with the exact base salaries for our executives based on the executive's qualifications and experience, scope of responsibilities, and the executive's past performance and future potential. Base salaries are reviewed annually, and adjusted from time to time to realign salaries with market levels after taking into account such individual factors, including responsibilities, performance and experience. The Compensation Committee has reviewed the base salaries for Fiscal 2008 of each of the named executive officers and is of the opinion that such salaries are at a competitive level with the base salaries in effect for similarly situated officers and are not unreasonable in view of those paid by our competitors and by other companies of similar size.

In addition, as described below under the caption *Non-Qualified Deferred Compensation*, we have a Deferred Compensation Savings Plan pursuant to which our executive officers may defer some or all of their salaries. No amounts were deferred by any executive officer in Fiscal 2008.

### *Incentive Cash Bonuses*

The remaining cash component of the named executive officers' compensation for Fiscal 2008 was an annual cash bonus determined by the Compensation Committee based upon criteria established by the committee at the beginning of the fiscal year. For Fiscal 2008, the bonuses were primarily dependent upon corporate and business unit performance. 80% of the potential bonus for the Chief Executive Officer and the Chief Financial Officer was based on total revenue and operating income achieved for the year, and the remaining 20% of the potential bonus was based on the applicable officer's achievement of individual objectives that were qualitative in nature and were established by the Compensation Committee for our CEO and established by the CEO for our CFO. 80% of the potential bonus for each of the other named executive officers were based on revenue and operating income achieved by the business unit for which such officer had primary responsibility, as well as the operating income achieved by the Company, and the remaining 20% of the potential bonus was based on the applicable officer's achievement of individual objectives that were qualitative in nature and were established by the CEO.

For Fiscal 2009, the potential bonuses for our named executive officers have similarly been set based primarily on our overall corporate and business unit performance, with 80% of the potential bonus for Messrs. Mohaddes and Miele to be based on the total revenue and operating income achieved by the Company for the year, and 80% of the potential bonus for each of Messrs. Clelland, McKhann and Memole to be based on revenue and operating income achieved by the business unit for which such officer has primary responsibility, as well as the operating income achieved by the Company. The remaining 20% of the potential bonus for each named executive officer will be based on the officer's achievement of individual objectives.

The individual objectives in Fiscal 2008 for the Chief Executive Officer and the Chief Financial Officer were primarily focused on such officer's management of his area of responsibility. The objectives for Mr. Mohaddes generally included enhancing the relationship of the Company with the financial community and increasing Company market value as well as implementation of the Company's strategic plan. The objectives for

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Mr. Miele principally included enhancement of our financial position and increasing Company market value. For Fiscal 2009, the objectives for Mr. Mohaddes was established by the Compensation Committee and included strategic development of the Company, financial achievement of the revenue and operating income plan as well as Company market value enhancement. The Fiscal 2009 objectives for the other named executive officers were established by our Chief Executive Officer and primarily consisted of financial and management objectives for Mr. Miele, and operational objectives within their business area of responsibility for each of Messrs. Clelland, McKhann and Memole.

In Fiscal 2008, the target bonuses under the plan as a percent of the officer's base salary ranged from 35% to 48%, with the Chief Executive Officer's target bonus set at 43% of his base salary. The target bonuses for the other named executive officers were 35% to 48% of the applicable officer's base salary. For Fiscal 2009, the target bonuses were set at 41% to 58% of base salaries, with the Chief Executive Officer's target bonus set at 49% of his base salary and the target bonus for all other named executive officers set at 41% to 58% of the applicable officer's base salary. Revenue and operating income goals established for bonus purposes are generally higher than the goals established by us for the operation of the business in general, and may thus be difficult to attain without a high degree of effort. If our performance exceeds the targets set for bonus purposes, the executives can earn, in the aggregate, up to 150% of the target bonus award. Bonus achievement or overachievement is determined on a factor-by-factor basis.

Based upon the above described criteria, cash bonuses for the named executive officers in the following amounts were approved for Fiscal 2008: Mr. Mohaddes \$100,079; Mr. Clelland \$48,232; Mr. McKhann \$69,065; Mr. Memole \$38,221; and Mr. Miele \$39,801.

#### *Long-Term Equity Compensation*

A portion of the compensation of executive officers has historically been based upon the award of stock options which rely on increases in the value of our securities. The options granted to our named executive officers generally have an exercise price equal to the fair market value on the date of grant, vest in equal annual installments over four years, and are not exercisable until vested. The award of options is intended to encourage executives to establish a meaningful, long-term ownership interest in the Company consistent with the interests of our stockholders. Under our equity incentive plans, options are granted from time to time to certain officers and key associates of us and our subsidiaries at the fair market value of the shares of common stock at the time of grant. We do not have a formal policy as to the amount or timing of grants to executive officers. Because the compensation element of options is dependent on increases over time in the market value of such shares, stock options represent compensation that is tied to our long-term performance. The award of stock options to our executive officers is determined based upon individual performance, level of base salary and position with us.

In Fiscal 2008, we granted to Mr. Mohaddes, in connection with his promotion as our Chief Executive Officer and President in March 2007, an option to purchase 200,000 shares of our common stock. In addition, we granted to Mr. Clelland, in connection with his initial hire, an option to purchase 25,000 shares of our common stock. Each such option has an exercise price equal to the fair market value on the date of grant, vests in equal annual installments over four years, and is not exercisable until vested. No options were granted to any of our other named executive officers.

#### *Other Compensation*

Our executive officers are eligible to receive the same benefits, including non-cash group life and health benefits, that are available to all employees. Certain additional benefits may be provided to our executives such as a car allowance, but each on a case-by-case basis.

**Summary Compensation Table**

The following table shows information regarding the compensation earned during Fiscal 2007 and Fiscal 2008 by our Chief Executive Officer, Chief Financial Officer and our three other executive officers who were employed by us as of March 31, 2008 and whose total compensation exceeded \$100,000 during that fiscal year. The officers listed below will be collectively referred to as the named executive officers in this proxy statement.

Name	Fiscal Year	Salary	Option Awards(1)	Non-Equity Incentive Plan Compensation (2)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings(3)	All Other Compensation (4)	Total
Abbas Mohaddes Chief Executive Officer, President, Assistant Secretary and Director	2008	\$ 350,022	\$ 108,422	\$ 100,079	\$ 85	\$ 15,064	\$ 573,672
	2007	227,483	14,655	66,487	—	13,276	321,901
James S. Miele Vice President, Chief Financial Officer and Secretary	2008	175,480	15,224	39,801	—	5,795	236,300
	2007	156,625	14,912	17,680	—	5,325	194,542
Alan Clelland(5) Senior Vice President and General Manager	2008	86,540	1,259	48,232	—	2,596	138,627
	2007	—	—	—	—	—	—
Gregory McKhann Senior Vice President and General Manager	2008	199,533	12,492	69,065	154	5,630	286,874
	2007	192,004	11,786	80,285	—	4,515	288,590
Francis Memole Senior Vice President and General Manager	2008	186,057	23,092	38,221	—	4,366	251,736
	2007	198,319	22,041	2,585	—	13,220	236,165

- (1) Represents the expense recognized by us in the applicable year for the stock options granted, determined pursuant to SFAS 123(R) utilizing assumptions discussed in Note 1 to our consolidated financial statements in our annual report for Fiscal 2008 (the Annual Report ) regarding assumptions underlying valuation of equity awards. See also our discussion of share-based compensation under Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates in the Annual Report.
- (2) The amounts shown in this column constitute the cash bonuses made to each named executive officer based on the attainment of certain criteria pre-established by the Compensation Committee. These awards are discussed in further detail under Compensation Discussion and Analysis above.
- (3) No compensation was deferred in Fiscal 2007 or Fiscal 2008 under the Deferred Compensation Savings Plan by any named executive officer. The non-cash assets of the Deferred Compensation Savings Plan consist of shares of our common stock. As such, the value of such assets are based on the market value of our common stock and there were no above-market or preferential earnings on the assets held under the plan.
- (4) Represents 401(k) plan employer contributions and automobile allowances paid by us.

- (5) Mr. Clelland joined us in October 2007, and was not employed by us prior to that time.



**Employment Contracts; Termination of Employment and Change of Control Arrangements**

On February 28, 2007, we entered into an offer letter agreement with Abbas Mohaddes in connection with his promotion as our Chief Executive Officer effective as of March 2007. The offer letter agreement provides for a base salary of \$350,000 per year, a bonus of up to \$150,000 for the fiscal year ended March 31, 2008 and the grant of an option to purchase 100,000 shares of our common stock ( Option One ) and a second option to purchase an additional 200,000 shares of our common stock. Under the terms of the offer letter, in the event that his employment with us is terminated for any reason other than cause within three years of his promotion to Chief Executive Officer, Mr. Mohaddes will also be entitled to receive one year s severance, based on his then current base salary, as well as 50% of his then current on-target bonus amount. In the event of his death or disability, Mr. Mohaddes or his estate will be entitled to one year s acceleration on the vesting of Option One. If a triggering event under the severance provisions of his agreement had occurred on the last business day of Fiscal 2008, then Mr. Mohaddes would have been entitled to a payment of approximately \$425,000, based on his then current base salary and on-target bonus.

On June 11, 2008, we entered into a change in control agreement with James Miele, our Chief Financial Officer. Pursuant to the terms of the agreement, in the event of an involuntary termination of Mr. Miele s employment in connection with or within twelve months after a change in control, Mr. Miele will be entitled to receive a lump sum severance payment of up to one year s base pay and 50% of his target bonus for the year. In addition, Mr. Miele will be entitled to receive reimbursement for the cost of COBRA coverage for a period of up to one year following the termination of his employment. The agreement terminates on the fifth anniversary of the date of the agreement, unless earlier terminated in accordance with the agreement. If a triggering event under the severance provisions of his agreement had occurred on the last business day of Fiscal 2008, then Mr. Miele would have been entitled to a payment of approximately \$206,300, based on his then current base salary and on-target bonus, plus COBRA premium reimbursements.

We do not currently have any employment contracts in effect with any of our named executive officers other than the agreements described above. We provide incentives such as salary, benefits and option grants to attract and retain executive officers and other key associates. The plan administrators of the 1997 Plan and the 2007 Plan have the authority to provide for the accelerated vesting of outstanding options held by an individual, in connection with the termination of such individual s employment following an acquisition in which these options are assumed or the repurchase rights with respect to the unvested shares are assigned or upon certain hostile changes in control of the Company. Other than such accelerated vesting and the agreements described above, there is no agreement or policy which would entitle any executive officer to severance payments or any other compensation as a result of such officer s termination.

**Grants of Plan-Based Awards**

The following table sets forth certain information with respect to the options granted during Fiscal 2008 to our named executive officers, as well as bonuses that were potentially payable to such officers under our bonus plan. All options were granted under our 2007 Plan and are incentive stock options, to the extent permissible under the Internal Revenue Code. The exercise price per share of each option granted to our named executive officers was equal to the fair market value of our common stock on the date of grant. Except as otherwise noted below, each option vests at the rate of 25% on each of the first four anniversaries of the grant date.

Name	Threshold	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)		Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Share)	Grant Date Fair Value of Option Awards (2)
		Target	Maximum				
Abbas Mohaddes Chief Executive Officer, President, Assistant Secretary and Director		\$ 150,000	\$ 225,000	10/02/07	200,000	\$ 2.34	\$ 364,404
James S. Miele Vice President, Chief Financial Officer and Secretary		61,000	91,500				
Alan Clelland(3) Senior Vice President and General Manager		50,000	75,000	—	—	—	—
Gregory McKhann Senior Vice President and General Manager		95,000	142,500				
Francis Memole Senior Vice President and General Manager		86,000	129,000				

- (1) Consists of amounts that were potentially payable as cash bonuses based on the attainment of certain criteria pre-established by the Compensation Committee. These awards are discussed in further detail under Compensation Discussion and Analysis above. The Target amounts represent the maximum amounts that could have been awarded to the executives if the pre-established criteria had been attained. The Maximum amounts consist of the Target amounts plus the maximum overachievement bonuses that could have been awarded to the executives.
- (2) Represents the grant date fair value of the stock options granted, determined pursuant to SFAS 123(R) utilizing assumptions discussed in Note 1 to our consolidated financial statements in our Annual Report. See also our discussion of share-based compensation under Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates in the Annual Report. The amounts listed represent the total share-based compensation to be recognized by us over the vesting period.
- (3) Mr. Clelland joined us in October 2007, and was not employed by us prior to that time.

**Outstanding Equity Awards at Fiscal Year-End**

The following table presents the outstanding equity awards held by each of the named executive officers as March 31, 2008. Each option vests at the rate of 25% on each of the first four anniversaries of the grant date.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Awards Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date
Abbas Mohaddes Chief Executive Officer, President, Assistant Secretary and Director				\$	09/26/11
					04/30/12
	220,000			1.19	06/14/16
	44,000	22,500		1.40	
	7,500	75,000		2.21	03/13/17
	25,000		2.55		
		200,000	2.34		10/01/17
James S. Miele Vice President, Chief Financial Officer and Secretary					09/26/11
					04/30/12
	40,000			1.19	
	12,000			1.40	09/01/15
	10,000	10,000		3.26	
	3,750	11,250	2.21		06/14/16
Alan Clelland Senior Vice President and General Manager		25,000		2.46	02/20/18
Gregory McKhann Senior Vice President and General Manager					09/26/11
	96,000			1.19	04/30/12
	34,000			1.40	
	7,500	22,500		2.21	06/14/16
Francis Memole Senior Vice President and General Manager					09/26/11
					04/30/12
	68,000			1.19	
	20,000			1.40	08/28/15
	12,000	12,000		3.21	
	7,500	22,500	2.21		06/14/16



**Option Exercises and Stock Vested**

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The following table includes certain information with respect to the options exercised by the named executive officers during Fiscal 2008.

Name and Principal Position	Option Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)
Abbas Mohaddes Chief Executive Officer, President, Assistant Secretary and Director		\$
James S. Miele Vice President, Chief Financial Officer and Secretary		
Alan Clelland Senior Vice President and General Manager		
Gregory McKhann Senior Vice President and General Manager	68,748	173,307
Francis Memole Senior Vice President and General Manager	87,496	208,740

**Pension Benefits**





We do not have any qualified or non-qualified defined benefit plans.

**Non-Qualified Deferred Compensation**



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During the fiscal year ended March 31, 2003, the Iteris Subsidiary adopted the Iteris, Inc. Deferred Compensation Savings Plan (the "Deferred Compensation Plan"). The plan was assumed by us in connection with the merger of the Iteris Subsidiary into us in October 2004. The Deferred Compensation Plan is a non-qualified voluntary deferral plan that, prior to 2005, permitted eligible executives to defer up to a total of 50% of their regular salary and 100% of their bonuses in exchange for phantom stock units representing the value of our common stock in any plan year, which begins on January 1 and ends on December 31 of each calendar year.

Prior to the merger of the Iteris Subsidiary into us in October 2004, the plan held shares of the Iteris Subsidiary's common stock. In connection with the merger of the Iteris Subsidiary into us, shares of Iteris Subsidiary common stock held by the plan were exchanged for shares of our common stock. No deferrals have been credited to the Deferred Compensation Plan since January 1, 2005 (and no employer contributions have been permitted since the Plan's inception).

A participant's entire account balance becomes distributable in the form of our common stock upon the earlier of the participant's death, disability or termination of employment. Distribution may be made in two substantially equal lump sum payments, monthly installments over five years, or monthly installments over ten years, as elected by the participant in his or her benefit agreement received upon commencement of participation. The plan also permits participants to receive payment while employed either (i) due to hardship or (ii) for any reason if the participant forfeits 12 months of earnings. Because all amounts in the Deferred Compensation Plan were both earned and vested prior to January 1, 2005, the plan is exempt from the application of section 409A of the Internal Revenue Code.

All deferrals to the Deferred Compensation Plan are considered part of our general assets. As general assets, they are subject to the claims of our creditors, and the participants are considered an unsecured creditor with respect to them. We have established a rabbi trust which holds our common stock that is used to make payments to participants. The purpose of the trust is to protect participants against a refusal to pay payments (for example, in the event of a change in control). The trust does not, however, protect the account balance in the event that we become insolvent or bankrupt.

At March 31, 2008, the Deferred Compensation Plan held 23,844 shares of our common stock held by current executives. Changes in the value of our common stock held by the Deferred Compensation Plan are determined based on changes in the quoted market price of our common stock at the close of each reporting period and presented within operating expenses in the accompanying consolidated statements of operations.

The following table sets forth information with respect to the accounts of the named executive officers under the Deferred Compensation Plan.

Name	Executive Contributions in Last Fiscal Year(\$)	Registrant Contributions in Last Fiscal Year (\$)	Aggregate Earnings in Last Fiscal Year (\$)(1)	Aggregate Withdrawals/Distributions(\$)	Aggregate Balance at Last Fiscal Year End (\$)
Abbas Mohaddes Chief Executive Officer, President, Assistant Secretary and Director	\$	\$	\$ 85		\$ 19,543
James S. Miele Vice President, Chief Financial Officer and Secretary					
Alan Clelland Senior Vice President and General Manager					
Gregory McKhann Senior Vice President and General Manager			154		35,537
Francis Memole Senior Vice President and General Manager					

(1) Reflects the difference between the value of shares of our common stock held in such officer's Deferred Compensation Plan account as of March 31, 2008 compared to the value of such shares as of March 31, 2007.



**Director Compensation**



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Directors who are not employees of Iteris or any of its subsidiaries receive an annual fee of \$12,000 per year, paid quarterly, in addition to \$1,500 for each Board meeting attended in person and \$250 for each telephone conference Board meeting. All directors are reimbursed for their out-of-pocket expenses incurred in attending meetings of our Board of Directors and its committees.

Non-employee directors are also eligible to receive periodic option grants pursuant to the Directors Automatic Option Grant Program under our 2007 Omnibus Incentive Plan (the 2007 Plan ). Under the 2007 Plan, each non-employee director receives an option to purchase 20,000 shares of common stock upon his initial appointment to the Board of Directors and an additional option to purchase 5,000 shares of common stock on the date of each annual meeting after his appointment, provided he has served on the Board for at least six months. Each option granted to non-employee directors under the Directors Automatic Option Grant Program will have an exercise price equal to the fair market value of the common stock on the grant date and a maximum term of ten years, subject to earlier termination following the optionee s cessation of service as a Board member.



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The following table sets forth a summary of the compensation earned in Fiscal 2008 by each person who served as a director during such year, who is not a named executive officer.

Name	Fees Earned or Paid in Cash \$(1)	Option Awards \$(2)	All Other Compensation (\$)	Total (\$)
Richard Char	\$ 19,000	3,510	\$	\$ 22,510
Kevin C. Daly, Ph.D.	17,500	7,804		25,304
Gary Hernandez(3)	9,250	4,887		14,137
Dr. Hartmut Marwitz(3)	9,250	6,243		15,493
Gregory A. Miner	18,500	12,746	11,538(4)	42,784
John W. Seazholtz	19,250	7,804		27,054
Joel Slutzky	18,500	7,816		26,316
Thomas L. Thomas	20,250	7,804		28,054
Paul E. Wright(3)	9,500	5,046		14,546

- (1) Represents amounts earned by the directors based on the compensation arrangement described above.
- (2) Stock options were granted pursuant to our 2007 Plan. The amounts listed represent the expense recognized by us for fiscal year ended March 31, 2008 for the stock options granted, determined pursuant to SFAS 123(R) utilizing assumptions discussed in Note 1 to our consolidated financial statements in our Annual Report. See also our discussion of share-based compensation under Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates in the Annual Report. For the options granted in Fiscal 2008, the total share-based compensation to be recognized over the vesting period are as follows: Richard Char \$8,616; Kevin C. Daly, Ph.D. \$8,616; Gregory A. Miner \$8,616; John W. Seazholtz \$8,616; Joel Slutzky \$8,616; and Thomas L. Thomas \$8,616. As of March 31, 2008, the non-employee directors held options for the following number of shares of common stock: Richard Char 30,000 shares; Kevin C. Daly, Ph.D. 48,000 shares; Gary Hernandez 105,000 shares; Dr. Hartmut Marwitz 38,750 shares; Gregory A. Miner 525,000 shares; John W. Seazholtz 64,000 shares; Joel Slutzky 190,000 shares; Thomas L. Thomas 60,000 shares; and Paul E. Wright 148,000 shares.
- (3) Messrs. Hernandez, Marwitz and Wright served as directors of the Company until the expiration of their terms in September 2007.
- (4) Prior to our merger with our Iteris Subsidiary in October 2004, Mr. Miner served as our Chief Executive Officer and Chief Financial Officer. In accordance with his May 2003 change in control agreement, we paid to Mr. Miner severance payments totaling \$11,538 during Fiscal 2008. See Certain Transactions .

### Indemnification of Directors and Officers

Under Section 145 of the Delaware General Corporation Law, we can indemnify our directors and officers against liabilities they may incur in such capacities, including liabilities under the Securities Act of 1933, as amended (the Securities Act ). Our certificate of incorporation and bylaws provide that we will indemnify our directors and officers to the fullest extent permitted by law, and our bylaws require us to advance litigation expenses upon receipt of an undertaking by the director or officer to repay such advances if it is ultimately determined that the director or officer is not entitled to indemnification. The bylaws further provide that rights conferred under such bylaws do not exclude any other right such persons may have or acquire under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

Our certificate of incorporation provides that, pursuant to Delaware law, our directors shall not be liable for monetary damages for breach of the directors' fiduciary duty of care to us and our stockholders. This provision in the certificate of incorporation does not eliminate the duty of care, and in appropriate circumstances equitable remedies such as injunctive or other forms of non-monetary relief will remain available under Delaware law. In addition, each director will continue to be subject to liability for breach of the director's duty of loyalty to us or our stockholders, for acts or omissions not in good faith or involving intentional misconduct or knowing violations of law, for actions leading to improper personal benefit to the director, and for payment of dividends or approval of stock repurchases or redemptions that are unlawful under

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Delaware law. The provision also does not affect a director's responsibilities under any other law, such as the federal securities laws or state or federal environmental laws.

We have entered into agreements to indemnify our directors and certain of our officers in addition to the indemnification provided for in the certificate of incorporation and bylaws. These agreements, among other things, indemnify our directors and certain of our officers for certain expenses (including attorneys' fees), judgments, fines and settlement amounts incurred by such person in any action or proceeding, including any action by or in the right of our company, on account of services as a director or officer of Iteris, or as a director or officer of any other company or enterprise to which the person provides services at our request.

**Compensation Committee Interlocks and Insider Participation**



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The members of the Compensation Committee of our Board of Directors during the fiscal year ended March 31, 2008 were Messrs. Daly, Seazholtz and Thomas. None of the members of our Compensation Committee at any time has been one of our officers or employees or an officer or employee of one of our subsidiaries at any time during the fiscal year ended March 31, 2008. None of our executive officers currently serves, or in the year ended March 31, 2008 has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers on our Board of Directors or Compensation Committee.

### **COMPENSATION COMMITTEE REPORT**

We have reviewed and discussed with the management of Iteris the Compensation Discussion and Analysis to be included in the proxy statement on Schedule 14A for the 2008 Annual Meeting of Stockholders. Based on the reviews and discussions referred to above, we recommended to the Board of Directors that the Compensation Discussion and Analysis referred to above be included in such proxy statement.

Submitted by the Compensation Committee

of the Board of Directors:



Kevin C. Daly, Ph.D.



John W. Seazholtz

Thomas L. Thomas









## EQUITY COMPENSATION PLANS

The following table provides information as of March 31, 2008 with respect to shares of our common stock that may be issued under existing equity compensation plans. The table does not include information with respect to shares of our common stock subject to outstanding options granted under equity compensation plans or option agreements that were assumed in connection with the merger of the Iteris Subsidiary into us in October 2004. However, Note 1 to the table sets forth the total number of shares of common stock issuable upon the exercise of those assumed options as of March 31, 2008 and the weighted average exercise price of those options. Except for the adjustments described in Note 1 with respect to the outstanding assumed options, no additional options may be granted under those assumed plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available For Future Issuance under Equity Compensation Plans (excluding some securities reflected in first column)
<i>Equity Compensation Plans Approved by Security Holders</i>			
1997 Stock Incentive Plan	1,406,572	\$ 2.75	
2007 Omnibus Incentive Plan	389,000	2.38	461,000
<i>Equity Compensation Plans Not Approved by Security Holders</i>			
None			
Total(1)	1,795,572	\$ 2.67	461,000

(1) The table does not include information with respect to the equity compensation plan or option agreements that were assumed by us in connection with the merger of the Iteris Subsidiary into us in October 2004. As of March 31, 2008, a total of 2,728,894 shares of common stock were issuable upon exercise of outstanding options under the assumed plan and agreements. No additional options may be granted under the assumed plan. The weighted average exercise price of all such assumed options to acquire shares of our common stock was \$1.27 per share.

**PRINCIPAL STOCKHOLDERS AND COMMON STOCK OWNERSHIP  
OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth, as of June 30, 2008, the number and percentage ownership of our common stock by (i) all persons known to us to beneficially own more than 5% of the outstanding common stock, (ii) each of the named executive officers in the Summary Compensation Table which appears elsewhere herein, (iii) each of our directors, and (iv) all of our executive officers and directors as a group. To our knowledge, except as otherwise indicated, each of the persons named in this table has sole voting and investment power with respect to the common stock shown as beneficially owned, subject to community property and similar laws, where applicable.

Name and Address of Beneficial Owner(1)	Common Stock Amount and Nature of Beneficial Ownership(2)(3)	Percent of Class(2)
Austin W. Marx and David M. Greenhouse(4)	4,492,571	13.2%
Bryant R. Riley(5)	3,490,554	10.2
John D. Gruber, J. Patterson McBaine and Eric Swergold(6)	1,871,922	5.5
Abbas Mohaddes(7)	1,085,375	3.2
Alan Clelland	893	*
Greg McKhann(8)	253,082	*
Francis Memole(9)	181,582	*
James S. Miele(10)	78,199	*
Richard Char(11)	30,000	*
Kevin C. Daly, Ph.D.(12)	393,132	1.2
Gregory A. Miner(13)	952,828	2.8
John W. Seazholtz(14)	112,547	*
Joel Slutzky(15)	2,046,032	6.0
Thomas L. Thomas(16)	79,000	*
All executive officers and directors as a group (11 persons)(17)	5,212,670	14.7%

\* Less than 1%.

(1) The address for Messrs. Marx and Greenhouse is 527 Madison Avenue, Suite 2600, New York, NY 10022. The address for Bryant R. Riley is 11550 Santa Monica Blvd., Suite 750, Los Angeles, CA 90025. The address for Messrs. Gruber, McBaine and Swergold is 50 Osgood Place, San Francisco, CA 94133. The address of all other persons named in the table is 1515 South Manchester Avenue, Anaheim, CA 92802.

(2) Based on 33,891,002 shares of common stock outstanding as of June 30, 2008. Shares of common stock subject to options or warrants which are exercisable within 60 days of June 30, 2008 are deemed to be beneficially owned by the person holding such options or warrants for the purpose of computing the percentage of ownership of such person but are not treated as outstanding for the purpose of computing the percentage of any other person. Other than as described in the preceding sentence, shares issuable upon exercise of outstanding options and warrants are not deemed to be outstanding for purposes of this calculation.



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(3) In addition to the shares held in the individual's name, this column also includes shares held for the benefit of the named person under our 401(k) and Stock Ownership Plan and the Deferred Compensation Savings Plan.

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(4) Includes 246,250 shares issuable upon exercise of warrants that were issued to Special Situations Cayman Fund, L.P., Special Situations Fund III, L.P., Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P. (collectively, the Special Situations Funds ). Messrs. Marx and Greenhouse have shared voting power and shared dispositive power over the shares of common stock (including the 246,250 shares issuable upon exercise of warrants) held by the Special Situations Funds. Messrs. Marx and Greenhouse are the controlling principals of AWM Investment Company, Inc. ( AWM ), the general partner of and investment adviser to Special Situations Cayman Fund, L.P. AWM is the general partner of MGP Advisers Limited Partnership, the general partner of and investment adviser to Special Situations Fund III, L.P. and the general partner of Special Situations Fund III QP, L.P. In addition, Messrs. Marx and Greenhouse are members of MG Advisers L.L.C., the general partner of Special Situations Private Equity Fund, L.P. AWM serves as the investment adviser to Special Situations Fund III QP, L.P. and Special Situations Private Equity Fund, L.P.

(5) Includes (i) 731,571 shares owned by Riley Investment Partners Master Fund, L.P. ( RIPMF ), (ii) 33,333 shares held in a joint account with Mr. Riley s spouse, (iii) 41,000 shares owned by B. Riley & Co. Retirement Trust, of which Mr. Riley serves as trustee, (iv) 88,640 shares issuable upon conversion of convertible debenture owned by custodial accounts of Mr. Riley s children, for which Mr. Riley controls voting and investment decisions in his role as custodian for such accounts, (v) 200,212 shares owned by B. Riley & Co., LLC., of which Mr. Riley is the Chairman and sole indirect equity owner, and (vi) 237,237 shares issuable upon exercise of warrants held by Mr. Riley, his children s accounts, B. Riley & Co., Inc. and RIPMF that are currently exercisable. Pursuant to a Schedule 13G filed on February 8, 2008 with the SEC, Mr. Riley reported that because RIM has sole voting and investment power over RIPMF s security holdings and Mr. Riley, in his role as the sole manager of RIM, controls its voting and investment decisions, each of RIM, RIPMF, and Mr. Riley may be deemed to have beneficial ownership of the shares held by, or issuable to, RIPMF. Mr. Riley controls RIM s voting and investment decisions for its investment advisory clients, but disclaims beneficial ownership of the shares owned by the non-affiliated managed accounts of RIM. Mr. Riley also disclaims beneficial ownership of the shares held in his children s accounts.

(6) Pursuant to a Schedule 13G filed on February 7, 2008 with the SEC, Gruber & McBaine Capital Management, LLC ( GMCM ), Jon D. Gruber, J. Patterson McBaine and Eric Swergold reported that they had shared voting power and shared dispositive power over 1,498,161 shares of common stock. The table also includes 325,411 shares, 23,000 shares and 25,350 shares over which Messrs. Gruber, McBaine and Swergold, respectively, have sole voting and dispositive power. GMCM is a registered investment advisor whose clients have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the shares. Messrs. Gruber and McBaine are the Managers, controlling persons and portfolio managers of GMCM. Lagunitas and Firefly are investment limited partnerships of which GMCM is the general partner. GMCM, Gruber, McBaine and Swergold constitute a group within the meaning of Rule 13d-5(b). Lagunitas and Firefly is not a member of any group and each disclaims beneficial ownership of the securities with respect to its ownership is reposed.

(7) Includes (i) 13,850 shares issuable upon conversion of convertible debentures, (ii) 3,167 shares issuable upon exercise of warrants that are currently exercisable, (iii) 304,000 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after June 30, 2008 and (iv) 11,540 shares held by Mr. Mohaddes IRA.

(8) Includes 145,000 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after June 30, 2008.

(9) Includes (i) 13,850 shares issuable upon conversion of convertible debentures held by Mr. Memole s IRA, (ii) 3,167 shares issuable upon exercise of warrants held by Mr. Memole s IRA which are currently exercisable, and (iii) 115,000 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after June 30, 2008.

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(10) Includes 69,500 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after June 30, 2008.

(11) Consists of shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after June 30, 2008.

(12) Includes (i) 100 shares held by Dr. Daly's spouse, (ii) 329,032 shares held by a trust to which Dr. Daly serves as a trustee, and (iii) 48,000 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after June 30, 2008.

(13) Includes (i) 13,850 shares issuable upon conversion of convertible debentures held by Mr. Miner's IRA, (ii) 3,167 shares issuable upon exercise of warrants held by Mr. Miner's IRA that are currently exercisable, (iii) 183,334 shares held by Mr. Miner's IRA, (iv) 19,230 shares held by Mr. Miner's wife's IRA and (v) 525,000 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after June 30, 2008.

(14) Includes 64,000 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after June 30, 2008.

(15) Includes (i) 144,616 shares held by Mr. Slutzky's IRA and (ii) 205,000 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after June 30, 2008. Excludes shares of common stock held in trust for the benefit of the children and relatives of Mr. Slutzky as well as shares in the Joel Slutzky Family Trust; Mr. Slutzky has no investment or voting power with respect to the shares in such trusts and disclaims any beneficial ownership.

(16) Includes 60,000 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after June 30, 2008.

(17) Includes (i) 41,550 shares issuable upon conversion of convertible debentures, (ii) 9,501 shares issuable upon exercise of warrants which are currently exercisable, and (iii) 1,565,500 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after June 30, 2008.

### **CERTAIN TRANSACTIONS**

Since April 1, 2007, other than the agreements and transactions described in Executive Compensation and Other Information and the transactions described below, there has not been, nor is there any proposed transaction, where we (or any of our subsidiaries) were or will be a party in which the amount involved exceeded or will exceed the lesser of \$120,000 or the average of the Company's total assets at year end for the last two fiscal years and in which any director, director nominee, executive officer, holder of more than 5% of any class of our voting securities, or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest.

In May 2003, we entered into change in control agreement with Gregory Miner, who was then serving as our Chief Executive Officer and Chief Financial Officer. In the event of an involuntary termination of his employment within three months prior to or twenty-four months after a change in control, the agreements provided for a severance payment to him of 200% of his annual base pay plus target bonus for the current fiscal year. In addition, Mr. Miner and his dependents were entitled to all insurance benefits for up to twenty-four months or until he obtained new employment with comparable benefits, whichever was earlier. The involuntary termination provision was triggered in connection with the merger of the Iteris Subsidiary into us in October 2004. The severance amount was paid to Mr. Miner in bi-weekly installments over 30 months, and the final payment was made in April 2007. The severance amounts paid to Mr. Miner in Fiscal 2008 totaled \$11,538.

We previously subleased office space to MAXxess Systems, Inc. ( MAXxess ), a former subsidiary of the Company that was sold by the Company in September 2003 and is currently owned by an investor group that includes two of our directors, one of which is the Chief Executive Officer of MAXxess. At March 31, 2008, MAXxess owed the Company an aggregate of \$274,000 related to this sublease, which terminated in September 2007, and certain related ancillary services that were provided by the Company to MAXxess.

Pursuant to its written charter, the Audit Committee of the Board of Directors is responsible for reviewing and approving all related party transactions. The Audit Committee monitors and reviews potential conflict of interest situations involving a principal stockholder, a member of the Board of Directors or senior management.

### **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Under the federal securities laws, our directors and officers and any persons holding more than 10% of our common stock are required to report their ownership of our common stock and any changes in that ownership to the SEC. Specific due dates for these reports have been established, and we are required to report any failure to file by such dates. In the fiscal year ended March 31, 2007, the Form 4 for Abbas Mohaddes with respect to an option granted on March 14, 2007 was not filed within two business days of the grant date. Based solely on our review of copies of the reports on Forms 3, 4 and 5 received by us with respect to the fiscal year ended March 31, 2008 and the written representations received from the reporting persons that no other reports were required, except as indicated in the foregoing sentence or as indicated in our prior proxy statements, we believe that all directors, executive officers and persons who own more than 10% of our common stock have complied with the reporting requirements of Section 16(a) and have filed all reports required by such section.

### **ANNUAL REPORT**

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A copy of our annual report on Form 10-K for the fiscal year ended March 31, 2008 (excluding the exhibits thereto) accompanies the proxy materials being mailed to all stockholders. The annual report is not incorporated into this proxy statement and is not considered proxy solicitation material. Stockholders may obtain a copy of the annual report and any of our other filings with the SEC, without charge, by writing to Investor Relations, Iteris, Inc., 1700 Carnegie Avenue, Suite 100, Santa Ana, California 92705. The annual report on Form 10-K (including the exhibits thereto) is also available on the SEC's website at [www.sec.gov](http://www.sec.gov).

### **DEADLINE FOR RECEIPT OF STOCKHOLDER PROPOSALS**

In the event that a stockholder desires to have a proposal considered for presentation at the annual meeting of stockholders to be held in 2009, and included in our proxy statement and form of proxy card used in connection with such meeting, the proposal must be forwarded in writing to our Secretary so that it is received no later than April 8, 2009. Any such proposal must comply with the requirements of Rule 14a-8 promulgated under the Exchange Act.

If a stockholder, rather than including a proposal in the proxy statement as discussed above, commences his or her own proxy solicitation for the 2009 Annual Meeting of Stockholders or seeks to nominate a candidate for election as a director or to propose business for consideration at such meeting, we must receive notice of such proposal on or before June 22, 2009. If the notice is not received on or before June 22, 2009, it will be considered untimely under Rule 14a-4(c)(1) promulgated under the Exchange Act, and we will have discretionary voting authority under proxies solicited for the 2009 Annual Meeting of Stockholders with respect to such proposal, if presented at the meeting.

Please address any stockholder proposals or notices of proposals to our corporate Secretary at our principal executive offices located at 1700 Carnegie Avenue, Suite 100, Santa Ana, California 92705.

#### **OTHER BUSINESS**

The Board of Directors is not aware of any other matter which will be presented for action at the Annual Meeting other than the matters set forth in this proxy statement. If any other matter requiring a vote of the stockholders arise, it is intended that the proxy holders will vote the shares they represent as the Board of Directors may recommend. Discretionary authority with respect to such other matters is granted by the execution of the enclosed proxy card.

THE BOARD OF DIRECTORS OF

ITERIS, INC.

Anaheim, California

July 29, 2008

**PROXY**

**ITERIS, INC.**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned stockholder of ITERIS, INC. hereby appoints ABBAS MOHADDES and JAMES S. MIELE, and each of them, proxies of the undersigned, each with full power to act without the other and with power of substitution, to represent the undersigned at the Annual Meeting of Stockholders of Iteris to be held at the Company's principal executive offices located at 1700 Carnegie Avenue, Suite 100, Santa Ana, CA 92705, on September 19, 2008 at 10:00 a.m. Pacific Time, and at any adjournments or postponements thereof, and to vote all shares of common stock of Iteris held of record by the undersigned on July 22, 2008, with all the powers the undersigned would possess if personally present, in accordance with the instructions on this proxy.

The undersigned hereby revokes any other proxy to vote at such Annual Meeting of Stockholders and hereby ratifies and confirms all that said proxies, and each of them, may lawfully do by virtue hereof.

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THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN ACCORDANCE WITH THE INSTRUCTIONS BELOW, OR IF NO INSTRUCTIONS ARE INDICATED, THIS PROXY WILL BE VOTED FOR PROPOSALS 1 AND 2, AND IN ACCORDANCE WITH THE DISCRETION OF THE PROXY HOLDERS WITH REGARD TO ANY OTHER MATTERS PROPERLY BROUGHT TO A VOTE AT THE ANNUAL MEETING OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF.

x Please mark votes as in this example.

1. Election of Directors

Nominees standing for election by holders of common stock: Richard Char, Kevin C. Daly, Ph.D., Gregory A. Miner, Abbas Mohaddes, John W. Seazholtz, Joel Slutzky and Thomas L. Thomas.

FOR       WITHHOLD AUTHORITY to vote for all nominees listed below

**(Instruction: To withhold authority to vote for any individual nominee, write that nominee's name in the space provided above.)**

2. Ratification of McGladrey & Pullen, LLP as the independent auditors of Iteris for the fiscal year ending March 31, 2009.

FOR       AGAINST       ABSTAIN

MARK HERE FOR ADDRESS CHANGE AND INDICATE NEW ADDRESS

MARK HERE IF YOU PLAN TO ATTEND THE MEETING

Signature:

Date:

Signature:

Date:

(This Proxy must be signed exactly as your name appears hereon. Executors, administrators, trustees, etc., should give full title as such. If the stockholder is a corporation, a duly authorized officer should sign on behalf of the corporation and should indicate his or her title.)

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.