

ITERIS, INC.  
Form PRE 14A  
July 31, 2007

**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

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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 21, 2007**

To the Stockholders of Iteris, Inc.:

NOTICE IS HEREBY GIVEN that the 2007 Annual Meeting of Stockholders (the Annual Meeting ) of Iteris, Inc., a Delaware corporation, will be held on Thursday, September 21, 2007 at 10:00 a.m. Pacific Time, at the Doubletree Hotel Anaheim/Orange County, located at 100 The City Drive, Orange, California 92868, 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 approve the amendment of our certificate of incorporation to increase the number of authorized shares of our common stock by 20,000,000, from 50,000,000 shares to 70,000,000 shares.
3. To approve the Iteris, Inc. 2007 Omnibus Incentive Plan and the issuance of up to 850,000 shares of common stock thereunder.
4. To ratify the appointment of McGladrey & Pullen, LLP as our independent auditors for the fiscal year ending March 31, 2008.
5. 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 25, 2007 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

Anaheim, California  
August , 2007

Abbas Mohaddes  
Chief Executive Officer and President

**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.**  
**1515 South Manchester Avenue**  
**Anaheim, California 92802\***

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**PROXY STATEMENT**  
**FOR THE 2007 ANNUAL MEETING OF STOCKHOLDERS**  
**TO BE HELD SEPTEMBER 21, 2007**

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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 2007 Annual Meeting of Stockholders (the Annual Meeting ) to be held on September 21, 2007 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 the Doubletree Hotel Anaheim/Orange County, located at 100 The City Drive, Orange, California 92868. 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 10, 2007.

**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 25, 2007. At the close of business on the record date, 32,764,826 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.

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 (as described above) 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

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\* We expect that our headquarters and principal operations will be relocated in September 2007 to 1700 East Carnegie Avenue, Santa Ana, California 92705.

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.

Proposal Two requires the approval of the affirmative vote of a majority of the common stock outstanding and entitled to vote on the matter. Proposals Three and Four require the approval of the affirmative vote of a majority of the common stock present in person or represented by proxy at the Annual Meeting and entitled to vote on the matter.

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. Abstentions will be counted towards the tabulations of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes will not be counted for purposes of determining whether a proposal has been approved. The election of directors in Proposal One and the ratification of the selection of the independent auditors in Proposal Four are matters on which a broker or other nominee is generally empowered to vote. Therefore, no broker non-votes will exist in connection with Proposal One or Proposal Four.

### **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 approval of each of the other proposals as described in this proxy statement and the accompanying notice.

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 eleven. We currently have ten directors and one vacancy. Three of the current directors will not be standing for re-election at the Annual Meeting, and the size of the Board will be reduced to seven persons immediately prior to the Annual Meeting.

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, 2007, concerning our directors and director nominees.

Name	Age	Current Position(s) with Iteris	Director Since
Richard Char(1)	48	Director	2005
Kevin C. Daly, Ph.D.(2)(3)	62	Director and Assistant Secretary	1993
Gary Hernandez(3)*	48	Director	2004
Dr. Hartmut Marwitz*	65	Director	2004
Gregory A. Miner	52	Chairman of the Board	1998
Abbas Mohaddes	50	Chief Executive Officer, President, Assistant Secretary and Director	2005
John W. Seazholtz(1)(2)(3)	70	Director	1998
Joel Slutzky	68	Director and Assistant Secretary	1969
Thomas L. Thomas(1)(2)(3)	58	Director	1999
Paul E. Wright*	76	Director	1993

\* Not a director nominee for the Annual Meeting.

- (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 card-based financial solutions, including third-party prepaid 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. Since November 2005, Dr. Daly has served as the Chief Executive Officer of MAXxess Systems, Inc., a provider of electronic security solutions, which he joined in June 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 and, prior to that, he was Chief Executive Officer of ATL Products, Inc., one of our former subsidiaries, from ATL's formation in 1993 until 2001. Dr. Daly also served as our Chief Technical Officer from 1985 until ATL's separation from us in an initial public offering in 1997. Prior to joining us, Dr. Daly was Director of the Control and Dynamics Division of the Charles Stark Draper Laboratory at MIT from 1974 through 1985. Dr. Daly is also a member of the Board of Directors of Danka Business Systems PLC and iStor Networks Inc.

**Gary Hernandez** has served as a director since September 2004. He also served as a director of the Iteris Subsidiary from January 1999 to October 2004. Mr. Hernandez has been a partner in the law firm of Sonnenschein, Nath and Rosenthal LLP since December 1997. From December 1995 to December 1997, Mr. Hernandez was a partner in the law firm of Long & Levit. Mr. Hernandez served as Deputy Insurance Commissioner of California from April 1991 to November 1995. Mr. Hernandez received his B.A. degree from the University of California, Berkeley and his J.D. degree from the University of California, Davis.

**Dr. Hartmut Marwitz** has served as a director since September 2004. Dr. Marwitz also served as a director of the Iteris Subsidiary from 1999 to October 2004 and has served as the Vice-President of Engineering Mercedes-Benz Trucks of DaimlerChrysler in Germany since 1995. Previously, Dr. Marwitz served with Daimler-Benz AG as Director of Truck Powertrain Testing. Furthermore, Dr. Marwitz has broad experiences in the field of passenger car development. Before joining Daimler-Benz AG, Dr. Marwitz worked as Senior Manager for Rheinmetall in the field of Special Machinery Development in Germany and Spain. Dr. Marwitz holds an Engineering Degree in Mechanical Engineering and a Doctoral Degree in Experimental Mechanics from the Technical University of Munich, Germany. Since 2003, Dr. Marwitz has held an honorary professorship as the Chair of Machine and Design at the Institute of



Machine Design and Automotive Engineering at the Technical University of Karlsruhe (Germany).

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*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 directors 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.

*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 iManage, Inc.

*Paul E. Wright* has served as a director since June 1993. He also served as a director of the Iteris Subsidiary from January 1999 to October 2004. Mr. Wright is the President of Wright Associates Engineering and Business Consultants, a company he formed in 1997. From 1988 until his retirement in 1997, Mr. Wright served as the Chairman of Chrysler Technologies Corp., the aerospace and defense electronics subsidiary of Chrysler Corporation. From 1986 to 1988, Mr. Wright served as the President and Chief Operating Officer of Fairchild Industries, Inc. Prior to joining Fairchild, he was employed for 28 years by RCA Corporation, where he last served as the Senior Vice President, responsible for planning RCA's merger into General Electric Corporation.

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All directors are elected annually and hold office until the next annual meeting of stockholders and until their successors are duly elected and qualified. All of the nominees have indicated that they are willing to continue to serve as directors. In the event any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for an additional nominee who shall be designated by the current Board of Directors. As of the date of this proxy statement, the Board of Directors is not aware of any nominee who is unable or unwilling to serve as director.

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## 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

The Board of Directors held six meetings during the fiscal year ended March 31, 2007 ( Fiscal 2007 ). All of the directors attended or participated in at least 75% of the aggregate number of meetings of the Board of Directors. Each director attended at least 75% of the aggregate number of meetings of those committees of the Board of Directors on which such person served, which were held during such period. 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 available on the Investor Relations section of our website at [www.iteris.com](http://www.iteris.com).

**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 held nine meetings during Fiscal 2007.

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, 2008 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 held one meeting during Fiscal 2007.

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, Hernandez, Seazholtz 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 Nominating and Corporate Governance Committee held one meeting during Fiscal 2007.

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 Nomination 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 Nomination 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, Nomination 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 Automatic Option Grant Program under our 1997 Stock Incentive Plan. Under this plan, each non-employee director received 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. Each option granted to non-employee directors under the Automatic Option Grant Program had 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. The 1997 Stock Incentive Plan will expire prior to the Annual Meeting. If the 2007 Omnibus Incentive Plan is approved by the stockholders, non-employee directors will be eligible to receive periodic option grants pursuant to the Automatic Option Grant Program of the new plan, having substantially the same terms as the grants under the 1997 Stock Incentive 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., 1515 South Manchester Avenue, Anaheim, California 92802.\*

**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. Eight of our current directors attended our 2006 annual meeting of stockholders.

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\* We expect that our headquarters and principal operations will be relocated in September 2007 to 1700 East Carnegie Avenue, Santa Ana, California 92705.

**PROPOSAL TWO:**

**APPROVAL OF THE AMENDMENT OF THE CERTIFICATE OF INCORPORATION  
TO INCREASE THE AUTHORIZED SHARES OF COMMON STOCK**

Under our present capital structure, we are authorized to issue 50,000,000 shares of common stock, par value \$0.10 per share, and 2,000,000 shares of preferred stock, par value \$1.00 per share. The Board believes this capital structure is inadequate for our present and future needs. Therefore, the Board has approved the amendment of Paragraph 1 of Article FOURTH of our Certificate of Incorporation to increase the number of shares of common stock authorized for issuance by 20,000,000 shares, from 50,000,000 to 70,000,000 shares. The Board believes this capital structure more appropriately reflects our present and future needs and recommends that the stockholders approve such amendment. On July 25, 2007, 32,764,826 shares of the common stock and no shares of preferred stock were outstanding. In addition, as of June 30, 2007, 4,869,330 shares were issuable upon exercise of outstanding options; 1,317,361 shares were issuable upon exercise of outstanding warrants, and 2,728,532 shares were issuable upon conversion of outstanding convertible debentures.

**Purpose of Authorizing Additional Common Stock**

The authorization of an additional 20,000,000 shares of common stock would give the Board the express authority to issue such shares of common stock from time to time as the Board deems necessary. The Board believes it is necessary to have the ability to issue such additional shares of common stock for any proper corporate purpose, such as for future acquisitions, option grants, and convertible debt and equity financings.

We have no present specific plans, understandings or agreements for the issuance of the proposed additional shares of common stock. The Board of Directors, however, believes that if an increase in the authorized number of shares of common stock were to be postponed until a specific need arose, the delay and expense incident to obtaining the approval of our stockholders at that time could significantly impair our ability to meet financing requirements or other objectives. The additional shares of common stock would be available for issuance by the Board without any future action by the stockholders, unless such action were specifically required by applicable law or the rules of any stock exchange or quotation system on which our securities may then be listed.

**Possible Effects of Increase in Authorized Shares**

The proposed increase in the authorized number of shares of common stock could have a number of effects on our stockholders depending upon the exact nature and circumstances of any actual issuances of authorized but unissued shares. The increase could have an anti-takeover effect, in that additional shares could be issued (within the limits imposed by applicable law) in one or more transactions that could make a change in control or takeover of us more difficult. For example, additional shares could be issued by us to dilute the stock ownership or voting rights of persons seeking to obtain control of us. Similarly, the issuance of additional shares to certain persons allied with our management could have the effect of making it more difficult to remove our current management by diluting the stock ownership or voting rights of persons seeking to cause such removal. In addition, an issuance of additional shares by us could have an effect on the potential realizable value of a stockholder's investment. In the absence of a proportionate increase in our earnings and book value, an increase in the aggregate number of outstanding shares of the common stock caused by the issuance of additional shares would dilute the earnings per share and book value per share of all outstanding shares of our capital stock. If such factors were reflected in the price per share of common stock, the potential realizable value of a stockholder's investment could be adversely affected.

**Stockholder Approval**

The affirmative votes of a majority of all outstanding shares of the common stock entitled to vote is required for approval of the amendment of our Certificate of Incorporation to increase the number of authorized shares of common stock issuable thereunder by 20,000,000 shares, from 50,000,000 shares to 70,000,000 shares.



**Recommendation of the Board of Directors**

**The Board of Directors recommends that the stockholders vote FOR the amendment of the Certificate of Incorporation to increase the authorized number of shares of common stock by 20,000,000, from 50,000,000 shares to 70,000,000 shares.**

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**PROPOSAL THREE:**

**APPROVAL OF 2007 OMNIBUS INCENTIVE PLAN**

On July 19, 2007, the Board of Directors adopted the 2007 Omnibus Incentive Plan (the 2007 Plan ), subject to stockholder approval. If approved by the stockholders, the 2007 Plan will become effective as of the date of the stockholder approval. Our 1997 Stock Incentive Plan (the 1997 Plan ) will terminate in September 2007 prior to the Annual Meeting; however, all outstanding awards under our 1997 Plan will remain outstanding pursuant to the terms of such options. This proposal, and the effectiveness of the 2007 Plan, will not affect awards already granted under the 1997 Plan. As of June 30, 2007, there were options outstanding to purchase 4,869,330 shares of common stock, granted under the 1997 Plan or assumed in connection with our October 2004 merger with our Iteris Subsidiary, and aggregate remaining authority to grant awards for the issuance of 35,088 shares of common stock under our 1997 Plan.

We are required to obtain stockholder approval of the 2007 Plan under the rules of the American Stock Exchange. Such approval is also necessary to permit us to grant incentive stock options to employees under Section 422 of the Internal Revenue Code, as amended (the Code ), and to ensure that compensation paid under the 2007 Plan is eligible for an exemption from the limits on tax deductibility imposed by Section 162(m) of the Code, which limits the deductibility of certain compensation paid to individuals who are, at the end of the tax year for which we would otherwise claim our tax deduction, our chief executive officer and our four other most highly paid executive officers.

Our stockholders are being asked to approve the 2007 Plan and to authorize the issuance of 850,000 shares of common stock thereunder. The Board believes that the 2007 Plan is necessary for us to be able to attract and retain the services of individuals essential to our long-term growth and success.

**2007 Omnibus Incentive Plan**

The following is a summary of the principal features of the 2007 Plan and is qualified in its entirety by reference to the 2007 Plan. A copy of the 2007 Plan document as proposed to be adopted may be found at Appendix A at the end of this proxy statement. Any stockholder who wishes to obtain an additional copy of the actual plan document may do so upon written request to us at our principle executive offices.

*Purpose.* The 2007 Plan is designed to serve as a comprehensive equity incentive program to attract and retain the services of individuals essential to our long-term growth and financial success. Accordingly, our officers and other employees, non-employee directors and other consultants and advisors will have the opportunity to acquire a meaningful equity interest in the Company through their participation in the 2007 Plan.

*Administration.* Both the Board and the Compensation Committee have the authority to administer the 2007 Plan. The Board may at any time appoint a secondary committee comprised of two or more directors to have concurrent authority to make grants and issuances of any equity-based instruments permissible under the 2007 Plan to individuals other than executive officers and non-employee directors. The committee administering the 2007 Plan will have full power and authority to determine when and to whom awards will be granted, and the type, amount, form of payment and other terms and conditions of each award, consistent with the provisions of the 2007 Plan. Subject to the provisions of the 2007 Plan, the committee may amend or waive the terms and conditions, or accelerate the exercisability, of an outstanding award. The committee has authority to interpret the 2007 Plan, and establish rules and regulations for the administration of the 2007 Plan. In addition, the Board may exercise the powers of the committee at any time, except with respect to the grant of awards to our executive officers and non-employee directors.

*Eligible Participants.* Any employee, officer, consultant, advisor or director providing services to us or any of our affiliates (including our current and future subsidiaries), who is selected by the committee, is eligible to receive an award under the 2007 Plan. As of July 25, 2007, 245 employees (including officers) and nine non-employee directors were eligible to be selected by the committee to receive awards under the 2007 Plan.

*Shares Available For Awards.* The aggregate number of shares of common stock that may be issued under all stock-based awards made under the 2007 Plan will be 850,000. The shares of common stock issuable under the 2007 Plan may be drawn from shares of authorized but unissued common stock or from shares of common stock that the Company acquires.

A maximum of 850,000 shares will be available for granting incentive stock options under the 2007 Plan, subject to the provisions of Section 422 or 424 of the Code or any successor provision. In addition, no person may be granted under the 2007 Plan stock options or SARs (defined below) with respect to more than 500,000 shares of common stock in the aggregate within any fiscal year.

The committee may adjust the number of shares and share limits described above in the case of a stock dividend or other distribution, including a stock split, merger or other similar corporate transaction or event, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be provided under the 2007 Plan.

If any shares of our common stock subject to any award or to which an award relates are forfeited or are reacquired by the Company, or if any award terminates without the delivery of any shares, the shares previously set aside for such awards will be available for future awards under the 2007 Plan.

*Types of Awards and Terms and Conditions.* The 2007 Plan permits the granting of:

- stock options (including both incentive and non-qualified stock options);
- stock appreciation rights ( SARs );
- restricted stock and restricted stock units;
- performance awards of cash, stock or property;
- dividend equivalents;