
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from to

Commission file number: 001-08762

ITERIS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

95-2588496

(I.R.S. Employer
Identification No.)

**1515 South Manchester Avenue
Anaheim, California**

(Address of principal executive office)

92802

(Zip Code)

(714) 774-5000

(Registrant's telephone number, including area code)

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

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Yes No

As of August 13, 2007, the registrant had 32,858,572 shares of common stock outstanding

ITERIS, INC.
Quarterly Report on Form 10-Q
For the Three Months Ended June 30, 2007

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

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

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ITERIS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	June 30, 2007 (unaudited)	March 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,214	\$ 35
Trade accounts receivable, net of allowance for doubtful accounts of \$721 and \$664 at June 30, 2007 and March 31, 2007, respectively	9,671	11,493
Costs and estimated earnings in excess of billings on uncompleted contracts	5,364	3,689
Inventories, net of reserve for inventory obsolescence of \$855 and \$844 at June 30, 2007 and March 31, 2007, respectively	5,921	6,379
Deferred income taxes	535	494
Prepaid expenses and other current assets	771	385
Total current assets	<u>24,476</u>	<u>22,475</u>
Property and equipment, net	1,700	1,712
Deferred income taxes	2,388	2,533
Intangible assets, net of accumulated amortization of \$445 and \$408 at June 30, 2007 and March 31, 2007, respectively	367	404
Goodwill	27,774	27,774
Other assets	442	352
Total assets	<u>\$ 57,147</u>	<u>\$ 55,250</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 3,459	\$ 3,542
Accrued payroll and related expenses	3,469	3,527
Accrued liabilities	2,172	1,618
Billings in excess of costs and estimated earnings on uncompleted contracts	840	847
Revolving line of credit	4,437	4,015
Current portion of long-term debt	1,624	1,947
Total current liabilities	<u>16,001</u>	<u>15,496</u>
Non-current accrued liabilities	140	163
Deferred compensation plan liability	401	730
Long-term debt	9,487	9,760
Total liabilities	<u>26,029</u>	<u>26,149</u>
Commitments and contingencies		
Redeemable common stock, 1,219 shares issued and outstanding at June 30, 2007 and March 31, 2007	3,414	3,414
Stockholders' equity:		
Preferred stock, \$1.00 par value, 2,000 shares authorized, none issued and outstanding at June 30, 2007 and March 31, 2007	—	—
Common stock, \$0.10 par value, 50,000 shares authorized, 31,513 and 30,601 shares issued or issuable and outstanding at June 30, 2007 and March 31, 2007, respectively	3,151	3,060
Additional paid-in capital	131,302	130,425
Common stock held in trust, 167 and 311 shares at June 30, 2007 and March 31, 2007, respectively	(202)	(374)
Notes receivable from employees	—	(5)
Accumulated deficit	(106,566)	(107,438)
Accumulated other comprehensive income	19	19
Total stockholders' equity	<u>27,704</u>	<u>25,687</u>
Total liabilities and stockholders' equity	<u>\$ 57,147</u>	<u>\$ 55,250</u>

See accompanying notes to unaudited condensed consolidated financial statements.

ITERIS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Three Months ended June 30,	
	2007	2006
Net sales and contract revenues:		
Net sales	\$ 10,244	\$ 8,600
Contract revenues	5,513	5,216
Total net sales and contract revenues	15,757	13,816
Costs of net sales and contract revenues:		
Cost of net sales (a)	5,175	4,758
Cost of contract revenues (a)	3,488	3,339
Gross profit	7,094	5,719
Operating expenses:		
Selling, general and administrative (a)	4,458	4,001
Research and development (a)	994	1,003
Deferred compensation plan	31	(66)
Amortization of intangible assets	37	36
Total operating expenses	5,520	4,974
Operating income	1,574	745
Non-operating income (expense):		
Other income (expense), net	19	(690)
Interest expense, net	(363)	(386)
Income (loss) before income taxes	1,230	(331)
Income tax (provision) benefit	(134)	610
Net income	\$ 1,096	\$ 279
Earnings per share:		
Basic	\$ 0.03	\$ 0.01
Diluted	\$ 0.03	\$ 0.01
Weighted average shares outstanding:		
Basic	32,089	28,393
Diluted	34,317	32,368

(a)	Includes stock-based compensation expense as follows:			
	Cost of net sales	\$	1	\$ 5
	Cost of contract revenues		3	29
	Selling, general and administrative expense		59	54
	Research and development expense		3	12
	Total	\$	66	\$ 100

See accompanying notes to unaudited condensed consolidated financial statements.

ITERIS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended	
	June 30,	
	2007	2006
Cash flows from operating activities		
Net income	\$ 1,096	\$ 279
Adjustments to reconcile net income to net cash provided (used in) by operating activities:		
Change in deferred tax assets	104	(456)
Depreciation and amortization of property and equipment	149	130
Stock-based compensation expense	66	100
Amortization of deferred gain on sale—leaseback transaction	(71)	(71)
Amortization of debt discount	52	52
Amortization of intangible assets	37	36
Amortization of deferred financing costs	35	34
Issuance of warrants for services		
Changes in operating assets and liabilities:		
Accounts receivable	1,822	914
Net costs and estimated earnings in excess of billings	(1,682)	(1,130)
Inventories	458	(175)
Prepaid expenses and other assets	(511)	(551)
Accounts payable and accrued liabilities	308	239
Net cash provided by (used in) operating activities	<u>1,863</u>	<u>(599)</u>
Cash flows from investing activities		
Purchases of property and equipment	(137)	(142)
Cash flows from financing activities		
Net borrowings on line of credit	422	847
Payments on long-term debt	(648)	(333)
Change in checks drawn in excess of available bank balances	(47)	153
Proceeds from stock option exercises	726	168
Net cash provided by financing activities	<u>453</u>	<u>835</u>
Increase in cash	2,179	94
Cash at beginning of period	35	131
Cash at end of period	<u>\$ 2,214</u>	<u>\$ 225</u>
Supplemental cash flow information:		
Cash paid during the period:		
Interest	\$ 301	\$ 301
Income taxes	48	40
Supplemental schedule of non-cash investing and financing activities:		
Fair value of common stock issued in settlement of liabilities	\$ 350	\$ —
Write-off of notes receivable from employees	(5)	—

See accompanying notes to unaudited condensed consolidated financial statements.

ITERIS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Iteris, Inc. is a leading provider of outdoor machine vision systems and sensors that help to optimize the flow of traffic and enhance driver safety. Using proprietary software and Intelligent Transportation Systems (“ITS”) industry expertise, the Company provides video sensor systems, transportation management and traveler information systems and other engineering consulting services to the ITS industry. The ITS industry is comprised of companies applying a variety of technologies to enable the safe and efficient movement of people and goods. The Company uses its outdoor image recognition software expertise to develop proprietary algorithms for video sensor systems that improve vehicle safety and the flow of traffic. Using its knowledge of the ITS industry, the Company designs and implements transportation management systems that help public agencies reduce traffic congestion and provide greater access to traveler information. The Company was originally incorporated in Delaware in 1987. On October 22, 2004, the Company completed a merger with its majority-owned subsidiary, Iteris, Inc. (the “Iteris Subsidiary”), and officially changed its corporate name from Iteris Holdings, Inc. to Iteris, Inc.

Basis of Presentation

The unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Securities and Exchange Commission (“SEC”) Form 10-Q and Article 10 of SEC Regulation S-X. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the consolidated financial position of the Company as of June 30, 2007, the consolidated results of operations for the three months ended June 30, 2007 and 2006, and the consolidated cash flows for the three months ended June 30, 2007 and 2006. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the SEC. The results of operations for the three months ended June 30, 2007, are not necessarily indicative of those to be expected for the entire year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended March 31, 2007, which was filed with the SEC on June 21, 2007.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made in the preparation of the consolidated financial statements include the allowance for doubtful accounts, deferred tax assets, inventory and warranty reserves, costs to complete long-term contracts, overhead rates used in cost-plus contracts, contract reserves and estimates of future cash flows used to assess the recoverability of long-lived assets, the valuation of debt and equity instruments and the realization of goodwill.

Reclassifications

Certain amounts in the prior period financial statements have been reclassified to conform with current year presentation.

Revenue Recognition

Product revenues and related costs of sales are recognized upon the transfer of title, which generally occurs upon shipment or, if required, upon acceptance by the customer, provided that the Company believes collectibility of the net sales amount is probable. Accordingly, at the date revenue is recognized, the significant uncertainties concerning the sale have been resolved.

Contract revenues are derived primarily from long-term contracts with governmental agencies. Contract revenues include costs incurred plus a portion of estimated fees or profits determined on the percentage of completion method of accounting based on the relationship of costs incurred to date to total estimated costs. Any anticipated losses on contracts are charged to earnings when identified. Changes in job performance and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and revenues and are recognized in the period in which the revisions are determined. Profit incentives are included in revenue when their realization is reasonably assured.

In addition to product and contract revenue, the Company derives revenue from technology access fees, the provision of specific non-recurring contract engineering services and royalties. Technology access fee revenues are recognized evenly over the period in which they are earned. Non-recurring contract engineering revenues are recognized in the period in which the related services are performed. Royalty revenues are recorded in the period in which the royalty is earned, based on unit sales of the Company's products. Technology access fee revenues, contract engineering revenues and royalty revenues are included in net sales in the accompanying condensed consolidated statements of operations.

Revenues from follow-on service and support, for which the Company charges separately, are recorded in the period in which the services are performed.

Concentration of Credit Risk

Accounts receivable are primarily derived from revenues earned from customers located throughout North America and Europe. The Company generally does not require collateral or other security from customers. Collectibility of receivable balances is estimated through review of invoices outstanding greater than a certain period of time and ongoing credit evaluations of customers' financial condition. Reserves are maintained for potential credit losses, and such losses have historically been within management's expectations.

Fair Values of Financial Instruments

The fair values of cash and cash equivalents, receivables, inventories, accounts payable and accrued expenses approximate carrying value because of the short period of time to maturity. The fair values of line of credit agreements and long-term debt approximate carrying value because the related rates of interest approximate current market rates. The fair value of convertible debentures approximates carrying value because the effective interest rate, taking into account recorded debt discounts, approximates current market rates. The estimated fair value of redeemable common stock was \$2.9 million and \$2.8 million at June 30, 2007 and March 31, 2007, respectively, based on the closing price of the Company's common stock on those dates.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Property and Equipment

Property and equipment are recorded at cost and are generally depreciated using the straight-line method over the estimated useful life ranging from three to eight years. Leasehold improvements are depreciated over the term of the related lease or the estimated useful life of the improvement, whichever is shorter.

Goodwill and Long-Lived Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Intangible Assets*, goodwill is tested for impairment on an annual basis in the Company's fourth fiscal quarter or more frequently if indicators of impairment exist, of which none have been identified. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair value of the Company's reporting units with each respective reporting unit's carrying amount, including goodwill. The Company determines the fair value of reporting units using the income approach. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the second step of the goodwill impairment test is performed to determine the amount of any impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill.

The Company evaluates long-lived assets for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which requires impairment evaluation on long-lived assets used in operations when indicators of impairment are present. Reviews are performed to determine whether the carrying value of assets is impaired, based on a comparison to undiscounted expected future cash flows. If this comparison indicates that there is impairment, the impaired asset is written down to fair value, which is typically calculated using discounted expected future cash flows and a discount rate based upon the Company's weighted average cost of capital adjusted for risks associated with the related operations. Impairment is based on the excess of the carrying amount over the fair value of those assets.

Income Taxes

The Company utilizes the liability method of accounting for income taxes as set forth in SFAS No. 109, *Accounting for Income Taxes* ("SFAS 109"). Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates. A valuation allowance is recorded when it is more likely than not that all or a portion of the deferred tax assets will not be realized.

Stock-Based Compensation

Effective April 1, 2006, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"), which requires all stock-based payments, including grants of employee stock options, to be recognized in the statement of operations as an expense, based on their grant date fair values with such fair values amortized over the requisite service period. The Company elected to use the modified prospective transition method for transition to SFAS 123R. Under the modified prospective method, SFAS 123R applies to all awards granted or modified after the date of adoption. In addition, under the modified prospective method, compensation expense is recognized for all stock-based compensation awards granted prior to but not yet vested as of April 1, 2006, based on grant-date fair values estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*.

Research and Development Expenditures

Research and development expenditures are charged to expense in the period incurred.

Shipping and Handling Costs

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

Sales Taxes

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

Warranty

The Company generally provides a one to three year warranty from the original invoice date on all products, materials and workmanship. Products sold to certain original equipment manufacturer ("OEM") customers sometimes carry longer warranties. Defective products will be either repaired or replaced, generally at the Company's option, upon meeting certain criteria. The Company accrues a provision for the estimated costs that may be incurred for product warranties relating to a product as a component of cost of sales at the time revenue for that product is recognized. The accrued warranty provision is included within accrued expenses on the accompanying condensed consolidated balance sheets.

Repair and Maintenance Costs

The Company incurs repair and maintenance costs in the normal course of business. Should the activity result in a permanent improvement to one of the Company's leased facilities, the cost is capitalized as a leasehold improvement and amortized over its useful life or the remainder of the lease period, whichever is shorter. Non-permanent repair and maintenance costs are charged to expense as incurred.

Other Comprehensive Income

The only component of accumulated other comprehensive income is foreign currency translation adjustments.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (the "FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 applies to all tax positions accounted for under SFAS 109, and defines the confidence level that a tax position must meet in order to be recognized in the financial statements. The interpretation requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained by the taxing authority as of the reporting date. If a tax position is not considered "more-likely-than-not" to be sustained then no benefits of the position are to be recognized. FIN 48 requires additional disclosures and is effective as of the beginning of the first fiscal year beginning after December 15, 2006. As further discussed in Note 4, the Company adopted FIN 48 effective April 1, 2007.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. SFAS 157 does not require any new fair value measurements; rather it specifies valuation methods to be applied when fair value measurements are required under existing or future accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early application of the statement is encouraged. Generally, this statement will be applied prospectively. The Company is currently evaluating the impact of SFAS 157 and expects to adopt SFAS 157 in the first quarter of its fiscal year ending March 31, 2009.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is evaluating the impact that the adoption of SFAS 159 will have on its results of operations and financial condition and expects to adopt SFAS 159 in its fiscal year ending March 31, 2009.

2. Supplemental Financial Information

Inventories

The following table presents details of the Company's inventories:

	June 30, 2007	March 31, 2007
	(In thousands)	
Materials and supplies	\$ 4,478	\$ 4,705
Work in process	334	366
Finished goods	1,109	1,308
	<u>\$ 5,921</u>	<u>\$ 6,379</u>

Intangible Assets

	June 30, 2007		March 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Developed technology	\$ 495	\$ (306)	\$ 495	\$ (280)
Patents	317	(139)	317	(128)
Total	<u>\$ 812</u>	<u>\$ (445)</u>	<u>\$ 812</u>	<u>\$ (408)</u>

Amortization expense for intangible assets subject to amortization was \$37,000 and \$36,000 for the three months ended June 30, 2007 and 2006, respectively. Future estimated amortization expense for the remainder of the current fiscal year and the next four fiscal years is as follows:

Fiscal Year Ending March 31:	
(In thousands)	
2008	\$ 110
2009	147
2010	58
2011	46
2012	6
	<u>\$ 367</u>

Warranty Reserve Activity

The following table presents activity in accrued warranty obligations:

	Three Months Ended	
	June 30,	
	2007	2006
	(In thousands)	
Balance at beginning of period	\$ 520	\$ 519
Additions charged to cost of sales	99	135
Warranty claims	(50)	(64)
Balance at end of period	<u>\$ 569</u>	<u>\$ 590</u>

Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended	
	June 30,	
	2007	2006
	(In thousands, except per share amounts)	
Numerator:		
Net income	\$ 1,096	\$ 279
Denominator:		
Weighted average common shares used in basic computation	32,089	28,393
Dilutive stock options	2,197	3,417
Dilutive warrants	31	558
Weighted average common shares used in dilutive computation	<u>34,317</u>	<u>32,368</u>
Earnings (loss) per share:		
Basic	\$ 0.03	\$ 0.01
Diluted	\$ 0.03	\$ 0.01

The following shares were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive:

	Three Months Ended	
	June 30,	
	2007	2006
	(In thousands)	
Stock options	668	525
Warrants	1,190	1,380
Convertible debentures	2,729	2,729

3. Revolving Line of Credit and Long-Term Debt

Revolving Line of Credit

In October 2006, the Company replaced its former credit facility and entered into a new two-year credit facility with a different bank. The new facility provides for combined line of credit and bank term note borrowings of up to \$8.0 million. Under the new credit facility, the Company may borrow against its eligible accounts receivable and eligible inventory, as defined in the credit agreement. Line of credit interest on borrowed amounts is payable monthly at the current stated prime rate plus 1.25% (9.50% at June 30, 2007). Additionally, the Company is obligated to pay an unused line fee of 0.25% per annum applied to the amount by which the maximum credit amount exceeds the average daily principal balance during the preceding month. The new credit facility requires \$2,000 in monthly collateral management fees and includes an early termination fee equal to 2% of the total facility during the first year of the agreement and 1% of the total facility in the second year of the agreement. Additionally, the Company paid a commitment fee of \$40,000 in October 2006 and is obligated to pay an additional \$40,000 on the one-year anniversary of the facility. The new credit facility is secured by substantially all of the assets of the Company.

On June 30, 2007, the available credit under the credit facility was \$8.0 million, of which \$2.3 million was unused.

Long-Term Debt

The Company's long-term debt consists of the following:

	June 30, 2007	March 31, 2007
	(In thousands)	
Convertible debentures, net	\$ 9,462	\$ 9,410
Bank term note	1,258	1,573
Promissory note to landlord	323	646
Other	68	78
	<u>11,111</u>	<u>11,707</u>
Less current portion	<u>(1,624)</u>	<u>(1,947)</u>
	<u>\$ 9,487</u>	<u>\$ 9,760</u>

Convertible Debentures, Net. In May 2004, the Company sold and issued subordinated convertible debentures in the aggregate original principal amount of \$10.1 million. In connection with the issuance of the debentures, the Company issued warrants to purchase an aggregate of 639,847 shares of its common stock, the value of which was recorded as a debt discount against the face amount of the debentures on the date of issuance and is being amortized to interest expense over the term of the convertible debentures.

The debentures are due in full on May 19, 2009, provide for 6.0% annual interest, payable quarterly, and are convertible into the Company's common stock at an initial conversion price of \$3.61 per share, subject to certain adjustments, including adjustments for dilutive issuances. From May 19, 2008, until the maturity date, the Company may redeem the debentures at 110% of the principal amount. As of June 30, 2007, \$250,000 of convertible debentures had been converted into 69,252 shares of common stock leaving \$9.9 million of the originally issued convertible debentures outstanding at June 30, 2007.

Bank Term Note. In October 2004, the Company entered into a \$5.0 million term note payable with a bank. The note was due on May 27, 2008, and provided for monthly principal payments of approximately \$104,000. Interest accrued at the current stated prime rate plus 0.25%. In October 2006, the term note was assumed by the Company's new bank as part of the Company's new \$8.0 million credit facility. The new term note is also due on May 27, 2008 and provides for monthly principal payments of approximately \$104,000. Interest accrues under the new term note at the current stated prime rate plus 1.25% (9.50% at June 30, 2007). Amounts due under the term note reduce the Company's ability to borrow against its eligible assets on its line of credit.

Both the new bank term note and the new line of credit are held by one bank under the same credit agreement and are secured by substantially all of the assets of the Company.

Promissory Note to Landlord. The Company had an unsecured promissory note payable to the landlord of its Anaheim headquarters. Under the terms of the note agreement, interest is payable quarterly and accrues at a rate of prime plus 2.0% (10.25% at June 30, 2007). In October 2006, January 2007, April 2007 and July 2007, the Company made four required equal quarterly principal payments of \$323,000. As of July 1, 2007, all interest and principal under this note was paid in full.

Scheduled aggregate maturities of long-term debt principal as of June 30, 2007 were as follows:

Fiscal Year Ending March 31,	
(In thousands)	
2008	\$ 1,299
2009	350
2010	9,850
	11,499
Less: unamortized debt discount	(388)
	\$ 11,111

4. Income Taxes

On April 1, 2007, the Company adopted FIN 48. In connection with the adoption of FIN 48, the Company recognized an adjustment of approximately \$224,000 to the beginning balance of retained earnings on its consolidated balance sheet. The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of June 30, 2007, the Company had recorded approximately \$39,000 of accrued interest and penalties related to uncertain tax positions.

At April 1, 2007, the Company's fiscal 2004 through fiscal 2007 tax years remain open to examination by the Federal taxing authorities. The Company's fiscal 2003 through fiscal 2007 tax years remain open to examination by the state taxing authorities. However, the Company has consolidated and acquired NOLs beginning in fiscal 1995 which would cause the statute of limitations to remain open for the year in which the NOL was incurred.

5. Commitments and Contingencies

Litigation and Other Contingencies

On June 29, 2004, a supplier to Mariner Networks, Inc., a former subsidiary of the Company that was discontinued in the fiscal year ended March 31, 2002, filed a complaint in Orange County Superior Court against the Company alleging various breaches of written contract claims arising out of alleged purchase orders. The plaintiff in this lawsuit sought monetary damages aggregating approximately \$850,000 plus attorney fees and related costs. On July 20, 2006, the Company entered into a settlement agreement in connection with this matter. The dispute was settled in full for \$688,000 payable as follows: (i) the Company issued 88,912 shares of the Company's common stock on August 18, 2006 valued at \$213,000 based on the closing sales price of the Company's common stock on the date of issuance; (ii) the Company made a cash payment of \$125,000 on October 20, 2006; and (iii) the Company is obligated to pay \$350,000 in cash in equal monthly installments of \$9,700 over three years beginning in November 2006. In connection with this settlement, the Company recorded a charge of \$688,000, representing the fair value of the settlement, to other expense in the accompanying condensed consolidated statement of operations for the three months ended June 30, 2006.

In August 2007, the Company received a complaint filed by American Signal Company against the Company and six other defendants, in the United States District Court, Middle District of Louisiana and which alleges negligence and other charges in connection with a contract to which the Company was a third party engineering service provider. The Company is reviewing the complaint, however, does not believe that this matter will ultimately have a material adverse effect on its consolidated results of operations, financial position or cash flows.

From time to time, the Company has been involved in litigation relating to claims arising out of its operations in the normal course of business. The Company currently is not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on its consolidated results of operations, financial position or cash flows.

Furthermore, from time to time, the Company has experienced unforeseen developments in contingencies related to its former subsidiaries. For example, the Company has been the subject of a number of routine tax audits for time periods and jurisdictions related to the businesses of its former subsidiaries, some of which are still in process. Although the development and ultimate outcome of these and other unforeseen matters cannot be predicted with any certainty, management does not believe that the Company is presently involved in any matters related to its former subsidiaries that would have a material adverse effect on the Company's consolidated results of operations, financial position or cash flows.

Operating Lease Commitments

The Company has lease commitments for facilities in various locations throughout the United States. Future commitments under these non-cancelable operating leases at June 30, 2007 were as follows:

Fiscal Year Ending March 31,	
(In thousands)	
Remainder of 2008	\$ 883
2009	1,398
2010	1,391
2011	1,348
2012	1,332
Thereafter	3,823
Total	\$ 10,175

The Company subleases 10,000 square feet of space in its 94,000 square foot Anaheim, California facility at a monthly rate of \$10,000 to MAXxess Systems, Inc. ("MAXxess"), a former subsidiary of the Company that was sold in September 2003 and is currently owned by an investor group that includes one of the Company's directors. Another member of the Company's board of directors is the Chief Executive Officer of MAXxess. At June 30, 2007, MAXxess owed the Company an aggregate of \$229,000 related to this sublease and certain ancillary services provided by the Company to MAXxess. The Company previously had written off amounts aggregating \$183,000 of this balance due to MAXxess' inability to pay these obligations. During the three months ended June 30, 2007, the Company wrote off all incremental amounts charged to MAXxess, which aggregated \$46,000. The Company intends to pursue full payment of any and all amounts due from MAXxess under this sublease, which terminates in September 2007.

Inventory Purchase Commitments

At June 30, 2007, the Company had firm commitments to purchase inventory in the amount of \$3.2 million during the next two fiscal quarters.

6. Stock-Based Compensation

The Company's 1997 Stock Incentive Plan (the "Plan") provides that options to purchase shares of the Company's unissued common stock may be granted to directors, associates and consultants to the Company at exercise prices which are equal to or greater than the fair market value of the Company's common stock on the date of grant. Options expire ten years after the date of grant or 90 days after termination of employment and generally vest ratably at the rate of 25% on each of the first four anniversaries of the grant date. New shares are issued to satisfy stock option exercises under the Plan. As of June 30, 2007, options to purchase 1.5 million shares of the Company's common stock were outstanding under the Plan.

In connection with the merger of the Company and the Iteris Subsidiary (Note 1), the Company assumed the 1998 Stock Incentive Plan of the Iteris Subsidiary (the "1998 Plan") and all outstanding options granted thereunder. As of June 30, 2007, options to purchase 3.2 million shares of the Company's common stock were outstanding under the 1998 Plan. No further options may be granted under the 1998 Plan.

Certain options granted under the Plan and the 1998 Plan (collectively, the "Plans") provide for accelerated vesting of unvested options in the event of a change in control under certain circumstances. These change-in-control provisions meet the criteria of a performance condition under SFAS 123R.

As of June 30, 2007, the Company had 112,000 outstanding stock options that were originally granted outside of the Plans and that were assumed by the Plan in connection with the merger of the Company and the Iteris Subsidiary (Note 1).

A summary of activity in the Plans for the three months ended June 30, 2007 is as follows:

Options	Weighted Average Exercise Price	Weighted Average Remaining Life (In Years)		Aggregate Intrinsic Value
		(In thousands, except per share amounts)		
Options outstanding at March 31, 2007	5,818	\$ 1.60	3.4	\$ 6,115
Granted	—	N/A	N/A	
Exercised	(913)	\$ 0.79	N/A	
Forfeited	(17)	\$ 3.16	N/A	
Expired	(19)	\$ 4.29	N/A	
Options outstanding at June 30, 2007	4,869	\$ 1.74	3.7	\$ 4,396
Vested and expected to vest at June 30, 2007	4,794	\$ 1.72	3.6	\$ 4,389
Options exercisable at June 30, 2007	4,418	\$ 1.66	3.2	\$ 4,296
Options exercisable at June 30, 2007 pursuant to a change-in-control	4,869	\$ 1.74	3.7	\$ 4,396

At June 30, 2007, there were 35,000 shares of common stock available for grant under the Plan.

For the three month periods ended June 30, 2007 and 2006, the Company received \$726,000 and \$168,000, respectively, in cash from the exercise of stock options. Total stock-based compensation expense for the three months ended June 30, 2007 and 2006, was \$66,000 and \$100,000, respectively. No income tax benefit was realized from activity in the Plans during the three months ended June 30, 2007 and 2006.

At June 30, 2007, there was \$778,000 of total unrecognized compensation expense related to unvested stock options. This expense is expected to be recognized over a weighted-average period of approximately 3.0 years.

The fair value of each stock-based award is estimated on the grant date using the Black-Scholes-Merton (“BSM”) option-pricing formula. Expected volatility is based on the historical volatility of the Company’s stock price. The expected life of options granted subsequent to the adoption of SFAS 123R is derived based on the historical life of the Company’s options. The risk-free interest rate for periods within the expected life of the option is based on the U.S. Treasury interest rates in effect at the time of grant. The grant date fair value of options granted was estimated using the following weighted-average assumptions:

	Three Months Ended June 30,	
	2007	2006
Dividend yield	N/A	0.0%
Expected life — years	N/A	7.0
Risk-free interest rate	N/A	5.0%
Expected volatility of common stock	N/A	0.89

A summary of the grant date fair value and intrinsic value information is as follows:

	Three Months Ended June 30,	
	2007	2006
	(In thousands, except per share amounts)	
Weighted average grant date fair value per share	N/A	\$ 1.77
Intrinsic value of options exercised	\$ 1,417	\$ 163
Total fair value of options vested during the period	\$ 47	\$ 384

7. Business Segment Information

The Company currently operates in three reportable segments: Roadway Sensors, Automotive Sensors and Transportation Systems. The Roadway Sensors segment includes the Company’s Vantage vehicle detection systems for traffic intersection control, incident detection and certain highway traffic data collection applications. The Automotive Sensors segment includes AutoVue and is comprised of all activities related to lane departure warning systems for vehicle

safety. The Transportation Systems segment includes transportation engineering and consulting services and the development of transportation management and traveler information systems for the ITS industry. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Prior to April 1, 2007, certain expenses, such as interest, amortization of certain intangibles and certain corporate expenses were not allocated to the segments. Beginning on April 1, 2007, the Company increased the portion of its corporate expenses that it allocates to its segments such that substantially all corporate expenses are allocated. Interest, amortization of certain intangibles and certain corporate expenses are still not allocated to the segments. In addition, certain assets, including cash and cash equivalents, deferred income taxes and certain long-lived and intangible assets, are not allocated to the segments. The reportable segments are each managed separately because they manufacture and distribute distinct products or provide services with different processes. All segment revenues are derived from external customers.

The following table sets forth selected unaudited financial information for the Company's reportable segments for the three months ended June 30, 2007 and 2006:

	Roadway Sensors	Automotive Sensors	Transportation Systems	Total
	(In thousands)			
Three Months Ended June 30, 2007				
Product revenue	\$ 7,224	\$ 2,584	\$ —	\$ 9,808
Service and other revenue	—	436	5,513	5,949
Stock-based compensation	6	13	7	26
Depreciation and amortization	26	36	31	93
Segment income (loss)	1,105	50	544	1,699
Three Months Ended June 30, 2006				
Product revenue	\$ 6,516	\$ 1,339	\$ —	\$ 7,855
Service and other revenue	—	745	5,216	5,961
Stock-based compensation	19	13	36	68
Depreciation and amortization	19	34	28	81
Segment income (loss)	1,482	(653)	622	1,451

The following table reconciles segment income to consolidated income (loss) before income taxes:

	Three Months Ended June 30,	
	2007	2006
	(In thousands)	
Total income for reportable segments	\$ 1,699	\$ 1,451
Unallocated amounts:		
Corporate expenses	(125)	(706)
Other income (expense), net	19	(690)
Interest expense, net	(363)	(386)
Income (loss) before income taxes	<u>\$ 1,230</u>	<u>\$ (331)</u>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report, including the following discussion and analysis, contains forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that are based on our current expectations, estimates and projections about our business and our industry, and reflect management's beliefs and certain assumptions made by us based upon information available to us as of the date of this report. When used in this report and the information incorporated herein by reference, the words "expect(s)," "feel(s)," "believe(s)," "should," "will," "may," "anticipate(s)," "estimate(s)" and similar expressions or variations of these words are intended to identify forward-looking statements. These forward-looking statements include but are not limited to statements regarding our anticipated sales, revenue, expenses, profits, capital needs, competition, development plans, backlog and manufacturing capabilities, the applications for and acceptance of our products and services, and the status of our facilities and product development. These statements are not guarantees of future performance and are subject to certain risks and uncertainties that could cause our actual results to differ materially from those projected. You should not place undue reliance on these forward-looking statements that speak only as of the date hereof. We undertake no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. We encourage you to carefully review and consider the various disclosures made by us which describe certain factors which could affect our business, including in "Risk Factors" set forth in Part II, Item 1A of this report, before deciding to invest in our company or to maintain or increase your investment. We undertake no obligation to revise or update publicly any forward-looking statement for any reason.

Overview

We are a leading provider of outdoor machine vision systems and sensors that help to optimize the flow of traffic and enhance driver safety. Using our proprietary software and ITS industry expertise, we provide video sensor systems, transportation management and traveler information systems and other engineering and consulting services to the ITS industry. We use our outdoor image recognition software expertise to develop proprietary algorithms for video sensor systems that improve vehicle safety and the flow of traffic. Using our knowledge of the ITS industry, we design and implement transportation management systems that help public agencies reduce traffic congestion and provide greater access to traveler information.

Our Vantage product is a video vehicle detection system that detects the presence of vehicles on roadways. Vantage systems are used at signalized intersections to enable a traffic controller to more efficiently allocate green signal time and are also used for incident detection and highway traffic data collection applications. We sell and distribute our Vantage products primarily to commercial customers and municipal agencies.

Our AutoVue Lane Departure Warning ("LDW") systems consist of a small windshield mounted sensor that uses proprietary software to detect and warn drivers of unintended lane departures. Approximately 90,000 production AutoVue units have been sold for car and truck platforms in the North American and European markets. Our AutoVue LDW systems are currently qualified as an option on certain heavy trucks, including Mercedes-Benz, MAN, Iveco, DAF, Scania, Freightliner, International and FUSO, as well as Neoplan and MAN luxury bus and coach lines. In North America our LDW systems are sold primarily to truck fleets, and to date, 45 U.S. heavy truck fleets have selected our LDW systems, representing an estimated 25,000 vehicles. In September 2003, we entered into an agreement with Valeo Schalter and Sensuren GmbH ("Valeo"), pursuant to which we granted Valeo the exclusive right to sell and manufacture our AutoVue LDW systems to the worldwide passenger car market in exchange for royalty payments for each AutoVue LDW unit sold. To date, royalty payments from Valeo have not been significant. Pursuant to this agreement, we also provide specific contract engineering services, technical marketing and sales support to Valeo to enable the incorporation of our LDW technology on three Infiniti platforms, the FX, M and Q, where the device is offered as part of Infiniti's technology option package. Valeo is currently in discussions to provide our LDW system to other passenger car OEMs; however, we cannot assure you that such discussions will be successful. We plan to continue to provide technical marketing and sales support to Valeo in our efforts to win new OEM customers for the passenger car market as well as contract engineering services related to the possible launch of new Infiniti platforms that include our LDW system. We believe that AutoVue is a broad sensor platform that, through additional software development, may be expanded to incorporate additional safety and convenience features.

Our transportation management systems business includes transportation engineering and consulting services focused on the planning, design, development and implementation of software-based systems that integrate sensors, video surveillance, computers and advanced communications equipment to enable public agencies to monitor, control and direct

traffic flow, assist in the quick dispatch of emergency crews and distribute real-time information about traffic conditions. Our services include planning, design and implementation of surface transportation infrastructure systems. We perform analysis and study goods movement, commercial vehicle operations, travel demand forecasting and systems engineering, and identify mitigation measures to reduce traffic congestion. These services and systems are primarily sold to local, state and national transportation agencies in the United States. Our transportation management systems business is largely dependent upon governmental funding and budgetary issues. The Federal Highway Bill that was passed in August 2005 provided for a significant increase in transportation funding over the following six years. We believe the recent expansion of our transportation management systems business was due in part to the passage of the Federal Highway Bill, combined with increased transportation funds available at state and local agencies throughout the country.

We currently operate in three reportable segments: Roadway Sensors, Automotive Sensors and Transportation Systems. The Roadway Sensors segment includes our Vantage vehicle detection systems for traffic intersection control, incident detection and certain highway traffic data collection applications. The Automotive Sensors segment is comprised of all activities related to our AutoVue LDW systems for vehicle safety. The Transportation Systems segment includes transportation engineering and consulting services and the development of transportation management and traveler information systems for the ITS industry.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our unaudited condensed consolidated financial statements included herein, which have been prepared in accordance with U.S generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate these estimates and assumptions, including those related to the collectibility of accounts receivable, the valuation of inventories, the recoverability of long-lived assets and goodwill, the realizability of deferred tax assets, accounting for stock-based compensation, the valuation of equity instruments, warranty reserves and other contingencies. We base these estimates on our historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions by their nature involve risks and uncertainties, and may prove to be inaccurate. In the event that any of our estimates or assumptions are inaccurate in any material respect, it could have a material adverse effect on our reported assets and liabilities at the date of the financial statements and our reported revenues and expenses during the reporting period.

The following critical accounting policies affect our more significant judgments and estimates used in the preparation of our unaudited condensed consolidated financial statements.

Revenue Recognition. We record product revenues and related costs of sales upon transfer of title, which is generally upon shipment or, if required, upon acceptance by the customer, provided that we believe collectibility of the net sales amount is reasonably assured. Accordingly, at the date revenue is recognized, the significant uncertainties concerning the sale have been resolved.

Contract revenues are derived primarily from long-term contracts with governmental agencies. Contract revenues include costs incurred plus a portion of estimated fees or profits determined using the percentage of completion method of accounting based on the relationship of costs incurred to total estimated costs. Any anticipated losses on contracts are charged to earnings when identified. Changes in job performance and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to recognized costs and revenues and are recognized in the period in which the revisions are determined. Profit incentives are included in revenue when their realization is reasonably assured.

In addition to product and contract revenues, we derive revenue from technology access fees, the provision of specific non-recurring contract engineering services to our strategic partner, Valeo, related to our AutoVue LDW systems, and royalties earned on unit sales of our AutoVue LDW systems by Valeo to the passenger car market. Technology access fee revenues are recognized evenly over the period in which they are earned. Non-recurring contract engineering revenues are recognized in the period in which the related services are performed. Royalty revenues are recorded based on unit sales of our products by Valeo and are recognized in the period in which such sales occur. Technology access fee revenues, contract engineering revenues and royalty revenues are included in net sales.

Revenues from follow-on service and support, for which we generally charge separately, are recorded in the period in which the services are performed.

Accounts Receivable. We estimate the collectibility of customer receivables on an ongoing basis by periodically reviewing invoices outstanding greater than a certain period of time. We record reserves for receivables deemed to be at risk for collection as well as a general reserve based on our historical collections experience. A considerable amount of judgment is required in assessing the ultimate realization of trade receivables, including the current credit-worthiness of each customer. If the financial condition of our customers deteriorates, resulting in an impairment of their ability to make required payments, additional allowances may be required that could adversely affect our operating results.

Inventory. Inventories consist of finished goods, work-in-process and raw materials and are stated at the lower of cost or market. We provide reserves for potentially excess and obsolete inventory. In assessing the ultimate realization of inventories, we make judgments as to future demand requirements and compare that with the current or committed inventory levels. Reserves are established for inventory levels that exceed anticipated future demand. It is possible that reserves over and above those already established may be required in the future if market conditions for our products deteriorate.

Goodwill. Goodwill is tested for impairment annually in our fourth fiscal quarter at the reporting unit level unless a change in circumstances indicates that more frequent impairment analysis is required. Impairment, if any, is measured based on the estimated fair value of the reporting units with the recorded goodwill. Fair value is determined by using the income approach methodology of valuation which utilizes discounted cash flows. Significant management judgment is required in the forecasts of future operating results that are used in the discounted cash flow method of valuation. In estimating future cash flows, we generally use the financial assumptions in our current budget and our current strategic plan, subject to modification as considered necessary, including sales and expense growth rates and the discount rates we estimate to represent our cost of funds. It is possible, however, that the plans and estimates used may be incorrect. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of goodwill, we could incur impairment charges.

Warranty. We generally provide a one to three year warranty from the original invoice date on all products, materials and workmanship. Defective products are either repaired or replaced, at our option, upon meeting certain criteria. We accrue a provision for the estimated costs that may be incurred for product warranties relating to a product as a component of cost of sales at the time revenue for that product is recognized. The accrued warranty provision is included within accrued expenses on the accompanying condensed consolidated balance sheets. Should our actual experience of warranty returns be higher than anticipated, additional warranty reserves may be required, which may adversely affect our operating results.

Income Taxes. We recorded a valuation allowance to reduce our deferred tax assets to amounts that we believe are more likely than not to be realized. Realization of deferred tax assets (such as net operating loss carryforwards) is dependent on future taxable earnings and is therefore uncertain. On a quarterly basis, we assess the likelihood that our deferred tax asset balance will be recovered from future taxable income. To the extent we believe that recovery is not likely, we establish a valuation allowance against our deferred tax asset, increasing our income tax expense in the period such determination is made.

On an interim basis, we estimate what our anticipated annual effective tax rate will be and record a quarterly income tax provision in accordance with this anticipated rate. As the fiscal year progresses, we refine our estimates based upon actual events and earnings during the year. This estimation process can result in significant changes to our expected effective tax rate. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision reflects the expected annual rate. The changes described in the preceding sentence and adjustments to our valuation allowance may create fluctuations in our overall effective tax rate from quarter to quarter.

Effective April 1, 2007, we adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 applies to all tax positions accounted for under SFAS No. 109, *Accounting for Income Taxes*, and defines the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained by the taxing authority as of the reporting date. If a tax position is not considered "more-likely-than-not" to be sustained, then no benefits of the position are to be recognized.

Stock-Based Compensation. Effective April 1, 2006, we adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (“SFAS 123R”), which requires all stock-based payments, including grants of employee stock options, to be recognized in the statement of operations as an expense, based on their grant date fair values with such fair values amortized over the requisite service period. We elected to utilize the modified prospective method for the transition to SFAS 123R. Under the modified prospective method, SFAS 123R applies to all awards granted or modified after the date of adoption. In addition, under the modified prospective method, compensation expense is recognized for all stock-based compensation awards granted prior to but not yet vested as of April 1, 2006, based on grant-date fair values estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*.

We use the BSM option-pricing formula to estimate the fair value of stock-based awards granted subsequent to April 1, 2006. Our assumptions under the BSM formula include the following: expected volatilities are based on the historical volatility of our stock price, the expected life of options is derived based on the historical life of our options, and the risk-free interest rate for periods within the expected life of the option is based on the U.S. Treasury interest rates in effect at the time of grant. Additionally, our calculation of stock compensation expense under SFAS 123R includes an estimate of forfeitures based on our historical forfeiture rate. Future stock-based compensation expense in any particular quarter or year could be affected by changes in our assumptions or changes in market conditions.

Results of Operations

The following table sets forth certain statement of operations data as a percentage of total net sales and contract revenues for the periods indicated. The following table should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations.

	Three Months Ended June 30,	
	2007	2006
Net sales and contract revenues:		
Net sales	65.0%	62.2%
Contract revenues	35.0	37.8
Total net sales and contract revenues	100.0%	100.0%
Costs of net sales and contract revenues:		
Cost of net sales	32.9	34.4
Cost of contract revenues	22.1	24.2
Gross profit	45.0	41.4
Operating expenses:		
Selling, general and administrative	28.3	29.0
Research and development	6.3	7.3
Deferred compensation plan	0.2	(0.5)
Amortization of intangible assets	0.2	0.2
Total operating expenses	35.0	36.0
Operating income	10.0	5.4
Non-operating income (expense):		
Other income (expense), net	0.1	(5.0)
Interest expense, net	(2.3)	(2.8)
Income (loss) before income taxes	7.8	(2.4)
Income tax benefit (provision)	(0.8)	4.4
Net income	7.0%	2.0%

Analysis of Quarterly Results of Operations

Net Sales and Contract Revenues. Net sales are comprised of Roadway Sensors sales, which are derived from sales of our Vantage video detection systems; and Automotive Sensor sales, which are derived from sales of AutoVue LDW systems, technology access fees, contract engineering revenue and royalty revenue generated from AutoVue related activities. Contract revenues consist entirely of Transportation Systems revenues, which are generated from systems integration and ITS consulting services with federal, state, county and municipal agencies. We currently have a relatively diverse customer base with our largest customer constituting 7.3% of total net sales and contract revenues in the three months ended June 30, 2007.

Total net sales and contract revenues increased 14.0% to \$15.8 million for the three months ended June 30, 2007, compared to \$13.8 million in the corresponding period of the prior fiscal year. This increase was primarily driven by increased net sales in both the Roadway Sensors and Automotive Sensors segments, as well as increased contract revenues in the Transportation Systems segment, as discussed below.

Net sales increased 19.1% to \$10.2 million for the three months ended June 30, 2007, compared to \$8.6 million in the corresponding period of the prior fiscal year.

Roadway Sensors net sales increased 10.9% to \$7.2 million for the three months ended June 30, 2007, versus \$6.5 million in the corresponding period of the prior fiscal year. This increase primarily reflects the continued adoption, primarily in North America, of video vehicle detection technology such as the technology offered by our Vantage line of products. Additionally, we believe that the current increased rate of adoption has to some extent been due to increased government spending on traffic initiatives, which we believe has been at least partially made possible by the passage of the Federal Highway Bill in August 2005, as well as expanded sales and marketing efforts in North America.

Automotive Sensors net sales increased 44.9% to \$3.0 million for the three months ended June 30, 2007, versus \$2.1 million in the corresponding period of the prior fiscal year. This increase was primarily a result of increased unit sales of our LDW systems to European and Asian OEMs and North American heavy truck fleet customers. Sales of LDW systems to the heavy truck market increased by \$1.2 million, or 93.0%, over the prior year period. Also included in Automotive Sensors net sales are revenues from contract engineering services, technology access fees and royalty revenues in the passenger car market that are derived from our partnership with Valeo, which aggregated \$436,000 and \$745,000 for the three months ended June 30, 2007 and 2006, respectively.

We expect sales of LDW units to the heavy truck market to continue to increase, when compared to the prior year period, for at least the remainder of Fiscal 2008; and we expect revenues from our strategic partnership with Valeo to decrease slightly as compared to the prior year largely because we will not receive any technology access fee revenues in Fiscal 2008. Technology access fee revenues totaled \$125,000 for the three months ended June 30, 2006 and \$500,000 in Fiscal 2007. Royalty revenues from Valeo for sales of our LDW systems for the passenger car market remained relatively insignificant in the current quarter. Our LDW systems are now offered as an option on three Infiniti models. While Valeo is currently in discussions to offer our LDW systems on other passenger car platforms, we cannot assure you that Valeo will be successful in these efforts.

Contract revenues increased 5.7% to \$5.5 million for the three months ended June 30, 2007, compared to \$5.2 million in the corresponding period of the prior fiscal year. This increase was largely due to increased funding at the federal, state and local levels throughout the country, as well as new contract awards. In response to this growth in funding, we have increased our Transportation Systems staff by 4% in the three months ended June 30, 2007, and we expect to continue to increase our Transportation Systems staff over the remainder of Fiscal 2008. We believe the ability of our Transportation Systems business to grow and successfully win and service new contracts will be highly dependent upon our continued success in recruiting and retaining qualified personnel. All of our contract revenues are derived from work performed in North America under a broad range of fixed price and cost plus fixed fee contracts.

Gross Profit. Total gross profit increased 24.0% to \$7.1 million for the three months ended June 30, 2007, as compared to \$5.7 million in the corresponding period of the prior fiscal year. Total gross profit as a percent of net sales and contract revenues increased to 45.0% for the three months ended June 30, 2007, as compared to 41.4% in the corresponding period of the prior fiscal year.

Gross profit as a percent of net sales was 49.5% for the three months ended June 30, 2007, compared to 44.7% in the corresponding period of the prior fiscal year. This increase in gross profit was primarily a result of increased gross profits in both the Roadway Sensors and Automotive Sensors segments. In Roadway Sensors, the increase was largely due to production efficiencies and a shift of engineering resources from manufacturing and support projects to research and development activities. Additionally, Roadway Sensors margins were positively impacted by our sales mix in terms of both geography and product mix. The increase in Automotive Sensor margins was primarily a result of higher sales volumes that created better coverage of our fixed manufacturing overhead costs. Furthermore, our Automotive Sensors customer base has expanded, which has mitigated the gross margin impact of contractual pricing to our largest European customer. Gross profit as a percent of net sales generally fluctuates in any specific quarter based on customer mix. Gross profit as a percent of net sales has fluctuated over the last nine quarters from a high of 50.2% in the first quarter of Fiscal 2006 to a low of 43.2% reported in the second quarter of Fiscal 2007, mainly as a result of customer mix.

Gross profit as a percent of contract revenues was 36.7% for the three months ended June 30, 2007, compared to 36.0% in the corresponding period of the prior fiscal year. We recognize contract revenues and related gross profit using percentage of completion contract accounting, and the underlying mix of contract activity affects the related gross profit recognized in any given period. The increase in gross profit as a percent of contract revenues in the most recent quarter reflects a contract mix weighted more toward higher margin contracts in the period.

Selling, General and Administrative Expense. Selling, general and administrative expense increased 11.4% to \$4.5 million (or 28.3% of total net sales and contract revenues) in the three months ended June 30, 2007, compared to \$4.0 million (or 29.0% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. This increase was largely attributable to higher commissions and selling expenses driven by sales growth in our Roadway Sensors segment. In the coming quarters, we anticipate increased selling, general and administrative expenses related to our efforts to comply with the internal control attestation requirements of the Sarbanes-Oxley Act, with which we must begin to comply in Fiscal 2008.

Research and Development Expense. Research and development expense was flat year-over year at \$1.0 million (or 6.3% and 7.3% of total net sales and contract revenues for the three months ended June 30, 2007 and 2006, respectively). We believe research and development activities are crucial to our ability to continue to be a leader in our markets and expect this level of research and development expenditure to continue for the remainder of Fiscal 2008.

For competitive reasons, we closely guard the confidentiality of specific development projects.

Deferred Compensation Plan Expense. During the three months ended June 30, 2007, we incurred a non-cash charge of \$31,000 related to the change in value of 310,510 shares of our common stock held in trust by our deferred compensation savings plan. This compares to a non-cash benefit of \$66,000 recorded in the three month period ended June 30, 2006. In May 2007, our former Chief Executive Officer, who departed in March 2007, elected to receive a distribution of approximately fifty percent of his deferred compensation plan balance, representing 143,333 shares of our common stock and \$10,000 in cash, all of which was paid out prior to June 30, 2007, and his remaining deferred compensation plan balance of 143,333 shares of our common stock and \$5,000 in cash on the one year anniversary of this election. As a result of this election, at June 30, 2007, the trust held 167,177 shares of our common stock and \$5,000 of cash. We expect to continue to experience non-cash expense or benefit in future periods as the value of the assets held in our deferred compensation savings plan fluctuates.

Other Income (Expense), Net. Other income (expense), net includes the following:

	Three Months Ended June 30,	
	2007	2006
	(In thousands)	
Settlement of lawsuit	\$ —	\$ (688)
Other	19	(2)
Other income (expense), net	<u>\$ 19</u>	<u>\$ (690)</u>

Other income (expense), net for the three months ended June 30, 2006 primarily reflects \$688,000 of expense recorded in connection with the settlement of litigation in July 2006 related to one of our former subsidiaries. See Note 5 to the accompanying condensed consolidated financial statements for a description of the terms of the settlement and the additional amounts still payable in connection with the settlement.

Interest Expense, Net. Interest expense, net includes the following:

	Three Months Ended June 30,	
	2007	2006
	(In thousands)	
Interest expense	\$ (276)	\$ (300)
Amortization of debt discount	(52)	(52)
Amortization of deferred finance costs	(35)	(34)
Interest expense, net	<u>\$ (363)</u>	<u>\$ (386)</u>

Interest expense decreased for the three months ended June 30, 2007, compared to the corresponding period in the prior fiscal year primarily as a result of a lower level of borrowings on our line of credit in the current year.

Income Taxes. During the three months ended June 30, 2007, we recognized income tax expense of \$134,000 as compared to an income tax benefit of \$610,000 in the three months ended June 30, 2006. The tax expense recorded in the three months ended June 30, 2007 was primarily based on anticipated taxes to be paid in the current year, as well as a slight increase in the valuation allowance recorded against our deferred tax assets as a result of changes in estimates of the future realizability of these assets. Total deferred tax assets on our consolidated balance sheet decreased from \$3.0 million at March 31, 2007 to \$2.9 million at June 30, 2007. In the future, we may continue to record similar adjustments to our deferred tax asset valuation allowance as our estimates are updated. We anticipate this will cause our future overall effective tax rate in any given period to fluctuate from prior effective tax rates, estimated annual effective tax rates and statutory tax rates.

As discussed in Notes 1 and 4 of the accompanying condensed consolidated financial statements, we adopted FIN 48 on April 1, 2007. In connection with our adoption of FIN 48, we recognized an adjustment of approximately \$224,000 to the beginning balance of retained earnings on our consolidated balance sheet. Additionally, there was no significant change in our income tax expense for the three months ended June 30, 2007 as a result of our implementation of FIN 48.

Liquidity and Capital Resources

Cash Flows

We have historically financed our operations with a combination of cash flows from operations, borrowings under credit facilities and the sale of equity securities. We currently rely on cash flows from operations and borrowings on a line of credit facility to fund our operations. At June 30, 2007, we had \$8.5 million in working capital, which included borrowings of \$4.4 million on our revolving line of credit and \$2.2 million in cash and cash equivalents. This compares to working capital of \$7.0 million at March 31, 2007, which included borrowings of \$4.0 million on our revolving line of credit and \$35,000 in cash and cash equivalents.

Our operating activities provided \$1.9 million in cash during the three months ended June 30, 2007, primarily as a result of net income generated during the period as well as, to a lesser extent, the timing of cash flows from operating assets and liabilities. During the three months ended June 30, 2006, our operations used \$599,000 of cash, primarily as a result of increases in prepayments, accounts payable and accrued expenses due to the timing of payments.

Our investing activities for the three months ended June 30, 2007 and 2006, consisted entirely of purchases of property and equipment, which aggregated \$137,000 and \$142,000, respectively.

Cash provided by financing activities was \$453,000 in the three months ended June 30, 2007, which was largely the result of \$726,000 in proceeds from the exercise of outstanding stock options to purchase our common stock, partially offset by net payments on borrowings of \$273,000. During the three months ended June 30, 2006, financing activities provided \$835,000 of cash, which was comprised of net borrowings of \$667,000 and cash inflows of \$168,000 from the exercise of outstanding stock options to purchase our common stock.

Borrowings

The following table summarizes our borrowings and long-term debt:

	<u>At June 30, 2007</u> (In thousands)
Convertible debentures, net	\$ 9,462
Line of credit	4,437
Bank term note	1,258
Promissory note to landlord	323
Other	68
	<u>\$ 15,548</u>

In October 2006, we replaced our former credit facility and entered into a new two-year credit facility with a different bank. The facility provides for combined line of credit and bank term note borrowings of up to \$8.0 million. Under the new credit facility, we may borrow against our eligible accounts receivable and eligible inventory, as defined in the credit agreement. Interest on borrowed amounts is payable monthly at the current stated prime rate plus 1.25%. Additionally, we are obligated to pay an unused line fee of 0.25% per annum applied to the amount by which the maximum credit amount exceeds the average daily principal balance during the preceding month. The new credit facility requires \$2,000 in monthly collateral management fees and includes an early termination fee equal to 2% of the total facility during the first year of the agreement and 1% of the total facility in the second year of the agreement. Additionally, we paid a commitment fee of \$40,000 in October 2006 and are obligated to pay an additional \$40,000 on the one year anniversary of the facility. The new credit facility is secured by substantially all of the assets of the Company. At June 30, 2007, we had \$8.0 million available under our credit facility, of which \$2.3 million was unused.

We believe that the cash generated from our operations, together with funds available under our credit agreement, will be sufficient to fund our operations for at least the next twelve months. However, should a shortfall occur, we may need to raise additional funds through other debt financings or the sale of equity securities.

Contractual Obligations

Our contractual obligations are as follows at June 30, 2007:

	Payments Due by Period						Total
	2008	2009	2010	2011 (In thousands)	2012	Thereafter	
Lines of credit	\$ 4,437	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,437
Notes payable	1,299	350	—	—	—	—	1,649
Convertible debentures	—	—	9,850	—	—	—	9,850
Operating leases	883	1,398	1,391	1,348	1,332	3,823	10,175
Total	<u>\$ 6,619</u>	<u>\$ 1,748</u>	<u>\$ 11,241</u>	<u>\$ 1,348</u>	<u>\$ 1,332</u>	<u>\$ 3,823</u>	<u>\$ 26,111</u>

At June 30, 2007, we had firm commitments to purchase inventory in the amount of \$3.2 million during our next two fiscal quarters.

Off Balance Sheet Arrangements

In May 2004, we issued subordinated convertible debentures in an aggregate original principal amount of \$10.1 million. These debentures are due in full on May 19, 2009 and are convertible into shares of our common stock at an initial conversion price of \$3.61 per share. At June 30, 2007, \$9.9 million of these convertible debentures remained outstanding. Because these debentures are conventionally convertible, we have not separately accounted for the conversion feature and, accordingly, no separate amounts are presented in our condensed consolidated financial statements in connection with this conversion feature.

At June 30, 2007, outstanding warrants to purchase an aggregate of 62,500 shares of our common stock at an exercise price of \$1.95 per share and outstanding warrants to purchase an aggregate of 246,250 shares of our common stock at an exercise price of \$3.25 were callable by us if the closing sales price of our common stock for 20 consecutive days is equal to or greater than two times the exercise price of the warrants. Outstanding warrants to purchase an aggregate of 75,000 shares of our common stock at an exercise price of \$5.00 per share were callable by us if the price of our common stock for 20 consecutive days is equal to or greater than one and a half times the exercise price of the warrants.

In connection with warrants to purchase 246,250 shares of our common stock at \$3.25 per share, we are a party to certain registration rights agreements that contain provisions under which we could be subjected to liquidated damages should we fail to maintain effective registration statements for the underlying shares of common stock. These warrants have been accounted for within equity in our condensed consolidated balance sheets in accordance with EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*, and, accordingly, no liabilities have been recorded in connection therewith. As of the date of this filing, no liquidated damages are payable under the provisions of the registration rights agreements associated with these warrants.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS 157, which defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. SFAS 157

does not require any new fair value measurements; rather it specifies valuation methods to be applied when fair value measurements are required under existing or future accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early application of the statement is encouraged. Generally, this statement will be applied prospectively. We are currently evaluating the impact of SFAS 157 and expect to adopt SFAS 157 in the first quarter of our fiscal year ending March 31, 2009.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115* (“SFAS 159”). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are evaluating the impact that the adoption of SFAS 159 will have on our results of operations and financial condition and expect to adopt SFAS 159 in our fiscal year ending March 31, 2009.

Seasonality

We have historically experienced seasonality, particularly with respect to our Roadway Sensors net sales in the third and fourth fiscal quarters due to a reduction in road construction or repairs during the winter months in many markets as a result of inclement weather conditions.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to interest rate risk is limited to our line of credit, bank term note and a promissory note to our landlord. Our line of credit, bank term note and promissory note to our landlord bear interest based on the prevailing prime rate (8.25% at June 30, 2007). We do not believe that a 10% increase in the interest rate on our line of credit, bank term note and promissory note to our landlord (from 9.50% to 10.45% on the line of credit, from 9.50% to 10.45% on the bank term note and from 10.25% to 11.28% on the promissory note to our landlord) would have a material impact on our financial position, operating results or cash flows. In addition, we believe that the carrying value of our outstanding debt approximates fair value.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management necessarily applied its judgment in evaluating the cost-benefit relationship of such controls and procedures.

Changes in Internal Controls

During the fiscal quarter covered by this report, there has been no change in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under Note 5 of Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item I of this report, is incorporated herein by reference.

ITEM 1A. RISK FACTORS

Our business is subject to a number of risks, some of which are discussed below. Other risks are presented elsewhere in this report and in the information incorporated by reference into this report. You should consider the following risks carefully in addition to the other information contained in this report and our other filings with the SEC, including our subsequent reports on Forms 10-Q and 8-K, before deciding to buy, sell or hold our common stock. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. If any of these risks actually occurs, our business, financial condition or results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose all or part of your investment.

We May Need To Raise Additional Capital In The Future, Which May Not Be Available On Terms Acceptable To Us, Or At All. We have generated significant net losses and operating losses in recent periods, and have experienced volatility in our cash flows from operations ranging from positive cash flows from operations of \$590,000 in the year ended March 31, 2005 to negative cash flows from operations of \$2.0 million in the year ended March 31, 2007. Additionally, we failed to meet certain debt covenants under our prior credit agreement in two of our last seven fiscal quarters, but replaced that credit facility in October 2006. Furthermore, we have \$9.9 million in subordinated convertible debentures that are due in full in May 2009. Should the holders of the convertible debentures not elect to convert the principal into shares of our common stock, we may need to raise additional capital to refinance this debt.

At June 30, 2007, we had \$2.2 million of cash and cash equivalents and relied on our line of credit to fund our operations. We may need to raise additional capital in the near future to fund our operations or to repay indebtedness. Such additional capital may be raised through bank borrowings, or other debt or equity financings. We cannot assure you that any additional capital will be available on a timely basis, on acceptable terms, or at all, and such additional financing may result in further dilution to our stockholders.

Our capital requirements will depend on many factors, including, but not limited to:

- market acceptance of our products and product enhancements, and the overall level of sales of our products;
- our ability to control costs;
- the supply of key components for our products;
- our ability to generate net income;
- increased research and development expenses;
- increased sales and marketing expenses;
- technological advancements and our competitors' response to our products;
- capital improvements to new and existing facilities and enhancements to our infrastructure and systems;
- potential acquisitions of businesses and product lines;
- our relationships with customers and suppliers;

- government budgets, political agendas and other funding issues, including potential delays in government contract awards;
- our ability to successfully negotiate credit arrangements with our bank; and
- general economic conditions, including the effects of the current economic slowdown and international conflicts.

If our capital requirements are materially different from those currently planned, we may need additional capital sooner than anticipated. If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders will be reduced and such securities may have rights, preferences and privileges senior to our common stock. Additional financing may not be available on favorable terms, on a timely basis, or at all. If adequate funds are not available or are not available on acceptable terms, we may be unable to continue our operations as planned, develop or enhance our products, expand our sales and marketing programs, take advantage of future opportunities or respond to competitive pressures.

We Have Historically Experienced Substantial Losses And May Experience Losses In The Future. Although we have achieved net income in recent periods, we experienced a net loss of \$11.3 million in the year ended March 31, 2005. We cannot assure you that we will be able to sustain or improve our financial performance, or that we will be able to continue to achieve profitability on a quarterly or annual basis in the future. Most of our expenses are fixed in advance. As such, we generally are unable to reduce our expenses significantly in the short-term to compensate for any unexpected delay or decrease in anticipated revenues. As a result, we may continue to experience operating losses and net losses, which would make it difficult to fund our operations and achieve our business plan, and could cause the market price of our common stock to decline.

We Plan to Relocate Our Corporate Headquarters in September 2007, Which Could Result in Significant Business Disruptions. The lease for our current headquarters in Anaheim, California terminates in September 2007. In May 2007, we entered into an agreement to lease space in Santa Ana, California beginning in September 2007. We expect to relocate our headquarters to this location by the end of September 2007. Should any portion of this relocation effort not proceed as expected and in the timeframe planned, we could experience a disruption in our operations, which could ultimately adversely affect our financial results.

If Our Internal Controls Over Financial Reporting Do Not Comply With The Requirements Of The Sarbanes-Oxley Act, Our Business And Stock Price Could Be Adversely Affected. Along with our independent registered public accounting firm, we will be evaluating the effectiveness of our internal controls over financial reporting to comply with Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 currently requires us to evaluate the effectiveness of our internal controls over financial reporting at the end of each fiscal year beginning in our fiscal year ending March 31, 2008 and to include a management report assessing the effectiveness of our internal controls over financial reporting in all annual reports beginning with our Annual Report on Form 10-K for the fiscal year ending March 31, 2008. Section 404 also requires our independent accountant to attest to, and report on, management's assessment of our internal controls over financial reporting beginning in our fiscal year ending March 31, 2009. We may not be able to complete our Section 404 compliance on a timely basis, and even if we timely complete our compliance requirements, our independent auditors may still conclude that our internal controls over financial reporting are not effective.

Our management, including our CEO and CFO, does not expect that our internal controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Iteris have been or will be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions. Over time, our controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

As of March 31, 2005, we became aware of a material weakness in our internal controls related to the accounting for the consolidation of our deferred compensation savings plan and certain contract administration. We cannot assure you that we or our independent registered public accounting firm will not identify additional material weaknesses in our internal controls. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Based on our evaluation, our management concluded that, as of March 31, 2004, our internal control over financial reporting

was not effective due to the existence of one material weakness. We may experience additional material weaknesses in the future. If our internal controls over financial reporting are not considered adequate, we may experience a loss of public confidence, which could have an adverse effect on our business and our stock price.

New Environmental Regulations May Result In A Decline In Our AutoVue Sales and Royalties. Recent environmental regulations in Europe became effective in 2006, which required more stringent emissions compliance in new trucks manufactured in Europe after 2006. These regulations caused the cost of certain trucks to increase significantly and could cause a decline in new truck sales in Europe in the near future. Similar regulations have been announced in North America that will impact diesel engines built after January 2007. North America heavy truck sales through the first half of 2007 have declined significantly versus the prior year, which we believe was primarily a result of large 2006 prebuys of heavy trucks made in anticipation of the new North America emission standards. We may experience a decline in our LDW sales to truck OEMs related to these stricter regulations.

We May Experience Production Gaps Which Could Materially And Adversely Impact Our Sales And Financial Results And The Ultimate Acceptance Of Our Products. It is possible that we could experience unforeseen quality control issues or part shortages as we increase production to meet current demand for our products. We have historically used single suppliers for certain of our components in our AutoVue and Vantage products. Should any such delay or disruption occur, our future sales will likely be materially and adversely affected. Additionally, we rely heavily on select contract manufacturers to produce many of our products. Although we believe our contract manufacturers have sufficient capacity to meet our production schedules for the foreseeable future and we believe we could find alternative contract manufacturing sources if necessary, we could experience a production gap if for any reason our contract manufacturers were unable to meet our production requirements.

We Depend Upon Valeo To Market Our AutoVue Technologies For The OEM Passenger Car Market. We have granted Valeo the exclusive right to sell and manufacture our AutoVue LDW system to the worldwide passenger car market in exchange for royalty payments for each AutoVue unit sold. As such, the future success and broad market acceptance of our AutoVue technologies in the passenger car market will depend upon Valeo's ability to manufacture, market and sell our technologies, and to convince more OEM passenger car manufacturers to adopt our technologies. If Valeo does not devote considerable resources and aggressively pursue opportunities, our expansion into the passenger car market could be adversely affected.

We May Be Unable To Attract And Retain Key Personnel, Which Could Seriously Harm Our Business. Due to the specialized nature of our business, we are highly dependent on the continued service of our executive officers and other key management, engineering and technical personnel. The loss of Abbas Mohaddes, our Chief Executive Officer, or any of the other executive officers or key members of management could adversely affect our business, financial condition or results of operations. Our success will also depend in large part upon our ability to continue to attract, retain and motivate qualified engineering and other highly skilled technical personnel. In particular, the future success of our Transportation Systems segment will depend on our ability to hire additional qualified engineers and planners. Competition for qualified employees, particularly development engineers, is intense. We may not be able to continue to attract and retain sufficient numbers of such highly skilled employees. Our inability to attract and retain additional key employees or the loss of one or more of our current key employees could adversely affect our business, financial condition and results of operations.

If We Are Unable To Develop And Introduce New Products And Product Enhancements Successfully And In A Cost-Effective And Timely Manner, Or Are Unable To Achieve Market Acceptance Of Our New Products, Our Operating Results Would Be Adversely Affected. We believe our revenue growth and future operating results will depend on our ability to complete development of new products and enhancements, introduce these products in a timely, cost-effective manner, achieve broad market acceptance of these products and enhancements, and reduce our product costs. We cannot guarantee the success of these products and we may not be able to introduce any new products or any enhancements to our existing products on a timely basis, or at all. In addition, the introduction of any new products could adversely affect the sales of certain of our existing products.

We believe that we must continue to make substantial investments to support ongoing research and development in order to remain competitive. We need to continue to develop and introduce new products that incorporate the latest technological advancements in outdoor image processing hardware, software and camera technologies in response to evolving customer requirements. We cannot assure you that we will be able to adequately manage product transition issues. Our business and results of operations could be adversely affected if we do not anticipate or respond adequately to technological developments or changing customer requirements or if we cannot adequately manage inventory issues typically related to new product transitions and introductions. We cannot assure you that any such investments in research and development will lead to any corresponding increase in revenue.

Market acceptance of our new products depends upon many factors, including our ability to accurately predict market requirements and evolving industry standards, our ability to resolve technical challenges in a timely and cost-effective manner, qualify any new products with OEMs and achieve manufacturing efficiencies, the perceived advantages of our new products over traditional products and the marketing capabilities of our independent distributors and strategic partners, including Valeo's ability to expand sales of AutoVue in the passenger car market. The success of our AutoVue system will

also depend in part on the success of the automotive vehicles that incorporate our technology, as well as the success of optional equipment that OEMs bundle with our technologies.

Certain of the components used in our Vantage and AutoVue products may need to be re-engineered in the next 12 to 36 months as the industry is moving towards a standard of using lead-free components. We cannot assure you as to the timing of the adoption of this new standard or our ability to successfully redesign our products to incorporate compliant components and gain market acceptance of such redesigned products. In addition, if the standard is adopted earlier than anticipated we may experience a shortage of Vantage and AutoVue products as a result of potential scarcity of lead-free components.

Our business and results of operations could also be seriously harmed by any significant delays in our new product development. Certain of our new products could contain undetected design faults and software errors or “bugs” when first released by us, despite our testing. We may not discover these faults or errors until after a product has been installed and used by our customers. Any faults or errors in our existing products or in any new products may cause delays in product introduction and shipments, require design modifications or harm customer relationships, any of which could adversely affect our business and competitive position.

The Markets In Which We Operate Are Highly Competitive And Have Many More Established Competitors, Which Could Adversely Affect Our Sales Or The Market Acceptance Of Our Products. We compete with numerous other companies in our target markets including, but not limited to, large, multinational corporations, which include tier one automotive suppliers, and many smaller regional engineering firms. We expect such competition to increase due to technological advancements, industry consolidations and reduced barriers to entry. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, any of which could seriously harm our business, financial condition and results of operations. In Fiscal 2007, we began to experience more competition in our Roadway Sensors segment as the Department of Transportation in one of our largest sales territories moved to a multi-source contracting environment from one in which Iteris was the sole supplier. In addition, one of the other developers of LDW systems was acquired by a larger company during Fiscal 2007. While this developer has not been a material competitor to date, we may experience more competition from this provider as a result of its greater access to resources from its acquirer, and additional competitors may enter this market in the future. Furthermore, awareness of LDW technology is increasing and other market players are attempting to develop competing technologies, which may contain improvements or added features beyond those offered by our LDW systems. Should such efforts be successful, this could erode our ability to successfully market and sell our LDW systems.

Many of our competitors have far greater name recognition and greater financial, technological, marketing and customer service resources than we do. This may allow them to respond more quickly to new or emerging technologies and changes in customer requirements. It may also allow them to devote greater resources to the development, promotion, sale and support of their products than we can. Recent consolidations of end users, distributors and manufacturers in our target markets have exacerbated this problem. As a result of the foregoing factors, we may not be able to compete effectively in our target markets and competitive pressures could adversely affect our business, financial condition and results of operations.

An Economic Slowdown Or The Significant Military Operations In The Middle East Or Elsewhere May Impact Government Funding Or Consumer Spending, Causing A Decline In Our Revenues. In the near term, the funding of U.S. military operations in the Middle East or elsewhere may cause disruptions in funding of government contracts. Since military operations of such magnitude are not routinely included in U.S. defense budgets, supplemental legislative funding actions are often required to finance such operations. Even when such legislation is enacted, it may not be adequate for ongoing operations, causing other government resources to be temporarily or permanently diverted. Since a significant portion of our sales are derived from contracts with government agencies, such diversion of funds could produce interruptions in funding or delays in receipt of our contracts, causing disruptions and adversely affecting our revenue and operations.

Concerns about the recent international conflicts and terrorist and military actions, as well as concerns about inflation, decreased consumer confidence, and reduced corporate profits and capital spending have also resulted in a downturn in worldwide economic conditions, particularly in the United States. These unfavorable economic conditions may have a negative impact on customer orders (and also may result in decreased sales of automobiles and trucks that incorporate our LDW systems). Such concerns may result in cancellations and rescheduling of backlog. In addition, the recent decline in the U.S. real estate market, particularly in new home construction, could adversely impact new road construction resulting in a decline in Roadway Sensor and Automotive Sensor net sales and Transportation Systems contract revenues. Any of the

foregoing political, social and economic conditions make it extremely difficult for our customers, our suppliers and us to accurately forecast and plan future business activities and could result in a decline in our net sales and contract revenues. If such conditions continue or worsen, our business, financial condition and results of operations could be materially and adversely affected.

We Depend On Government Contracts And Subcontracts, And Because Many Of Our Government Contracts Are Fixed Price Contracts, Higher Than Anticipated Costs Will Reduce Our Profit And Could Adversely Impact Our Operating Results. A significant portion of our sales are derived from contracts with governmental agencies, either as a general contractor, subcontractor or supplier. Government contracts represented approximately 37.8%, 38.3% and 37.4% of our total net sales and contract revenues for the years ended March 31, 2007, 2006 and 2005, respectively. We anticipate that revenue from government contracts will continue to increase in the near future. Government business is, in general, subject to special risks and challenges, including:

- long purchase cycles or approval processes;
- competitive bidding and qualification requirements;
- the impact of international conflicts;
- performance bond requirements;
- changes in government policies and political agendas;
- delays in funding, including the delays in the allocation of funds to state and local agencies from the U.S. Federal Highway Bill;
- other government budgetary constraints and cut-backs; and
- milestone requirements and liquidated damage provisions for failure to meet contract milestones.

In addition, a large number of our government contracts are fixed price contracts. As a result, we may not be able to recover any cost overruns we may incur. These fixed price contracts require us to estimate the total project cost based on preliminary projections of the project's requirements. The financial viability of any given project depends in large part on our ability to estimate these costs accurately and complete the project on a timely basis. In the event our costs on these projects exceed the fixed contractual amount, we will be required to bear the excess costs. Such additional costs would adversely affect our financial condition and results of operations. Moreover, certain of our government contracts are subject to termination or renegotiation at the convenience of the government, which could result in a large decline in our net sales and contract revenues in any given quarter. Our inability to address any of the foregoing concerns or the loss or renegotiation of any material government contract could seriously harm our business, financial condition and results of operations.

Our Quarterly Operating Results Fluctuate As A Result Of Many Factors. Therefore, We May Fail To Meet Or Exceed The Expectations Of Securities Analysts And Investors, Which Could Cause Our Stock Price To Decline. Our quarterly revenues and operating results have fluctuated and are likely to continue to vary from quarter to quarter due to a number of factors, many of which are not within our control. Factors that could affect our revenues include, among others, the following:

- changes in our pricing policies and the pricing policies of our suppliers and competitors, pricing concessions on volume sales, as well as increased price competition in general;
- the long lead times associated with government contracts or required by vehicle manufacturers;
- delays in government contracts from time to time, including from delays in the allocation of funds to state and local agencies from the U.S. Federal Highway Bill;
- our ability to raise additional capital;
- our ability to control costs;
- the mix of our products and services sold in a quarter, which mix has varied and is expected to continue to vary from time to time;
- seasonality due to winter weather conditions;
- international conflicts and acts of terrorism;
- declines in new home construction and related road construction;
- our ability to develop, introduce, patent, market and gain market acceptance of new products, applications and product enhancements in a timely manner, or at all;
- market acceptance of the products incorporating our technologies and products;
- the size, timing, rescheduling or cancellation of significant customer orders;
- the introduction of new products by competitors;
- the availability and cost of components used in the manufacture of our products;
- our success in expanding and implementing our sales and marketing programs;
- the effects of technological changes in our target markets;
- the amount of our backlog at any given time;
- the nature of our government contracts;
- deferrals of customer orders in anticipation of new products, applications or product enhancements;
- risks and uncertainties associated with our international business;
- currency fluctuations and our ability to get currency out of certain foreign countries; and
- general economic and political conditions.

Due to all of the factors listed above as well as other unforeseen factors, our future operating results could be below the expectations of securities analysts or investors. If that happens, the trading price of our common stock could decline. As a result of these quarterly variations, you should not rely on quarter-to-quarter comparisons of our operating results as an indication of our future performance.

We May Engage In Acquisitions Of Companies Or Technologies That May Require Us To Undertake Significant Capital Infusions And Could Result In Disruptions Of Our Business And Diversion Of Resources And Management Attention. We have historically acquired, and may in the future acquire, complementary businesses, products and technologies. Acquisitions may require significant capital infusions and, in general, acquisitions also involve a number of special risks, including:

- potential disruption of our ongoing business and the diversion of our resources and management's attention;
- the failure to retain or integrate key acquired personnel;
- the challenge of assimilating diverse business cultures, and the difficulties in integrating the operations, technologies and information system of the acquired companies;
- increased costs to improve managerial, operational, financial and administrative systems and to eliminate duplicative services;
- the incurrence of unforeseen obligations or liabilities;
- potential impairment of relationships with employees or customers as a result of changes in management; and
- increased interest expense and amortization of acquired intangible assets.

Our competitors are also soliciting potential acquisition candidates, which could both increase the price of any acquisition targets and decrease the number of attractive companies available for acquisition. Acquisitions may also materially and adversely affect our operating results due to large write-offs, contingent liabilities, substantial depreciation, deferred compensation charges or intangible asset amortization, or other adverse tax or accounting consequences. We cannot assure you that we will be able to identify or consummate any additional acquisitions, successfully integrate any acquisitions or realize the benefits anticipated from any acquisition.

We Have Experienced Growth In Recent Periods. If We Fail To Manage Our Growth Effectively, We May Be Unable To Execute Our Business Plan And May Experience Future Weaknesses In Our Internal Controls. We have expanded our overall business. In order to achieve our business objectives, we will need to continue to expand our business and add additional qualified personnel. Such expansion has placed and is expected to continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. If we are unable to successfully manage our growth, our business, financial condition and results of operations will be adversely affected.

To accommodate this growth, we launched a new ERP system in April 2006. Accordingly, we may experience problems commonly experienced by other companies in connection with such implementations, including but not limited to, potential bugs in the system, component or supply delays, training requirements and other integration challenges and delays. Any difficulties we might experience in connection with our new ERP system could have a material adverse effect on our financial reporting system and internal controls.

If We Do Not Keep Pace With Rapid Technological Changes And Evolving Industry Standards, We Will Not Be Able To Remain Competitive And There Will Be No Demand For Our Products. Our markets are in general characterized by the following factors:

- rapid technological advances;
- downward price pressure in the marketplace as technologies mature;
- changes in customer requirements;
- frequent new product introductions and enhancements; and
- evolving industry standards and changes in the regulatory environment.

Our future success will depend upon our ability to anticipate and adapt to changes in technology and industry standards, and to effectively develop, introduce, market and gain broad acceptance of new products and product enhancements incorporating the latest technological advancements. In particular, our LDW system is incorporated into automobiles and trucks that face significant technological changes in each model year and among different vehicle models. Accordingly, we must adapt our technology from time to time to function with such changes.

We May Not Be Able To Adequately Protect Or Enforce Our Intellectual Property Rights, Which Could Harm Our Competitive Position. If we are not able to adequately protect or enforce the proprietary aspects of our technology, competitors could be able to access our proprietary technology and our business, financial condition and results of operations will likely be seriously harmed. We currently attempt to protect our technology through a combination of patent, copyright, trademark and trade secret laws, employee and third party nondisclosure agreements and similar means. Despite our efforts, other parties may attempt to disclose, obtain or use our technologies or systems. Our competitors may also be able to independently develop products that are substantially equivalent or superior to our products or design around our patents. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the United States. As a result, we may not be able to protect our proprietary rights adequately in the United States or abroad.

Litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation may also be necessary to defend against claims of infringement or invalidity by others. An adverse outcome in litigation or any similar proceedings could subject us to significant liabilities to third parties, require us to license disputed rights from others or require us to cease marketing or using certain products or technologies. We may not be able to obtain any licenses on terms acceptable to us, or at all. We also may have to indemnify certain customers or strategic partners if it is determined that we have infringed upon or misappropriated another party's intellectual property. Any of these results could adversely affect our business, financial condition and results of operations. In addition, the cost of addressing any intellectual property litigation claim, including legal fees and expenses, and the diversion of management's attention and resources, regardless of whether the claim is valid, could be significant and could seriously harm our business, financial condition and results of operations.

The Trading Price Of Our Common Stock Is Highly Volatile. The trading price of our common stock has been subject to wide fluctuations in the past. Since January 2000, our Class A common stock (now known as our common stock) has traded at prices as low as \$0.45 per share and as high as \$29.44 per share. The market price of our common stock could continue to fluctuate in the future in response to various factors, including, but not limited to:

- quarterly variations in operating results;
- our ability to control costs, improve cash flow and sustain profitability;
- our ability to raise additional capital;
- shortages announced by suppliers;
- announcements of technological innovations or new products or applications by our competitors, customers or us;
- transitions to new products or product enhancements;
- acquisitions of businesses, products or technologies;
- the impact of any litigation;
- changes in investor perceptions;
- government funding, political agendas and other budgetary issues;
- changes in earnings estimates or investment recommendations by securities analysts; and
- international conflicts, political unrest and acts of terrorism.

The stock market in general has recently experienced volatility, which has particularly affected the market prices of equity securities of many technology companies. This volatility has often been unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of our common stock. In the past, companies that have experienced volatility in the market price of their securities have been the subject of securities class action litigation. If we were to become the subject of a class action lawsuit, it could result in substantial losses and divert management's attention and resources from other matters.

Our International Business Operations May Be Threatened By Many Factors That Are Outside Of Our Control. We currently market our AutoVue and Vantage products internationally and we anticipate that our international operations will expand in the near future. International business operations are subject to various inherent risks including, among others:

- currency fluctuations and restrictions;
- political, social and economic instability;
- longer accounts receivable payment cycles;
- import and export license requirements and restrictions of the United States and each other country in which we operate;
- unexpected changes in regulatory requirements, tariffs and other trade barriers or restrictions;
- the burdens of compliance with a wide variety of foreign laws and more restrictive labor laws and obligations;
- difficulties in managing and staffing international operations;
- potentially adverse tax consequences; and
- reduced protection for intellectual property rights in some countries.

All of our international sales are denominated in U.S. dollars. As a result, an increase in the relative value of the dollar could make our products more expensive and potentially less price competitive in international markets. We do not engage in any transactions as a hedge against risks of loss due to foreign currency fluctuations.

Any of the factors mentioned above may adversely affect our future international sales and, consequently, affect our business, financial condition and operating results. Furthermore, as we increase our international sales, our total revenues may also be affected to a greater extent by seasonal fluctuations resulting from lower sales that typically occur during the summer months in Europe and other parts of the world.

We Could Experience Negative Financial Impacts Arising From Developments In Contingencies Created Under Our Previous Structure Or By Former Subsidiaries. Although we divested ourselves of all business units prior to October 2004, with the exception of our Iteris business, from time to time we could experience unforeseen developments in contingencies related to our former subsidiaries. For example, in July 2006 we entered into a settlement agreement in connection with a lawsuit brought against Mariner Networks, Inc., one of our former subsidiaries, by one of Mariner's suppliers, pursuant to which we issued 88,912 shares of our common stock to this supplier (valued at \$213,000 as of the date of issuance), paid this supplier \$125,000 on October 20, 2006 and are required to pay an additional \$350,000 in 36 equal monthly installments of \$9,700 beginning in November 2006. Although we are not aware of any other material contingencies, it is possible that other matters could be brought against us in connection with activities related to former subsidiaries and that such matters could materially and adversely affect our financial results and cash flows.

Some Of Our Directors, Officers And Their Affiliates Can Control The Outcome Of Matters That Require The Approval Of Our Stockholders, And Accordingly We Will Not Be Able To Engage In Certain Transactions Without Their Approval. As of June 30, 2007, our officers and directors beneficially owned approximately 11% of the outstanding shares of our common stock (and approximately 17% of our common stock when including options, warrants and

other convertible securities held by them which are currently exercisable or convertible or will become exercisable or convertible within 60 days after June 30, 2007). As a result of their stock ownership, our management will be able to influence the election of our directors and the outcome of corporate actions requiring stockholder approval, such as mergers and acquisitions, regardless of how our other stockholders may vote. This concentration of voting control may have a significant effect in delaying, deferring or preventing a change in our management or change in control and may adversely affect the voting or other rights of other holders of common stock.

Certain Anti-Takeover Provisions May Affect The Price Of Our Common Stock And Discourage A Third Party From Acquiring Us. Certain provisions of our certificate of incorporation and our stockholder rights plan could make it difficult for a third party to acquire us, even though an acquisition might be beneficial to our stockholders. Such provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. Under the terms of our certificate of incorporation, our Board of Directors is authorized to issue, without stockholder approval, up to 2,000,000 shares of preferred stock with voting, conversion and other rights and preferences superior to those of our common stock. Our future issuance of preferred stock could be used to discourage an unsolicited acquisition proposal. In addition, in March 1998, we adopted a stockholder rights plan and declared a dividend of preferred stock purchase rights to our stockholders. We amended this plan in May 2004. In the event a third party acquires more than 15% of the outstanding voting control of our company or 15% of our outstanding common stock, the holders of these rights will be able to purchase the junior participating preferred stock at a substantial discount off of the then current market price. The exercise of these rights and purchase of a significant amount of stock at below market prices could cause substantial dilution to a particular acquirer and discourage the acquirer from pursuing our company. The mere existence of a stockholder rights plan often delays or makes a merger, tender offer or proxy contest more difficult.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed herewith or are incorporated by reference to the location indicated.

<u>Exhibit Number</u>	<u>Description</u>	<u>Where Located</u>
3.1	Amended and Restated Certificate of Incorporation of the registrant	<i>Exhibit 3.1 to the registrant's current report on Form 8-K as filed with the SEC on October 28, 2004</i>
3.2	Bylaws of registrant, as amended	<i>Exhibit 4.2 to the registrant's Registration Statement on Form S-1 (Reg. No. 033-67932) as filed with the SEC on July 6, 1993</i>
3.3	Certificates of Amendment to Bylaws of the registrant dated April 24, 1998 and August 10, 2001	<i>Exhibit 3.4 to the registrant's Annual Report on Form 10-K/A for the year ended March 31, 2003 as filed with the SEC on July 29, 2003</i>
3.4	Certificate of Amendment to Bylaws of registrant dated September 9, 2004	<i>Exhibit 3.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 as filed with the SEC on November 15, 2004</i>

4.1	Specimen of Common Stock Certificate	<i>Exhibit 4.1 to the registrant's Amendment No. 1 to the Registration Statement on Form 8-A as filed with the SEC on December 8, 2004</i>
4.2	Amended and Restated Rights Agreement, dated as of May 10, 2004, by and between the registrant and U.S. Stock Transfer Corporation, including exhibits thereto	<i>Exhibit 99.1 to the registrant's Registration Statement on Form 8-A/A as filed with the SEC on June 18, 2004</i>
10.1	Sublease Agreement, dated September 30, 2003, by and between Odetics, Inc. and Maij, Inc.	<i>Filed herewith</i>
10.2	Office Lease Agreement, dated May 24, 2007, by and between Crown Carnegie Associates, LLC and Iteris, Inc.	<i>Filed herewith</i>
10.3	Termination Agreement, dated May 30, 2007, by and among Transportation Planning Group, Inc., Abbas Mohaddes and Iteris, Inc.	<i>Filed herewith</i>
31.1	Certification of the Principal Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	<i>Filed herewith</i>
31.2	Certification of the Principal Financial and Accounting Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	<i>Filed herewith</i>
32.1	Certification of the Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	<i>Filed herewith</i>
32.2	Certification of the Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	<i>Filed herewith</i>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 13, 2007

ITERIS, INC.
(Registrant)

By /s/ ABBAS MOHADDES
Abbas Mohaddes
Chief Executive Officer
(Principal Executive Officer)

By /s/ JAMES S. MIELE
James S. Miele
Chief Financial Officer
(Principal Financial and Accounting Officer)

SUBLEASE BETWEEN MAIJ AND ODETICS INC.

1. Basic Provisions ("Basic Provisions").

1.1 **Parties:** This Sublease ("Sublease"), dated for reference purposes only September 30, 2003, is made by and between Odetics, Inc, a Delaware corporation ("Sublessor") and Maij, Inc., a California corporation ("Sublessee"), (collectively the "Parties", or individually a "Party").

1.2(a) **Premises:** That certain portion of the Project (as defined below), known as 1515 S. Manchester Ave., Anaheim, consisting of approximately 10,000 square feet, currently occupied by Odetics, Inc. and MAXxess Inc. ("Premises"). The Premises are located at: 1515 S. Manchester Ave., in the City of Anaheim, County of Orange, State of California, with zip code 92802. In addition to Lessee's rights to use and occupy the Premises as hereinafter specified, Lessee shall have nonexclusive rights to the Common Areas (as defined below) as hereinafter specified, but shall not have any rights to the roof, the exterior walls, or the utility raceways of the building containing the Premises ("Building") or to any other buildings in the Project. The Premises, the Building, the Common Areas, the land upon which they are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Project."

1.2(b) **Parking:** 20 unreserved and 0 reserved vehicle parking spaces.

1.3 **Term:** 4 years and two months commencing on September 24, 2003 ("Commencement Date") and ending November 23, 2007 ("Expiration Date"); provided, however, that notwithstanding the preceding clause, if the exact location of the Premises is not designated in writing and mutually acceptable to Sublessee and Sublessor as evidenced by a written memorandum signed by Sublessor and Sublessee within 6 months after the Commencement Date, then the Term of this Sublease shall be reduced from 4 years and two months to a Term of two years and the Term of this Sublease shall commence on the Commencement Date and end on September 23, 2005 ("Expiration Date").

1.4 **Early Possession:** n/a ("Early Possession Date").

1.5 **Base Rent:** \$10,200 per month ("Base Rent"), payable on the 1st day of each month commencing October 1, 2003.

this box is checked, there are provisions in this Lease for the Base Rent to be adjusted.

1.6 **Lessee's Share of Operating Expenses:** (none ("Lessee's Share")).

1.7 **Base Rent and Other Monies Paid Upon Execution:**

- (a) **Base Rent:** \$10,200 for the period October 1, 2003- October 31, 2003 (b)
- Security Deposit:** \$0 ("Security Deposit").
- (c) **Other:** \$ 0.
- (d) **Total Due Upon Execution of this Lease:** \$10,200,00.

1.8 **Agreed Use:** The design, manufacture, testing and assembly of electrical components and related legal uses, and general offices.

1.9 **Real Estate Brokers:** none

1.10 **Guarantor:** none.

1.11 **Attachments.** Attached hereto are the following, all of which constitute a part of this Sublease:

- Addendum consisting of Paragraphs;
 - a plot plan depicting the Premises and/or Project;
 - a current set of the Rules and Regulations;
 - a Work Letter;
-

a copy of the Master Lease;

other (specify):

2.

Premises.

2.1 **Letting.** Sublessor hereby subleases to Sublessee, and Sublessee hereby subleases from Sublessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Sublease. Unless otherwise provided herein, any statement of size set forth in this Sublease, or that may have been used in calculating Rent, is an approximation, which the Parties agree, is reasonable and any payments based thereon are not subject to revision whether or not the actual size is more or less.

2.2 **Condition.** Sublessor shall deliver the Premises to Sublessee broom clean and free of debris on the Commencement Date or the Early Possession Date, whichever first occurs (“**Start Date**”), and warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems (“**HVAC**”), and shall be in good operating condition on said date. If a noncompliance with such warranty exists as of the Start Date, or if one of such systems or elements should malfunction or fail within the appropriate warranty period, Sublessor shall, as Sublessor’s sole obligation with respect to such matter, except as otherwise provided in this Sublease, promptly after receipt of written notice from Sublessee setting forth with specificity the nature and extent of such noncompliance, malfunction or failure, rectify same at Sublessor’s expense. The warranty periods shall be as follows: Coterminal with the term of this Sublease.

2.3 **Compliance.** Sublessor warrants that any improvements, alterations or utility installations made or installed by or on behalf of Sublessor to or on the Premises comply with all applicable covenants or restrictions of record and applicable building codes, regulations and ordinances (“**Applicable Requirements**”) in effect on the date that they were made or installed. Sublessor makes no warranty as to the use to which Sublessee will put the Premises or to modifications which may be required by the Americans with Disabilities Act or any similar laws as a result of Sublessee’s use. If the Premises do not comply with said warranty, Sublessor shall, except as otherwise provided, promptly after receipt of written notice from Sublessee setting forth with specificity the nature and extent of such noncompliance, rectify the same.

2.4 **Acknowledgments.** Sublessee acknowledges that: (a) it has been advised by Sublessor and/or Brokers to satisfy itself with respect to the condition of the Premises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and compliance with Applicable Requirements and the Americans with Disabilities Act), and their suitability for Sublessee’s intended use, (b) Except as specified herein, Sublessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefor as the same relate to its occupancy of the Premises, and (c) neither Sublessor, Sublessor’s agents, nor Brokers have made any oral or written representations or warranties with respect to said matters other than as set forth in this Sublease. In addition, Sublessor acknowledges that: (i) Brokers have made no representations, promises or warranties concerning Sublessee’s ability to honor the Sublease or suitability to occupy the Premises, and (ii) it is Sublessor’s sole responsibility to investigate the financial capability and/or suitability of all proposed tenants.

2.5 **Americans with Disabilities Act.** In the event that as a result of Sublessee’s use, or intended use, of the Premises the Americans with Disabilities Act or any similar law requires modifications or the construction or installation of improvements in or to the Premises, Building, Project and/or Common Areas, the Parties agree that such modifications, construction or improvements shall be made at:

Sublessor’s expense Sublessee’s expense.

2.6 **Vehicle Parking.** Sublessee shall be entitled to use the number of Unreserved Parking Spaces and Reserved Parking Spaces specified in Paragraph 1.2(b) on those portions of the Common Areas designated from time to time for parking, Sublessee shall not use more parking spaces than said number. Said parking spaces shall be used for parking by vehicles no larger than full-size passenger automobiles or pickup trucks, herein called “**Permitted Size Vehicles.**” Sublessor may regulate the loading and unloading of vehicles by adopting Rules and Regulations as provided in Paragraph 2.9. No vehicles other than Permitted Size Vehicles may be parked in the Common Area without the prior written permission of Sublessor.

(a) Sublessee shall not permit or allow any vehicles that belong to or are controlled by Sublessee or Sublessee’s employees, suppliers, shippers, customers, contractors or invitees to be loaded, unloaded, or parked in areas other than those designated by Sublessor for such activities.

(b) Sublessee shall not service or store any vehicles in the Common Areas.

(c) If Sublessee permits or allows any of the prohibited activities described in this Paragraph 2.6, then Sublessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Sublessee, which cost shall be immediately payable upon demand by Sublessor.

2.7 **Common Areas—Definition.** The term “**Common Areas**” is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Project and interior utility raceways and installations within the Premises that are provided and designated by the Sublessor from time to time for the general nonexclusive use of Sublessor, Sublessee and other tenants of the Project and their respective

employees, suppliers, shippers, customers, contractors and invitees, including parking areas, loading and unloading areas, trash areas, roadways, walkways, driveways and landscaped areas.

2.8 Common Areas—Sublessee's Rights. Sublessor grants to Sublessee, for the benefit of Sublessee and its employees, suppliers, shippers, contractors, customers and invitees, during the term of this Sublease, the nonexclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Sublessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Project. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Sublessor or Sublessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur then Sublessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Sublessee, which cost shall be immediately payable upon demand by Sublessor.

2.9 Common Areas—Rules and Regulations. Sublessor or such other person(s) as Sublessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable and non-discriminatory rules and regulations ("**Rules and Regulations**") for the management, safety, care, and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Project and their invitees. Sublessee agrees to abide by and conform to all such Rules and Regulations, and to cause its employees, suppliers, shippers, customers, contractors and invitees to so abide and conform. Sublessor shall not be responsible to Sublessee for the noncompliance with said Rules and Regulations by other tenants of the Project.

2.10 Common Areas—Changes. Sublessor shall have the right, in Sublessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, walkways and utility raceways which does not impair in any material manner Sublessee's prior use;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To add additional buildings and improvements to the Common Areas;

(d) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Project, or any portion thereof; and

(e) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Project as Sublessor may, in the exercise of sound business judgment, deem to be appropriate.

3.

Possession.

3.1 Early Possession. If Sublessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early possession. All other terms of this Sublease (including but not limited to the obligations to pay Sublessee's Share of Common Area Operating Expenses, Real Property Taxes and insurance premiums and to maintain the Premises) shall, however, be in effect during such period. Any such early possession shall not affect the Expiration Date.

3.2 Delay in Commencement. Sublessor shall deliver possession of the Premises by the Commencement Date.

3.4 Sublessee Compliance. Sublessor shall not be required to tender possession of the Premises to Sublessee until Sublessee complies with its obligation to provide evidence of insurance. Pending delivery of such evidence, Sublessee shall be required to perform all of its obligations under this Sublease from and after the Start Date, including the payment of Rent, notwithstanding Sublessor's election to withhold possession pending receipt of such evidence of insurance. Further, if Sublessee is required to perform any other conditions prior to or concurrent with the Start Date, the Start Date shall occur but Sublessor may elect to withhold possession until such conditions are satisfied.

4.

Rent and Other Charges.

4.1 Rent Defined. All monetary obligations of Sublessee to Sublessor under the terms of this Sublease (except for the Security Deposit) are deemed to be rent ("Rent"). Rent shall be payable in lawful money of the United States to Sublessor at the address stated herein or to such other persons or at such other places as Sublessor may designate in writing.

4.3 Utilities. Sublessor shall pay for all water, gas, heat, light, power, local telephone services, trash disposal and other utilities and services excluding janitorial and long distance telephone services supplied to the Premises, together with any taxes thereon.

5.

Security Deposit. Not applicable.

6.

Agreed Use. The Premises shall be used and occupied only for the design, manufacture, testing and assembly of electrical components and related legal uses and for no other purpose.

7.

Master Lease.

7.1 Sublessor is the lessee of the Premises by virtue of a lease, hereinafter the "**Master Lease**", wherein 1515 S. Manchester, LLC is the lessor, hereinafter the "**Master Lessor**".

7.2 This Sublease is and shall be at all times subject and subordinate to the Master Lease.

7.3 The terms, conditions and respective obligations of Sublessor and Sublessee to each other under this Sublease shall be the terms and conditions of the Master Lease except for those provisions of the Master Lease which are directly contradicted by this Sublease in which event the terms of this Sublease document shall control over the Master Lease. Therefore, for the purposes of this Sublease, wherever in the Master Lease the word "Lessor" is used it shall be deemed to mean the Sublessor herein and wherever in the Master Lease the word "Lessee" is used it shall be deemed to mean the Sublessee herein.

7.4 During the term of this Sublease and for all periods subsequent for obligations which have arisen prior to the termination of this Sublease, Sublessee does hereby expressly assume and agree to perform and comply with, for the benefit of Sublessor and Master Lessor, each and every obligation of Sublessor under the Master Lease, with respect to the Premises hereunder only, except for the following paragraphs which are excluded therefrom: 1.3, 1.5, 3.1, 4.3, 6.2(e), 6.2(f), 7.1(b), 7.2, 7.4(b), the parenthetical clause in 7.4 (c), 8.2, 8.3, 11, 13.1(c)(ii), 20, 22, 25, 30, 42, 51.

7.5 The obligations that Sublessee has assumed under paragraph 7.4 hereof are hereinafter referred to as the "**Sublessee's Assumed Obligations**". The obligations that sublessee has not assumed under paragraph 7.4 hereof are hereinafter referred to as the "**Sublessor's Remaining Obligations**".

7.6 Sublessee shall hold Sublessor free and harmless from all liability, judgments, costs, damages, claims or demands, including reasonable attorneys fees, arising out of Sublessee's failure to comply with or perform Sublessee's Assumed Obligations.

7.7 Sublessor agrees to maintain the Master Lease during the entire term of this Sublease, subject, however, to any earlier termination of the Master Lease without the fault of the Sublessor, and to comply with or perform Sublessor's Remaining Obligations and to hold Sublessee free and harmless from all liability, judgments, costs, damages, claims or demands arising out of Sublessor's failure to comply with or perform Sublessor's Remaining Obligations.

7.8 Sublessor represents to Sublessee that the Master Lease is in full force and effect and that no default exists on the part of any Party to the Master Lease.

8.

Assignment of Sublease and Default.

8.1 Sublessor hereby assigns and transfers to Master Lessor the Sublessor's interest in this Sublease, subject however to the provisions of Paragraph 8.2 hereof.

8.2 Master Lessor, by executing this document, agrees that until a Default (as defined in the Master Lease) shall occur under the Master Lease, that Sublessor may receive, collect and enjoy the Rent accruing under this Sublease. However, if a Default (as defined in the Master Lease) shall occur in the Master Lease then Master Lessor may, at its option, receive and collect, directly from Sublessee, all Rent owing and to be owed under this Sublease, Master Lessor shall not, by reason of this assignment of the Sublease nor by reason of the collection of the Rent from the Sublessee, be deemed liable to Sublessee for any failure of the Sublessor to perform and comply with Sublessor's Remaining Obligations.

8.3 Sublessor hereby irrevocably authorizes and directs Sublessee upon receipt of any written notice from the Master Lessor stating that a Default exists under the Master Lease, to pay to Master Lessor the Rent due and to become due under the Sublease, Sublessor agrees that Sublessee shall have the right to rely upon any such statement and request from Master Lessor, and that Sublessee shall pay such Rent to Master Lessor without any obligation or right to inquire as to whether such Default exists and notwithstanding any notice from or claim from Sublessor to the contrary and Sublessor shall have no right or claim against Sublessee for any such Rent so paid by Sublessee.

8.4 No changes or modifications shall be made to this Sublease without the consent of Master Lessor.

9.

Consent of Master Lessor.

9.1 In the event that the Master Lease requires that Sublessor obtain the consent of Master Lessor to any subletting by Sublessor then, this Sublease shall not be effective unless, within 10 days of the date hereof, Master Lessor signs this Sublease thereby giving its consent to this Subletting.

9.2 In the event that the obligations of the Sublessor under the Master Lease have been guaranteed by third parties then neither this Sublease, nor the Master Lessor's consent, shall be effective unless, within 10 days of the date hereof, said guarantors sign this Sublease thereby giving their consent to this Sublease.

9.3 In the event that Master Lessor does give such consent then:

(a) Such consent shall not release Sublessor of its obligations or alter the primary liability of Sublessor to pay the Rent and perform and comply with all of the obligations of Sublessor to be performed under the Master Lease.

(b) The acceptance of Rent by Master Lessor from Sublessee or any one else liable under the Master Lease shall not be deemed a waiver by Master Lessor of any provisions of the Master Lease.

(c) The consent to this Sublease shall not constitute a consent to any subsequent subletting or assignment.

(d) In the event of any Default of Sublessor under the Master Lease, Master Lessor may proceed directly against Sublessor, any guarantors or any one else liable under the Master Lease or this Sublease without first exhausting Master Lessor's remedies against any other person or entity liable thereon to Master Lessor.

(e) Master Lessor may consent to subsequent sublettings and assignments of the Master Lease or this Sublease or any amendments or modifications thereto without notifying Sublessor or any one else liable under the Master Lease and without obtaining their consent and such action shall not relieve such persons from liability,

(f) In the event of a Default (as defined in the Master Lease) under the Master Lease, then Master Lessor may exercise any or all of its rights and remedies under the Master Lease without regard to the existence of this Sublease or, at its option and without being obligated to do so, may require Sublessee to atton to Master Lessor on the terms and conditions of this Sublease in which event Master Lessor shall undertake the obligations of Sublessor under this Sublease from the time of the exercise of said option to termination of this Sublease but Master Lessor shall not be liable for any prepaid Rent nor any Security Deposit paid by Sublessee, nor shall Master Lessor be liable for any other Defaults of the Sublessor under the Sublease.

9.4 The signatures of the Master Lessor and any Guarantors of Sublessor at the end of this document shall constitute their consent to the terms of this Sublease.

9.5 Master Lessor acknowledges that, to the best of Master Lessor's knowledge, no Default presently exists under the Master Lease of obligations to be performed by Sublessor and that the Master Lease is in full force and effect.

9.6 Such consent, and this Sublease, shall not be construed to modify, waive or affect any of the terms or provisions of the Master Lease, regardless of any inconsistency between this Sublease and the Master Lease. Without limiting the foregoing, this Sublease and Master Lessor's consent to it do not create any obligations of Master Lessor to Sublessee or any rights of Sublessee enforceable against Master Lessor.

11. **Representations and Indemnities of Broker Relationships.** The Parties each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any) in connection with this Sublease, and that no one other than said named Brokers is entitled to any commission or finder's fee in connection herewith. Sublessee and Sublessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, attorneys' fees reasonably incurred with respect thereto.

12. **Attorney's fees.** If any Party or Broker brings an action or proceeding involving the Premises whether founded in tort, contract or equity, or to declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "**Prevailing Party**" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. In addition, Sublessor shall be entitled to attorneys' fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach (\$200 is a reasonable minimum per occurrence for such services and consultation).

13. **No Prior or Other Agreements; Broker Disclaimer.** This Sublease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective.

14. Not used.

15. Sublessee and Sublessor acknowledge that Sublessee may be required to move to new operating space within 1515 S. Manchester during the term of the agreement contemplated by the Sublease. Sublessor and Sublessee agree to cooperate with such move to achieve minimal business disruption to Sublessee and Sublessor.

16. Sublessee shall be granted access to the gymnasium and cafeteria located in 1515 S. Manchester Ave., Anaheim.

17. Security Deposit: not applicable

18. Sublessee agrees to maintain reasonable liability coverage for occurrence in its premises, and to name Master Lessor as an additional insured.

19. Not used.

20. Not used.

21. Sublessee may sublet the premises with the prior consent of Sublessor and Master Lessor, which consent shall not be unreasonably withheld.

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY ANY REAL ESTATE BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS SUBLEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:

1. **SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS SUBLEASE.**
2. **RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PREMISES. SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO: THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING OF THE PROPERTY, THE STRUCTURAL INTEGRITY, THE CONDITION OF THE ROOF AND OPERATING SYSTEMS, AND THE SUITABILITY OF THE PREMISES FOR SUBLESSEE'S INTENDED USE.**

Executed at:
Anaheim CA.

on:
September 30, 2003

By SUBLESSOR:
Odetics, Inc., a Delaware corporation

By:
/s/ Gregory Miner
Name Printed: Gregory Miner

Title: Chief Executive Officer

By:
/s/ Gary Smith
Name Printed: Gary Smith

Executed at:
Anaheim CA.

on:
September 30, 2003

By SUBLESSEE:
Maij, Inc., a California Corporation

By:
/s/ Wesley R. Appleby
Name Printed: Wesley R. Appleby

Title: President & CEO

By:
Name Printed:

Title: Secretary

Address: 1515 S. Manchester Ave.

Anaheim, CA 92802

Telephone/Facsimile:

Federal ID No.

Consent to the above Sublease is hereby given.

Executed at:

on:

By MASTER LESSOR:
1515 S. Manchester, LLC

By:
/s/ William McFarland

Name Printed: William McFarland

Title:

By:

Name Printed:

Title:

Address: 18800 Von Karman Ave., Ste. 100
Irvine, CA 92612

Telephone/Facsimile:

Federal ID No.

Title:

Address: 1515 S. Manchester Ave.

Anaheim, CA 92802

Telephone/Facsimile:

Federal ID No.

Executed At:

on:

By GUARANTOR(S): none

By:

Name Printed:

Address:

By:

Name Printed:

Address:

OFFICE LEASE

LANDLORD: *CROWN CARNEGIE ASSOCIATES, LLC, a Delaware limited liability company*

TENANT: *ITERIS, INC., a Delaware corporation*

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OFFICE LEASE

Basic Lease Provisions

The following Basic Lease Provisions are incorporated in and made a part of the Lease to which it is attached. If there is any conflict between the Basic Lease Provisions and the Lease, the Basic Lease Provisions shall control.

Date (for reference purposes only): May 24, 2007

Landlord: CROWN CARNEGIE ASSOCIATES, LLC, a Delaware limited liability company.

Tenant: ITERIS, INC., a Delaware corporation.

Premises (Article 2): The space on the first and second floors of the Project, outlined in Exhibit A, containing approximately 52,116 rentable square feet in the aggregate, and 47,252 usable square feet in the aggregate (as measured using Building Owners and Managers Association ("BOMA") American National Standard Z65.1-1996 as a guideline) (of which approximately 39,482 rentable square feet and 35,482 usable square feet are located on the first floor of the Project and commonly referred to as Suite 100 ("Suite 100"), and of which approximately 12,634 rentable square feet and 11,770 usable square feet are located on the second floor of the Project and commonly referred to as Suite 200 ("Suite 200")).

Project: That certain office building whose address is 1700 East Carnegie Avenue, Santa Ana, California 92705, consisting of approximately 76,516 rentable square feet.

Development: The multi-building project commonly known as Freeway Corporate Park, with an aggregate of approximately 128,266 rentable square feet, as the same may be adjusted by Landlord from time to time.

Lease Term (sometimes referred to in the Lease as the "Term") (Article 1): Eighty-eight months (see below).

Commencement Date: Subject to the following provisions of this paragraph, the earliest of (i) the date Tenant first commences to conduct business in any portion of the Premises, (ii) the date of Substantial Completion of the Tenant Improvements (as each such term is defined in the Work Letter Agreement attached hereto as Exhibit "D"), or (iii) September 17, 2007 (the "9/17 Date") (regardless of the degree of construction of the Tenant Improvements). It is understood, however, that the above Commencement Date assumes a delivery of Suite 200 to Tenant on or before July 1, 2007. If Suite 200 is delivered to Tenant after July 1, 2007, then (a) there shall be two (2) Commencement Dates under this Lease (which could, however, still occur on the same day), as follows: (1) the Commencement Date for Suite 100 shall be the earliest of (i) the date Tenant first commences to conduct business in any portion of Suite 100, (ii) the date of Substantial Completion of the portion of the Tenant Improvements to be constructed in Suite 100, or (iii) the 9/17 Date (regardless of the degree of construction of the Tenant Improvements); and (2) the Commencement Date for Suite 200 shall be the earliest of (i) the date Tenant first commences to conduct business in any portion of Suite 200, (ii) the date of Substantial Completion of the portion of the Tenant Improvements to be constructed in Suite 200 pursuant to Exhibit "D", or (iii) the Suite 200 Hard Date (as defined below) (regardless of the degree of construction of the Tenant Improvements); the "Suite 200 Hard Date" is defined as the 9/17 Date, plus the number of days during the period (if any) between July 1, 2007 and the date of the delivery of Suite 200 to Tenant (or any earlier date delivery would have occurred absent delays in delivery caused by Tenant or any of the Tenant Parties, as defined in Section 9.5 below); for example, if Suite 200 was

delivered to Tenant on July 5, 2007, then the Suite 200 Hard Date would be September 20, 2007 (i.e., 9/17, plus the 3 days attributable to 7/2, 7/3 and 7/4). In the event the two (2) Commencement Dates occur on different dates, then during the period in which only one (1) Commencement Date has occurred, Base Rent, parking rights and Tenant's Share shall be equitably adjusted by Landlord during such period based on the portion of the Premises for which the Commencement Date has occurred, provided that the full amount of the Monthly Amortized Additional Allowance and the Monthly Amortized HVAC Costs (as each such term is defined in Section 2.1 of Exhibit "D" attached hereto) shall be fully payable, without reduction, commencing on the initial Commencement Date.

Expiration Date: The date immediately preceding the eighty-eight (88) month anniversary of the initial Commencement Date; provided, however, that if the initial Commencement Date is a date other than the first day of a month, the Expiration Date shall be the last day of the month which is eighty-eight (88) months after the month in which the initial Commencement Date falls, unless extended or earlier terminated pursuant to this Lease.

Base Rent
(Article 3) (subject to increase under Section 2.1 of Exhibit "D" attached hereto):

<u>Lease Year</u>	<u>Monthly Base Rent</u>	<u>Monthly Base Rent per Rentable Square Foot</u>
1	\$ 101,626.20	\$ 1.95
2	\$ 104,232.00	\$ 2.00
3	\$ 106,837.80	\$ 2.05
4	\$ 109,443.60	\$ 2.10
5	\$ 112,049.40	\$ 2.15
6	\$ 114,655.20	\$ 2.20
7	\$ 117,261.00	\$ 2.25
8	\$ 119,866.80	\$ 2.30

Tenant's Share: 68.111% with respect to the Project (and 40.631% with respect to the Development)

Base Year: Calendar Year 2008.

Parking (Article 13): One hundred seventy (170) unreserved parking spaces, in accordance with the provisions set forth in Article 13 below, and other uses of the Parking Lot in accordance with the provisions set forth in Section 8.3 of this Lease.

Security Deposit (Article 5): \$131,853.48.

Permitted Use:
(Article 8): Subject to the terms of this Lease (including, without limitation, Article 8 of this Lease), and all zoning and other laws, rules, regulations, codes and ordinances, and matters of record, general business office use, and use for light manufacturing and distribution of automotive sensors and roadway sensors/ancillary equipment, all consistent with the character of a first-class office building, and no other use. For the purposes of this Lease, (i) automotive sensors are electronic devices mounted in or on a car or truck that acquire images of the environment in or around a vehicle and process the images to acquire information to provide driver alerts, operate automotive equipment, or perform similar functions; and (ii) roadway sensors/ancillary equipment are electronic devices mounted at intersections or along roadways that acquire images of the roadway and process the images to acquire information for operating traffic signals or for traffic information, management and control purposes.

Rent Payment Address (Article 3): c/o Crown Realty & Development, Inc.
18201 Von Karman Avenue, Suite 950
Irvine, California 92612

Attn: Property Management

Landlord's Address (Article 28):

c/o Crown Realty & Development, Inc.
18201 Von Karman Avenue, Suite 950
Irvine, California 92612
Attn: Property Management

Landlord's Broker (Section 31.1):

Grubb & Ellis

Tenant's Broker (Section 31.1):

Cushman & Wakefield

LEASE

This Lease (together with the Basic Lease Provisions and Exhibits "A" through "I" which are incorporated into the Lease by this reference, collectively the "Lease") is made as of the date specified in the Basic Lease Provisions, by and between CROWN CARNEGIE ASSOCIATES, LLC, a Delaware limited liability company ("Landlord"), and ITERIS, INC., a Delaware corporation ("Tenant"). Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Premises for the Term, upon the terms and conditions set forth in this Lease.

Article 1 - Term.

1.1 The Term of this Lease shall commence on the initial Commencement Date as set forth in the Basic Lease Provisions and shall end on the Expiration Date set forth in the Basic Lease Provisions. If Landlord does not deliver possession of the Premises to Tenant on or before any estimated Commencement Date (or any other date), Landlord shall not be subject to any liability for its failure to do so, and such failure shall not affect the validity of this Lease nor the obligations of Tenant hereunder. For purposes of this Lease, the term "Lease Year" shall mean each consecutive twelve (12) month period during the Lease Term, with the first Lease Year commencing on the initial Commencement Date; however, (a) if the initial Commencement Date falls on a day other than the first day of a calendar month, the first Lease Year shall end on the last day of the eleventh (11th) month after the initial Commencement Date and the second (2nd) and each succeeding Lease Year shall commence on the first day of the next calendar month, and (b) the last Lease Year shall end on the Expiration Date.

Notwithstanding the foregoing, if Suite 200 has not been delivered to Tenant on or prior to August 31, 2007 (the "Deadline Date") (as such date may be extended, as set forth in the last sentence of this paragraph), then, as Tenant's sole and exclusive remedy, Tenant shall receive one (1) day's credit of Monthly Base Rent for Suite 200 only against Monthly Base Rent next due under this Lease for Suite 200 for each day, if any, that occurs during the period, if any, falling after the Deadline Date and prior to the delivery of Suite 200 to Tenant. Notwithstanding the foregoing or anything to the contrary set forth in this Lease, the Deadline Date shall be extended one (1) day for each day on which there is any delay in the delivery of Suite 200 to Tenant caused by the acts or omission of Tenant or any of the Tenant Parties or Force Majeure (as defined in Article 25 below).

1.2 Landlord hereby grants the original Tenant named in this Lease ("Original Tenant") one (1) option (the "Option") to extend the Lease Term for a period of five (5) years (the "Option Term"), which Option shall be exercisable only by written notice delivered by Tenant to Landlord as set forth below. The rights contained in this Section 1.2 shall be personal to the Original Tenant and may only be exercised by the Original Tenant (and not any assignee, sublessee or transferee of the Original Tenant's interest in this Lease) if the Original Tenant occupies the entire Premises as of the date of Tenant's Acceptance (as defined below).

1.2.1 The rent payable by Tenant during the Option Term ("Option Rent") shall be equal to the "Market Rent" (defined below). "Market Rent" shall mean the applicable Monthly Base Rent, including all escalations, Direct Expenses, additional rent and other charges at which tenants, as of the commencement of the Option Term, are leasing non-renewal, non-sublease, non-equity space comparable in size, location and quality to the Premises for a term comparable to the Option Term, which comparable space is located in the Project and in office buildings comparable to the Project in the "Airport Area" sub-market in the Orange County, California office market taking into consideration the value of the existing improvements in the Premises to Tenant, as compared to the value of the existing improvements in such comparable space, with such value to be based upon the age, quality and layout of the improvements and the extent to which the same could be utilized by Tenant.

1.2.2 The Option shall be exercised by Tenant only in the following manner: (i) Tenant shall not be in default, and shall not have been in default under this Lease more than twice beyond any applicable notice and cure periods, on the delivery date of the Interest Notice and Tenant's Acceptance; (ii) Tenant shall deliver written notice ("Interest Notice") to Landlord not more than twelve (12) months nor less than nine (9) months prior to the expiration of the Lease Term, stating that Tenant is interested in exercising the Option, (iii) within fifteen (15) business days of Landlord's receipt of Tenant's written notice, Landlord shall deliver notice ("Option Rent Notice") to Tenant setting forth the Option Rent; and (iv) if Tenant desires to exercise such Option, Tenant shall provide Landlord written notice within ten (10) business days after receipt of the Option Rent Notice ("Tenant's Acceptance"), and upon, and concurrent with such exercise, Tenant may, at its option, object to the Option Rent contained in the Option Rent Notice. Tenant's failure to deliver the Interest Notice or Tenant's Acceptance on or before the dates specified above shall be deemed to constitute Tenant's election not to exercise the Option. If Tenant timely and properly exercises its Option, the Lease Term shall be extended for the Option Term upon all of the terms and conditions set forth in this Lease, except that the rent for the Option Term shall be as indicated in the Option Rent Notice, unless Tenant, concurrently with Tenant's acceptance, objects

to the Option Rent contained in the Option Rent Notice, in which case the parties shall follow the procedure and the Option Rent shall be determined, as set forth in Section 1.2.3 below.

1.2.3 If Tenant timely and appropriately objects to the Market Rent in Tenant's Acceptance, Landlord and Tenant shall attempt to agree upon the Market Rent using their best good-faith efforts. If Landlord and Tenant fail to reach agreement within twenty-one (21) days following Tenant's Acceptance ("Outside Agreement Date"), then each party shall make a separate determination of the Market Rent which shall be submitted to each other and to arbitration in accordance with the following items (a) through (d). The cost of arbitration shall be paid by Landlord and Tenant equally.

(a) Landlord and Tenant shall each appoint, within ten (10) days of the Outside Agreement Date, one arbitrator who shall by profession be a current real estate broker or appraiser of commercial office properties in the immediate vicinity of the Project, and who has been active in such field over the last five (5) years. The determination of the arbitrators shall be limited solely to the issue of whether Landlord's or Tenant's submitted Market Rent is the closest to the actual Market Rent as determined by the arbitrators, taking into account the requirements set forth above.

(b) The two (2) arbitrators so appointed shall within five (5) business days of the date of the appointment of the last appointed arbitrator agree upon and appoint a third arbitrator who shall be qualified under the same criteria set forth hereinabove for qualification of the initial two (2) arbitrators.

(c) The three (3) arbitrators shall within fifteen (15) days of the appointment of the third arbitrator reach a decision as to whether the parties shall use Landlord's or Tenant's submitted Market Rent, and shall notify Landlord and Tenant thereof. The decision of the majority of the three (3) arbitrators shall be binding upon Landlord and Tenant.

(d) If either Landlord or Tenant fails to appoint an arbitrator within ten (10) days after the applicable Outside Agreement Date, the arbitrator appointed by one of them shall reach a decision, notify Landlord and Tenant thereof, and such arbitrator's decision shall be binding upon Landlord and Tenant. If the two arbitrators fail to agree upon and appoint a third arbitrator, or both parties fail to appoint an arbitrator, then the appointment of the third arbitrator or any arbitrator shall be dismissed and the matter to be decided shall be forthwith submitted to arbitration under the provisions of the American Arbitration Association, but subject to the instructions set forth herein.

1.3 Subject to the timely vacation and surrender of the exiting tenant in Suite 200, and subject to the acts or omissions of Tenant (or any Tenant Parties) and Force Majeure (as defined in Article 25), Landlord shall use commercially reasonable efforts to deliver Suite 200 to Tenant on or before July 1, 2007.

Article 2 – Premises: Landlord and Tenant hereby stipulate that the Premises contains the number of square feet specified in the Basic Lease Provisions. Upon the request of the other party, Tenant and Landlord shall deliver to each other a Commencement Letter in a form substantially similar to that attached hereto as Exhibit "C", within ten (10) business days of receipt thereof; provided that failure to execute and deliver the Commencement Letter shall not in any way affect the validity of this Lease, or any of the terms of this Lease. Tenant hereby agrees that, except for latent defects in the structure of the Premises, and subject to Landlord's obligations under Section 6.1 below, the Premises shall be taken "as is", "with all faults", "without any representations or warranties", and Tenant hereby agrees and warrants that it has investigated and inspected the condition of the Premises and the suitability of same for Tenant's purposes, and Tenant does hereby waive and disclaim any objection to, cause of action based upon, or claim that its obligations hereunder should be reduced or limited because of the condition of the Premises or the Project or the suitability of same for Tenant's purposes. Landlord hereby represents that, to Landlord's actual knowledge, as of the date of this Lease, Landlord has not received written notice from a governmental entity stating that the Premises are in violation of applicable laws relating to the Premises. Except as expressly set forth in the preceding sentence, Tenant acknowledges that neither Landlord nor any agent nor any employee of Landlord has made any representations or warranty with respect to the Premises or the Project or with respect to the suitability of either for the conduct of Tenant's business and Tenant expressly warrants and represents that Tenant has relied solely on its own investigation and inspection of the Premises and the Project in its decision to enter into this Lease and let the Premises in the above-described condition. The Premises shall be initially improved as provided in, and subject to, the Tenant Work Letter attached hereto as Exhibit "D" and made a part hereof. The existing leasehold improvements in the Premises as of the date of this Lease, together with the Tenant Improvements (as defined in the Tenant Work Letter) may be collectively referred to herein as the "Tenant Improvements". The taking of possession of the Premises by Tenant shall conclusively establish that the Premises and the Project were at such time in satisfactory condition, except for latent defects in the structure of the Premises, and Landlord's obligations under Section 6 below. Tenant hereby waives subsection 1 of Section 1932 and Sections 1941 and 1942 of the Civil Code of California or any successor provision of law.

Article 3 – Base Rent:

3.1 Tenant agrees to pay to Landlord during the Term hereof, at Landlord's rent payment address set forth in the Basic Lease Provisions or to such other person or at such other place as directed from time to time by written notice to Tenant from Landlord, the monthly sums set forth the Basic Lease Provisions (together with the Monthly Amortized Additional Allowance, if any, and the Monthly Amortized HVAC Costs), payable in advance on the first day of each calendar month, without demand, setoff or deduction, and in the event this Lease commences or the date of expiration of this Lease occurs other than on the first day or last day of a calendar month, the rent for such month shall be prorated. Notwithstanding the foregoing, the first full month's Base Rent shall be paid by Tenant to Landlord concurrently with Tenant's execution of this Lease.

3.2 Provided that Tenant is not then in material default under this Lease beyond any applicable notice and cure periods, and has not been in material default under this Lease beyond any applicable notice and cure periods, Tenant shall be credited with the payment of monthly Base Rent with respect to the Premises for the second (2nd) through fifth (5th) full calendar months immediately following the final Commencement Date (for a total Base Rent credit under this paragraph of \$406,504.80, subject to the terms hereof). No such Base Rent credit shall reduce the amount of Additional Rent (or the Monthly Amortized Additional Allowance, if any, or the Monthly Amortized HVAC Costs) or other amounts which are otherwise payable by Tenant under this Lease. Tenant understands and agrees that the foregoing Base Rent credit is conditioned upon Tenant's not being in material default under this Lease beyond any applicable notice and cure periods.

Article 4 – Payment of Operating Expenses and Tax Expenses:

4.1 The term "Base Year" means the calendar year set forth in the Basic Lease Provisions. If, in any calendar year during the Lease Term, the "Direct Expenses" (as hereinafter defined) paid or incurred by Landlord shall be higher than the Direct Expenses for the Base Year, Tenant shall pay an additional sum for each such subsequent calendar year equal to the product of Tenant's Share (set forth in the Basic Lease Provisions) multiplied by such increased amount of Direct Expenses. In the event either the Premises and/or the Project is expanded or reduced, then Tenant's Share shall be appropriately adjusted, and as to the calendar year in which such change occurs, Tenant's Share for such calendar year shall be determined on the basis of the number of days during that particular calendar year that such Tenant's Share was in effect. In the event this Lease shall terminate on any date other than the last day of a calendar year, the additional sum of Direct Expenses payable hereunder by Tenant during the calendar year in which this Lease terminates shall be prorated on the basis of the relationship which the number of days which have elapsed from the commencement of said calendar year to and including said date on which this Lease terminates bears to three hundred sixty five (365). Any and all amounts due and payable by Tenant pursuant to this Lease (other than Base Rent) shall be deemed "Additional Rent" and Landlord shall be entitled to exercise the same rights and remedies upon default in these payments as Landlord is entitled to exercise with respect to defaults in monthly Base Rent payments.

4.2 As used herein the term "Direct Expenses" shall mean the sum of Tax Expenses and Operating Expenses, as each such term is defined below.

4.2.1 "Operating Expenses" means all costs and expenses incurred by Landlord in connection with the maintenance, operation, replacement, ownership and repair of the Project, the equipment, the intrabuilding cabling and wiring, adjacent walks, malls and landscaped and common areas and the parking structure, areas and facilities of the Project, including, but not limited to, salaries, wages, medical, surgical and general welfare benefits and pension payments, payroll taxes, fringe benefits, employment taxes, workers' compensation, uniforms and dry cleaning thereof for all persons who perform duties connected with the operation, maintenance and repair of the Project, its equipment, the intrabuilding cabling and wiring and the adjacent walks and landscaped areas, including janitorial, gardening, security, parking, operating engineer, elevator, painting, plumbing, heating, ventilating, air conditioning, carpentry, window washing, hired services, a reasonable allowance for depreciation of the cost of acquiring or the rental expense of personal property used in the maintenance, operation and repair of the Project, accountant's fees incurred in the preparation of rent adjustment statements, legal fees, real estate tax consulting fees, personal property taxes on property used in the maintenance and operation of the Project, fees, costs, expenses or dues payable pursuant to the terms of any covenants, conditions or restrictions or owners' association pertaining to the Project, capital expenditures incurred to effect economies of operation of, or stability of services to, the Project and capital expenditures required by government regulations, laws, or ordinances including, but not limited to the Americans with Disabilities Act; the cost of all charges for electricity, gas, water, heating, ventilation and air conditioning and other utilities furnished to the Project; the cost of all charges for fire and extended coverage, liability and all other insurance in connection with the Project carried by Landlord; the cost of all building and cleaning supplies and materials; the cost of all charges for cleaning, maintenance and service contracts and other services with independent contractors and administration fees; a commercially reasonable property management fee (which fee may be imputed if Landlord has internalized management or otherwise acts

as its own property manager) and license, permit and inspection fees relating to the Project. In the event, during any calendar year, the Project is less than one hundred percent (100%) occupied at all times, Operating Expenses shall be adjusted to reflect the Operating Expenses of the Project as though one hundred percent (100%) were occupied at all times, and the increase or decrease in the sums owed hereunder shall be based upon such Operating Expenses as so adjusted.

Operating Expenses shall not include:

- (A) Any ground lease rental;
- (B) Costs incurred by Landlord for the repair of damage to the Project, to the extent that Landlord is reimbursed by insurance proceeds;
- (C) Costs, including permit, license and inspection costs, incurred with respect to the installation of tenant or other occupants' improvements in the Project or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for tenants or other occupants of the Project;
- (D) Depreciation, amortization and interest payments, except as provided herein and except on materials, tools, supplies and vendor-type equipment purchased by Landlord to enable Landlord to supply services Landlord might otherwise contract for with a third party where such depreciation, amortization and interest payments would otherwise have been included in the charge for such third party's services, and when depreciation or amortization is permitted or required, the item shall be amortized over its reasonably anticipated useful life;
- (E) Marketing costs, including leasing commissions, attorneys' fees in connection with the negotiation and preparation of letters of intent, leases, subleases and/or assignments and space planning costs;
- (F) Reserves for bad debts;
- (G) Overhead and profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in or to the Project to the extent the same unreasonably exceeds a competitive cost given the quality of such goods and/or services;
- (H) Interest, principal, points and fees on debts or amortization on any mortgage or mortgages or any other debt instrument encumbering the Project (except as permitted above);
- (I) Landlord's general corporate overhead expenses;
- (J) Advertising and promotional expenditures;
- (K) The cost of any electric power for which any tenant directly contracts with the local public service company or of which any tenant is separately metered or submetered and pays Landlord directly; provided, however, that if any tenant in the Project contracts directly for electric power service or is separately metered or submetered during any portion of the relevant period, the total electric power costs for the Project shall be "grossed up" to reflect what those costs would have been had each tenant in the Project used the Project-standard amount of electric power;
- (L) Management fees substantially in excess of those management fees which are normally and customarily charged by landlords of comparable buildings in the vicinity of the Project;
- (M) Costs arising from Landlord's charitable or political contributions;
- (N) Costs for the acquisition of (as contrasted with the maintenance of) sculptures, paintings or other objects of art;
- (O) Costs associated with the operation of the business of the partnership or entity which constitutes Landlord as the same are distinguished from the costs of operation of the Project, including partnership accounting and legal matters, costs of defending any lawsuits with or claims by any mortgagee, costs of selling, syndicating, financing, mortgaging or hypothecating any of Landlord's interest in the Project, costs of any disputes between Landlord and its employees (if any) not engaged in Project operation, disputes of Landlord with Project management, or outside fees paid in connection with disputes with other tenants;
- (P) Capital improvements, except for those (i) acquired in Landlord's reasonable judgment to reduce Operating Expenses (amortized at an annual rate which when added to interest costs is reasonably calculated to equal the amount of Operating Expenses saved in each calendar

year throughout the Lease Term), together with interest at 9% per annum, compounded, and/or (ii) incurred after the date of this Lease in order to comply with any governmental law, rule, code, ordinance or regulation, provided that such capital costs shall be amortized over their useful lives, as determined by generally accepted accounting principles, together with interest at 9% per annum, compounded;

(Q) Any travel expenses;

(R) Any flowers, gifts, balloons, etc. provided to any entity whatsoever, including, but not limited to, Tenant, other tenants, employees, vendors, contractors, prospective tenants and agents;

(S) Any "finders fees", brokerage commissions, job placement costs or job advertising cost;

(T) Costs of earthquake insurance (unless earthquake insurance is maintained in the Base Year or unless Operating Expenses during the Base Year are grossed up to reflect the amount of Operating Expenses which would have been incurred by Landlord during the Base Year had Landlord carried earthquake insurance);

(U) Costs of terrorism insurance (unless terrorism insurance is maintained in the Base Year or unless Operating Expenses during the Base Year are grossed up to reflect the amount of Operating Expenses which would have been incurred by Landlord during the Base Year had Landlord carried terrorism insurance);

(V) Costs incurred to (i) comply with laws relating to the removal of any Hazardous Material, as that term is defined in Article 14 of this Lease, which was in existence on the Project prior to the initial Commencement Date, and was of such a nature that a federal, state or municipal governmental authority, if it had then had knowledge of the presence of such Hazardous Material, in the state, and under the conditions that it then existed on the Project, would have then required the removal of such Hazardous Material or other remedial or containment action with respect thereto, and (ii) to remove, remedy, contain, or treat any Hazardous Material, which Hazardous Material is brought onto the Project after the date hereof by Landlord or any other tenant of the Project, and is of such a nature, at that time, that a federal, state or municipal governmental authority, if it had then had knowledge of the presence of such Hazardous Material, in the state, and under the conditions, that it then exists on the Project, would have then required the removal of such Hazardous Material or other remedial or containment action with respect thereto;

(W) The cost of repairs or other work occasioned by fire, windstorm or other casualty reimbursed to Landlord, other than as part of Operating Expenses;

(Y) Costs resulting from the correction of any latent construction defects in the initial construction of all or any portion of the Project or Development, or any condition of the Project that is, as of the date of this Lease, not in compliance with applicable laws, codes, rules or regulations existing as of the date of this Lease;

(Z) Monetary rental concessions or lease buyouts;

(AA) The costs of tenant improvements for, or decorating, painting or redecorating space (exclusive of common areas) for, the interior of premises of any other tenants or other occupants of the Project or Development;

(BB) Overhead or profit paid to Landlord, subsidiaries or affiliates of Landlord, for services on or to the Project or Development if and to the extent the cost therefor materially and unreasonably exceeds competitive costs for such services in comparable buildings located within five (5) miles of the Project;

(CC) All items, services and/or goods for which Tenant or any other tenant, occupant, person or other party reimburses Landlord directly, other than as part of Operating Expenses or similar pass-through amounts;

(DD) Legal fees expended by Landlord in connection with negotiating and entering into any leases and any related instruments (including, without limitation, guaranties, surrender agreements, leasing amendments and consents to assignment or subletting) with any tenant or other occupant of any portion of the Project or Development, and the enforcement of any such instruments; or which are expended or incurred by Landlord in connection with the negotiation and entering of sale, ground lease, financing, partnership or similar transactions pertaining to the Project or Development;

(EE) Wages, salaries and other compensation paid to executives of Landlord, in their capacities as executives;

(FF) The cost of defending against claims in regard to the existence or release of Hazardous Materials by Landlord at the Project or Development; and

(GG) Interest, penalties or damages incurred by Landlord for late payment of taxes or assessments or under any agreement to which Landlord is a party by reason of the breach or default of Landlord.

Landlord further agrees that since one of the purposes of Operating Expenses and the gross-up provision is to allow Landlord to require Tenant to pay for the cost attributable to its Premises, Landlord agrees that (i) Landlord will not collect or be entitled to collect Operating Expenses from all of its tenants in an amount which is in excess of 100% of the Operating Expenses actually paid/incurred by Landlord, and (ii) Landlord shall make no profit from Landlord's collection of Operating Expenses. The foregoing does not limit any management fees that may be charged by Landlord under this Lease.

4.2.2 "Tax Expenses means any and all real estate taxes and other similar charges on real property or improvements, assessments, water and sewer charges, and all other charges assessed, reassessed or levied upon the Project and appurtenances thereto and the parking or other facilities thereof, or the real property thereunder (collectively the "Real Property") or attributable thereto or on the rents, issues, profits or income received or derived therefrom which are assessed, reassessed or levied by the United States, the State of California or any local government authority or agency or any political subdivision thereof, and shall include Landlord's reasonable legal fees, costs and disbursements incurred in connection with proceedings for reduction of Tax Expenses or any part thereof; provided, however, if at any time after the date of this Lease the methods of taxation now prevailing shall be altered so that in lieu of or as a supplement to or a substitute for the whole or any part of any Tax Expenses, there shall be assessed, reassessed or levied (a) a tax, assessment, reassessment, levy, imposition or charge wholly or partially as a net income, capital or franchise levy or otherwise on the rents, issues, profits or income derived therefrom (but not for federal and state income taxes to the extent applicable to Landlord's general or net income), or (b) a tax, assessment, reassessment, levy (including but not limited to any municipal, state or federal levy), imposition or charge measured by or based in whole or in part upon the Real Property and imposed upon Landlord, or (c) a license fee measured by the rent payable under this Lease, then all such taxes, assessments, reassessments or levies or the part thereof so measured or based, shall be deemed to be included in the term "Direct Expenses." In no event shall Tax Expenses included in Direct Expenses for any year subsequent to the Base Year be less than the amount of Tax Expenses included in Direct Expenses for the Base Year. In addition, when calculating Tax Expenses for the Base Year, special assessments shall only be deemed included in Tax Expenses for the Base Year to the extent that such special assessments are included in Tax Expenses for the applicable subsequent calendar year during the Lease Term. Notwithstanding the foregoing, there shall be excluded from Tax Expenses all excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, and federal and state income taxes to the extent applicable to Landlord's general or net income (unless a substitute for any of the foregoing).

4.2.3 If for any calendar year ending or commencing within the Term, Tenant's Share of Direct Expenses for such calendar year exceeds Tenant's Share of Direct Expenses for the Base Year, then Tenant shall pay to Landlord, in the manner set forth below, and as Additional Rent, an amount equal to the excess (the "Excess").

4.2.4 Landlord shall give Tenant a yearly expense estimate statement (the "Estimate Statement") which shall set forth Landlord's reasonable estimate (the "Estimate") of what the total amount of Direct Expenses for the then-current calendar year shall be and the estimated Excess (the "Estimated Excess") as calculated by comparing Tenant's Share of Direct Expenses for such calendar year, which shall be based upon the Estimate, to Tenant's Share of Direct Expenses for the Base Year. The failure of Landlord to timely furnish the Estimate Statement for any calendar year shall not preclude Landlord from subsequently enforcing its rights to collect any Estimated Excess under this Section 4.2, once such Estimated Excess has been determined by Landlord. If pursuant to the Estimate Statement an Estimated Excess is calculated for the then-current calendar year, Tenant shall pay, with its next installment of monthly Base Rent due, a fraction of the Estimated Excess for the then-current calendar year (reduced by any amounts paid pursuant to the last sentence of this Section 4.2.4). Such fraction shall have as its numerator the number of months which have elapsed in such current calendar year to the month of such payment, both months inclusive, and shall have twelve (12) as its denominator. Until a new Estimate Statement is furnished, Tenant shall pay monthly, with the monthly Base Rent installments, an amount equal to one-twelfth (1/12) of the total Estimated Excess set forth in the previous Estimate Statement delivered by Landlord to Tenant.

4.2.5 In addition, Landlord shall use commercially reasonable efforts to give to Tenant as soon as reasonably practicable following the end of each calendar year (and Landlord shall use commercially reasonable efforts to do so by April 1 of each calendar year), a statement (the "Statement") which shall state the Direct Expenses incurred or accrued for such preceding calendar year, and which shall indicate the amount, if any, of the Excess. Upon receipt of the Statement for each calendar year

during the Term, if amounts paid by Tenant as Estimated Excess are less than the actual Excess as specified on the Statement, Tenant shall pay, with its next installment of monthly Base Rent due, the full amount of the Excess for such calendar year, less the amounts, if any, paid during such calendar year as Estimated Excess. If, however, the Statement indicates that amounts paid by Tenant as Estimated Excess are greater than the actual Excess as specified on the Statement, such overpayment shall be credited against Tenant's next installments of Estimated Excess. Subject to the last sentence of this Section 4.2.5, the failure of Landlord to timely furnish the Statement for any calendar year shall not prejudice Landlord from enforcing its rights under this Section 4.2, once such Statement has been delivered. Even though the Term has expired and Tenant has vacated the Premises, when the final determination is made of Tenant's Share of the Direct Expenses for the calendar year in which this Lease terminates, if an Excess is present, Tenant shall immediately pay to Landlord an amount as calculated pursuant to the provisions of this Section 4.2. The provisions of this Section 4.2 shall survive the expiration or earlier termination of the Lease Term. Notwithstanding the immediately preceding sentence, (A) Tenant shall not be responsible for Tenant's Share of any Direct Expenses attributable to any calendar year which are first billed to Tenant more than two (2) years after the expiration of the applicable calendar year, provided that in any event Tenant shall be responsible for Tenant's Share of Direct Expenses levied by any governmental authority or by any public utility companies at any time (provided that Landlord delivers Tenant a bill for such amounts within two (2) years following Landlord's receipt of the bill therefor), and (B) Tenant shall not be responsible for Tenant's Share of any Direct Expenses attributable to any calendar year which are first billed to Tenant more than eighteen (18) months after the expiration of the Term (as the same may be extended), provided that in any event Tenant shall be responsible for Tenant's Share of Direct Expenses levied by any governmental authority or by any public utility companies at any time (provided that Landlord delivers Tenant a bill for such amounts within eighteen (18) months following Landlord's receipt of the bill therefor).

4.2.6 Those Direct Expenses attributable to the Development as a whole (and not attributable solely to any individual building therein) may, in Landlord's discretion, be allocated by Landlord, in good faith, to the Project and to the other buildings within the Development on an equitable basis.

4.2.7 Within six (6) months after receipt of a Statement by Tenant ("Review Period"), if Tenant disputes the amount set forth in the Statement, a certified public accountant that is a partner in Tenant or an independent certified public accountant (which accountant is a member of a nationally, regionally or locally recognized accounting firm and is hired on a non-contingency fee basis) designated by Tenant, may, after reasonable notice to Landlord and at reasonable times, inspect Landlord's records at Landlord's offices, provided that Tenant is not then in default after expiration of all applicable cure periods of any obligation under this Lease (including, but not limited to, the payment of the amount in dispute) and provided further that Tenant and such accountant or representative shall, and each of them shall use their commercially reasonable efforts to cause their respective agents and employees to, maintain all information contained in Landlord's records in strict confidence. Notwithstanding the foregoing, Tenant shall only have the right to review Landlord's records one (1) time during any twelve (12) month period. Tenant's failure to dispute the amounts set forth in any Statement within the Review Period shall be deemed to be Tenant's approval of such Statement and Tenant, thereafter, waives the right or ability to dispute the amounts set forth in such Statement. If after such inspection, but within thirty (30) days after the Review Period, Tenant notifies Landlord in writing that Tenant still disputes such amounts, a certification as to the proper amount shall be made in accordance with Landlord's standard accounting practices, at Tenant's expense, by an independent certified public accountant selected by Landlord and who is a member of a nationally or regionally recognized accounting firm, which certification shall be binding upon Landlord and Tenant. Landlord shall cooperate in good faith with Tenant and the accountant to show Tenant and the accountant the information upon which the certification is to be based. However, if such certification by the accountant proves that the Direct Costs set forth in the Statement were overstated by more than five percent (5%), then the cost of the accountant and the cost of such certification shall be paid for by Landlord, up to the amount of the overstatement in question. Promptly following the parties receipt of such certification, the parties shall make such appropriate payments or reimbursements, as the case may be, to each other, as are determined to be owing pursuant to such certification. Tenant agrees that this paragraph shall be the sole method to be used by Tenant to dispute the amount of any Direct Costs payable by Tenant pursuant to the terms of this Lease, and Tenant hereby waives any other rights at law or in equity relating thereto.

Article 5 – Security Deposit: Tenant shall deposit with Landlord the sum set forth in the Basic Lease Provisions as security for the full and faithful performance of every provision of this Lease to be performed by Tenant. If Tenant defaults under any provision of this Lease beyond any applicable notice and cure periods, including but not limited to the payment of rent, Landlord may use all or any part of this security deposit for the payment of any rent or any other sums in default, or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default. If any portion of said deposit is so used or applied, Tenant shall, within ten (10) days after written demand therefor, deposit cash with Landlord in an amount sufficient to restore the security deposit to its full amount. Tenant agrees that Landlord shall not be required to keep the security deposit in trust, segregate it or keep it separate from Landlord's general funds, but Landlord may commingle the security deposit with its general

funds and Tenant shall not be entitled to interest on such deposit. Within thirty (30) days after the expiration or earlier termination of the Lease Term, and provided there exists no default by Tenant hereunder that has not been cured within any applicable cure period, the security deposit or any balance thereof shall be returned to Tenant (or, at Landlord's option, to Tenant's "Transferee", as such term is defined in Article 10 below). Tenant hereby waives the provisions of Section 1950.7 of the California Civil Code and all other provisions of law, now or hereafter in effect, which provide, among other things, that Landlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of rent, to repair damage caused by Tenant or to clean the Premises, it being agreed that Landlord may, in addition, claim those sums specified in this Article 4 above, all of Landlord's damages under this Lease and California law including, but not limited to, any damages accruing upon termination of this Lease under Section 1951.2 of the California Civil Code and/or those sums reasonably necessary to compensate Landlord for any other loss or damage, foreseeable or unforeseeable, caused by the acts or omissions of Tenant or any of the Tenant Parties.

Article 6 – Repairs and Maintenance:

6.1 Subject to Tenant's obligations under Section 2.1.3 of Exhibit "D", Landlord shall maintain, as part of Operating Expenses, the structural portions of the Project, including the foundation, floor/ceiling slabs, roof, roof membrane, curtain wall, exterior glass, columns, beams, shafts, stairs, stairwells, elevator cabs and common areas (including common area restrooms), and shall also maintain and repair the base building mechanical, electrical, life safety, plumbing, sprinkler systems and heating, ventilating and air-conditioning systems, all in a manner consistent of that at comparable first-class office buildings in Orange County, California ("Comparable Buildings"). Except as may be set forth to the contrary in this Lease (including, without limitation, in Section 6.2 below), Tenant shall not be required to make any repair to, modification of, or addition to any such Project structure and/or systems, except and to the extent required because of Tenant's Alterations or improvements, Tenant's breach of this Lease or Tenant's occupancy or use of all or a portion of the Premises for other than normal and customary business office operations. The management of the Building shall be conducted by Landlord, an affiliate of Landlord or a third-party management company and shall be consistent with that at Comparable Buildings.

6.2 Except as expressly provided as Landlord's obligation in Section 6.1 above, Tenant shall keep the Premises in good condition and repair, normal wear and tear excepted. All damage or injury to the Premises or the Project or Development resulting from the act or negligence of Tenant, any of the Tenant Parties, or by the use of the Premises, shall be promptly repaired by Tenant at its sole cost and expense, to the satisfaction of Landlord; provided, however, that for damage to the Project or Development as a result of casualty or for any repairs that may impact the mechanical, electrical, plumbing, heating, ventilation or air-conditioning systems of the Project, Landlord shall have the right (but not the obligation) to select the contractor and oversee all such repairs. Landlord may make any repairs which are not promptly made by Tenant after Tenant's receipt of written notice and the reasonable opportunity of Tenant to make said repair within thirty (30) days (or such shorter time as may be reasonably necessary in the event of emergency) from receipt of said written notice, and charge Tenant for the cost thereof, which cost shall be paid by Tenant within five (5) business days from invoice from Landlord. Tenant shall be responsible for the design and function of all non-standard improvements of the Premises, whether or not installed by Landlord at Tenant's request. Except as may be set forth to the contrary in this Lease, Tenant waives all rights to make repairs at the expense of Landlord, or to deduct the cost thereof from the rent.

Article 7 – Utilities: Services:

7.1 Subject to Tenant's obligations under Section 2.1.3 of Exhibit "D", Landlord agrees to furnish to the Premises, at a cost to be included in Operating Expenses, from 8:00 a.m. to 6:00 p.m. Mondays through Fridays and 9:00 a.m. to 1:00 p.m. on Saturdays, excepting holidays (i.e., New Years Day, Memorial Day, Independence Day, Labor Day, Thanksgiving, the day following Thanksgiving and Christmas Day), air conditioning and heat all in such reasonable quantities as reasonably necessary for the comfortable occupancy of the Premises. In addition, Landlord shall, as part of Operating Expenses, provide electric current for normal lighting and normal office machines, elevator service and water on the same floor as the Premises for lavatory and drinking purposes in such reasonable quantities as reasonably necessary for general office use and in compliance with applicable codes. Subject to the last paragraph of this Section 7.1 below, janitorial services shall be furnished as part of Operating Expenses five (5) days per week, excepting local and national holidays, substantially in accordance with Exhibit "G" attached hereto (with reasonable modifications from time to time by Landlord). Such janitorial services shall be consistent with those provided at comparable buildings in the general market area. Tenant shall comply with all reasonable, non-discriminatory rules and regulations which Landlord may establish for the proper functioning and protection of the common area air conditioning, heating, elevator, electrical, intrabuilding cabling and wiring and plumbing systems. Landlord shall not be liable for, and, except to the extent set forth in Section 7.7 below, there shall be no rent abatement as a result of, any stoppage, reduction or interruption of any such services caused by governmental rules, regulations or ordinances, riot, strike,

labor disputes, breakdowns, accidents, necessary repairs or other cause. Except as specifically provided in this Article 7, Tenant agrees to pay for all utilities and other services utilized by Tenant and any additional building services furnished to Tenant which are not uniformly furnished to all tenants of the Project, at the rate generally charged by Landlord to tenants of the Project for such utilities or services. If Tenant shall require electric current in excess of that which Landlord is obligated to furnish under this Section 7.1, Tenant shall first obtain the written consent of Landlord, which Landlord may refuse in its reasonable discretion. Additionally, Landlord may cause an electric current meter or submeter to be installed in or about the Premises to measure the amount of any such excess electric current consumed by Tenant in the Premises. The cost of any such meter and of installation, maintenance and repair thereof shall be paid for by Tenant and Tenant agrees to pay to Landlord, promptly upon demand therefor by Landlord, for all such excess electric current consumed by any such use as shown by said meter at the rates charged for such service by the city in which the Project is located or the local public utility, as the case may be, furnishing the same, plus any additional expense incurred by Landlord in keeping account of the electric current so consumed. Without limiting the foregoing, in connection with any computer server room(s) in the Premises, and/or any environment chamber room(s) under Section 7.2 below, in the Premises, Landlord may cause an electric current meter or submeter to be installed in or about the Premises to measure the amount of any such excess electric current consumed by Tenant in connection therewith. The cost of any such meter and of installation, maintenance and repair thereof shall be paid for by Tenant and Tenant agrees to pay to Landlord, promptly upon demand therefor by Landlord, for all such electric current consumed by any such use as shown by said meter at the rates charged for such service by the city in which the Project is located or the local public utility, as the case may be, furnishing the same, plus any additional actual expense (without a Landlord administrative fee) incurred by Landlord in keeping account of the electric current so consumed. Additionally, with respect to any metered or submetered power under this Lease, Landlord may, in its sole and absolute discretion, require that Tenant contract directly for and timely pay (prior to delinquency) all such power charges, together with any taxes, penalties, surcharges or similar charges relating to the same.

If Tenant requires heating, ventilation and/or air conditioning during times other than the times provided in this Section 7.1, Tenant shall give Landlord such advance notice as Landlord shall reasonably require, and Tenant shall pay Landlord's standard charge for such after-hours use (currently \$50.00 per hour, subject to increase from time to time, provided that such charge shall not be subject to increase during the initial Term).

Notwithstanding anything to the contrary set forth in the Lease, but subject to the terms of this paragraph, during the Term, Tenant may, upon not less than thirty (30) days' prior written notice to Landlord elect to have janitorial services not be furnished by Landlord to the Premises, and in such event (a) Landlord shall have no obligation whatsoever with respect to janitorial services to the Premises; (b) Tenant shall, at Tenant's sole cost and expense, contract directly with a janitorial service provider reasonably approved in advance by Landlord ("Tenant's Janitorial Provider") to provide janitorial services to the Premises (and Tenant shall, at its sole cost and expense, keep the Premises in a neat and clean condition at all times), and Landlord shall have no obligation to provide any janitorial services to the Premises; and (c) subject to the last two (2) sentences of this paragraph, Operating Expenses shall not include Tenant's Janitorial Costs (defined below) and Operating Expenses for the Base Year shall not include Tenant's Janitorial Costs; the term "Tenant's Janitorial Costs" shall mean the amount of cost savings Landlord determines it has achieved as a result of Landlord's janitorial service provider not performing janitorial services in the Premises.

7.2 Tenant will not, without the prior written consent of Landlord, such consent not to be unreasonably withheld, conditioned or delayed, use any apparatus or device in the Premises which will in any way increase the amount of electricity or water usually furnished or supplied for use of the Premises as general office space; nor connect any apparatus, machine or device with water pipes or electric current (except through existing electrical outlets in the Premises), for the purpose of using electric current or water. Notwithstanding the foregoing, provided Tenant does not disturb other tenants of the Project or Development or interfere with Landlord or other tenants of the Project or Development, subject to the terms of this Lease, all laws, rules, regulations, codes and ordinances, matters of record, insurance requirements, and Landlord's safety requirements (without any representation or warranty by Landlord as to safety), Tenant may, at Tenant's sole cost and expense, use in the Premises a room(s) in the Premises for "environment chambers" (together with a related drain pipe and source of filtered water installed by Tenant, at its sole cost and expense), meaning ovens, that do not use Hazardous Materials, used to simulate certain physical environments in connection with vehicle safety and performance testing.

7.3 If any lights, machines or equipment (including but not limited to computers and computer systems and appurtenances) are used by Tenant in the Premises which materially affect the temperature otherwise maintained by the air conditioning system, or generate substantially more heat in the Premises than would be generated by the building standard lights and usual office equipment, as reasonably documented by Landlord, Landlord shall have the right to install any machinery and equipment which Landlord reasonably deems necessary to restore temperature balance, including but not limited to modifications to the standard air conditioning equipment, and the cost thereof, including the

cost of installation and any additional cost of operation and maintenance occasioned thereby, shall be paid by Tenant to Landlord within thirty (30) days after demand by Landlord.

7.4 Upon request from Tenant from time to time, Landlord will provide Tenant with a listing of telecommunications and media service providers serving the Project, and Tenant shall have the right to contract directly with the providers of its choice. If Tenant wishes to contract with or obtain service from any provider which does not currently serve the Project or wishes to obtain from an existing carrier services which will require the installation of additional equipment, such provider must, prior to providing service, enter into a written agreement with Landlord setting forth the terms and conditions of the access to be granted to such provider. In considering the installation of any new or additional telecommunications cabling or equipment at the Project, Landlord will consider all relevant factors in a reasonable and non-discriminatory manner, including, without limitation, the existing availability of services at the Project, the impact of the proposed installations upon the Project and its operations and the available space and capacity for the proposed installations. Landlord may also consider whether the proposed service may result in interference with or interruption of other services at the Project or the business operations of other tenants or occupants of the Project. In no event shall Landlord be obligated to incur any costs or liabilities in connection with the installation or delivery of telecommunication services or facilities at the Project. All such installations shall be subject to Landlord's prior approval and shall be performed in accordance with the terms of Article 11 below. If Landlord approves the proposed installations in accordance with the foregoing, Landlord will deliver its standard form agreement upon request and will use commercially reasonable efforts to promptly enter into an agreement on reasonable and non-discriminatory terms with a qualified, licensed and reputable carrier confirming the terms of installation and operation of telecommunications equipment consistent with the foregoing.

7.5 Subject to Section 7.1 above, Tenant shall not have the right to contract directly with any provider of electrical power. Landlord shall, at no cost to Landlord, reasonably cooperate with Tenant (including by communicating with Southern California Edison) in connection with any of Tenant's additional power or transformer upgrade requirements for the Premises; provided, however, notwithstanding anything to the contrary in this Lease (including, without limitation, under Exhibit "D"), all costs and expenses in connection with the same, including, without limitation, in connection with any upgrade, improvement or increase in electrical/power availability, capacity, transformers or systems shall be at Tenant's sole cost and expense.

7.6 Tenant acknowledges that Landlord's election whether or not to provide any type of mechanical surveillance or security personnel whatsoever in the Project is solely within Landlord's discretion; Landlord and the Landlord Parties (defined in Article 9 below) shall have no liability in connection with the provision, or lack, of such services. Landlord and the Landlord Parties shall not be liable for losses due to theft, vandalism, or like causes, except to the extent of property damage caused by the gross negligence or willful misconduct of Landlord.

7.7 If Tenant is prevented from using, and does not use, the Premises or a substantial portion thereof as a result of any negligent failure by Landlord to provide services to the Premises that Landlord is required to provide under Section 7.1 above, and such failure did not result from a casualty covered by Article 16 below and did not arise out of or result from, directly or indirectly, the breach of this Lease by Tenant or the negligence or willful misconduct of Tenant or any of the Tenant Parties (a "Prevention Event"), then Tenant shall give written notice of such Prevention Event to Landlord. If the Prevention Event continues for three (3) consecutive business days (the "Prevention Period") after Landlord's receipt of Tenant's written notice, then Basic Rental shall be abated or reduced after expiration of the Prevention Period, for such time that Tenant continues to be so prevented from using, and does not use (as a direct result of the Prevention Event in question), the Premises or a substantial portion thereof, in the proportion that the rentable area of the portion of the Premises that Tenant is prevented from using, and does not use (as a direct result of the Prevention Event in question), bears to the total rentable area of the Premises, provided that, subject to the foregoing provisions of this subsection (i), Basic Rental shall be abated completely (for such time that Tenant is prevented from using the Premises as a direct result of the Prevention Event in question) if the portion of the Premises that Tenant is prevented from using, and does not use, as a direct result of the Prevention Event in question, is so significant as to make it impractical for Tenant to conduct its business in the Premises and Tenant does not, in fact, for that reason, conduct its business in the Premises.

Article 8 – Use:

8.1 Tenant shall use and occupy the Premises only for the use set forth in the Basic Lease Provisions and shall not use or occupy the Premises or permit the same to be used or occupied for any other purpose without the prior written consent of Landlord, which consent may be given or withheld in Landlord's sole and absolute discretion, and Tenant agrees that it will use the Premises in such a manner so as not to unreasonably interfere with or infringe upon the rights of other tenants or occupants in the Project. Tenant shall, at its sole cost and expense, promptly comply with all laws, statutes, ordinances, governmental regulations or requirements now in force or which may hereafter be in force relating to or

affecting (i) the condition, use or occupancy of the Premises or the Project (excluding structural changes to the Project not related to Tenant's particular use of the Premises), and (ii) improvements installed or constructed in the Premises by or for the benefit of Tenant. Tenant shall not permit more than eight (8) people per one thousand (1,000) rentable square feet of the Premises to occupy the Premises on a regular basis. Tenant shall not do or permit to be done anything which would invalidate or increase the cost of any fire and extended coverage insurance policy covering the Project and/or the property located therein and Tenant shall comply with all rules, orders, regulations and requirements of any organization which sets out standards, requirements or recommendations commonly referred to by major fire insurance underwriters, and Tenant shall promptly upon demand reimburse Landlord for any additional premium charges for any such insurance policy assessed or increased by reason of Tenant's failure to comply with the provisions of this Article 8. Tenant shall not commit or allow to be committed or exist: (A) any waste, (B) any public or private nuisance, or (C) any act or condition which violates any of Landlord's contracts of which Tenant has notice affecting any or all of the Project, creates or contributes to any work stoppage, strike, picketing, labor disruption or dispute, unreasonably interferes in any way with the business of Landlord or with any contractors, subcontractors, licensees, agents, concessionaires, subtenants, servants, employees, customers, guests, invitees or visitors or any other persons lawfully in and upon the Project, or causes any impairment or reduction of the good will or reputation of the Project.

8.2 Tenant agrees that it will not, at any time, during the Term of this Lease, carry any stock of goods or do anything in or about the Premises that will in any way tend to increase the insurance rates upon the Project. Tenant agrees to pay Landlord, within thirty (30) days after demand, the amount of any increase in premiums for insurance that may be carried during the Term of this Lease, or the amount of insurance to be carried by Landlord on the Project resulting from the foregoing, or from Tenant doing any act in or about the Premises that does so increase the insurance rates, whether or not Landlord shall have consented to such act on the part of Tenant. If Tenant installs upon the Premises any electrical equipment which causes an overload of electrical lines of the Premises, Tenant shall at its own cost and expense, in accordance with all other Lease provisions (specifically including, but not limited to, the provisions of Articles 7 and 11 of this Lease), make whatever changes are necessary to comply with requirements of the insurance underwriters and any governmental authority having jurisdiction thereover, but nothing herein contained shall be deemed to constitute Landlord's consent to such overloading. Tenant shall, at its own expense, comply with all insurance requirements applicable to the Premises including without limitation, the installation of fire extinguishers.

8.3 Provided Tenant is not in default under this Lease beyond applicable notice and cure periods, and provided Tenant does not disturb other tenants of the Project or Development or interfere with Landlord or other tenants of the Project or Development, subject to the terms of this Lease, all laws, rules, regulations, codes and ordinances, matters of record, insurance requirements, and Landlord's safety requirements (without any representation or warranty by Landlord as to safety), during the Lease Term, (1) Tenant shall be permitted to use one (1) forklift in the Premises for the purpose transporting goods from the loading area at the Premises into the Premises (provided that Tenant may not use such forklift in the front of the Premises or in any common areas of the Project or Development other than the parking lot depicted on Exhibit "F" attached hereto), and (2) Tenant shall have the right to (a) use up to five (5) of Tenant's unreserved parking spaces allocated to Tenant under this Lease, which spaces shall be as designated by Landlord in good faith (the "Test Target Area"), on a periodic basis so that Tenant may set up test targets to test and operate roadway sensor and ancillary equipment from time to time reasonably approved by Landlord, (b) use up to eighteen (18) of Tenant's unreserved parking spaces allocated to Tenant under this Lease, which spaces shall be as designated by Landlord in good faith, on a periodic basis so that Tenant may install (subject to reasonable written consent of Landlord with respect to the plans and specifications therefor), a fenced area for overnight parking of up to eighteen (18) vehicles, including, but not limited to, a bucket truck, arrow board trailer and stake bed truck or trailer (the "Fenced Area"), (c) use one (1) lane in the back of the parking lot serving the Building, in a location designated by Landlord in good faith within a portion of the general area depicted on Exhibit "F" attached hereto (the "Lane Test Area"), on a periodic basis so that Tenant may test and operate certain automotive sensors mounted in vehicles temporarily parked or standing in the test lane, and (d) install roof and/or light pole mounted cameras, which locations shall be as designated by Landlord in good faith to test and operate roadway sensor and ancillary equipment, all in a manner, and at times, from time to time reasonably approved by Landlord. The Test Target Area, Fenced Area, Lane Test Area and Camera Test Area are referred to collectively herein as the "Test Area". Notwithstanding anything to the contrary, any parking spaces used or allocated to Tenant under this Section 8.3 shall reduce the amount of parking spaces otherwise available to Tenant under this Lease. Additionally, Tenant shall ensure, at its sole cost and expenses, that (1) Landlord and its agents and managers have access to the Fenced Area at all times (and are given keys and all other access devices relating thereto), and (2) during the hours of 7:00 a.m. through 6:00 p.m., the Fenced Area shall be open such that there is ready and continuously available free access for vehicles of other tenants (and other parties designated by Landlord) through the Fenced Area. Without limiting the foregoing, Tenant acknowledges and agrees that the general locations depicted on Exhibit "F" attached hereto are acceptable for the applicable depicted Test Area. Notwithstanding the foregoing, (i) Tenant may not use the Test Area for any purpose whatsoever, other than that set forth above in this Section 8.3; without limiting the foregoing, Tenant may not store, leave overnight or leave

unattended any equipment or other property in any of the Test Area, except the Camera Test Area and except for overnight parking in the Fenced Area; provided, however, notwithstanding the foregoing or anything to the contrary in this Lease, Landlord shall not be responsible in any manner to secure or protect any of Tenant's equipment or property, and shall not be responsible for theft, damage or vandalism; (ii) Tenant may not use or store any Hazardous Materials in the Test Area; (iii) all of Tenant's obligations, liabilities and duties (but not rights) under this Lease (including, without limitation, all insurance obligations and indemnities) shall apply to the Test Area as if it were part of the Premises, but Landlord shall have no liabilities, obligations, duties or responsibilities whatsoever in connection with the Test Area or Test Activities; (iv) Tenant shall reimburse Landlord, within ten (10) business days after demand (which demand may be made from time to time and at any time) for all reasonable and verifiable costs and expenses incurred by Landlord in connection with the Test Area and/or Tenant's activities relating to the Test Area (the "Test Activities"); (v) Tenant shall immediately, at its sole cost and expense, repair and restore any damage relating to the Test Activities; (vi) Tenant shall ensure that the Test Activities do not cause any noise, vibration, dust, danger, nuisance, odor or any other disturbance; (vii) Tenant shall, at its sole cost and expense, ensure that the Test Activities do not materially and unreasonably interfere with the ingress or egress of other tenants or users of the Project (or other property designated by Landlord), including, without limitation, for trucks and trailers; (ix) Tenant shall carry additional insurance reasonably designated from time to time by Landlord or its lender with respect to the Test Area and/or Test Activities; (x) the Test Area shall be used by Tenant on an "as is", "with all faults", without any representations or warranties, and Tenant hereby agrees and warrants that it has investigated and inspected the condition of the Test Area and the suitability of same for Tenant's purposes, and Tenant does hereby waive and disclaim any objection to, cause of action based upon, or claim that its obligations hereunder should be reduced or limited because of the condition of the Test Area or the suitability of same for Tenant's purposes; Tenant acknowledges that neither Landlord nor any agent nor any employee of Landlord has made any representations or warranty with respect to the Test Area or with respect to the suitability of the same for the conduct of Tenant's business; (xi) Tenant's use of the Test Area shall be subject to coordination and reasonable scheduling with Landlord; (xii) Landlord may use the Test Area for any purposes that do not materially and unreasonably interfere with Tenant's rights under this Section 8.3; (xiii) all equipment, placement of equipment, and testing methods and procedures, in the Test Area shall be subject to the prior written reasonable approval of Landlord; (xiv) Tenant shall, at its sole cost and expense, at all times maintain all approvals, licenses and permits required for the Test Activities (and Landlord shall have no obligation in connection therewith); Tenant's inability to obtain or maintain any such license, permit or approval necessary or appropriate for its use, occupation or operation of the Premises shall not relieve it of its obligations under this Lease; (xv) the Test Activities shall not adversely affect any building roof, place material loads on any roof or affect or invalidate any roof warranty. and (xv) if Tenant violates the terms of this Section 8.3 and does not cure the violation within three (3) days after receipt of written notice from Landlord, or if Tenant violates the terms of this Section 8.3 more than three (3) times in any twelve (12) month period, then Landlord may immediately revoke Tenant's rights under this Section 8.3. Tenant's use of the Test Area shall be in strict accordance and comply with the terms of this Lease, Landlord's reasonable rules and regulations and all applicable laws, rules, regulations, codes, ordinances and statutes, insurance requirements, Landlord's safety requirements (without any representation or warrant as to safety), industry standards and matters of record. Landlord may, in its good faith discretion, from time to time relocate the Test Area or any portion thereof, so long as the same does not materially and unreasonably interfere with Tenant's rights under this Section 8.3.

8.4 Outdoor Patio Areas. Subject to Landlord's reasonable rules and regulations promulgated by Landlord and subject to compliance with applicable governmental requirements (including, without limitation, Tenant's obtaining any necessary governmental approvals and permits, at Tenant's sole cost), Tenant shall have the right to (a) use the area depicted on Exhibit A-2 attached hereto for installation (subject to the terms of this Lease, including, without limitation, Article 11) and use of a patio area (the "1st Floor Patio Area"), as an incident to Tenant's primary permitted use, for the convenience of Tenant's employees, subject to the provisions of this Section 8.4, and (b) use the patio area (the "2nd Floor Patio Area"), in the approximate location depicted on Exhibit A-2 attached hereto, as an incident to Tenant's primary permitted use, for the convenience of Tenant's employees, subject to the provisions of this Section 8.4. The 1st Floor Patio Area and 2nd Floor Patio Area are referred to collectively herein as the "Patio Area". All of Tenant's obligations, duties and liabilities (but not rights) with respect to the Premises shall apply to the Patio Area (as if the Patio Area were part of the Premises), including, without limitation, all of Tenant's indemnity and insurance obligations; provided, however, Landlord shall have no obligations, liabilities or responsibilities whatsoever with respect to the Patio Area (including, without limitation, with respect to lighting, cleaning and services). Tenant, at its sole cost and expense, shall be responsible for maintaining and repairing the Patio Area (including all furniture and any plants located therein) in a neat, clean and orderly condition at all times. The location of tables, chairs, waste receptacles or any other items Tenant desires to locate in the Patio Area shall be subject to Landlord's prior written approval, which approval shall not be unreasonably withheld; provided that items so maintained in the Patio Area by Tenant shall be at Tenant's risk and Landlord shall not be responsible for such items. The Patio Area shall be used by Tenant in its existing as-is condition, with all faults. Without limiting the foregoing, all items in the Patio Area shall be subject to the prior consent of Landlord. The Patio Area use shall not create any objectionable noise, disturbances, crowds or odors at

the Premises, Project, as determined by Landlord. Smoking shall not be permitted on or around the Patio. Without limiting the foregoing, Tenant shall (a) be responsible for promptly cleaning any spills or waste in the Patio Area occasioned by consumption of food items; (b) scrub and wash all tables, chairs, and furnishings used by it in the Patio Area to prevent build-up from food spills, dusts, dirt and other substances; and (c) cause the trash containers located within the Patio Area to be emptied on a regular basis and keep and maintain all containers and furniture and other property in a clean and attractive condition and appearance at all times.

Article 9 – Insurance: Indemnity:

9.1 Tenant, shall at all times during the Term of this Lease, and at its own cost and expense, procure and continue in force the following insurance coverage: (i) Commercial General Liability Insurance, written on an occurrence basis, with a combined single limit for bodily injury and property damages of not less than Five Million Dollars (\$5,000,000.00) per occurrence and Five Million Dollars (\$5,000,000.00) in the annual aggregate, including products liability coverage if applicable, owners and contractors protective coverage, blanket contractual coverage including both oral and written contracts, and personal injury coverage, covering the insuring provisions of this Lease and the performance of Tenant of the indemnity and exemption of Landlord from liability agreements set forth in this Article 9; (ii) a policy of standard fire, extended coverage and special extended coverage insurance (all risks), including sprinkler leakage coverage and earthquake sprinkler leakage where sprinklers are provided in an amount equal to the full replacement value new without deduction for depreciation of all (A) Tenant Improvements, Alterations, fixtures and other improvements in the Premises, and (B) trade fixtures, furniture, equipment and other personal property installed by or at the expense of Tenant; (iii) Worker's Compensation coverage as required by law; (iv) business interruption, loss of income and extra expense insurance covering any failure or interruption of Tenant's business equipment (including, without limitation, telecommunications equipment) and covering all other perils, failures or interruptions sufficient to cover a period of interruption of not less than twelve (12) months; and (v) a policy of comprehensive automobile liability insurance, including loading and unloading, and covering owned, non-owned and hired vehicles, with limits of no less than Five Million Dollars (\$5,000,000.00) per occurrence. Tenant shall carry and maintain during the entire Lease Term (including any option periods, if applicable), at Tenant's sole cost and expense, increased amounts of the insurance required to be carried by Tenant pursuant to this Article 9 and such other reasonable types of insurance coverage and in such reasonable amounts covering the Premises and Tenant's operations therein, as may be reasonably required by Landlord. Deductibles under Tenant's insurance policies shall not exceed \$50,000.00 per occurrence.

Notwithstanding the foregoing provisions of this Section 9.1, any property insurance required to be carried by Tenant pursuant to this Section 9.1 may be carried in whole or in part under a plan of self-insurance maintained by Tenant, which addresses the risks and liability exposures intended to be covered by the property insurance required by this Section 9.1, provided that (a) Tenant maintains a net worth equal to One Hundred Million Dollars (\$100,000,000) or more, (b) Tenant provides to Landlord from time to time, upon Landlord's request therefor, evidence reasonably satisfactory to Landlord of such net worth, and (c) the self-insurance program does not violate any laws, rules, regulations, code or ordinances. In addition, whether or not Tenant self-insures, all references to insurance proceeds in this Lease shall be deemed to include any and all deductibles and proceeds of self-insurance which shall be payable to the same extent, in the same amounts and to the party entitled to the same, as if actual policies of insurance set forth in this Section 9.1 had been obtained. Such self-insurance shall be treated as if Tenant actually carried a policy containing the required insurance. For example, the waiver of subrogation provisions set forth in this Lease shall apply to such self-insurance. The provisions of this paragraph shall be personal to the Original Tenant and shall not apply to any assignee, sublessee or other transferee of Tenant's interest in this Lease.

9.2 The aforementioned minimum limits of policies and Tenant's procurement and maintenance thereof shall in no event limit the liability of Tenant hereunder. The Commercial General Liability Insurance policy shall name Landlord, Landlord's property manager, Landlord's lender(s) and such other persons or firms as Landlord specifies from time to time, as additional insureds with an appropriate endorsement to the policy(s). All such insurance policies carried by Tenant shall be with companies having a rating of not less than A-VIII in Best's Insurance Guide. Tenant shall furnish to Landlord, from the insurance companies, or cause the insurance companies to furnish, certificates of coverage. No such policy shall be cancelable or subject to reduction of coverage or other modification or cancellation except after thirty (30) days prior written notice to Landlord by the insurer except for the ten (10) days notice for cancellation due to non-payment of premium. All such policies shall be endorsed to agree that Tenant's policy is primary and that any insurance carried by Landlord is excess and not contributing with any Tenant insurance requirement hereunder. Tenant shall, prior to the expiration of such policies, furnish Landlord with renewals or binders. Tenant agrees that if Tenant does not take out and maintain such insurance or furnish Landlord with renewals or binders, Landlord may (but shall not be required to) procure said insurance on Tenant's behalf and charge Tenant the cost thereof, which amount shall be payable by Tenant within thirty (30) days after demand with interest (at the rate set forth in Article 19 below) from the date such sums are extended. Tenant shall have the right to provide such

insurance coverage pursuant to blanket policies obtained by Tenant, provided such blanket policies expressly afford coverage to the Premises and to Tenant as required by this Lease.

9.3 Landlord shall, as a cost to be included in Operating Expenses, procure and maintain at all times during the Term of this Lease, a policy or policies of insurance covering loss or damage to the Project in the amount of at least ninety percent (90%) of the full replacement costs. Additionally, Landlord may carry: (i) Bodily Injury and Property Damage Liability Insurance and/or Excess Liability Coverage Insurance; and (ii) Earthquake and/or Flood Damage Insurance; and (iii) Rental Income Insurance; and (iv) any other forms of insurance Landlord may deem appropriate or any lender may require. The costs of all insurance and deductibles carried or incurred by Landlord shall be included in Operating Expenses.

9.4 Landlord waives any and all rights of recovery against Tenant for or arising out of damage to, or destruction of the Project or the Premises to the extent that Landlord's insurance policies then in force insure against such damage or destruction and permit such waiver and only to the extent of insurance proceeds actually received by Landlord for such damage or destruction. Tenant waives any and all rights of recovery against Landlord for or arising out of damage to or destruction of any property of Tenant to the extent that Tenant's insurance policies then in force or the policies required by this Lease, whichever is broader, insure against such damage or destruction.

9.5 Tenant shall indemnify, defend, protect, and hold harmless Landlord and Landlord's partners, members, affiliates, agents, managers, directors and employees (the "Landlord Parties") from any and all losses, costs, damages, expenses and liabilities (including without limitation court costs and reasonable attorneys' fees) ("Claims") incurred in connection with or arising from any cause in, on or about the Premises, any violation by Tenant of any of the requirements, ordinances, statutes, regulations or other laws, including, without limitation, any environmental laws, any acts, omissions or negligence of Tenant or of any person claiming by, through or under Tenant, or its affiliates, subsidiaries, contractors, agents, servants, employees, invitees, guests or licensees of Tenant and each of them (collectively, "Tenant Parties") or any such person, in on the Premises or Project or any breach of the terms of this Lease by Tenant, either prior to or during the Lease Term, provided that the terms of the foregoing indemnity shall not apply to the negligence or willful misconduct of Landlord or the Landlord Parties. Notwithstanding the foregoing, Tenant shall not be required to indemnify, defend and hold Landlord or the Landlord Parties harmless from any Claims by any person, company or entity resulting from the negligence or willful misconduct of Landlord or the Landlord Parties in connection with the Landlord Parties' activities in the Project and Landlord hereby so indemnifies, defends and holds Tenant harmless from any such Claims and from any Claim resulting from injuries to persons caused by the negligence or willful misconduct of Landlord and/or Landlord Parties, or breach of this Lease by Landlord. The provisions of this Section 9.5 shall survive the expiration or sooner termination of this Lease.

9.6 Landlord and the Landlord Parties shall not be liable for injury to Tenant's business, or loss of income therefrom, however occurring (including, without limitation, from any failure or interruption of services or utilities), or, except in connection with damage or injury resulting from the negligence or willful misconduct of Landlord or the Landlord Parties or breach of this Lease by Landlord, for damage that may be sustained by the person, goods, wares, merchandise or property of Tenant or any Tenant Parties, or any other person in, on or about the Premises caused by or resulting from any cause whatsoever, including, but not limited to, fire, steam, electricity, gas, water, or rain which may leak or flow from or into any part of the Premises, or from the breakage, leakage, obstruction or other defects of the pipes, sprinklers, wires, appliances, plumbing, air conditioning, light fixtures, or mechanical or electrical systems, or from intrabuilding cabling or wiring. Landlord and the Landlord Parties shall not be liable to Tenant for any damages arising from any willful or negligent action or inaction of any other tenant of the Project.

Article 10 – Assignment and Subletting:

10.1 If Landlord does not respond for a consent to an assignment or sublease by Tenant under this Section 10.1, within twenty (20) business days after receipt of written request by Tenant (together with all information and documentation required hereunder, including, without limitation, financial statements for the proposed transferee), then if Landlord does not respond to Tenant's request within five (5) business days after receipt of a written reminder notice from Tenant, then Landlord shall be deemed to have approved the proposed assignment or sublease in question. Except as set forth in Section 10.4 below, Tenant shall have no power to, either voluntarily, involuntarily, by operation of law or otherwise, sell, assign, transfer or hypothecate this Lease, or sublet the Premises or any part thereof, or permit the Premises or any part thereof to be used or occupied by anyone other than Tenant or Tenant's employees without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. Subject to Section 10.4 below, if Tenant is a corporation, unincorporated association, partnership or limited liability company, the sale, assignment, transfer or hypothecation of any class of stock or other ownership interest in such corporation, association, partnership or limited liability company in excess of seventy-five percent (75%) in the aggregate (or, 50% in the aggregate if

there will be a change in control or decrease of financial condition as a result of the transactions(s) in question) of shall be deemed a "Transfer" within the meaning and provisions of this Article 10. Notwithstanding the foregoing, the public trading of Tenant's stock on a national stock exchange shall not constitute a Transfer, so long as the day-to-day management of Tenant does not change as a result thereof. Tenant may transfer its interest pursuant to this Lease only upon the following express conditions, which conditions are agreed by Landlord and Tenant to be reasonable:

(a) That the proposed "Transferee" (as hereafter defined) shall be subject to the prior written consent of Landlord, which consent will not be unreasonably withheld, conditioned or delayed but, without limiting the generality of the foregoing, it shall be reasonable for Landlord to deny such consent if:

(i) The financial responsibility of the proposed Transferee is not reasonably satisfactory to Landlord;

(iii) The proposed Transferee is either a governmental agency or instrumentality thereof; or

(iv) Either the proposed Transferee or any person or entity which directly or indirectly controls, is controlled by or is under common control with the proposed Transferee (A) occupies space in the Project or Development at the time of the request for consent, or (B) is negotiating with Landlord or has negotiated with Landlord during the four (4) month period immediately preceding the date of the proposed Transfer, to lease space in the Project or Development and Landlord has, or will have in the next three (3) months, space available to lease to such party in the Project or Development, comparable to the portion of the Premises that is the subject of the transaction in question.

(b) Upon Tenant's submission of a request for Landlord's consent to any such Transfer, Tenant shall pay to Landlord Landlord's then standard processing fee and reasonable attorneys' fees and costs incurred in connection with the proposed Transfer, which shall not exceed \$3,000.00 per proposed Transfer to a non-Affiliate (as defined below) and shall not exceed \$1,500.00 per proposed Transfer to an Affiliate;

(c) That the proposed Transferee shall execute an agreement pursuant to which it shall agree to perform faithfully and be bound by all of the terms, covenants, conditions, provisions and agreements of this Lease applicable to that portion of the Premises so transferred; and

(d) That an executed duplicate original of said assignment and assumption agreement or other transfer on a form reasonably approved by Landlord, shall be delivered to Landlord within five (5) days after the execution thereof, and that such transfer shall not be binding upon Landlord until the delivery thereof to Landlord and the execution and delivery of Landlord's consent thereto. It shall be a condition to Landlord's consent to any subleasing, assignment or other transfer of part or all of Tenant's interest in the Premises (a "Transfer") that (i) upon Landlord's consent to any Transfer, Tenant shall pay and continue to pay fifty percent (50%) of any "Transfer Payment" (defined below), received by Tenant from the transferee; (ii) any sublessee of part or all of Tenant's interest in the Premises shall agree that in the event Landlord gives such sublessee notice that Tenant is in default and such default remains uncured under this Lease, such sublessee shall thereafter make all sublease or other payments directly to Landlord, which will be received by Landlord without any liability whether to honor the sublease or otherwise (except to credit such payments against sums due under this Lease), and any sublessee shall agree to attorn to Landlord or its successors and assigns at their request should this Lease be terminated for any reason, except that in no event shall Landlord or its successors or assigns be obligated to accept such attornment; (iii) any such Transfer and consent shall be effected on commercially reasonable forms supplied by Landlord; (iv) Landlord may require that Tenant not then be in default under this Lease beyond any applicable notice and cure periods; and (v) Tenant or the proposed subtenant or assignee (collectively, "Transferee") shall agree to pay Landlord, upon demand, as Additional Rent, a sum equal to the additional costs, if any, incurred by Landlord for repair as a result of any change in the nature of occupancy caused by such subletting or assignment.

10.2 "Transfer Payment" means all rent, Additional Rent or other consideration payable by a Transferee in connection with a Transfer in excess of the Base Rent and Direct Expenses payable by Tenant under this Lease during the term of the Transfer and if such Transfer is for less than all of the Premises, the Transfer Payment shall be calculated on a rentable square foot basis after deducting the reasonable, out-of-pocket expenses paid for by Tenant to unaffiliated third parties for (i) any changes, alterations and improvements to the Premises reasonably necessary to obtain the assignee or sublessee in connection with the assignment or sublease, (ii) any monetary concessions reasonably necessary to obtain the assignee or sublessee and provided by Tenant to the assignee or sublessee, and (iii) any market brokerage commissions reasonably necessary to obtain the assignee or sublessee in connection with the assignment or sublease. "Transfer Payment" shall also include, but not be limited to, key money, bonus money or other cash consideration paid by a Transferee to Tenant in connection with such Transfer, and

any payment in excess of fair market value for services rendered by Tenant to the Transferee and any payment in excess of fair market value for assets, fixtures, inventory, equipment, or furniture transferred by Tenant to the Transferee in connection with such Transfer. Any Transfer of this Lease which is not in compliance with the provisions of this Article 10 shall be voidable by written notice from Landlord. In no event shall the consent by Landlord to any Transfer be construed as relieving Tenant or any Transferee from obtaining the express written consent of Landlord to any further Transfer, or as releasing Tenant from any liability or obligation hereunder whether or not then accrued and Tenant shall continue to be fully liable therefor. No collection or acceptance of rent by Landlord from any person other than Tenant shall be deemed a waiver of any provision of this Article 10 or the acceptance of any Transferee hereunder, or a release of Tenant (or of any Transferee of Tenant). Notwithstanding anything to the contrary in this Lease, if Tenant or any proposed Transferee claims that Landlord has unreasonably withheld or delayed its consent under this Article 10 or otherwise has breached or acted unreasonably under this Article 10, their sole remedies shall be a declaratory judgment and an injunction for the relief sought, and Tenant hereby waives all other remedies, including, without limitation, any right at law or equity to terminate this Lease, on its own behalf and, to the extent permitted under all applicable laws, on behalf of the proposed Transferee; provided, however, in the event Tenant obtains a final, non-appealable judgment from a court of competent jurisdiction ruling that Landlord has unreasonably withheld its consent to a proposed Transfer, then Tenant may, within thirty (30) days after obtaining such judgment, terminate this Lease, which termination shall be effective as of the date that is fifteen (15) days after the date of Landlord's receipt of Tenant's timely written notice of termination hereunder.

10.3 Notwithstanding anything to the contrary contained in this Article 10, in the event Tenant contemplates a Transfer of all or a portion of the Premises (or in the event of any other Transfer or Transfers entered into by Tenant as a subterfuge in order to avoid the terms of this Article 10), Tenant shall give Landlord notice (the "Intention to Transfer Notice") of such contemplated Transfer (whether or not the contemplated Transferee or the terms of such contemplated Transfer have been determined). The Intention to Transfer Notice shall specify the portion of and amount of rentable square feet of the Premises which Tenant intends to Transfer (the "Contemplated Transfer Space"), the demising walls to be constructed, to the extent applicable, the contemplated date of commencement of the contemplated Transfer (the "Contemplated Effective Date"), and the contemplated length of the term of such contemplated Transfer, and shall specify that such Intention to Transfer Notice is delivered to Landlord pursuant to this Article 10 in order to allow Landlord to elect to recapture the Contemplated Transfer Space for the term set forth in the Intention to Transfer Notice. Thereafter, Landlord shall have the option, by giving written notice to Tenant within twenty (20) days after receipt of any Intention to Transfer Notice, to recapture the Contemplated Transfer Space upon the basic terms and conditions specified in the Intention to Transfer Notice. In the event such option is exercised by Landlord, this Lease shall be suspended (or when appropriate, canceled and terminated if the last day of the term of the Contemplated Transfer is the last day of the Term) with respect to the Contemplated Transfer Space commencing as of the date stated in the Intention to Transfer Notice as the Contemplated Effective Date for a period ending upon the last day of the term of the Contemplated Transfer, at which time the Lease shall be reinstated and revived as to the Contemplated Transfer Space. In the event of a recapture by Landlord, if this Lease shall be suspended without liability to Tenant, or, when appropriate, canceled with respect to less than the entire Premises, the Base Rent and Direct Expenses reserved herein shall be prorated on the basis of the number of rentable square feet retained by Tenant in proportion to the number of rentable square feet contained in the Premises times the rental rate or rates under this Lease applicable to such Contemplated Transfer Space, and this Lease as so amended shall continue thereafter in full force and effect, and upon the request of either party, the parties shall execute written confirmation of the same, (ii) Landlord shall install, on a commercially reasonable basis, any corridor and/or demising wall, at Landlord's sole cost and expense, which is required as a result of the suspension or cancellation of this Lease with respect to less than a full floor of the Premises, and (iii) Landlord shall restore the Contemplated Transfer Space to its condition prior to such recapture upon the reinstatement of this Lease as to the Contemplated Transfer Space. If Landlord declines, or fails to elect in a timely manner to recapture the Contemplated Transfer Space under this Article 10, then, subject to the other terms of this Article 10, for a period of nine (9) months (the "Nine Month Period") commencing on the last day of such twenty (20) day period, Landlord shall not have any right to recapture the Contemplated Transfer Space with respect to any Transfer made during the Nine Month Period, provided that any such Transfer is upon terms not materially inconsistent with the terms set forth in the Intention to Transfer Notice, and provided further that any such Transfer shall be subject to the remaining terms of this Article 10. If such a Transfer is not so consummated within the Nine Month Period (or if a Transfer is so consummated, then upon the expiration of the term of any Transfer of such Contemplated Transfer Space consummated within such Nine Month Period), Tenant shall again be required to submit a new Intention to Transfer Notice to Landlord with respect to any contemplated Transfer, as provided above in this Article 10.

10.4 Notwithstanding the foregoing, an assignment or subletting of all or a portion of the Premises to an "Affiliate" of Tenant shall deemed permitted hereunder (and shall not be subject to a Transfer Premium or Landlord's right of recapture hereunder), provided that (a) such Transfer shall not be deemed effective until Tenant supplies Landlord with a fully executed copy of the document evidencing the Transfer (i.e., the sublease or assignment and assumption agreement), (b) the net worth of Tenant's

Affiliate immediately after the date of Transfer shall be reasonably acceptable to Landlord, taking into account the remaining obligations then existing under this Lease, and taking into account that Tenant will remain liable under this Lease, (c) such assignment or sublease is not a subterfuge by Tenant to avoid its obligations under this Lease, (d) if the Transfer is an assignment, the assignee assumes, in full, the obligations of Tenant under this Lease (to the extent accruing from and after the date of the Transfer), and if the Transfer is a sublease, the Transferee executes such documentation reasonably required by Landlord in connection with the subordination of such sublease to this Lease, and (e) Tenant remains fully liable under this Lease. The term "Affiliate" of Tenant shall mean an entity which is (i) controlled by, controls, or is under common control with Tenant; (ii) any entity with which Tenant has merged or consolidated, or (iii) any entity which acquires all or substantially all of the assets and/or shares of stock or assets of Tenant. The term "control," or "controlled" as used in this Section 10.4 shall mean the ownership, directly or indirectly, of at least fifty percent (50%) of the voting securities of, or possession of the right to vote, in the ordinary direction of its affairs, of at least fifty percent (50%) of the voting interest in, an entity. Additionally, the public trading of Tenant's stock on a national stock exchange shall not require Landlord's consent under this Article 10, provided the same does not result in a change in the day-to-day management of Tenant.

Article 11- Alterations; Liens:

11.1 Tenant shall make no alterations, installations, changes or additions in or to the Premises or the Project (collectively, "Alterations") without Landlord's prior written consent, not to be unreasonably withheld or delayed, except that Landlord may withhold its approval in its sole and absolute discretion if the Tenant Alterations will (a) affect, as reasonably determined by Landlord, the structure or exterior of the Premises or Project, or (b) adversely affect, as reasonably determined by Landlord, the Project or Premises systems or equipment, or (c) violate any laws, rules, regulations, codes, ordinances or matters of record. Notwithstanding the foregoing, Tenant may make Alterations to the Premises, not including any Alterations affecting the Project or Premises structure, appearance, or systems or equipment and not including any substantial modifications to the Premises, without Landlord's consent, provided that the aggregate cost of any such Alterations does not exceed Seventy-Five Thousand Dollars (\$75,000.00) in any twelve (12) month period; Tenant shall give Landlord at least ten (10) business days prior notice of such Tenant Alterations, which notice shall be accompanied by reasonably adequate evidence that such changes meet the criteria contained in this Article 11. Any Alterations must be performed in accordance with the terms hereof, using only contractors or mechanics approved by Landlord in writing and upon the approval by Landlord in writing of fully detailed and dimensioned plans and specifications pertaining to the Alterations in question, to be prepared and submitted by Tenant at its sole cost and expense. Tenant shall at its sole cost and expense obtain all necessary approvals and permits pertaining to any Alterations. Tenant shall cause all Alterations to be performed in a good and workmanlike manner, in conformance with all applicable federal, state, county and municipal laws, rules and regulations, pursuant to a valid building permit, and in conformance with Landlord's construction rules and regulations. Tenant hereby agrees to indemnify, defend, and hold Landlord free and harmless from all liens and claims of lien, and all other liability, claims and demands arising out of any work done or material supplied to the Premises by or at the request of Tenant in connection with any Alterations.

11.2 Prior to the commencement of any Alterations, Tenant shall provide Landlord with evidence that Tenant or Tenant's general contractor carries "Builder's All Risk" insurance in an amount approved by Landlord covering the construction of such Alterations, and such other insurance as Landlord may reasonably require, it being understood that all such Alterations shall be insured by Tenant pursuant to Article 9 of this Lease immediately upon completion thereof. In addition, Landlord may, in its discretion, with respect to any Alterations costing in excess of Two Hundred Thousand Dollars (\$200,000.00), require Tenant to obtain a lien and completion bond or some alternate form of security reasonably satisfactory to Landlord in an amount sufficient to ensure the lien free completion of such Alterations and naming Landlord as a co-obligee. If permitted Alterations are made, they shall be made at Tenant's sole cost and expense and shall be and become the property of Landlord, except that Landlord may, by written notice to Tenant given prior to the end of the Term, require Tenant at Tenant's expense to remove all partitions, counters, railings, cabling and other Alterations installed by Tenant, and to repair any damage to the Premises and the Project caused by such removal. Tenant shall have the right, at the time it requests Landlord's consent and delivers all plans and specifications to any Alterations (or, with respect to cosmetic Alterations described above as not requiring Landlord's consent, at the time Tenant gives Landlord notice of the same pursuant to the provisions above) to make a written request that Landlord notify Tenant whether Tenant shall be obligated to remove the applicable Alterations at the end of the Lease Term, in which event, with respect to permitted Alterations under this Article 11, Tenant shall only be obligated to remove (i) those Alterations that Landlord notified Tenant it must remove at the end of the Lease Term around the time of and in connection with Tenant's requested approval of the Alterations (or, with respect to cosmetic Alterations described above as not requiring Landlord's consent, around the time of and in connection with Tenant's notice of the same pursuant to the provisions above), and (ii) those Alterations that Tenant did not timely seek or did not obtain Landlord's written consent to leave in place at the end of the Lease Term, and that Landlord requires Tenant to remove (and shall repair any damage resulting from such removal and return the Premises to the same condition existing prior to

the undertaking upon the expiration or earlier termination of this Lease). Any and all costs attributable to or related to the applicable building codes of the city in which the Project is located (or any other authority having jurisdiction over the Project) arising from Tenant's plans, specifications, improvements, Alterations or otherwise shall be paid by Tenant at its sole cost and expense. With regard to repairs, Alterations or any other work arising from or related to this Article 11 (other than cosmetic Alterations costing less than a total of \$25,000.00), Landlord shall be entitled to receive an administrative/coordination fee (which fee shall vary depending upon whether or not Tenant orders the work directly from Landlord, but which fee shall not exceed 5% of all costs and expenses, whether hard costs or soft costs, in connection with the applicable Alterations) sufficient to compensate Landlord for all overhead, general conditions, fees and other costs and expenses arising from Landlord's involvement with such work. The construction of initial improvements to the Premises shall be governed by the terms of the Tenant Work Letter and not the terms of this Article 11.

11.3 Tenant shall keep the Premises and the Project free from any mechanics' liens, vendors liens or any other liens arising out of any work performed, materials furnished or obligations incurred by Tenant, and Tenant agrees to defend, indemnify and hold Landlord harmless from and against any such lien or claim or action thereon, together with costs of suit and reasonable attorneys' fees and costs incurred by Landlord in connection with any such claim or action. Before commencing any work of alteration, addition or improvement to the Premises, Tenant shall give Landlord at least ten (10) business days' written notice of the proposed commencement of such work (to afford Landlord an opportunity to post appropriate notices of non-responsibility). In the event that there shall be recorded against the Premises or the Project or the property of which the Premises is a part any claim or lien arising out of any such work performed, materials furnished or obligations incurred by Tenant and such claim or lien shall not be removed or discharged within ten (10) days of filing, without limiting any other remedies, Landlord shall have the right but not the obligation to pay and discharge said lien without regard to whether such lien shall be lawful or correct, and Tenant shall reimburse to Landlord, within ten (10) days after demand, the amount of such payment and discharge and all costs and expenses, including, without limitation, attorneys' fees and costs incurred by Landlord.

Article 12 – Personal Property Taxes: Tenant shall pay, prior to delinquency, all taxes assessed against or levied upon trade fixtures, furnishings, equipment and all other personal property of Tenant located in the Premises. In the event any or all of Tenant's trade fixtures, furnishings, equipment and other personal property shall be assessed and taxed with property of Landlord (as reasonably determined by Landlord), or if the cost or value of any leasehold improvements in the Premises exceeds the cost or value of a Project-standard buildout as reasonably determined by Landlord and, as a result, real property taxes for the Project are increased, Tenant shall pay to Landlord, within thirty (30) days after delivery to Tenant by Landlord of a written statement setting forth such amount, the amount of such taxes applicable to Tenant's property or above-standard improvements. Tenant shall assume and pay to Landlord at the time Base Rent next becomes due (or if assessed after the expiration of the Lease Term, then within thirty (30) days), any excise, sales, use, rent, occupancy, garage, parking, gross receipts or other taxes (other than net income taxes) which may be imposed on or on account of the letting of the Premises or the payment of Base Rent or any other sums due or payable hereunder, and which Landlord may be required to pay or collect under any law now in effect or hereafter enacted. Tenant shall pay directly to the party or entity entitled thereto all business license fees, gross receipts taxes and similar taxes and impositions which may from time to time be assessed against or levied upon Tenant, as and when the same become due and before delinquency. Notwithstanding anything to the contrary contained herein, any sums payable by Tenant under this Article 12 shall not be included in the computation of "Tax Expenses."

Article 13 – Parking: Tenant shall have the right, commencing on the initial Commencement Date and continuing through the expiration or earlier termination of the Term, to use the number of unreserved parking spaces set forth in the Basic Lease Provisions (of which five (5) such spaces may be designated by Tenant as "Iteris Visitor"), which parking spaces shall pertain to the Project parking facility (subject to adjustment by Landlord in the event of 2 Commencement Dates under this Lease). Tenant shall be responsible for the full amount of any taxes imposed by any governmental authority in connection with the use of such parking spaces or the use of the parking facility by Tenant. Tenant shall abide by all reasonable, non-discriminatory rules and regulations which are prescribed from time to time for the orderly operation and use of the parking facility where the parking spaces are located, including any sticker or other identification system reasonably established by Landlord. Tenant shall cooperate in seeing that Tenant's employees and visitors also comply with such reasonable, non-discriminatory rules and regulations. Landlord specifically reserves the right to change the size, configuration, design, layout and all other aspects of the Project parking facility at any time and Tenant acknowledges and agrees that Landlord may, without incurring any liability to Tenant and without any abatement of rent under this Lease, from time to time, close-off or restrict access to the Project parking facility for purposes of permitting or facilitating any such construction, alteration or improvements. Landlord may delegate its responsibilities hereunder to a parking operator or a lessee of the parking facility in which case such parking operator or lessee shall have all the rights of control attributed hereby to the Landlord. The parking spaces rented by Tenant pursuant to this Article 13 are provided to Tenant solely for use by Tenant's own personnel and such spaces may not be transferred, assigned, subleased or otherwise

alienated by Tenant without Landlord's prior approval, except to a Transferee in connection with a permitted Transfer under this Lease. Provided Tenant is not in default under this Lease beyond applicable notice and cure periods, and provided Tenant does not disturb other tenants of the Project or Development or interfere with Landlord or other tenants of the Project or Development, subject to the terms of this Lease and the consent of any other relevant property owner (if required), all laws, rules, regulations, codes and ordinances, matters of record, insurance requirements, and Landlord's safety requirements (without any representation or warranty by Landlord as to safety), Tenant shall be permitted to install in the area depicted on Exhibit "F" (subject to Landlord's reasonable consent as to the plans and specifications therefor), one (1) small ramp over a curb for the travel of the forklift permitted under this Lease; such ramp shall belong to Landlord at expiration or earlier termination of the Term, provided that Landlord may require Tenant to remove such ramp, and restore the area and repair all damage, at Tenant's sole cost and expense, upon expiration or earlier termination of the Term.

Article 14 – Hazardous Waste:

14.1 Tenant shall not cause or permit any Hazardous Material (as defined below) to be brought, kept or used in or about the Project by Tenant or any of the Tenant Parties, other than ordinary and reasonable quantities of general office supplies (such as ink and liquid paper), and adhesives and alcohol used in light manufacturing in connection with the Permitted Use (collectively, the "Permitted Substances"), provided that (a) the Permitted Substances are stored in packaged and sealed containers (b) the storage, handling and use of the Permitted Substances must at all times conform to all laws, rules, regulations, codes and ordinances and to applicable fire, safety and insurance requirements; (b) the types and quantities of Permitted Substances must be reasonable and appropriate to the nature and size of Tenant's operation in the Premises and reasonable and appropriate for a first-class office building of the same or similar use and in the same market area as the Project; (c) no Hazardous Material shall be spilled or disposed of on, in, under or around the Project or Development or otherwise discharged from the Premises or any area adjacent to the Project or Development; and (d) in no event will Tenant be permitted to store, handle or use on, in, under or around the Premises any Hazardous Material which will increase the rate of fire or extended coverage insurance on the Premises or Project or Development. Tenant indemnifies Landlord and the Landlord Parties from and against any breach by Tenant of the obligations stated in this Article 14, and agrees to defend and hold Landlord and the Landlord Parties harmless from and against any and all claims, judgments, damages, penalties, fines, costs, liabilities, or losses which arise during or after the Term of this Lease as a result of such breach. This indemnification of Landlord and the Landlord Parties by Tenant includes, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal, or restoration work required by any federal, state, or local governmental agency or political subdivision because of Hazardous Material present in the soil or ground water on or under the Project. Without limiting the foregoing, if the presence of any Hazardous Material on the Project caused or permitted by Tenant results in any contamination of the Project, then subject to the provisions of Articles 7 and 11 of this Lease, Tenant shall promptly take all actions at its sole expense as are necessary to return the Project to the condition existing prior to the introduction of any such Hazardous Material and the contractors to be used by Tenant for such work must be approved by Landlord, which approval shall not be unreasonably withheld so long as such actions would not potentially have any material adverse long-term or short-term effect on the Project and so long as such actions do not materially interfere with the use and enjoyment of the Project by the other tenants thereof; provided however, Landlord shall also have the right, by written notice to Tenant, to directly undertake any such mitigation efforts with regard to Hazardous Materials in or about the Project due to Tenant's breach of its obligations pursuant to this Section 14.1, and to charge Tenant, as Additional Rent, for the costs thereof.

14.2 As used herein, the term "Hazardous Material" means any hazardous or toxic substance, material, or waste which is or becomes regulated by any local governmental authority, the State of California or the United States Government. The term "Hazardous Material" includes, without limitation, any material or substance which is (i) defined as "Hazardous Waste," "Extremely Hazardous Waste," or "Restricted Hazardous Waste" under Sections 25115, 25117 or 25122.7, or listed pursuant to Section 25140, of the California Health and Safety Code, Division 20, Chapter 6.5 (Hazardous Waste Control Law), (ii) defined as a "Hazardous Substance" under Section 25316 of the California Health and Safety Code, Division 20, Chapter 6.8 (Carpenter-Presley-Tanner Hazardous Substance Account Act), (iii) defined as a "Hazardous Material," "Hazardous Substance," or "Hazardous Waste" under Section 25501 of the California Health and Safety Code, Division 20, Chapter 6.95 (Hazardous Materials Release Response Plans and Inventory), (iv) defined as a "Hazardous Substance" under Section 25281 of the California Health and Safety Code, Division 20, Chapter 6.7 (Underground Storage of Hazardous Substances), (v) petroleum, (vi) asbestos, (vii) listed under Article 9 or defined as Hazardous or extremely hazardous pursuant to Article 11 of Title 22 of the California Administrative Code, Division 4, Chapter 20, (viii) designated as a "Hazardous Substance" pursuant to Section 311 of the Federal Water Pollution Control Act (33 U.S.C. § 1317), (ix) defined as a "Hazardous Waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. § 6901 et seq. (42 U.S.C. § 6903), or (x) defined as a "Hazardous Substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601 et seq. (42 U.S.C. § 9601). As used herein,

the term "Laws" means any applicable federal, state or local law, ordinance, or regulation relating to any Hazardous Material affecting the Project, including, without limitation, the laws, ordinances, and regulations referred to in this Section 14.3 above.

Article 15 – Estoppel; Subordination; Attornment:

15.1 Tenant shall, at any time and from time to time, upon not less than fifteen (15) days' prior written notice from Landlord, execute, acknowledge and deliver to Landlord a statement in writing certifying the following information, (but not limited to the following information in the event further information is reasonably requested by Landlord): (i) that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as modified, is in full force and effect); (ii) the dates to which the rental and other charges are paid in advance, if any; (iii) the amount of Tenant's security deposit, if any; and (iv) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, and no events or conditions then in existence which, with the passage of time or notice or both, would constitute a default on the part of Landlord hereunder, or specifying such defaults, events or conditions, if any are claimed. It is expressly understood and agreed that any such statement may be relied upon by any prospective purchaser or encumbrancer of all or any portion of the Real Property. Without limiting the foregoing, Tenant agrees that the document in Exhibit "H" attached hereto is acceptable and may (without limitation) be used by Landlord as the statement required under this Section 15.1.

15.2 This Lease is subject and subordinate to all ground or underlying leases, mortgages and deeds of trust which affect the property or the Project, including all renewals, modifications, consolidations, replacements and extensions thereof; provided, however, if the Landlord under any such lease or the holder or holders of any such mortgage or deed of trust shall advise Landlord that they desire or require this Lease to be prior and superior thereto, upon written request of Landlord to Tenant, Tenant agrees to promptly execute, acknowledge and deliver any and all documents or instruments which Landlord or such Landlord, holder or holders deem necessary or desirable for purposes thereof. Landlord shall have the right to cause this Lease to be and become and remain subject and subordinate to any and all ground or underlying leases, mortgages or deeds of trust which may hereafter be executed covering the Premises, the Project or the property or any renewals, modifications, consolidations, replacements or extensions thereof, for the full amount of all advances made or to be made thereunder and without regard to the time or character of such advances, together with interest thereon and subject to all the terms and provisions thereof; provided, however, that Landlord obtains from the lender or other party in question a written undertaking in favor of Tenant to the effect that such lender or other party will not disturb Tenant's right of possession under this Lease if Tenant is not then or thereafter in breach of any covenant or provision of this Lease beyond any applicable notice and cure periods. Tenant agrees, within fifteen (15) days after Landlord's written request therefor, to execute, acknowledge and deliver upon request any and all documents or instruments requested by Landlord or necessary or proper to assure the subordination of this Lease to any such mortgages, deed of trust, or leasehold estates; without limiting the foregoing, Tenant agrees that the document in Exhibit "I" attached hereto is acceptable and may (without limitation) be used by Landlord as a document required under this Section 15.2. Tenant agrees that in the event any proceedings are brought for the foreclosure of any mortgage or deed of trust or any deed in lieu thereof, to attorn to the purchaser or any successors thereto upon any such foreclosure sale or deed in lieu thereof as so requested to do so by such purchaser and to recognize such purchaser as the Landlord under this Lease; Tenant shall, within fifteen (15) days after request execute such further instruments or assurances as such purchaser may reasonably deem necessary to evidence or confirm such attornment. Tenant agrees to provide copies of any notices of Landlord's default under this Lease to any mortgagee or deed of trust beneficiary whose address has been provided to Tenant and Tenant shall provide such mortgagee or deed of trust beneficiary a commercially reasonable time after receipt of such notice within which to cure any such default. Tenant waives the provisions of any current or future statute, rule or law which may give or purport to give Tenant any right or election to terminate or otherwise adversely affect this Lease and the obligations of the Tenant hereunder in the event of any foreclosure proceeding or sale.

15.3 In the event of any transfer or termination of Landlord's interest in the Premises or the Project by sale, assignment, transfer, foreclosure, deed-in-lieu of foreclosure or otherwise whether voluntary or involuntary, Landlord shall be automatically relieved of any and all obligations and liabilities on the part of Landlord from and after the date of such transfer or termination, including furthermore without limitation, the obligation of Landlord under this Lease and California Civil Code 1950.7 above to return the security deposit, provided said security deposit is transferred to said transferee and the transferee assumes Landlord's obligations accruing thereafter with respect thereto. Tenant agrees to attorn to the transferee upon any such transfer and to recognize such transferee as the Landlord under this Lease and Tenant shall, within fifteen (15) days after request, execute such further instruments or assurances as such transferee may reasonably deem necessary to evidence or confirm such attornment.

Article 16 – Certain Landlord Rights:

16.1 Landlord and its agents shall have the right, to enter the Premises at all reasonable times for the purpose of cleaning the Premises, and, upon reasonable prior notice (except in the event of emergency, in which case no notice will be required), for the purpose of examining or inspecting the same, serving or posting and keeping posted thereon notices as provided by law, or which Landlord deems necessary for the protection of Landlord or the Project, showing the same to prospective tenants (during the last 12 months of the Term or when Tenant is in default under this Lease beyond any applicable cure period), lenders or purchasers of the Project, in the case of an emergency, and for making such alterations, repairs, improvements or additions to the Premises or to the Project as Landlord may deem necessary or desirable. If Tenant shall not be personally present to open and permit an entry into the Premises at any time when such an entry by Landlord is necessary or permitted hereunder, Landlord may enter by means of a master key, or may forcibly enter in the case of an emergency, in each event without liability to Tenant and without affecting this Lease. Landlord reserves the right from time to time, but subject to payment by and/or reimbursement from Tenant as otherwise provided herein: (i) to install, use, maintain, repair, replace, relocate and control for service to the Premises and/or other parts of the Project pipes, ducts, conduits, wires, cabling, appurtenant fixtures, equipment spaces and mechanical systems, wherever located in the Premises or the Project, (ii) to alter, close or relocate any facility in the Premises or the common areas or otherwise conduct any of the above activities for the purpose of complying with a general plan for fire/life safety for the Project or otherwise, and (iii) to comply with any federal, state or local law, rule or order. Landlord shall attempt to perform any such work with the least inconvenience to Tenant as is reasonably practicable, but in no event shall Tenant be permitted to withhold or reduce Base Rent or other charges due hereunder as a result of same, make any claim for constructive eviction or otherwise make any claim against Landlord for interruption or interference with Tenant's business and/or operations.

16.2 Every part of the Project except the inside surfaces of all walls, windows and doors bounding the Premises (including exterior building walls, the rooftop, core corridor walls and doors and any core corridor entrance), and any space in or adjacent to the Premises or within the Project used for shafts, stacks, pipes, conduits, fan rooms, ducts, electric or other utilities, sinks or other building facilities, and the use thereof, as well as access thereto through the Premises for the purposes of operation, maintenance, decoration and repair, are reserved to Landlord. Tenant shall permit Landlord to install, use and maintain pipes, ducts and conduits within the walls, columns and ceilings of the Premises and throughout the Project.

16.3 Landlord reserves the right, without incurring any liability to Tenant therefor, to make such changes in or to the Project and the fixtures and equipment thereof, as well as in or to the street entrances, halls, passages, elevators, stairways and other improvements thereof, as it may deem necessary or desirable. Landlord may adopt any name for the Project and Landlord reserves the right, from time to time, to change the name and/or address of the Project.

16.4 Tenant hereby acknowledges and agrees that the exterior walls of the Premises and the area between the finished ceiling of the Premises and the slab of the floor of the Project thereabove have not been demised hereby and the use thereof together with the right to install, maintain, use, repair and replace pipes, ducts, conduits, wiring and cabling leading through, under or above the Premises or throughout the Project in locations which will not materially interfere with Tenant's use of the Premises and serving other parts of the Project are hereby excepted and reserved unto Landlord.

16.5 Except as may be set forth to the contrary in this Lease, all covenants and agreements to be performed by Tenant under any of the terms of this Lease shall be performed by Tenant at Tenant's sole cost and expense and without any abatement of rent.

16.6 The inclusion of certain of Landlord's rights in this Article 16 shall in no way limit or impair any rights or remedies of Landlord set forth in this Lease or otherwise available to Landlord.

Article 17 – Default:

17.1 Each of the following acts or omissions of Tenant or of any guarantor of Tenant's performance hereunder, or occurrences, shall constitute an "Event of Default":

(a) Failure or refusal to pay Base Rent, Additional Rent or any other amount to be paid by Tenant to Landlord hereunder within seven (7) business days after written notice that the same is due or payable hereunder; said seven (7) business day period shall be in lieu of, and not in addition to, the notice requirements of Section 1161 of the California Code of Civil Procedure or any similar or successor law;

(b) Except where a specific time period is otherwise set forth for Tenant's performance in this Lease, in which event the failure to perform by Tenant within such time period shall be a default under this Article 17(b), and except as set forth in items (a) above and (c) through and including (f) below, failure to perform or observe any other covenant or condition of this Lease to be performed or observed within thirty (30) days following written notice to Tenant of such failure (the "Default Notice");

provided, however, that if the nature of Tenant's obligation is such that more than thirty (30) days are required for performance, then Tenant shall not be in default under this subsection (b) if Tenant commences performance within a reasonable period of time (but no later than thirty (30) days after receipt of the Default Notice) and thereafter diligently and in good faith prosecutes the same to completion within a reasonable period of time after receipt of the Default Notice. Such thirty (30) day notice shall be in lieu of, and not in addition to, any required under Section 1161 of the California Code of Civil Procedure or any similar or successor law;

(c) Abandonment of the Premises or any significant portion thereof when accompanied by the non-payment of rent as specified above;

(d) The filing by Tenant or any guarantor hereunder in any court pursuant to any statute of a petition in bankruptcy or insolvency or for reorganization or arrangement for the appointment of a receiver of all or a portion of Tenant's property; the filing against Tenant or any guarantor hereunder of any such petition, or the commencement of a proceeding for the appointment of a trustee, receiver or liquidator for Tenant, or for any guarantor hereunder, or of any of the property of either, or a proceeding by any governmental authority for the dissolution or liquidation of Tenant or any guarantor hereunder, if such proceeding shall not be dismissed or trusteeship discontinued within ninety (90) days after commencement of such proceeding or the appointment of such trustee or receiver; or the making by Tenant or any guarantor hereunder of an assignment for the benefit of creditors;

(f) Tenant's failure to cause to be released any mechanics liens filed against the Premises or the Project within twenty (20) days after the date the same shall have been filed or recorded; or

(g) Tenant's failure to observe or perform according to the provisions of Articles 8 or 15 within five (5) business days after notice from Landlord.

17.2 Landlord shall not be in default under this Lease unless Landlord fails to perform obligations required of Landlord within thirty (30) days after written notice is delivered by Tenant to Landlord and to the holder of any mortgages or deeds of trust (collectively, "Lender") covering the Premises whose name and address shall have theretofore been furnished to Tenant in writing, specifying the obligation which Landlord has failed to perform; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for performance, then Landlord shall not be in default if Landlord or Lender commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion. In the event of any default, breach or violation of Tenant's rights under this Lease by Landlord, Tenant's exclusive remedies shall be an action for specific performance or action for actual damages. Tenant hereby waives the benefit of any laws granting it the right to perform Landlord's obligation, or the right to terminate this Lease on account of any Landlord default.

Notwithstanding the foregoing, if Tenant provides written notice to Landlord of an event or circumstance which requires the action of Landlord with respect to repair and/or maintenance which Landlord is required to provide pursuant to the express terms of Section 6.1 of this Lease, and Landlord fails to provide such required action within thirty (30) days after receipt of such notice, unless such repair would normally take longer and Landlord has commenced said repair work within said thirty (30) day period, then Tenant may deliver to Landlord an additional ten (10) business days' written notice to Landlord specifying that Tenant will take such required action. If such action was required under the terms of Section 6.1 of this Lease to be taken by Landlord and was not taken by Landlord within such additional ten (10) business day period (or such additional longer period as is reasonably necessary if such action would normally take longer than 10 business days and Landlord has commenced said action within said ten (10) business day period), then Tenant may take the action that was required of Landlord under this Lease and shall be entitled to prompt reimbursement by Landlord of Tenant's actual reasonable out-of-pocket costs paid to unaffiliated third parties in taking such action. Subject to the last sentence of this paragraph, in the event Tenant takes such action, and such work may affect the Project systems or the structural integrity of the Project, Tenant shall use only those contractors used by Landlord in the Project for work on such Project systems or structure unless such contractors are unwilling or unable to perform, or timely perform, such work, in which event Tenant may utilize the services of any other qualified contractor which normally and regularly performs similar work in Comparable Buildings (subject to the last sentence of this paragraph) and who are reasonably approved by Landlord in writing. Further, if Landlord does not deliver a written objection to Tenant within thirty (30) days after receipt of a detailed written invoice by Tenant of its costs of taking action which Tenant claims should have been taken by Landlord under Section 6.1 above, and if such invoice from Tenant sets forth a reasonably detailed particularized breakdown of its costs and expenses in connection with taking such action on behalf of Landlord, then Tenant may deliver a second written invoice of its costs of taking action which Tenant claims should have been taken by Landlord (with a reasonably detailed particularized breakdown of its costs and expenses in connection with taking such action on behalf of Landlord); if Landlord does not deliver a written objection to Tenant within ten (10) business days after receipt of such second written invoice, then Tenant shall be entitled to deduct from rent payable by Tenant under this Lease, the amount

set forth in such invoice. If, however, Landlord delivers to Tenant a written objection to the payment of such invoice, setting Landlord's reasons for its claim that such action did not have to be taken by Landlord pursuant to the terms of this Lease or that the charges are excessive (in which case Landlord shall pay the amount it contends would not have been excessive), then Tenant shall not be entitled to such deduction from rent, but as Tenant's sole and exclusive remedy, Tenant may proceed to claim a default by Landlord under this Lease (if any), provided that under no circumstances shall Tenant be allowed to terminate this Lease based upon any such default by Landlord. If, in connection with any such claimed default under the immediately preceding sentence, Tenant obtains a non-appealable final judgment from a court of competent jurisdiction, awarding damages to Tenant in connection therewith, then Tenant may deduct such final judgment against Base Rent next becoming due. Notwithstanding anything to the contrary set forth in this paragraph, any work performed by or on behalf of Tenant under this paragraph shall be subject to Article 11 of this Lease

Article 18 – Remedies:

18.1 Upon the occurrence of an Event of Default under this Lease as provided in Article 17 above, Landlord may exercise all of its remedies as may be permitted by law, including but not limited to the remedy provided by Section 1951.4 of the California Civil Code, and including without limitation, terminating this Lease, reentering the Premises and removing all persons and property therefrom, which property may be stored by Landlord at a warehouse or elsewhere at the risk, expense and for the account of Tenant. If Landlord elects to terminate this Lease, Landlord shall be entitled to recover from Tenant the aggregate of all amounts permitted by law, including but not limited to (i) the worth at the time of award of the amount of any unpaid rent which had been earned at the time of such termination; plus (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, specifically including but not limited to, tenant improvement expenses, brokerage commissions and advertising expenses incurred, expenses of remodeling the Premises or any portion thereof for a new tenant, whether for the same or a different use, and any special concessions made to obtain a new tenant; and (v) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law. The term "rent" as used in this Article 18 shall be deemed to be and to mean all sums of every nature required to be paid by Tenant pursuant to the terms of this Lease, whether to Landlord or to others. As used in items (i) and (ii), above, the "worth at the time of award" shall be computed by allowing interest at the rate set forth in item (e), below, but in no case greater than the maximum amount of such interest permitted by law. As used in item (iii), above, the "worth at the time of award" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%). Nothing in this Article 18 shall be deemed to affect Landlord's right to indemnification for liability or liabilities arising prior to the termination of this Lease for personal injuries or property damage under the indemnification clause or clauses contained in this Lease. Landlord shall mitigate its damages in accordance with applicable law, but shall not be required to give preference to the Premises over any other space.

18.2 Notwithstanding anything to the contrary set forth herein, Landlord's re-entry to perform acts of maintenance or preservation of or in connection with efforts to relet the Premises or any portion thereof, or the appointment of a receiver upon Landlord's initiative to protect Landlord's interest under this Lease shall not terminate Tenant's right to possession of the Premises or any portion thereof and, until Landlord does elect to terminate this Lease, this Lease shall continue in full force and effect and Landlord may enforce all of Landlord's rights and remedies hereunder including, without limitation, the remedy described in California Civil Code Section 1951.4 (Landlord may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if Lessee has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease on account of any default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies under this Lease, including the right to recover all rent as it becomes due. All rights, powers and remedies of Landlord hereunder and under any other agreement now or hereafter in force between Landlord and Tenant shall be cumulative and not alternative and shall be in addition to all rights, powers and remedies given to Landlord by law, and the exercise of one or more rights or remedies shall not impair Landlord's right to exercise any other right or remedy.

18.3 Whether or not Landlord elects to terminate this Lease on account of any default by Tenant, as set forth in this Article 18, Landlord shall have the right to terminate any and all subleases, licenses, concessions or other consensual arrangements for possession entered into by Tenant and affecting the Premises or may, in Landlord's sole discretion, succeed to Tenant's interest in such subleases, licenses, concessions or arrangements. In the event of Landlord's election to succeed to Tenant's interest in any such subleases, licenses, concessions or arrangements, Tenant shall, as of the date

of notice by Landlord of such election, have no further right to or interest in the rent or other consideration receivable thereunder.

18.4 Notwithstanding anything in this Lease to the contrary, any remedy of Tenant for the collection of a judgment (or other judicial process) requiring the payment of money by Landlord in the event of any default by Landlord hereunder or any claim, cause of action or obligation, contractual, statutory or otherwise by Tenant against Landlord or the Landlord Parties concerning, arising out of or relating to any matter relating to this Lease and all of the covenants and conditions or any obligations, contractual, statutory, or otherwise set forth herein, shall be limited solely and exclusively to an amount which is equal to the equity interest of Landlord in and to the Project. No other property or assets of Landlord or any Landlord Party shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies under or with respect to this Lease, Landlord's obligations to Tenant, whether contractual, statutory or otherwise, the relationship of Landlord and Tenant hereunder, or Tenant's use or occupancy of the Premises. Without limiting the foregoing, no personal liability is assumed by any officer, director, owner, member, shareholder, employee, agent, and/or representative of Crown Realty & Development, Inc. and its affiliates, including but not limited to Robert A. Flaxman and/or Jaime Sohacheski (and their family members) (collectively, the "Released Parties") in connection with this Lease. The parties acknowledge and agree that no claim, cause of action, liability, demand, damage, debt, expense, and/or lien, including but not limited to any involving this Lease, shall be asserted against any of the Released Parties, whether known or unknown at the time of this Lease or at any time in the future, including after expiration or earlier termination of this Lease.

Article 19 – Interest; Late Charge: Any amount due from Tenant to Landlord under this Lease which is not paid when due shall bear interest at the lower of twelve percent (12%) per annum or the maximum lawful rate of interest from the due date until paid, unless otherwise specifically provided herein, but the payment of such interest shall not excuse or cure any default by Tenant under this Lease. In addition to such interest: (i) if Base Rent is not paid on or before the fifth (5th) day of the calendar month for which the same is due, a late charge equal to five percent (5%) of the amount overdue shall be immediately due and owing and shall accrue for each calendar month or part thereof until such rental, including the late charge, is paid in full, which late charge Tenant hereby agrees is a reasonable estimate of the damages Landlord shall suffer as a result of Tenant's late payment; provided, however, with respect to the very first late payment in any 12-month period, such late charge shall not be due unless the applicable past-due payment is not received by Landlord within five (5) business days after written demand. Such damages include Landlord's additional administrative and other costs associated with such late payment and the parties agree that it would be impracticable or extremely difficult to fix Landlord's actual damage in such event. Such charges for interest and late payments are separate and cumulative and are in addition to and shall not diminish or represent a substitute for any or all of Landlord's rights or remedies under any other provision of this Lease.

Article 20 – Damage and Destruction: If the Project is damaged by fire or other insured casualty and the insurance proceeds have been made available therefor by the holder or holders of any mortgages or deeds of trust covering the Premises or the Project, the damage shall be repaired by Landlord to the extent such insurance proceeds are available therefor and provided such repairs can, in the opinion of Landlord's contractor, be completed within two hundred ten (210) days after the necessity for repairs as a result of such damage becomes known to Landlord, without the payment of overtime or other premiums, and until such repairs are completed rent shall be abated in proportion to the part of the Premises which is unusable by Tenant in the conduct of its business. However, if the damage is due to the fault or neglect of Tenant, or any of the Tenant Parties and the like, there shall be no abatement of rent, unless and to the extent Landlord receives rental income insurance proceeds. If repairs cannot, in Landlord's opinion, be completed within two hundred ten (210) days after the necessity for repairs as a result of such damage becomes known to Landlord without the payment of overtime or other premiums, Landlord may, at its option, either (i) make such repairs in a reasonable time and in such event this Lease shall continue in effect and the rent shall be abated, if at all, in the manner provided in this Article 20, or (ii) elect not to effect such repairs and instead terminate this Lease, by notifying Tenant in writing of such termination within thirty (30) days after Landlord learns of the necessity for repairs as a result of damage, such notice to include a termination date giving Tenant thirty (30) days to vacate the Premises. In addition, Landlord may elect to terminate this Lease if the Project shall be damaged by fire or other casualty or cause, whether or not the Premises are affected, if the damage is not fully covered, except for deductible amounts, by Landlord's insurance policies. Finally, if the Premises or the Project is damaged to any substantial extent by fire or other casualty during the last nine (9) months of the Term, then notwithstanding anything contained in this Article 20 to the contrary, Landlord or Tenant shall have the option to terminate this Lease by giving written notice to the other of the exercise of such option within thirty (30) days after Landlord learns of the necessity for repairs as the result of such damage, provided that Landlord reasonably estimates that the repair will take longer than ninety (90) days. A total destruction of the Project shall automatically terminate this Lease. Except as provided in this Article 20, there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business or property arising from such damage or destruction or the making of any repairs, alterations or improvements in or to any portion of the Project or the Premises or in or to fixtures,

appurtenances and equipment therein. Tenant understands that Landlord will not carry insurance of any kind on Tenant's furniture, furnishings, trade fixtures or equipment, and that Landlord shall not be obligated to repair any damage thereto or replace the same. Tenant acknowledges that Tenant shall have no right to any proceeds of insurance carried by Landlord relating to property damage. With respect to any damage which Landlord is obligated to repair or elects to repair, Landlord and Tenant waive and release their rights under the provisions of Sections 1932 and 1933 of the California Civil Code.

This paragraph shall apply only in the event of casualty damage or destruction to the Premises not arising out of the negligence or willful misconduct of Tenant or any of the Tenant Parties, where the Premises are rendered untenable as a result of the casualty damage or destruction in question and Landlord does not elect to terminate this Lease pursuant to the provisions above. If the estimated completion date of the repairs to the damage or destruction is greater than two hundred ten (210) days after the date Landlord learns of the damage, Tenant may elect, no later than thirty (30) days after Tenant's receipt of a certificate from Landlord describing the scope of the restoration and repair obligations and estimating the date said obligations are expected to be substantially completed so Tenant can resume normal business operations, to terminate this Lease by written notice to Landlord effective as of the date specified in Tenant's notice, which date shall be not greater than sixty (60) days after the date of delivery of Tenant's notice. Furthermore, if neither Landlord nor Tenant have terminated this Lease and the repairs are not actually completed within two hundred ten (210) days after the date Landlord learns of the damage (which two hundred ten (210) day period shall be extended only by delays resulting from the negligence or willful misconduct of Tenant and/or any of the Tenant Parties), Tenant shall have the right to terminate this Lease within five (5) business days after the end of such period, by written notice to Landlord (the "Damage Termination Notice"), effective as of the date set forth in the Damage Termination Notice (the "Damage Termination Date"), which Damage Termination Date shall not be less than five (5) business days following the end of such period. Notwithstanding the foregoing, if Tenant delivers a Damage Termination Notice to Landlord, then Landlord shall have the right to suspend the occurrence of the Damage Termination Date for a period ending thirty (30) days after the Damage Termination Date set forth in the Damage Termination Notice by delivering to Tenant, within five (5) business days of Landlord's receipt of the Damage Termination Notice, a certificate of Landlord's contractor responsible for the repair of the damage certifying that it is such contractor's good faith judgment that the repairs shall be substantially completed within thirty (30) days after the Damage Termination Date. If repairs shall be substantially completed prior to the expiration of such thirty (30) day period, then the Damage Termination Notice shall be of no force or effect but if the repairs shall not be substantially completed within such thirty (30) day period, then this Lease shall terminate upon the expiration of such thirty (30) day period. If Landlord undertakes repair and/or restoration pursuant to the provisions above and thereafter determines that it will not be able to complete the same within the two hundred ten (210) day period set forth herein, then Landlord shall promptly notify Tenant thereof and shall provide Tenant with Landlord's revised estimate of the date upon which Landlord will complete the same ("Revised Completion Date"). Within fifteen (15) business days after Tenant's receipt of such notice, Tenant shall have the right, but not the obligation, to elect to terminate this Lease or to agree to extend the two hundred ten (210) day period to the Revised Completion Date. Tenant's failure to elect to terminate or to extend such time period to the Revised Completion Date by written notice to Landlord within such fifteen (15) business day period shall be conclusively deemed to be Tenant's election to extend the time to the Revised Completion Date. Upon any such termination of this Lease pursuant to this paragraph, Tenant shall pay the rent and all other amounts due under this Lease, properly apportioned up to such date of termination, and both parties hereto shall thereafter be freed and discharged of all further obligations accruing after such termination, except as provided for in provisions of this Lease which by their terms survive the expiration or earlier termination of the Lease Term.

Article 21 – Eminent Domain: If the whole of the Premises or the Project or so much thereof as to render the balance unusable by Tenant shall be taken under power of eminent domain, or is sold, transferred or conveyed in lieu thereof, this Lease shall automatically terminate as of the date of such condemnation, or as of the date possession is taken by the condemning authority, at Landlord's option. No award for any partial or entire taking shall be apportioned, and Tenant hereby assigns to Landlord any award which may be made in such taking or condemnation, together with any and all rights of Tenant now or hereafter arising in or to the same or any part thereof; provided, however, that nothing contained herein shall be deemed to give Landlord any interest in or to require Tenant to assign to Landlord any award made to Tenant for moving costs, the taking of personal property and trade fixtures belonging to Tenant and removable by Tenant at the expiration of the Term hereof as provided hereunder or for the interruption of, or damage to, Tenant's business. In the event of a partial taking described in this Article 21, or a sale, transfer or conveyance in lieu thereof, which does not result in a termination of this Lease, the rent shall be apportioned according to the ratio that the part of the Premises remaining useable by Tenant bears to the total area of the Premises.

Article 22 – Surrender; Removal of Property:

22.1 The voluntary or other surrender of this Lease by Tenant to Landlord, or a mutual termination hereof, shall not work a merger, and shall at the option of Landlord, operate as an assignment

to it of any or all subleases or subtenancies affecting the Premises. Upon the expiration of the Term of this Lease, or upon any earlier termination of this Lease, Tenant shall quit and surrender possession of the Premises to Landlord in good order and condition, reasonable wear and tear and repairs which are Landlord's obligation excepted, and shall, without expense to Landlord, remove or cause to be removed from the Premises all debris and rubbish, all furniture, equipment, business and trade fixtures, free-standing cabinet work, moveable partitioning, telephone and data cabling and other articles of personal property owned by Tenant or installed or placed by Tenant at its own expense in the Premises, and all similar articles of any other persons claiming under Tenant (unless Landlord exercises its option to have any subleases or subtenancies assigned to it), and Tenant shall repair all damage to the Premises resulting from the removal of such items from the Premises.

22.2 All fixtures, equipment, leasehold improvements, Alterations and/or appurtenances attached to or built into the Premises prior to or during the Term, whether by Landlord or Tenant and whether at the expense of Landlord or Tenant, or of both, shall be and remain part of the Premises and shall not be removed by Tenant at the end of the Term unless otherwise expressly provided for in this Lease or unless such removal is required by Landlord under Article 11 above. Such fixtures, equipment, leasehold improvements, Alterations, additions, improvements and/or appurtenances shall include but not be limited to: all floor coverings, drapes, paneling, built-in cabinetry, molding, doors, vaults (including vault doors), plumbing systems, security systems, electrical systems, lighting systems, silencing equipment, communication systems, all fixtures and outlets for the systems mentioned above and for all telephone, radio, telegraph and television purposes, and any special flooring or ceiling installations. Notwithstanding the foregoing, with respect to the Improvements under Exhibit "D" attached hereto, Landlord may only require restoration of any special-purpose improvements (i.e., not general office improvements) under this Section 22.3 to the extent Landlord notified Tenant in writing of the same at the time of Landlord's approval of the same under such Exhibit "D."

Article 23 – Holding Over:

23.1 Should Tenant, without Landlord's written consent, hold over after termination of this Lease, Tenant shall become a tenant at sufferance upon each and all of the terms herein provided as may be applicable to such a tenancy and any such holding over shall not constitute an extension of this Lease. During such holding over, Tenant shall pay in advance, monthly, Base Rent at a rate equal to one hundred fifty percent (150%) of the rate in effect for the last month of the Term of this Lease, in addition to, and not in lieu of, all other payments required to be made by Tenant hereunder including but not limited to Tenant's Proportionate Share of any increase in Direct Expenses. Subject to Section 23.2 below, nothing contained in this Article 23 shall be construed as consent by Landlord to any holding over of the Premises by Tenant, and Landlord expressly reserves the right to require Tenant to surrender possession of the Premises to Landlord as provided in this Lease upon the expiration or earlier termination of the Term. If Tenant fails to surrender the Premises upon the expiration or termination of this Lease without the prior written consent of Landlord, Tenant agrees to indemnify, defend and hold Landlord harmless from all costs, loss, expense or liability, including without limitation, claims made by any succeeding tenant of which tenant is informed and real estate brokers claims and reasonable attorney's fees and costs.

23.2 Notwithstanding the foregoing, Tenant may hold over after the expiration of the term of this Lease, for a period not to exceed three (3) months, by delivering written notice to Landlord ("Holdover Notice") not less than nine (9) months, and not more than twelve (12) months, prior to the expiration of the Lease Term. Such Holdover Notice must state the duration following the expiration of the Lease Term (not to exceed 3 months) for which Tenant will hold over in the Premises (the "Permitted Holdover Period"). If Landlord timely receives a Holdover Notice from Tenant, then the term of this Lease shall be extended through and including the final day of the Permitted Holdover Period and Tenant shall be required to pay Base Rent and all other payments required to be made by Tenant hereunder through and including the final day of the Permitted Holdover Period (i.e., Tenant shall be obligated to pay such amounts for the entire Permitted Holdover Period, whether or not Tenant actually occupies all or any portion of the Premises during the entire Permitted Holdover Period). Any hold over by Tenant after the expiration of any Permitted Holdover Period shall be subject to Section 23.1 above.

Article 24 – Intentionally Omitted.

Article 25 – Force Majeure: This Lease and the obligations of Tenant hereunder shall not be affected or impaired because Landlord is unable to fulfill any of its obligations hereunder or is delayed in doing so, if such inability or delay is caused by reason of any prevention, delay, stoppage due to strikes, lockouts, acts of God, or any other cause previously, or at such time, beyond the reasonable control or anticipation of Landlord (collectively, a "Force Majeure") and Landlord's obligations under this Lease shall be forgiven and suspended by any such Force Majeure.

Article 26 – Signage:

26.1 Provided Tenant is not in default under this Lease beyond applicable notice and cure periods, Tenant, at Landlord’s cost, shall have the right to Project standard suite entrance signage at the Premises, and five (5) Project standard lines in the Project lobby directory during the Lease Term.

26.2 Provided Tenant is not in default under this Lease beyond applicable notice and cure periods, and subject to any rights of tenants at the Project or Development as of the date of this Lease (including, without limitation, the tenant commonly known as OCTFCU (“OCTFCU”), Tenant, at Tenant’s sole cost and expense, shall have the right to the following signage at the Project during the Term (collectively, “**Tenant’s Rooftop Signage**”), provided the Original Tenant or any permitted Affiliate assignee of this Lease is leasing from Landlord the entire ground floor of the Project at all times: subject to the proviso in this sentence, up to two (2) Project building-top identification signs; provided, however, so long OCTFCU (or its affiliates, successors, assigns, or subtenants) has the right to a building-top sign at the Project, Tenant shall only be allowed one (1) Project building-top identification sign hereunder (it being acknowledged and agreed by Tenant that Landlord has the right to restrict the aggregate building-top signs at the Project to a maximum of two (2)). Notwithstanding the foregoing, if, at any time on or after the initial Commencement Date, Original Tenant or any permitted Affiliate assignee of this Lease does not lease the entire ground floor of the Project, then Tenant shall immediately and automatically lose its rights to Tenant’s Rooftop Signage and Tenant shall remove Tenant’s Rooftop Signage, at Tenant’s sole cost and expense, within ten (10) days after Landlord provides Tenant with written notice that Tenant has lost its rights to the same hereunder. Tenant’s Rooftop Signage shall be used only for the identification of the Original Tenant, and shall be subject to Landlord’s reasonable approval as to size, design, location (which may include the area currently utilized for rooftop identification signage by OCTFCU on the roof of the Project, should such space become available, as reasonably determined by Landlord), graphics, materials, colors and other specifications and shall be consistent with the exterior design, materials and appearance of the Project and the Project’s signage program and shall be further subject to all applicable governmental laws, rules, regulations, codes, ordinances and other approvals and matters of record. Tenant’s Rooftop Signage shall be personal to the Original Tenant and any permitted Affiliate assignee of this Lease (provided that the identification of any such Affiliate to be placed on any signage is not objectionable to Landlord, in its reasonable discretion) and may not be used, assigned to any assignee or sublessee, or any other person or entity. Tenant shall be obligated to maintain Tenant’s Rooftop Signage in a first-class condition, at Tenant’s sole cost and expense. Landlord has the right, but not the obligation, to oversee the installation of Tenant’s Rooftop Signage (the cost of which shall be solely borne by Tenant). The cost to operate, if any, Tenant’s Rooftop Signage shall be paid for by Tenant, and Tenant shall be responsible to pay all electricity and other costs and expenses relating to Tenant’s Rooftop Signage (the cost of separately metering any utility usage shall also be paid for by Tenant). Upon the expiration of the Lease Term, or earlier termination of the Lease, or other termination of Tenant’s signage rights under this paragraph, Tenant shall be responsible for any and all costs associated with the removal of Tenant’s Rooftop Signage, including, but not limited to, the cost to repair and restore the Project to its original condition, normal wear and tear excepted.

26.3 Provided Tenant is not in default under this Lease beyond applicable notice and cure periods, Tenant, at Tenant’s sole cost and expense, shall have the right to the following signage at the Project during the Term (collectively, “**Tenant’s Monument Signage**”): one (1) non-exclusive strip on the monument sign serving the Project on Carnegie Avenue. Tenant’s Monument Signage shall be used only for the identification of the Original Tenant, and shall be subject to Landlord’s reasonable approval as to size, design, location, graphics, materials, colors and other specifications and shall be consistent with the exterior design, materials and appearance of the Project and the Project’s signage program and shall be further subject to all applicable governmental laws, rules, regulations, codes, ordinances and other approvals and matters of record. Tenant’s Monument Signage shall be personal to the Original Tenant and may not be used or assigned to any assignee or sublessee, or any other person or entity. Tenant shall be obligated to maintain Tenant’s Monument Signage in a first-class condition, at Tenant’s sole cost and expense. Landlord has the right, but not the obligation, to oversee the installation of Tenant’s Monument Signage (the cost of which shall be solely borne by Tenant). The cost to operate, if any, Tenant’s Monument Signage shall be paid for by Tenant, and Tenant shall be responsible to pay all electricity and other costs and expenses relating to Tenant’s Monument Signage (the cost of separately metering any utility usage shall also be paid for by Tenant). Upon the expiration of the Lease Term, or earlier termination of the Lease, Tenant shall be responsible for any and all costs associated with the removal of Tenant’s Monument Signage, including, but not limited to, the cost to repair and restore the Project to its original condition, normal wear and tear excepted.

Article 27 – Waiver. No waiver by Landlord or Tenant of any provision of this Lease shall be deemed to be a waiver of any other provision hereof or of any subsequent breach by such party of the same or any other provision. No provision of this Lease may be waived by Landlord or Tenant, except by an instrument in writing executed by the waiving party. Landlord’s consent to or approval of any act by Tenant requiring Landlord’s consent or approval shall not be deemed to render unnecessary the obtaining of Landlord’s consent to or approval of any subsequent act of Tenant, whether or not similar to the act so consented to or approved. No act or thing done by Landlord or Landlord’s agents during the Term of this Lease shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept such

surrender shall be valid unless in writing and signed by Landlord. The subsequent acceptance of rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent. Any payment by Tenant or receipt by Landlord of an amount less than the total amount then due hereunder shall be deemed to be in partial payment only thereof and not a waiver of the balance due or an accord and satisfaction, notwithstanding any statement or endorsement to the contrary on any check or any other instrument delivered concurrently therewith or in reference thereto. Accordingly, Landlord may accept any such amount and negotiate any such check without prejudice to Landlord's right to recover all balances due and owing and to pursue its other rights against Tenant under this Lease, regardless of whether Landlord makes any notation on such instrument of payment or otherwise notifies Tenant that such acceptance or negotiation is without prejudice to Landlord's rights.

Article 28 – Notices: Any notice required or permitted to be given hereunder shall be in writing and may be given by personal service evidenced by a signed receipt or sent by registered or certified mail, return receipt requested, or via overnight courier, and shall be effective upon proof of delivery, addressed to Tenant at the Premises or to Landlord at the address set forth in the Basic Lease Provisions. Either party may by notice to the other specify a different address for notice purposes. A copy of all notices to be given to Landlord hereunder shall be concurrently transmitted by Tenant to such party hereafter designated by notice from Landlord to Tenant.

Article 29 – Rules and Regulations: Tenant shall observe faithfully and comply strictly with the Rules and Regulations attached to this Lease as Exhibit "B" and made a part hereof, and such other reasonable, non-discriminatory Rules and Regulations as Landlord may from time to time reasonably adopt for the safety, care and cleanliness of the Project, the facilities thereof, or the preservation of good order therein. Landlord shall not be liable to Tenant for violation of any such Rules and Regulations, or for the breach of any covenant or condition in any lease by any other tenant in the Project. A waiver by Landlord of any Rule or Regulation for any other tenant shall not constitute nor be deemed a waiver of the Rule or Regulation for this Tenant. Landlord agrees not to discriminate against Tenant in Landlord's enforcement of the Rules and Regulations against Tenant and other tenants of the Project or Development. In the event of a conflict between the Rules and Regulations and the terms of this Lease, the terms of this Lease shall control.

Article 30 – Relocation: Intentionally Omitted.

Article 31: Miscellaneous:

31.1 Brokers. In connection with this Lease, Landlord warrants and represents that it has had dealings only with firms set forth in the Basic Lease Provisions and that it knows of no other person or entity who is or might be entitled to a commission, finder's fee or other like payment in connection herewith and does hereby indemnify and agree to hold Tenant harmless from and against any and all loss, liability and expenses that Tenant may incur should such warranty and representation prove incorrect, inaccurate or false. In connection with this Lease, Tenant warrants and represents that it has had dealings only with firms set forth in the Basic Lease Provisions and that it knows of no other person or entity who is or might be entitled to a commission, finder's fee or other like payment in connection herewith and does hereby indemnify and agree to hold Landlord and Landlord's agents, employees, affiliates and managers harmless from and against any and all loss, liability and expenses that Landlord may incur should such warranty and representation prove incorrect, inaccurate or false. No Broker shall be a third-party beneficiary under this Lease.

31.2 Severability; Entire agreement. Any provision of this Lease which shall prove to be invalid, void, or illegal shall in no way affect, impair or invalidate any other provision hereof and such other provisions shall remain in full force and effect. This Lease and the exhibits and any addendum attached hereto constitute the entire agreement between the parties hereto with regard to Tenant's occupancy or use of all or any portion of the project, and no prior agreement or understanding pertaining to any such matter shall be effective for any purpose. No provision of this Lease may be amended or supplemented except by an agreement in writing signed by the parties hereto or their successor in interest. The parties agree that any deletion of language from this Lease prior to its mutual execution by Landlord and Tenant shall not be construed to have any particular meaning or to raise any presumption, canon of construction or implication including, without limitation, any implication that the parties intended thereby to state the converse, obverse or opposite of the deleted language.

31.3 Attorneys' Fees. In any action to enforce the terms of this Lease, including any suit by Landlord for the recovery of rent or possession of the Premises, the losing party shall pay the successful party a reasonable sum for attorneys' fees and costs in such suit and such attorneys' fees and costs shall be deemed to have accrued prior to the commencement of such action and shall be paid whether or not such action is prosecuted to judgment. When legal services are rendered by an attorney at law who is an employee of a party, attorneys' fees and costs incurred by that party shall be deemed to include an amount

based upon the number of hours spent by such employee on such matters multiplied by an appropriate billing rate determined by taking into consideration the same factors, including but not limited by, the importance of the matter, time applied, difficulty and results, as are considered when an attorney not in the employ of a party is engaged to render such service.

31.4 Intentionally Omitted.

31.5 Time of Essence. Time is of the essence with respect to every provision of this Lease.

31.6 Joint and Several. The terms "Landlord" and "Tenant" as used herein shall include the plural as well as the singular, the neuter shall include the masculine and feminine genders and the obligations herein imposed upon Tenant shall be joint and several as to each of the persons, firms or corporations of which Tenant may be composed.

31.7 No Option. The submission of this Lease by landlord, its agent or representative for examination or execution by tenant does not constitute an option or offer to lease the Premises upon the terms and conditions contained herein or a reservation of the Premises in favor of Tenant, it being intended hereby that this Lease shall only become effective upon the execution hereof by Landlord and Tenant and delivery of a fully executed Lease to Tenant.

31.8 Use of Project Name: Improvements. Tenant shall not be allowed to use the name, picture or representation of the Project, or words to that effect, in connection with any business carried on in the Premises or otherwise (except as Tenant's address) without the prior written consent of Landlord. In the event that Landlord undertakes any additional improvements on the Real Property including but not limited to new construction or renovation or additions to the existing improvements, Landlord shall not be liable to Tenant for any noise, dust, vibration or interference with access to the Premises or disruption in Tenant's business caused thereby.

31.9 Quiet Possession. Upon Tenant's paying the Base Rent, Additional Rent and other sums provided hereunder and observing and performing all of the covenants, conditions and provisions on Tenant's part to be observed and performed hereunder, Tenant shall have quiet possession of the Premises for the entire Term hereof, subject to all of the provisions of this Lease.

31.10 Rent. All payments required to be made under this Lease to Landlord shall be deemed to be rent, whether or not described as such.

31.11 Successors and Assigns. Subject to the provisions of Article 10 of this Lease, all of the covenants, conditions and provisions of this Lease shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns.

31.12 Delinquent Payments. In the event that Tenant shall be delinquent in the payment of rent on two (2) separate occasions in any twelve (12) month period, Landlord shall have the right, without limiting any rights or remedies, to require that Tenant make all payments under this Lease by cashier's check, from a bank reasonably acceptable to Landlord.

31.13 Signing Authority. Tenant represents and warrants that each individual executing this Lease on behalf of Tenant is duly authorized to execute and deliver this Lease on behalf of Tenant in accordance with: (i) if Tenant is a corporation, a duly adopted resolution of the Board of Directors of said corporation or in accordance with the By-laws of said corporation, (ii) if Tenant is a partnership, the terms of the partnership agreement, and (iii) if Tenant is a limited liability company, the terms of its operating agreement, and that this Lease is binding upon said entity in accordance with its terms. Concurrently with Tenant's execution of this Lease, Tenant shall provide to Landlord a copy of: (i) if Tenant is a corporation, such resolution of the Board of Directors authorizing the execution of this Lease on behalf of such corporation, which copy of resolution shall be duly certified by the secretary or an assistant secretary of the corporation to be a true copy of a resolution duly adopted by the Board of Directors of said corporation and shall be in a form reasonably acceptable to Landlord, (ii) if Tenant is a partnership, a copy of the provisions of the partnership agreement granting the requisite authority to each individual executing this Lease on behalf of said partnership, and (iii) if Tenant is a limited liability company, a copy of the provisions of its operating agreement granting the requisite authority to each individual executing this Lease on behalf of said limited liability company.

31.14 Survival of Obligations. Any obligations of Tenant occurring prior to the expiration or earlier termination of this Lease shall survive such expiration or earlier termination.

31.15 Confidentiality. Tenant acknowledges that the content of this Lease and any related documents are confidential information. Tenant shall keep such confidential information strictly confidential and shall not disclose such confidential information to any person or entity other than Tenant's financial, legal and space planning consultants and any proposed Transferees.

31.16 Governing Law. This Lease shall be governed by and construed in accordance with the laws of the State of California. No conflicts of law rules of any state or country (including, without limitation, California conflicts of law rules) shall be applied to result in the application of any substantive or procedural laws of any state or country other than California. All controversies, claims, actions or causes of action arising between the parties hereto and/or their respective successors and assigns, shall be brought, heard and adjudicated by the courts of the State of California, with venue in the County of Los Angeles. Each of the parties hereto hereby consents to personal jurisdiction by the courts of the State of California in connection with any such controversy, claim, action or cause of action, and each of the parties hereto consents to service of process by any means authorized by California law and consent to the enforcement of any judgment so obtained in the courts of the State of California on the same terms and conditions as if such controversy, claim, action or cause of action had been originally heard and adjudicated to a final judgment in such courts. Each of the parties hereto further acknowledges that the laws and courts of California were freely and voluntarily chosen to govern this Lease and to adjudicate any claims or disputes hereunder.

31.17 Headings; Exhibits. The article headings contained in this Lease are for convenience only and do not in any way limit or amplify any term or provision hereof. The Exhibits attached hereto are incorporated herein by this reference as if fully set forth herein.

31.18 Covenants. This Lease shall be construed as though the covenants herein between Landlord and Tenant are independent (and not dependent) and Tenant hereby expressly waives the benefit of any statute to the contrary and agrees that if Landlord fails to perform its obligations set forth herein, Tenant shall not be entitled to make any repairs or perform any acts hereunder at Landlord's expense or to set off of any of the rent or other amounts owing hereunder against Landlord.

31.19 Counterparts. This Lease may be executed in counterparts, each of which shall be deemed an original, but such counterparts, when taken together, shall constitute one agreement.

31.20 Financial Statements. Tenant shall, when requested by Landlord from time to time, furnish a true and correct certified financial statement of its financial condition prepared in conformity with generally accepted accounting principles and in a form reasonably satisfactory to Landlord.

31.21 Good Faith and Reasonableness. Except (a) for matters for which there is a standard of consent or discretion specifically set forth in this Lease; (b) matters which could have an adverse effect on the Project structure or Project Systems, or which could affect the exterior appearance of the Project, (iii) matters covered by Article 4 (Additional Rent), Article 9 (Insurance), or Articles 17 or 18 (Defaults; Remedies) of this Lease (collectively, the "Excepted Matters"), any time the consent of Landlord or Tenant is required under this Lease, such consent shall not be unreasonably withheld, conditioned, or delayed.

Article 32: Satellite Dishes: Landlord hereby grants to Tenant the right to occupy a portion of the roof of the Project, as designated by Landlord in Landlord's sole and absolute discretion (hereinafter called the "Roof Premises") so that Tenant may install, use, operate and maintain up to two (2) satellite dishes (each, a "Dish"), and two (2) antennas (each, an "Antenna") during the Lease Term in accordance with the specifications reasonably approved in advance by Landlord. Notwithstanding anything to the contrary set forth in this Article 32, no Dish or Antenna, nor any work or act in connection with any Dish or Antenna, by or on behalf of Tenant may invalidate or otherwise affect the warranty relating to the roof, unless otherwise specified by Landlord in writing in its sole and absolute discretion. No Dish or Antenna shall exceed sixteen (16) inches in height or diameter, and each Dish and Antenna shall have commercially reasonable specifications commonly found in satellite dishes and antennas of tenants at comparable buildings in the general vicinity of the Project and shall be in accordance with the additional following conditions.

Each Dish and Antenna shall be installed, used, operated and maintained solely on the Rooftop Premises and solely at the expense of Tenant. Tenant shall perform the erection and installation of each Dish and Antenna in accordance with an installation program reasonably approved and supervised by Landlord or Landlord's contractor, and Tenant shall neither bring any Dish or Antenna nor any associated equipment to the Premises or Rooftop Premises without first giving Landlord fifteen (15) business days' prior written notice of the date and time of the planned installation. Each Dish and Antenna shall in all cases be installed, used, operated, maintained and removed in compliance with the following requirements (all as determined by Landlord in its sole and absolute discretion): (i) no Dish or Antenna shall interfere in any way with the Project's existing engineering, window washing or other maintenance functions or duties; (ii) each Dish and Antenna must be properly secured and installed so as not to be affected by high winds or other weather elements; (iii) each Dish and Antenna must be properly grounded; (iv) the weight of each Dish and Antenna shall not exceed the load limits of the Project; and (v) in no event shall any Dish or Antenna or any appurtenant wiring or cable interfere with or otherwise affect the roof, structure, electrical, mechanical, structural, life safety or other building systems of the Project. Tenant shall bear all costs and expenses in connection with the installation, use, operation,

maintenance and removal of each Dish and Antenna, including all costs relating to the repair of any damage to the roof or other parts of the Project caused directly or indirectly by any such installation, use, operation, maintenance or removal, including, without limitation, water damage or other damage resulting from weather elements.

The installation of the each Dish and Antenna, excluding any necessary penetration of the roof of the Project, shall be performed by Tenant's contractor, as approved by Landlord, and at Tenant's expense (or, at Landlord's option, by Landlord's contractor, at Tenant's expense), provided such installation is of a nonpenetrating surface mount only. Tenant may not install any Dish or Antenna in a manner which penetrates the roof membrane of the Project, without Landlord's prior written consent, which consent may be withheld in Landlord's sole and absolute discretion. Without limiting Tenant's other obligations, Tenant shall reimburse Landlord for all reasonable costs associated with obtaining confirmation that Landlord's roof warranty will not be affected by any penetration. All work done in connection with any permitted roof penetration shall be performed by Landlord or Landlord's agent at Tenant's sole cost and expense. The installation of each Dish and Antenna shall not damage the Project or existing structures thereon or detract from the aesthetics or physical attractiveness of Project, as determined by Landlord in its sole and absolute discretion. Landlord may obtain the services of a structural engineer to design any additional supports required to support any Dish, or Antenna, and to monitor the installation thereof, and Tenant shall reimburse Landlord, within thirty (30) days after receipt by Tenant of an invoice, and Tenant's receipt of reasonable supporting documentation, for Landlord's actual and reasonable the cost of such services and such supports. If required by Landlord, Tenant shall install all screening required by Landlord such that no Dish or Antenna shall be visible from any portion of the ground constituting the common areas of the Project. Or Development Each Dish and Antenna shall remain the personal property of Tenant and shall be removed by Tenant prior to the expiration or earlier termination of the Lease, and Tenant shall repair any damage caused by the removal of each Dish and Antenna and its associated wiring, cables and other components.

Tenant may, at Tenant's own cost and expense, upon reasonable prior written notice to Landlord, and only when accompanied by a representative of Landlord, access the Rooftop Premises to repair or remove a Dish or Antenna or any portion thereof, provided that all plans and designs of Tenant relating to the same be subject to the prior written approval of Landlord, not to be unreasonably withheld.

Tenant hereby agrees that the Rooftop Premises shall be taken "as is", "with all faults", without any representations and warranties, and Tenant hereby agrees and warrants that it has investigated and inspected the condition of the Rooftop Premises and the suitability of same for Tenant's purposes. Tenant, at Tenant's sole cost and expense, will, at all times in connection with the installation, use, operation and maintenance of each Dish and Antenna, comply with all governmental laws, rules and regulations affecting the installation, use, operation and maintenance of each Dish and Antenna, including, without limitation, applicable building and fire codes, and will comply with all requirements of the Federal Aviation Administration and Federal Communications Commission and matters of record in respect thereof. Tenant, at Tenant's sole cost and expense, shall be obligated to secure and obtain and provide Landlord with copies of all required permits, approvals and licenses for or with respect to the installation or operation of each Dish and Antenna prior to the commencement of any installation activities hereunder, and Tenant shall be obligated to keep in full force and effect and renew, as applicable, all required permits, approvals and licenses required hereunder. The use of each Dish and Antenna by Tenant will be such as to not cause any interference (as defined by the engineering standards of the Federal Communications Commission) with communication receptions presently or hereafter located at or about the Project and belonging to or operated by any parties to whom Landlord has granted rights, and Tenant will cooperate with Landlord with respect to any rights that Landlord hereafter may grant, similar to those granted by this Article 32.

During the entire period that any Dish or Antenna is situated in the Rooftop Premises, Tenant agrees to maintain comprehensive general public liability insurance against all claims for bodily injury, death and property damage occurring in the area surrounding or in any way related to each Dish and Antenna in the amounts and in accordance with the terms set forth in this Lease and as otherwise reasonably designated by Landlord; Tenant shall ensure that all insurance policies shall name Landlord and any other party designated by Landlord as an additional insureds. Tenant shall pay for the cost of any additional insurance incurred by Landlord or the increase in any premiums on insurance maintained by Landlord arising by reason of the erection or installation and maintenance of any Dish or Antenna.

Tenant expressly agrees that the terms and conditions of Section 11.3 of this Lease shall also apply to the Rooftop Premises. Additionally, Tenant agrees that, in addition to the terms and conditions of this Article 32, all of Tenant's obligations and restrictions (but not rights) contained in the Lease shall also apply to each Dish and Antenna and the Rooftop Premises. The cost to operate, if any, Tenant's Signage shall be paid for by Tenant, and Tenant shall be separately metered for such expense (the cost of separately metering any utility usage shall also be paid for by Tenant). All damage to the Project relating to any Dish or Antenna or Rooftop Premises shall be paid for by Tenant to Landlord within thirty (30) days after demand.

Article 33: Right of First Offer: Landlord hereby grants to Tenant a continuing right of first offer with respect to that space on the second floor of the Project outlined on Exhibit "A-1" attached hereto and made a part hereof ("First Offer Space"). Notwithstanding the foregoing, (i) such first offer right of Tenant shall commence only following the expiration or earlier termination of (A) any existing lease pertaining to the First Offer Space, and (B) as to any First Offer Space which is vacant as of the date of this Lease, the first lease pertaining to any portion of such First Offer Space entered into by Landlord after the date of this Lease (collectively, the "Superior Leases"), including any renewal of such existing or future lease, whether or not such renewal is pursuant to an express written provision in such lease, and regardless of whether any such renewal is consummated pursuant to a lease amendment or a new lease, (ii) such first offer right shall be subordinate and secondary to all rights of expansion, first refusal, first offer or similar rights granted to (A) the tenants of the Superior Leases, and (B) any other tenant of the Project or Development as of the date hereof (the rights described in items (i) and (ii), above to be known collectively as "Superior Rights"). Tenant's right of first offer shall be on the terms and conditions set forth in this Article 33.

33.1 Procedure for Offer. Landlord shall notify Tenant ("First Offer Notice") from time to time when Landlord determines that Landlord shall commence the marketing of any First Offer Space because such space shall become available for lease to third parties, where no holder of a Superior Right desires to lease such space. The First Offer Notice shall describe the space so offered to Tenant and shall set forth Landlord's proposed material economic terms and conditions applicable to Tenant's lease of such space (collectively, the "Economic Terms"). Notwithstanding the foregoing, Landlord's obligation to deliver the First Offer Notice shall not apply during the last nine (9) months of the then Lease Term.

33.2 Procedure for Acceptance. If Tenant wishes to exercise Tenant's right of first offer with respect to the space described in the First Offer Notice, then within fifteen (15) business days after delivery of the First Offer Notice to Tenant, Tenant shall deliver an unconditional irrevocable written notice to Landlord of Tenant's exercise of its right of first offer with respect to the entire space described in the First Offer Notice, and the Economic Terms shall be as set forth in the First Offer Notice. If Tenant does not unconditionally exercise its right of first offer within the fifteen (15) business day period, then Landlord shall be free to lease the space described in the First Offer Notice to anyone to whom Landlord desires on any terms Landlord desires and Tenant's right of first offer shall terminate as to the First Offer Space described in the First Offer Notice. Notwithstanding anything to the contrary contained herein, Tenant must elect to exercise its right of first offer, if at all, with respect to all of the space offered by Landlord to Tenant at any particular time, and Tenant may not elect to lease only a portion thereof.

33.3 Construction of First Offer Space. Except to the extent otherwise set forth in Landlord's Economic Terms, Tenant shall take the First Offer Space in its "as-is" condition, and Tenant shall be entitled to construct improvements in the First Offer Space in accordance with the provisions of Article 11 of this Lease.

33.4 Lease of First Offer Space. If Tenant timely and properly exercises Tenant's right to lease the First Offer Space as set forth herein, Landlord and Tenant shall execute an amendment adding such First Offer Space to this Lease upon the same non-economic terms and conditions as applicable to the initial Premises, and upon Landlord's Economic Terms. Unless otherwise specified in Landlord's Economic Terms, Tenant shall commence payment of rent for the First Offer Space and the Lease Term of the First Offer Space shall commence upon the date of delivery of such space to Tenant. The Lease Term for the First Offer Space shall expire co terminously with Tenant's lease of the initial Premises, unless otherwise specified in Landlord's Economic Terms.

33.5 No Defaults. The rights contained in this Article 33 shall be personal to the Original Tenant, and may only be exercised by the Original Tenant (and not any assignee, sublessee or other transferee of the Original Tenant's interest in this Lease) if Original Tenant occupies the entire Premises as of the date of the First Offer Notice. Tenant shall not have the right to lease First Offer Space as provided in this Article 33 if, as of the date of the First Offer Notice, or, at Landlord's option, as of the scheduled date of delivery of such First Offer Space to Tenant, Tenant is in default under this Lease beyond any applicable notice and cure periods.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have executed this Lease, consisting of the foregoing provisions and Articles, including all exhibits and other attachments referenced therein, as of the date first above written.

“LANDLORD”

CROWN CARNEGIE ASSOCIATES, LLC,
a Delaware limited liability company

By: Crown CCA, LLC, a California limited liability company
Its: Managing Member

By: _____
Robert A Flaxman
Its: Member

“TENANT”

ITERIS, INC.,
a Delaware corporation

By: _____

Name: _____

Its: CEO

By: _____

Name: _____

Its: CFO

EXHIBIT "A"

PREMISES

Suite 100

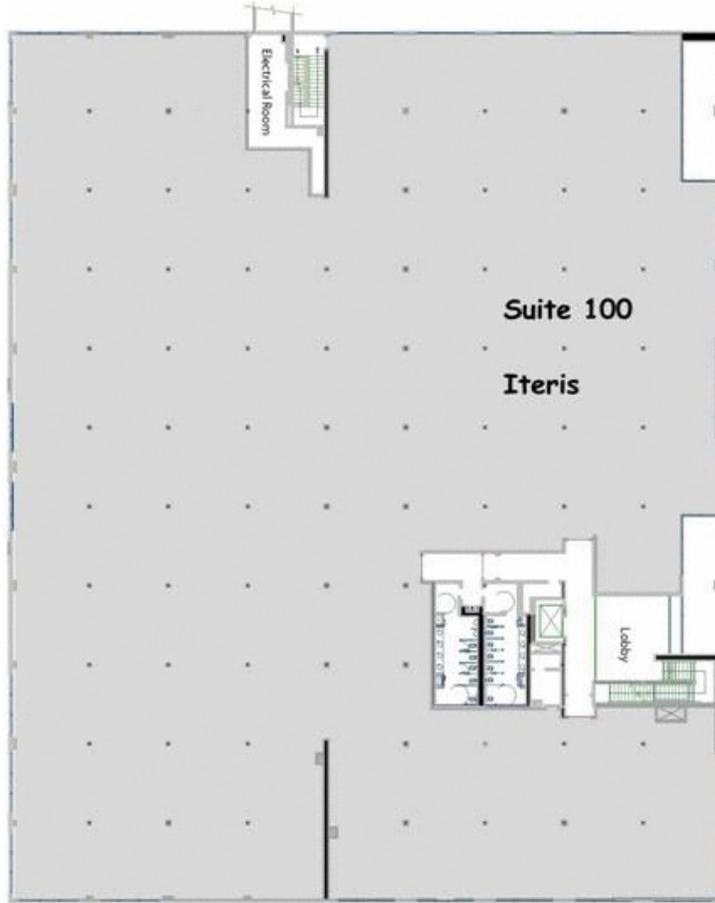


EXHIBIT "A"

PREMISES

Suite 200

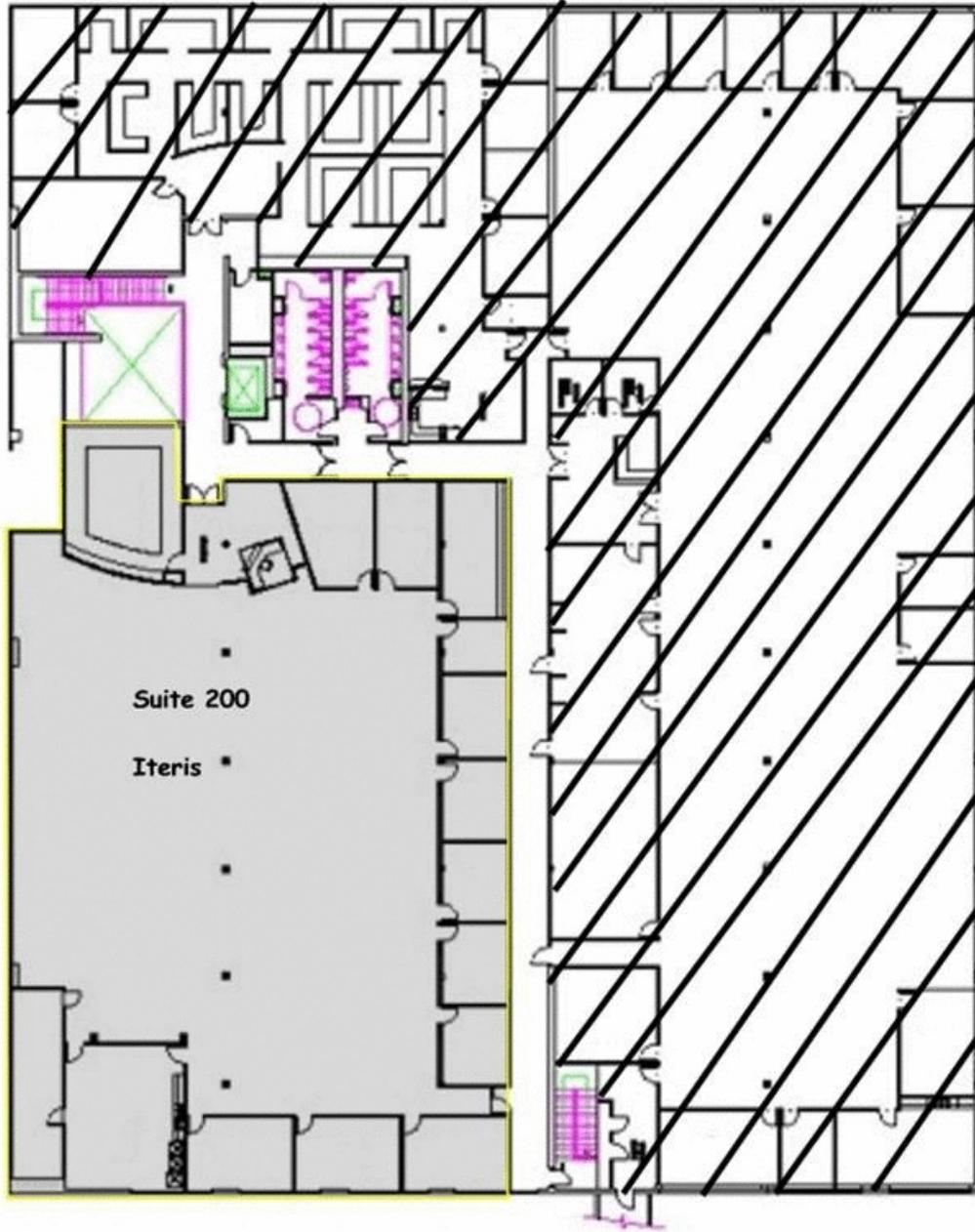


EXHIBIT "A-1"

FIRST OFFER SPACE

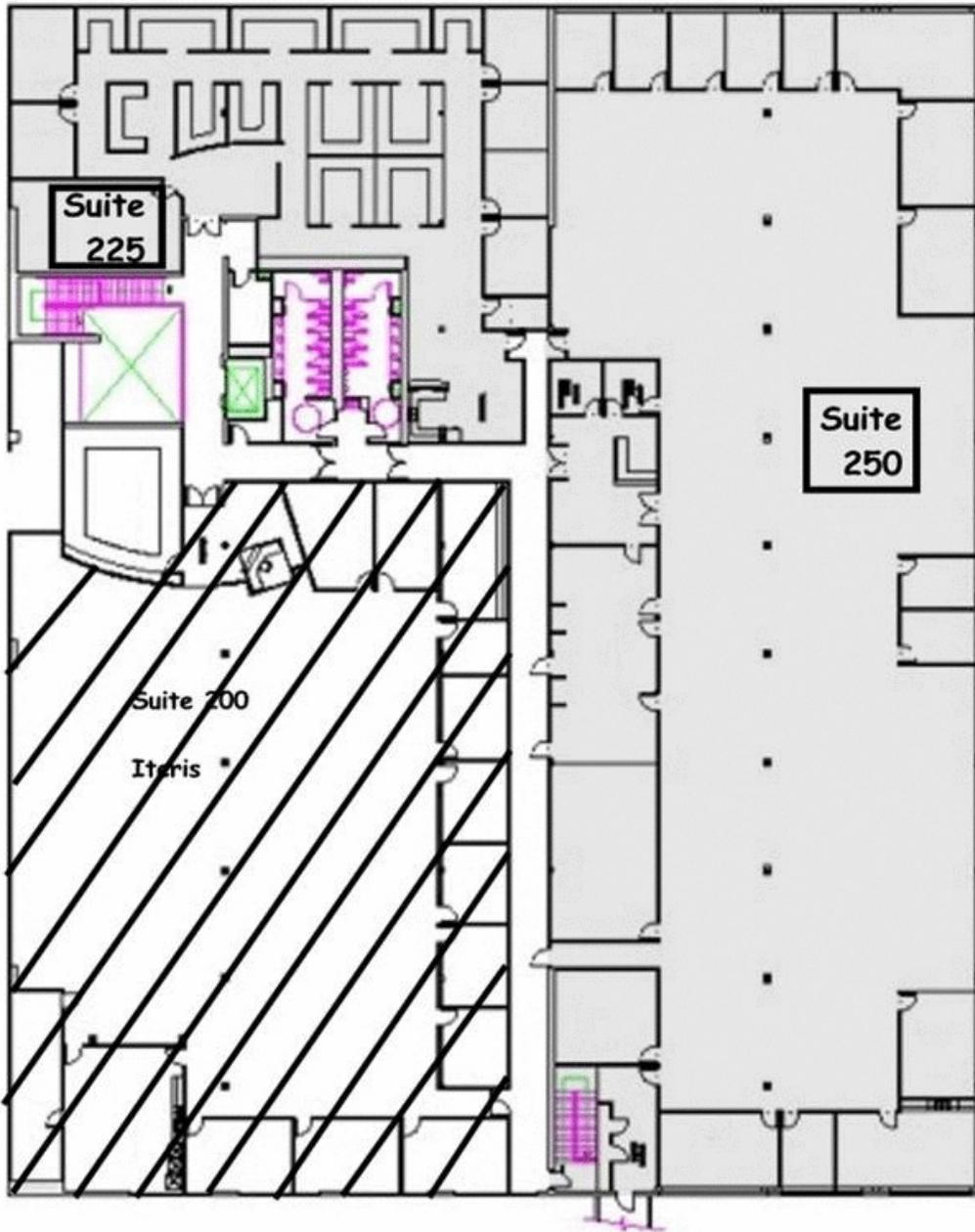


EXHIBIT "A-2"

PATIO AREA

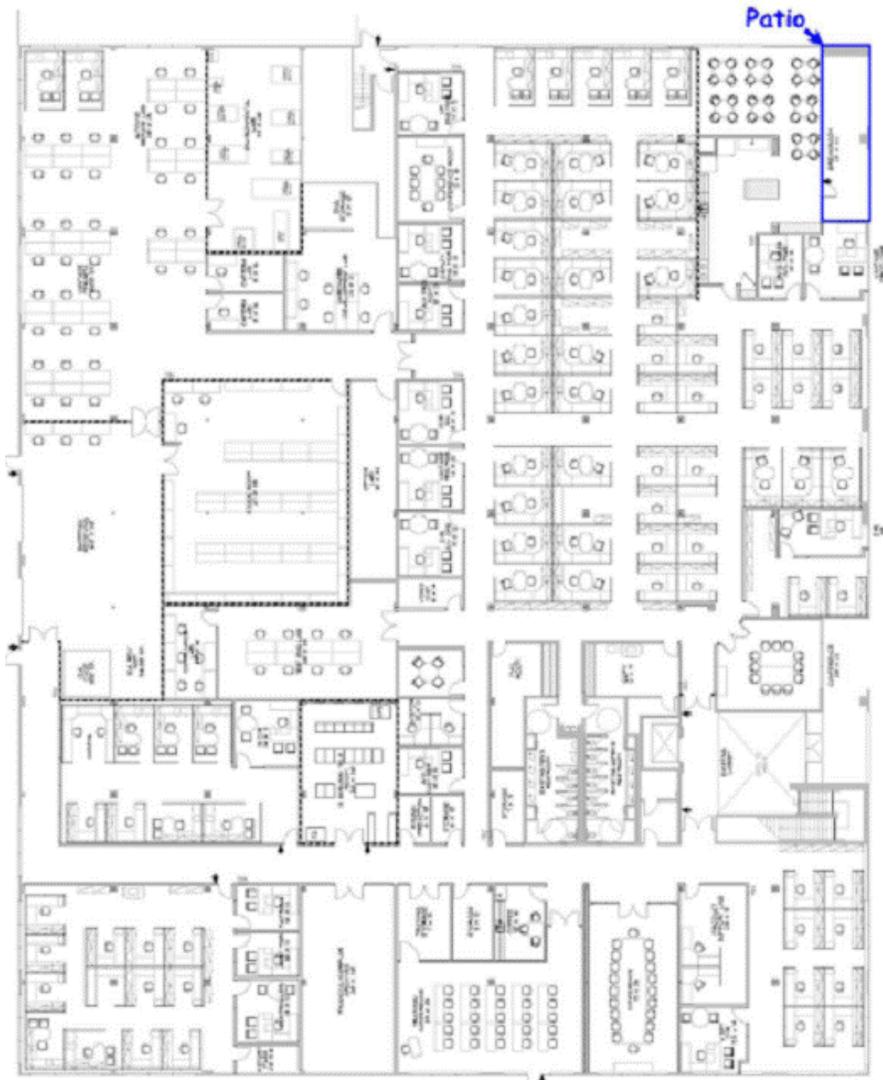


EXHIBIT "A-2"

PATIO AREA



EXHIBIT "B"

RULES AND REGULATIONS

1. No sign, advertisement or notice shall be displayed, printed or affixed on or to the Premises or to the outside or inside of the Project or so as to be visible from outside the Premises or Project without Landlord's prior written consent. Landlord shall have the right to remove any non-approved sign, advertisement or notice, without notice to and at the expense of Tenant, and Landlord shall not be liable in damages for such removal. All approved signs or lettering on doors and walls shall be printed, painted, affixed or inscribed at the expense of Tenant by Landlord or by a person selected by Landlord and in a manner and style acceptable to Landlord.

2. Tenant shall not obtain for use on the Premises ice, waxing, cleaning, interior glass polishing, rubbish removal, towel or other similar services, or accept barbering or bootblackening, or coffee cart services, milk, soft drinks or other like services on the Premises, except from persons authorized by Landlord and at the hours and under regulations fixed by Landlord. No vending machines or machines of any description shall be installed, maintained or operated upon the Premises without Landlord's prior written consent.

3. The sidewalks, halls, passages, exits, entrances, elevators and stairways shall not be obstructed by Tenant or used for any purpose other than for ingress and egress from Tenant's Premises. Under no circumstances is trash to be stored in the corridors. Furniture, freight and other large or heavy articles, and all other deliveries may be brought into the Project at reasonable times, and always at Tenant's sole responsibility and risk. All damage done to the Project by moving or maintaining such furniture, freight or articles shall be repaired by Landlord at Tenant's expense. Tenant shall not take or permit to be taken in or out of entrances or passenger elevators of the Project, any item normally taken, or which Landlord otherwise reasonably requires to be taken, in or out through service doors or on freight elevators. Tenant shall move all supplies, furniture and equipment as soon as received directly to the Premises, and shall move all waste that is at any time being taken from the Premises directly to the areas designated for disposal.

4. Toilet rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein.

5. Tenant shall not overload the floor of the Premises or mark, drive nails, screw or drill into the partitions, ceilings or floor or in any way deface the Premises with the exception of commercially reasonable and customary cosmetic actions (such as hanging pictures) taken by other tenants in the general market area. Tenant shall not place typed, handwritten or computer generated signs in the corridors or any other common areas. Should there be a need for signage additional to the Project standard tenant placard, a written request shall be made to Landlord to obtain approval prior to any installation. All costs for said signage shall be Tenant's responsibility.

6. In no event shall Tenant place a load upon any floor of the Premises or portion of any such flooring exceeding the floor load per square foot of area for which such floor is designed to carry and which is allowed by law, or any machinery or equipment which shall cause excessive vibration to the Premises or noticeable vibration to any other part of the Project. Prior to bringing any heavy safes, vaults, large computers or similarly heavy equipment into the Project, Tenant shall inform Landlord in writing of the dimensions and weights thereof and shall obtain Landlord's consent thereto. Such consent shall not constitute a representation or warranty by Landlord that the safe, vault or other equipment complies, with regard to distribution of weight and/or vibration, with the provisions of this Rule 6 nor relieve Tenant from responsibility for the consequences of such noncompliance, and any such safe, vault or other equipment which Landlord determines to constitute a danger of damage to the Project or a nuisance to other tenants, either alone or in combination with other heavy and/or vibrating objects and equipment, shall be promptly removed by Tenant, at Tenant's cost, upon Landlord's written notice of such determination and demand for removal thereof.

7. Tenant shall not, with the exception of small amounts of alcohol and adhesives under Section 14.1 of the Lease, use or keep in the Premises or Project any kerosene, gasoline or inflammable, explosive or combustible fluid or material, or use any method of heating or air-conditioning other than that supplied by Landlord.

8. Tenant shall not lay linoleum, tile, carpet or other similar floor covering so that the same shall be affixed to the floor of the Premises in any manner except as approved by Landlord.

9. Tenant shall not install or use any blinds, shades, awnings or screens in connection with any window or door of the Premises and shall not use any drape or window covering facing any exterior glass surface other than the standard drapes, blinds or other window covering established by Landlord.

10. Tenant shall cooperate with Landlord in obtaining maximum effectiveness of the cooling system by closing window coverings when the sun's rays fall directly on windows of the Premises. Tenant shall not obstruct, alter, or in any way impair the efficient operation of Landlord's heating, ventilating and air-conditioning system. Tenant shall not tamper with or change the setting of any thermostats or control valves.

11. The Premises shall not be used for manufacturing or for the storage of merchandise except as such storage may be incidental to the permitted use of the Premises. Tenant shall not, without Landlord's prior written consent, occupy or permit any portion of the Premises to be occupied or used for the manufacture or sale of liquor or tobacco in any form, or a barber or manicure shop, or as an employment bureau. The Premises shall not be used for lodging or sleeping or for any improper, objectionable or immoral purpose. No auction shall be conducted on the Premises.

12. Tenant shall not make, or permit to be made, any unseemly or disturbing noises, or disturb or interfere with occupants of Project or neighboring buildings or premises or those having business with it by the use of any musical instrument, radio, phonographs or unusual noise, or in any other way.

13. No bicycles, vehicles or animals of any kind shall be brought into or kept in or about the Premises, and no cooking shall be done or permitted by any tenant in the Premises, except that the preparation of coffee, tea, hot chocolate and similar items for tenants, their employees and visitors shall be permitted. No tenant shall cause or permit any unusual or objectionable odors to be produced in or permeate from or throughout the Premises. The foregoing notwithstanding, Tenant shall have the right to use a microwave and to heat microwavable items typically heated in an office. No hot plates, toasters, toaster ovens or similar open element cooking apparatus shall be permitted in the Premises.

14. The sashes, sash doors, skylights, windows and doors that reflect or admit light and air into the halls, passageways or other public places in the Project shall not be covered or obstructed by any tenant, nor shall any bottles, parcels or other articles be placed on the window sills.

15. No additional locks or bolts of any kind shall be placed upon any of the doors or windows by any tenant, nor shall any changes be made in existing locks or the mechanisms thereof unless Landlord is first notified thereof, gives written approval, and is furnished a key therefor. Each tenant must, upon the termination of his tenancy, give to Landlord all keys and key cards of stores, offices, or toilets or toilet rooms, either furnished to, or otherwise procured by, such tenant, and in the event of the loss of any keys so furnished, such tenant shall pay Landlord the cost of replacing the same or of changing the lock or locks opened by such lost key if Landlord shall deem it necessary to make such change. If more than two keys for one lock are desired, Landlord will provide them upon payment therefor by Tenant. Tenant shall not key or re-key any locks. All locks shall be keyed by Landlord's locksmith only.

16. Landlord shall have the right to prohibit any advertising by any tenant which, in Landlord's opinion, tends to impair the reputation of the Project or its desirability as an office building and upon written notice from Landlord any tenant shall refrain from and discontinue such advertising.

17. Landlord reserves the right to control access to the Project by all persons after reasonable hours of generally recognized business days and at all hours on Sundays and legal holidays and may at all times control access to the equipment areas of the Project outside the Premises. Each tenant shall be responsible for all persons for whom it requests after hours access and shall be liable to Landlord for all acts of such persons. Landlord shall have the right from time to time to establish reasonable rules and charges pertaining to freight elevator usage, including the allocation and reservation of such usage for tenants' initial move-in to their premises, and final departure therefrom. Landlord may also establish from time to time reasonable rules and charges for accessing the equipment areas of the Project, including the risers, rooftops and telephone closets.

18. Any person employed by any tenant to do janitorial work shall, while in the Project and outside of the Premises, be subject to and under the control and direction of the Office of the Project or its designated representative such as security personnel (but not as an agent or servant of Landlord, and the Tenant shall be responsible for all acts of such persons).

19. All doors opening on to public corridors shall be kept closed, except when being used for ingress and egress. Tenant shall cooperate and comply with any reasonable safety or security programs, including fire drills and air raid drills, and the appointment of "fire wardens" developed by Landlord for

the Project, or required by law. Before leaving the Premises unattended, Tenant shall close and securely lock all doors or other means of entry to the Premises and shut off all lights and water faucets in the Premises.

20. The requirements of tenants will be attended to only upon application to the Office of the Project.

21. Canvassing, soliciting and peddling in the Project are prohibited and each tenant shall cooperate to prevent the same.

22. All office equipment of any electrical or mechanical nature shall be placed by tenants in the Premises in settings approved by Landlord, to absorb or prevent any vibration, noise or annoyance.

23. No air-conditioning unit or other similar apparatus shall be installed or used by any tenant without the prior written consent of Landlord. Tenant shall pay the cost of all electricity used for air-conditioning in the Premises if such electrical consumption exceeds normal office requirements, regardless of whether additional apparatus is installed pursuant to the preceding sentence.

24. There shall not be used in any space, or in the public halls of the Project, either by any tenant or others, any hand trucks except those equipped with rubber tires and side guards.

25. Parking.

(a) Project parking facility hours shall be as determined from time to time by Landlord.

(b) Automobiles must be parked entirely within the stall lines on the floor.

(c) All directional signs and arrows must be observed.

(d) The speed limit shall be 5 miles per hour.

(e) Parking is prohibited in areas not striped for parking.

(f) Landlord (and its operator) may refuse to permit any person who violates the within rules to park in the Project parking facility, and any violation of the rules shall subject the automobile to removal from the Project parking facility at the parker's expense. In either of said events, Landlord (or its operator) shall refund a prorata portion of the current monthly parking rate and the sticker or any other form of identification supplied by Landlord (or its operator) will be returned to Landlord (or its operator).

(g) Project parking facility managers or attendants are not authorized to make or allow any exceptions to these Rules and Regulations.

(h) All responsibility for any loss or damage to automobiles or any personal property therein is assumed by the parker.

(i) Loss or theft of parking identification devices from automobiles must be reported to the Project parking facility manager immediately, and a lost or stolen report must be filed by the parker at that time.

(j) The parking facilities are for the sole purpose of parking one automobile per space. Washing, waxing, cleaning or servicing of any vehicles by the parker or his agents is prohibited.

(k) Landlord (and its operator) reserves the right to refuse the issuance of monthly stickers or other parking identification devices to any Tenant and/or its employees who refuse to comply with the above Rules and Regulations and all City, State or Federal ordinances, laws or agreements.

(l) Tenant agrees to acquaint all employees with these Rules and Regulations.

(m) No vehicle shall be stored in the Project parking facility for a period of more than one (1) week.

27. The Project is a non-smoking Project. Smoking or carrying lighted cigars or cigarettes in the Premises or the Project, including the elevators in the Project, is prohibited.

EXHIBIT "C"

**NOTICE OF LEASE TERM DATES
AND TENANT'S PROPORTIONATE SHARE**

TO: _____ DATE: _____

RE: Lease dated _____, 200____, between _____ ("Landlord"), and _____ ("Tenant"), concerning Suite _____, located at _____.

Ladies and Gentlemen:

In accordance with the Lease, Landlord wishes to advise and/or confirm the following:

1. That the Premises have been accepted herewith by the Tenant as being substantially complete in accordance with the Lease and that there is no deficiency in construction.
2. That the Tenant has taken possession of the Premises and acknowledges that under the provisions of the Lease the Term of said Lease shall commence as of _____ for a term of _____ ending on _____.
3. That in accordance with the Lease, Base Rent commenced to accrue on _____.
4. If the Commencement Date of the Lease is other than the first day of the month, the first billing will contain a prorata adjustment. Each billing thereafter shall be for the full amount of the monthly installment as provided for in said Lease.
5. Rent is due and payable in advance on the first day of each and every month during the Term of said Lease. Your rent checks should be made payable to _____ at _____.
6. The exact number of rentable square feet within the Premises is _____ square feet.
7. Tenant's Proportionate Share, as adjusted based upon the exact number of rentable square feet within the Premises is _____ %.
8. The Monthly Amortized Additional Allowance, if any, and the Monthly Amortized HVAC Costs, are as follows: _____.

AGREED AND ACCEPTED:

TENANT:

a _____
By: _____
Its: _____

EXHIBIT "D"

TENANT WORK LETTER

ITERIS, INC.

This Tenant Work Letter shall set forth the terms and conditions relating to the construction of the Premises. This Tenant Work Letter is essentially organized chronologically and addresses the issues of the construction of the tenant improvements in the Premises, in sequence, as such issues will arise during the actual construction of the Premises.

SECTION 1

BASE BUILDING

Landlord has constructed, at its sole cost and expense, the base, shell and core (i) of the Premises, and (ii) of the floor of the Project on which the Premises is located (collectively, the "**Base, Shell and Core**"). Tenant hereby approves (subject to Landlord's obligations expressly set forth in the Lease) the condition of the Base, Shell and Core, and agrees that the Base, Shell and Core shall be delivered to Tenant in its current "as-is" condition. The improvements to be initially installed in the Premises shall be designed and constructed by Tenant pursuant to this Tenant Work Letter. Any costs of initial design and construction of any improvements to the Premises shall be an "Improvement Allowance Item", as that term is defined in Section 2.2 of this Tenant Work Letter. In connection with Tenant's construction of the Tenant Improvements hereunder, Tenant shall not be obligated to remedy any ADA violations existing as of the date of this Lease in the common areas of the Base, Shell and Core on the 2nd floor of the Project under this Tenant Work Letter.

SECTION 2

TENANT IMPROVEMENTS

2.1 **Tenant Improvement Allowance.**

2.1.1 **Allowance.** Tenant shall be entitled to a one-time improvement allowance (the "**Tenant Improvement Allowance**") in the amount of One Million Seven Hundred Seventy-One Thousand Nine Hundred Fifty Dollars (\$1,771,950.00) (based on \$37.50 per usable square foot of the Premises) for the costs relating to the initial design and construction of Tenant's improvements which are permanently affixed to the Premises (the "**Tenant Improvements**"). At Tenant's request, and subject to the terms of this Tenant Work Letter (including, without limitation, Tenant's obligation to pay to Landlord the Monthly Amortized Additional Allowance), Tenant shall be entitled to an additional one-time tenant improvement allowance ("**Additional Allowance**") of up to Two Hundred Thirty-Six Thousand Two Hundred Sixty Dollars (\$236,260.00) (based on \$5.00 per usable square foot of the Premises) over and above the above stated Tenant Improvement Allowance to pay for that portion of the costs relating to the initial design and construction of the Tenant Improvements, if any, that exceeds the above-stated initial Tenant Improvement Allowance. Subject to Tenant's payment obligations herein, the Additional Allowance shall be part of the Tenant Improvement Allowance under this Exhibit "D". In no event shall Landlord be obligated to make disbursements (or otherwise be obligated) pursuant to this Tenant Work Letter in a total amount which exceeds the Tenant Improvement Allowance and in no event shall Tenant be entitled to any credit for any unused portion of the Tenant Improvement Allowance not used by Tenant by the date that is twelve (12) months after the date of this Lease.

2.1.2 **Additional Allowance.** Notwithstanding anything to the contrary set forth in this Lease, Tenant agrees to reimburse Landlord for the Additional Allowance as follows: concurrently with its payments to Landlord of monthly Base Rent (but without regard to any abatement or credit of Base Rent), and, at Landlord's option, as additional Base Rent, Tenant shall pay to Landlord an amount equal to the Monthly Amortized Additional Allowance (defined below). The term "Monthly Amortized Additional Allowance" shall mean the Additional Allowance, amortized over the initial Lease Term on a monthly basis (as reasonably determined by Landlord), with interest accruing on such Additional Allowance at nine percent (9%) per annum. If the Lease shall be cancelled or terminated for any reason prior to the expiration of the initial Lease Term (other than any permitted termination of the Lease by Tenant as a result of Landlord default), the unamortized Additional Allowance shall become immediately due and payable by Tenant to Landlord.

2.1.3 **HVAC Work.** Additionally, during the construction of the Tenant Improvements, using the same Engineer(s) designated by Landlord under Section 3.1 below, Tenant shall cause the existing HVAC units in and/or otherwise serving the Premises to be replaced with new comparable HVAC units (collectively, the "HVAC Units"). The definition of HVAC Units shall include purchase, design, engineering and installation of package units, heat pumps and compressors, but shall

not include returns, ductwork or looping, which shall be at Tenant's sole cost. The Tenant Improvement Allowance shall not be used for the HVAC Units or Approved HVAC Costs (as defined below); provided, however, with respect to any Approved HVAC Costs, Landlord shall pay for the same (subject to reimbursement by Tenant hereunder) in the same manner as that for disbursement of the Tenant Improvement Allowance hereunder. The contractor for the HVAC Units (and work under this paragraph), shall be subject to the prior written approval of Landlord, which approval shall not be unreasonably withheld. All plans and specifications for the HVAC Units (and/or any other matters under this paragraph), the scope of work relating to the HVAC Units (and/or otherwise under this paragraph), and all costs and expenses relating to the HVAC Units (and/or otherwise under this paragraph), shall be subject to the prior written consent of Landlord. The term "Approved HVAC Costs" is defined as the costs of the HVAC Units approved by Landlord in writing in accordance with the terms hereof. Notwithstanding anything to the contrary, the Approved HVAC Costs (or portion thereof, if applicable) shall be reimbursed by Tenant to Landlord as follows: during the entire Lease Term (including any extensions/renewals thereof under the Lease), concurrently with its payments to Landlord of monthly Base Rent (but without regard to any abatement or credit of Base Rent), and, at Landlord's option, as additional Base Rent, Tenant shall pay to Landlord an amount equal to the Monthly Amortized HVAC Costs (as defined below). The term "Monthly Amortized HVAC Costs" shall mean the Approved HVAC Costs, amortized over a twenty (20) year period (commencing on the Commencement Date), with zero interest accruing on such Approved HVAC Costs. If the Lease shall be cancelled or terminated for any reason (other than any permitted termination of the Lease by Tenant as a result of Landlord default) prior to the expiration of the Lease Term, the unamortized HVAC Costs that would have been payable by Tenant hereunder shall become immediately due and payable by Tenant to Landlord. If the then known amount of Approved HVAC Costs changes after Tenant's payment of any Monthly Amortized HVAC Costs hereunder, then Landlord shall make the appropriate equitable adjustments under this paragraph, and the parties shall make the appropriate payments to one another as a result thereof within thirty (30) days after any such adjustment by Landlord. The degree of completion of the HVAC Units (and/or work under this paragraph) shall not be considered in determining whether Substantial Completion has occurred.

2.2 Disbursement of the Tenant Improvement Allowance

2.2.1 Tenant Improvement Allowance Items. Except as otherwise set forth in this Tenant Work Letter, the Tenant Improvement Allowance shall be disbursed by Landlord (each of which disbursements shall be made pursuant to Landlord's disbursement process) for costs related to the construction of the Tenant Improvements and for the following items and costs (collectively, the "**Improvement Allowance Items**"): (i) payment of the fees of the "Architect" and the "Engineers," as those terms are defined in Section 3.1 of this Tenant Work Letter, and payment of the fees incurred by, and the cost of documents and materials supplied by, Landlord and Landlord's consultants in connection with the preparation and review of the "Construction Drawings," as that term is defined in Section 3.1 of this Tenant Work Letter; (ii) the cost of permits; (iii) the cost of any changes in the Base, Shell and Core required by the Construction Drawings; (iv) the cost of any changes to the Construction Drawings or Tenant Improvements required by applicable building codes (the "**Code**"); (v) payment to Landlord of a construction coordination fee in an amount equal to the product of (A) one percent (1%), and (B) an amount equal to the Tenant Improvement Allowance (including, without limitation, the Additional Allowance), plus the Over-Allowance Amount (as such Over-Allowance Amount may increase pursuant to the terms of this Tenant Work Letter), other than the portion of the Tenant Improvement Allowance, if any, which is used (not to exceed the caps set forth below) for the Personal Items (as defined in this paragraph below) pursuant to the provisions below; (vi) space planning, project management, programming, pricing drawings, construction drawings, electrical/mechanical/plumbing/engineering drawings, City permits, approval fees, construction administration, construction; (vii) the cost of purchasing and installing Tenant's intrabuilding cabling and wiring; (viii) Tenant's furniture fixtures and equipment (subject to Landlord's receipt of itemized invoices for the same); and (ix) to the extent not exhausted in connection with the foregoing items (but subject to the final sentence of this paragraph), as a one-time credit against monthly Base Rent first due under the Lease after the final Commencement Date, as applicable. However, in no event shall more than Four and 00/100 Dollars (\$4.00) per usable square foot of the Premises be used for the aggregate cost of items described in (i) and (ii) above; any additional amount incurred as a result of (i) and (ii) above shall be deemed to constitute an Over-Allowance Amount. In addition, in no event shall more than Ten and 00/100 Dollars (\$10.00) per usable square foot of the Premises be used for the aggregate cost of the items (collectively, the "**Personal Items**") described in (vii), (viii) and (ix) above.

2.2.2 Disbursement of Tenant Improvement Allowance. During the construction of the Tenant Improvements, Landlord shall make monthly disbursements of the Tenant Improvement Allowance for Tenant Improvement Allowance Items for the benefit of Tenant and shall authorize the release of monies for the benefit of Tenant as follows:

2.2.2.1 Monthly Disbursements. On or before the twenty-fifth (25th) day of each calendar month, during the construction of the Tenant Improvements, Tenant shall deliver to

Landlord: (i) a request for payment of the “Contractor,” as that term is defined below in this Tenant Work Letter, approved by Tenant, in a form to be provided by Landlord, showing the schedule, by trade, of percentage of completion of the Tenant Improvements in the Premises, detailing the portion of the work completed and the portion not completed; (ii) invoices from all of “Tenant’s Agents,” as that term is defined in Section 4.1.2 of this Tenant Work Letter, for labor rendered and materials delivered to the Premises; (iii) executed mechanic’s lien releases from all of Tenant’s Agents which shall comply with the appropriate provisions, as reasonably determined by Landlord, of California Civil Code Section 3262(d); and (iv) all other information reasonably requested by Landlord. Tenant’s request for payment shall be deemed Tenant’s acceptance and approval of the work furnished and/or the materials supplied as set forth in Tenant’s payment request. On or before the last day of the following month, Landlord shall deliver a check to Tenant made jointly payable to Contractor and Tenant in payment of the lesser of: (A) the amounts so requested by Tenant, as set forth in this Section 2.2.2.1, above, less a ten percent (10%) retention (the aggregate amount of such retentions to be known as the “Final Retention”) (provided that such 10% retention shall not apply to the extent of the disbursement of the Improvement Allowance under this Tenant Work Letter for the Personal Items alone), and (B) the balance of any remaining available portion of the Tenant Improvement Allowance (not including the Final Retention), provided that Landlord does not dispute any request for payment based on a non-compliance of any work with the “Approved Working Drawings,” as that term is defined in Section 3.4 below, or due to any substandard work. Landlord’s payment of such amounts shall not be deemed Landlord’s approval or acceptance of the work furnished or materials supplied as set forth in Tenant’s payment request.

2.2.2.2 Final Retention. Subject to the provisions of this Tenant Work Letter, a check for the Final Retention payable jointly to Tenant and Contractor shall be delivered by Landlord to Tenant following the completion of construction of the Premises, provided that (i) Tenant delivers to Landlord a waiver and release in accordance with the terms of California Civil Code Section 3262(d)(2) and a waiver and release in accordance with either California Civil Code Section 3262(d)(3) or Section 3262(d)(4), (ii) Landlord has determined that no substandard work exists which adversely affects the mechanical, electrical, plumbing, heating, ventilating and air conditioning, life-safety or other systems of the Project, the curtain wall of the Project, the structure or exterior appearance of the Project, or any other tenant’s use of such other tenant’s leased premises in the Project and (iii) Architect delivers to Landlord a certificate, in a form reasonably acceptable to Landlord, certifying that the construction of the Tenant Improvements in the Premises has been substantially completed.

2.2.2.3 Other Terms. Landlord shall only be obligated to make disbursements from the Tenant Improvement Allowance to the extent costs are incurred by Tenant for Tenant Improvement Allowance Items. All Tenant Improvement Allowance Items for which the Tenant Improvement Allowance has been made available shall be deemed Landlord’s property under the terms of this Lease (other than Tenant’s furniture, trade fixtures not attached to the Premises and equipment).

SECTION 3

CONSTRUCTION DRAWINGS

3.1 Selection of Architect/Construction Drawings. Tenant has retained H. Hendy & Associates as the approved architect (the “Architect”) to prepare the Construction Drawings. Tenant shall also retain the engineering consultants designated by Landlord (the “Engineers”) to prepare all plans and engineering working drawings relating to the structural, mechanical, electrical, plumbing, HVAC, life-safety, and sprinkler work in the Premises. The plans and drawings to be prepared by Architect and the Engineers hereunder shall be known collectively as the “Construction Drawings”. The plans attached hereto as Schedule “1” are approved by Landlord and Tenant. All Construction Drawings shall comply with the drawing format and specifications reasonably acceptable to and approved by Landlord. Tenant and Architect shall verify, in the field, the dimensions and conditions as shown on the relevant portions of the base building plans, and Tenant and Architect shall be solely responsible for the same, and Landlord shall have no responsibility in connection therewith. Landlord’s review of the Construction Drawings as set forth in this Section 3, shall be for its sole purpose and shall not imply Landlord’s review of the same, or obligate Landlord to review the same, for quality, design, Code compliance or other like matters. Accordingly, notwithstanding that any Construction Drawings are reviewed by Landlord or its space planner, architect, engineers and consultants, and notwithstanding any advice or assistance which may be rendered to Tenant by Landlord or Landlord’s space planner, architect, engineers, and consultants, Landlord shall have no liability whatsoever in connection therewith and shall not be responsible for any omissions or errors contained in the Construction Drawings, and Tenant’s waiver and indemnity set forth in this Lease shall specifically apply to the Construction Drawings.

3.2 Approved Working Drawings. Landlord shall approve (or disapprove) working drawings prepared by Architect within five (5) business days after Landlord receives the final Working Drawings (the “Approved Working Drawings”). Tenant shall submit the same to the City in which the Project is located and diligently pursue its receipt of all applicable building permits. Tenant hereby agrees that neither Landlord nor Landlord’s consultants shall be responsible for obtaining any building permit or

certificate of occupancy for the Premises and that obtaining the same shall be Tenant's responsibility; provided, however, that Landlord shall cooperate with Tenant in executing permit applications and performing other ministerial acts reasonably necessary to enable Tenant to obtain any such permit or certificate of occupancy. No changes, modifications or alterations in the Approved Working Drawings may be made without the prior written consent of Landlord, which consent shall not be unreasonably withheld. Tenant shall use its best efforts and all due diligence to cooperate with the Architect, the Engineers, and the Contractor to complete all phases of the Tenant Improvements, as soon as possible after the execution of the Lease.

SECTION 4

CONSTRUCTION OF THE TENANT IMPROVEMENTS

4.1 Tenant's Selection of Contractors.

4.1.1 The Contractor. A general contractor shall be retained by Tenant to construct the Tenant Improvements and Tenant shall contract directly with such "Contractor". Landlord shall file a Notice of Non-Responsibility regarding payments under Tenant's contract with the Contractor. Such general contractor ("Contractor") shall be selected by Tenant from a list of general contractors supplied by Tenant and approved by Landlord. In connection with the performance by Tenant of the Tenant Improvements pursuant to this Tenant Work Letter, the following general contractors are deemed acceptable to Tenant and Landlord: (1) JLC; (2) Casco; and (3) Turelk.

4.1.2 Tenant's Agents. All subcontractors, laborers, materialmen, and suppliers used by Tenant (such subcontractors, laborers, materialmen, and suppliers, and the Contractor to be known collectively as "Tenant's Agents") must be approved in writing by Landlord, which approval shall not be unreasonably withheld or delayed. If Landlord does not approve any of Tenant's proposed subcontractors, laborers, materialmen or suppliers, Tenant shall submit other proposed subcontractors, laborers, materialmen or suppliers for Landlord's written reasonable approval.

4.2 Construction of Tenant Improvements by Tenant's Agency.

4.2.1 Construction Contract; Cost Budget. Prior to Tenant's execution of the construction contract and general conditions with Contractor (the "Contract"), Tenant shall submit the Contract to Landlord for its approval with regard to proper insurance and licensing requirements and any other areas which may adversely affect Landlord's interest in the Project, and which approval shall not be unreasonably withheld or delayed by more than five (5) business days after Landlord's receipt of the Contract. Prior to the commencement of the construction of the Tenant Improvements, and after Tenant has accepted all bids for the Tenant Improvements, Tenant shall provide Landlord with a detailed breakdown, by trade, of the final costs to be incurred or which have been incurred in connection with the design and construction of the Tenant Improvements to be performed by or at the direction of Tenant or the Contractor, which costs form a basis for the amount of the Contract (the "Final Costs"). Prior to the commencement of construction of the Tenant Improvements, Tenant shall supply Landlord with cash in an amount (the "Over-Allowance Amount") equal to the difference between the amount of the Final Costs and the amount of the Tenant Improvement Allowance (less any portion thereof already disbursed by Landlord, or in the process of being disbursed by Landlord, on or before the commencement of construction of the Tenant Improvements). At Landlord's option, the Over-Allowance Amount shall be disbursed by Landlord prior to the disbursement of any of the then remaining portion of the Tenant Improvement Allowance, and such disbursement shall be pursuant to the same procedure as the Tenant Improvement Allowance. In the event that, after the Final Costs have been delivered by Tenant to Landlord, the costs relating to the design and construction of the Tenant Improvements shall change, any additional costs necessary to such design and construction in excess of the Final Costs, shall be paid by Tenant to Landlord immediately as an addition to the Over-Allowance Amount or at Landlord's option, Tenant shall make payments for such additional costs out of its own funds, but Tenant shall continue to provide Landlord with the documents described in this Tenant Work Letter, above, for Landlord's approval, prior to Tenant paying such costs.

4.2.2 Tenant's Agents.

4.2.2.1 Landlord's General Conditions for Tenant's Agents and Tenant Improvement Work. Tenant's and Tenant's Agent's construction of the Tenant Improvements shall comply with the following: (i) the Tenant Improvements shall be constructed in strict accordance with the Approved Working Drawings; (ii) Tenant's Agents shall submit schedules of all work relating to the Tenant's Improvements to Contractor and Contractor shall, within five (5) business days of receipt thereof, inform Tenant's Agents of any changes which are necessary thereto, and Tenant's Agents shall adhere to such corrected schedule; and (iii) Tenant shall abide by all rules made by Landlord's Project manager with respect to the use of freight, loading dock and service elevators, storage of materials,

coordination of work with the contractors of other tenants, and any other matter in connection with this Tenant Work Letter, including, without limitation, the construction of the Tenant Improvements.

4.2.2.2 Indemnity. Tenant's indemnity of Landlord as set forth in this Lease shall also apply with respect to any and all costs, losses, damages, injuries and liabilities related in any way to any act or omission of Tenant or Tenant's Agents, or anyone directly or indirectly employed by any of them, or in connection with Tenant's non-payment of any amount arising out of the Tenant Improvements and/or Tenant's disapproval of all or any portion of any request for payment. Such indemnity by Tenant, as set forth in this Lease, shall also apply with respect to any and all costs, losses, damages, injuries and liabilities related in any way to Landlord's performance of any ministerial acts reasonably necessary (i) to permit Tenant to complete the Tenant Improvements, and (ii) to enable Tenant to obtain any Project permit or certificate of occupancy for the Premises.

4.2.2.3 Requirements of Tenant's Agents. Each of Tenant's Agents shall guarantee to Tenant and for the benefit of Landlord that the portion of the Tenant Improvements for which it is responsible shall be free from any defects in workmanship and materials for a period of not less than one (1) year from the date of completion thereof. Each of Tenant's Agents shall be responsible for the replacement or repair, without additional charge, of all work done or furnished in accordance with its contract that shall become defective within one (1) year after the later to occur of (i) completion of the work performed by such contractor or subcontractors and (ii) the applicable Commencement Date. The correction of such work shall include, without additional charge, all additional expenses and damages incurred in connection with such removal or replacement of all or any part of the Tenant Improvements, and/or the Project and/or common areas that may be damaged or disturbed thereby. All such warranties or guarantees as to materials or workmanship of or with respect to the Tenant Improvements shall be contained in the Contract or subcontract and shall be written such that such guarantees or warranties shall inure to the benefit of both Landlord and Tenant, as their respective interests may appear, and can be directly enforced by either. Tenant covenants to give to Landlord any assignment or other assurances which maybe necessary to effect such right of direct enforcement.

4.2.2.3.1 Lien-Free Basis. Tenant's Contractor and agents shall perform all work on a lien-free basis (subject to Landlord's obligation to make timely payments under this Exhibit "D"). If a lien is filed or recorded against the Project due to, or in any way associated with, the construction of the Tenant Improvements, Tenant agrees to have such lien released of record (in a manner and form approved by Landlord) within five (5) days of Landlord's notice to Tenant regarding same. If Tenant fails to cause the release of such lien within such five (5) day period to Landlord's satisfaction, Landlord may cause the removal of such lien, and Tenant agrees to repay Landlord for all costs and expenses incurred by Landlord to release the lien (including, but not limited to, the payment of the amount stated in the lien, any filing, processing, recording and attorneys' fees) within ten (10) days of Landlord's request therefor, and such amount shall be considered Additional Rent due under the Lease. If Tenant fails to pay Landlord as aforesaid, such failure shall be deemed an uncured noticed material default under the Lease, and Landlord may pursue any remedy provided for under the Lease, at law or in equity.

4.2.2.4 Insurance Requirements

4.2.2.4.1 General Coverages. All of Tenant's Agents shall carry worker's compensation insurance covering all of their respective employees, and shall also carry public liability insurance, including property damage, all with limits, in form and with companies as are required to be carried by Tenant as set forth in this Lease.

4.2.2.4.2 Special Coverages. Tenant shall carry "Builder's All Risk" insurance in an amount approved by Landlord covering the construction of the Tenant Improvements, and such other insurance as Landlord may require, it being understood and agreed that the Tenant Improvements shall be insured by Tenant pursuant to this Lease immediately upon completion thereof. Such insurance shall be in amounts and shall include such extended coverage endorsements as may be reasonably required by Landlord including, but not limited to, the requirement that all of Tenant's Agents shall carry excess liability and Products and Completed Operating Coverage insurance, each in amounts not less than \$500,000 for each incident, \$1,000,000 in aggregate, and in form and with companies as are required to be carried by Tenant as set forth in this Lease.

4.2.2.4.3 General Terms. Certificates for all insurance carried pursuant to this Section 4.2.2.4 shall be delivered to Landlord before the commencement of construction of the Tenant Improvements and before the Contractor's equipment is moved onto the site. All such policies of insurance must contain a provision that the company writing said policy will give Landlord thirty (30) days prior written notice of any cancellation or lapse of the effective date or any reduction in the amounts of such insurance. In the event that the Tenant Improvements are damaged by any cause during the course of the construction thereof, Tenant shall immediately repair the same at Tenant's sole cost and expense. Tenant's Agents shall maintain all of the foregoing insurance coverage in force until

the Tenant Improvements are fully completed and accepted by Landlord, except for any Products and Completed Operation Coverage insurance required by Landlord, which is to be maintained for ten (10) years following completion of the work and acceptance by Landlord and Tenant. All policies carried under this Section 4.2.2.4 shall insure Landlord and Tenant, as their interests may appear, as well as Contractor and Tenant's Agents. All insurance, except Workers' Compensation, maintained by Tenant's Agents shall preclude subrogation claims by the insurer against anyone insured thereunder. Such insurance shall provide that it is primary insurance as respects the owner and that any other insurance maintained by owner is excess and noncontributing with the insurance required hereunder. The requirements for the foregoing insurance shall not derogate from the provisions for indemnification of Landlord by Tenant under Section 4.2.2.2 of this Tenant Work Letter.

4.2.3 Governmental Compliance. The Tenant Improvements shall comply in all respects with the following: (i) the Code and other state, federal, city or quasi-governmental laws, codes, ordinances and regulations, as each may apply according to the rulings of the controlling public official, agent or other person; (ii) applicable standards of the American Insurance Association (formerly, the National Board of Fire Underwriters) and the National Electrical Code; and (iii) Project material manufacturer's specifications.

4.2.4 Inspection by Landlord. Landlord shall have the right to inspect the Tenant Improvements at all times, provided however, that Landlord's failure to inspect the Tenant Improvements shall in no event constitute a waiver of any of Landlord's rights hereunder nor shall Landlord's inspection of the Tenant Improvements constitute Landlord's approval of the same. Should Landlord disapprove any portion of the Tenant Improvements, Landlord shall notify Tenant in writing of such disapproval and shall specify the items disapproved. Any defects or deviations in, and/or disapproval by Landlord of, the Tenant Improvements shall be rectified by Tenant at no expense to Landlord, provided however, that in the event Landlord determines that a defect or deviation exists or disapproves of any matter in connection with any portion of the Tenant Improvements and such defect, deviation or matter might adversely affect the mechanical, electrical, plumbing, heating, ventilating and air conditioning or life-safety systems of the Project, the structure or exterior appearance of the Project or any other tenant's use of such other tenant's leased premises, Landlord may, take such action as Landlord deems necessary, at Tenant's expense and without incurring any liability on Landlord's part, to correct any such defect, deviation and/or matter, including, without limitation, causing the cessation of performance of the construction of the Tenant Improvements until such time as the defect, deviation and/or matter is corrected to Landlord's satisfaction.

4.2.5 Meetings. Commencing upon the execution of this Lease, Tenant and Landlord shall hold meetings as required at a reasonable time, with the Architect and the Contractor regarding the progress of the preparation of Construction Drawings and the construction of the Tenant Improvements, which meetings shall be held at the Premises or locations reasonably designated by Landlord, and Landlord and/or its agents shall receive prior notice of, and shall have the right to attend, all such meetings, and, upon Landlord's request, certain of Tenant's Agents shall attend such meetings. One such meeting each month shall include the review of Contractor's current request for payment.

4.3 Notice of Completion: Copy of "As Built" Plans. Within ten (10) days after completion of construction of the Tenant Improvements, Tenant shall cause a Notice of Completion to be recorded in the office of the Recorder of the County in which the Project is located in accordance with Section 3093 of the Civil Code of the State of California or any successor statute, and shall furnish a copy thereof to Landlord upon such recordation. If Tenant fails to do so, Landlord may execute and file the same on behalf of Tenant as Tenant's agent for such purpose, at Tenant's sole cost and expense. At the conclusion of construction, (i) Tenant shall cause the Architect and Contractor (A) to update the Approved Working Drawings as necessary to reflect all changes made to the Approved Working Drawings during the course of construction, (B) to certify to the best of their knowledge that the "record-set" of as-built drawings are true and correct, which certification shall survive the expiration or termination of this Lease, and (C) to deliver to Landlord two (2) sets of copies of such as-built drawings within ninety (90) days following issuance of a certificate of occupancy for the Premises, and (ii) Tenant shall deliver to Landlord a copy of all warranties, guaranties, and operating manuals and information relating to the improvements, equipment, and systems in the Premises.

SECTION 5

MISCELLANEOUS

5.1 Tenant's Representative. Tenant has designated Dan Gilliam (telephone: 714-780-7259) as its sole representative with respect to the matters set forth in this Tenant Work Letter, who shall have full authority and responsibility to act on behalf of the Tenant as required in this Tenant Work Letter.

5.2 Landlord's Representative. Landlord shall designate an individual as its sole representative with respect to the matters set forth in this Tenant Work Letter, who, until further notice to

Tenant, shall have full authority and responsibility to act on behalf of the Landlord as required in this Tenant Work Letter.

5.3 Time of the Essence in This Tenant Work Letter. Time is of the essence with respect to the provisions of this Tenant Work Letter. Unless otherwise indicated, all references herein to a "number of days" shall mean and refer to calendar days. If any item requiring approval is timely disapproved by Landlord, the procedure for preparation of the document and approval thereof shall be repeated until the document is approved by Landlord.

5.4 Tenant's Lease Default. Notwithstanding any provision to the contrary contained in this Lease, if an event of default as described in the Lease or this Tenant Work Letter has occurred at any time, then (i) in addition to all other rights and remedies granted to Landlord pursuant to this Lease, Landlord shall have the right to withhold payment of all or any portion of the Tenant Improvement Allowance and/or Landlord may cause Contractor to cease the construction of the Premises (in which case, Tenant shall be responsible for any delay in the substantial completion of the Premises caused by such work stoppage), and (ii) all other obligations of Landlord under the terms of this Tenant Work Letter shall be forgiven until such time as such default is cured pursuant to the terms of this Lease (in which case, Tenant shall be responsible for any delay in the substantial completion of the Premises caused by such inaction by Landlord).

5.5 Additional Services. If the construction of the Tenant Improvements shall require that additional services or facilities (including, but not limited to, hoisting, cleanup or other cleaning services, trash removal, field supervision, or ordering of materials) be provided by Landlord, then Tenant shall pay Landlord for such items at Landlord's cost or at a reasonable charge if the item involves time of Landlord's personnel only.

5.6 Construction Defects. Landlord shall have no responsibility for the Tenant Improvements and Tenant will remedy, at Tenant's own expense, and be responsible for any and all defects in the Tenant Improvements that may appear during or after the completion thereof whether the same shall affect the Tenant Improvements in particular or any parts of the Premises in general. Tenant shall indemnify, hold harmless and reimburse Landlord for any costs or expenses incurred by Landlord by reason of any defect in any portion of the Tenant Improvements constructed by Tenant or Tenant's contractor or subcontractors, or by reason of inadequate cleanup following completion of the Tenant Improvements.

5.7 Coordination of Labor. All of Tenant's contractors, subcontractors, employees, servants and agents must work in harmony with and shall not interfere with any labor employed by Landlord, or Landlord's contractors or by any other tenant or its contractors with respect to any portion of the Project or Development.

5.8 HVAC Systems. Tenant agrees to be entirely responsible for the balancing of any heating, ventilating or air conditioning system installed by Tenant and/or maintenance of the electrical or plumbing work installed by Tenant, partitions, doors, hardware or any other installations made by Tenant.

5.9 Approval of Plans. Landlord will not check Tenant drawings for building code compliance. Approval of the Construction Drawings by Landlord is not a representation that the drawings are in compliance with the requirements of governing authorities, and it shall be Tenant's responsibility to meet and comply with all federal, state, and local code requirements. Approval of the Construction Drawings does not constitute assumption of responsibility by Landlord or its architect for their accuracy, sufficiency or efficiency, and Tenant shall be solely responsible for such matters.

5.10 Substantial Completion. For purposes of the Lease and this Tenant Work Letter, "Substantial Completion" shall occur upon the substantial completion of construction of the Tenant Improvements in the applicable portions of the Premises pursuant to the Approved Working Drawings, with the exception of any punch list work and any tenant fixtures, work-stations, built-in furniture, or equipment to be installed by Tenant; provided, however, in the event such substantial completion is delayed as a result of the acts or omissions of Tenant or any of the Tenant Parties (as defined in the Lease), or a breach of this Lease by Tenant, then Substantial Completion shall be deemed to have occurred on the date it would have otherwise occurred, absent such acts and omissions and breaches.

5.11 Landlord Delay.

5.11.1 If there are not two (2) different Commencement Dates (i.e., occurring on 2 different dates) under the Basic Lease Provisions above, then this Section 5.11.1 (as opposed to Section 5.11.2 below) shall apply. If Substantial Completion occurs after the 9/17 Date, then the 9/17 Date set forth in the definition of Commencement Date in the Lease shall be extended (up to a maximum of the number of days, if any, during the period between the 9/17 Date and the date of Substantial Completion)

one (1) day for each day (if any) that Substantial Completion of the Tenant Improvements in the Premises has been delayed as a result of a "Landlord Delay". The term "Landlord Delay" shall mean only an actual delay in the Substantial Completion of the Tenant Improvements in the Premises which is caused by the failure of Landlord to comply with Landlord's obligations expressly set forth in this Tenant Work Letter. Notwithstanding anything to the contrary contained herein, any delays to the extent caused by or attributable to the acts, omissions or misconduct of Tenant or any of the Tenant Parties shall not be deemed to constitute a Landlord Delay. In addition, no Landlord Delay shall be deemed to have occurred unless and until (i) Tenant has given Landlord written notice that an act or omission on the part of Landlord is about to occur or has occurred which will cause a delay in the Substantial Completion of the Tenant Improvements in the Premises, and (ii) Landlord has failed to cure such delay within one (1) business day after Landlord's receipt of such notice from Tenant, in which case the number of days of delay after such notice shall, to the extent such delay is attributable to the circumstances described in the definition of Landlord Delay, be deemed to be a Landlord Delay.

5.11.2 If there are two (2) different Commencement Dates (i.e., occurring on 2 different dates) under the Basic Lease Provisions above, then this Section 5.11.2 (as opposed to 5.11.1 above) shall apply. With respect to Suite 100, if Substantial Completion occurs after the 9/17 Date, then the 9/17 Date set forth in the definition of Commencement Date (for Suite 100) in the Lease shall be extended (up to a maximum of the number of days, if any, during the period between the 9/17 Date and the date of Substantial Completion) one (1) day for each day (if any) that Substantial Completion of the Tenant Improvements in Suite 100 has been delayed as a result of a "Landlord Delay". Additionally, with respect to Suite 200, if Substantial Completion occurs after the Suite 200 Hard Date, then the Suite 200 Hard Date set forth in the definition of Commencement Date (for Suite 200) in the Lease shall be extended (up to a maximum of the number of days, if any, during the period between the Suite 200 Hard Date and the date of Substantial Completion) one (1) day for each day (if any) that Substantial Completion of the Tenant Improvements in Suite 200 has been delayed as a result of a "Landlord Delay". The term "Landlord Delay" shall mean only an actual delay in the Substantial Completion of the Tenant Improvements in the applicable portion of the Premises which is caused by the failure of Landlord to comply with Landlord's obligations expressly set forth in this Tenant Work Letter. Notwithstanding anything to the contrary contained herein, any delays to the extent caused by or attributable to the acts, omissions or misconduct of Tenant or any of the Tenant Parties shall not be deemed to constitute a Landlord Delay. In addition, no Landlord Delay shall be deemed to have occurred unless and until (i) Tenant has given Landlord written notice that an act or omission on the part of Landlord is about to occur or has occurred which will cause a delay in the Substantial Completion of the Tenant Improvements in the applicable portion of the Premises, and (ii) Landlord has failed to cure such delay within one (1) business day after Landlord's receipt of such notice from Tenant, in which case the number of days of delay after such notice shall, to the extent such delay is attributable to the circumstances described in the definition of Landlord Delay, be deemed to be a Landlord Delay.

5.12 Force Majeure.

5.12.1 If there are not two (2) different Commencement Dates (i.e., occurring on 2 different dates) under the Basic Lease Provisions above, then this Section 5.12.1 (as opposed to Section 5.12.2 below) shall apply. If Substantial Completion occurs after the 9/17 Date, then the 9/17 Date set forth in the definition of Commencement Date in the Lease shall be extended (up to a maximum of the number of days, if any, during the period between the 9/17 Date and the date of Substantial Completion, and not to exceed an aggregate 60-day extension under this Section 5.12) one (1) day for each day (if any) that Substantial Completion of the Tenant Improvements in the Premises has been delayed as a result of a "Tenant Force Majeure Delay". The term "Tenant Force Majeure Delay" shall mean only an actual delay in the Substantial Completion of the Tenant Improvements in the Premises which is caused by any of the following to the extent they actually occur at the Premises or Project, and actually prevent Tenant from gaining access to the Premises or Project for the purpose of performing the Tenant Improvements in the Premises: (a) failure of power or utilities, (b) earthquakes, fire or other casualty, or (c) acts of terrorism, riot, war, insurrection, civil commotion, sabotage and/or national or local emergency. Without limitation, financial inability shall not be considered Tenant Force Majeure Delay. Notwithstanding anything to the contrary contained herein, any delays to the extent caused by or attributable to the acts, omissions or misconduct of Tenant or any of the Tenant Parties shall not be deemed to constitute a Tenant Force Majeure Delay. In addition, no Tenant Force Majeure Delay shall be deemed to have occurred unless and until (i) Tenant has given Landlord written notice that a circumstance has occurred constituting a Tenant Force Majeure Delay which will cause a delay in the Substantial Completion of the Tenant Improvements in the Premises, and (ii) Landlord has failed to cure such delay within one (1) business day after Landlord's receipt of such notice from Tenant, in which case the number of days of delay after such notice shall, to the extent such delay is attributable to the circumstances described in the definition of Tenant Force Majeure Delay, be deemed to be a Tenant Force Majeure Delay.

5.12.2 If there are two (2) different Commencement Dates (i.e., occurring on 2 different dates) under the Basic Lease Provisions above, then this Section 5.12.2 (as opposed to 5.12.1 above) shall apply. With respect to Suite 100, if Substantial Completion occurs after the 9/17 Date, then the 9/17 Date

set forth in the definition of Commencement Date (for Suite 100) in the Lease shall be extended (up to a maximum of the number of days, if any, during the period between the 9/17 Date and the date of Substantial Completion, and not to exceed an aggregate 60-day extension for any portion of the Premises under this Section 5.12) one (1) day for each day (if any) that Substantial Completion of the Tenant Improvements in Suite 100 has been delayed as a result of a "Tenant Force Majeure Delay". Additionally, with respect to Suite 200, if Substantial Completion occurs after the Suite 200 Hard Date, then the Suite 200 Hard Date set forth in the definition of Commencement Date (for Suite 200) in the Lease shall be extended (up to a maximum of the number of days, if any, during the period between the Suite 200 Hard Date and the date of Substantial Completion, and not to exceed an aggregate 60-day extension for any portion of the Premises under this Section 5.12) one (1) day for each day (if any) that Substantial Completion of the Tenant Improvements in Suite 200 has been delayed as a result of a "Tenant Force Majeure Delay". The term "Tenant Force Majeure Delay" shall mean only an actual delay in the Substantial Completion of the Tenant Improvements in the applicable portion of the Premises which is caused by any of the following to the extent they actually occur at the applicable portion of the Premises or Project, and actually prevent Tenant from gaining access to the applicable portion of the Premises or Project for the purpose of performing the Tenant Improvements in the applicable portion of the Premises: (a) failure of power or utilities, (b) earthquakes, fire or other casualty, or (c) acts of terrorism, riot, war, insurrection, civil commotion, sabotage and/or national or local emergency. Without limitation, financial inability shall not be considered Tenant Force Majeure Delay. Notwithstanding anything to the contrary contained herein, any delays to the extent caused by or attributable to the acts, omissions or misconduct of Tenant or any of the Tenant Parties shall not be deemed to constitute a Tenant Force Majeure Delay. In addition, no Tenant Force Majeure Delay shall be deemed to have occurred unless and until (i) Tenant has given Landlord written notice that a circumstance has occurred constituting a Tenant Force Majeure Delay which will cause a delay in the Substantial Completion of the Tenant Improvements in the applicable portion of the Premises, and (ii) Landlord has failed to cure such delay within one (1) business day after Landlord's receipt of such notice from Tenant, in which case the number of days of delay after such notice shall, to the extent such delay is attributable to the circumstances described in the definition of Tenant Force Majeure Delay, be deemed to be a Tenant Force Majeure Delay.

APPROVED PLANS

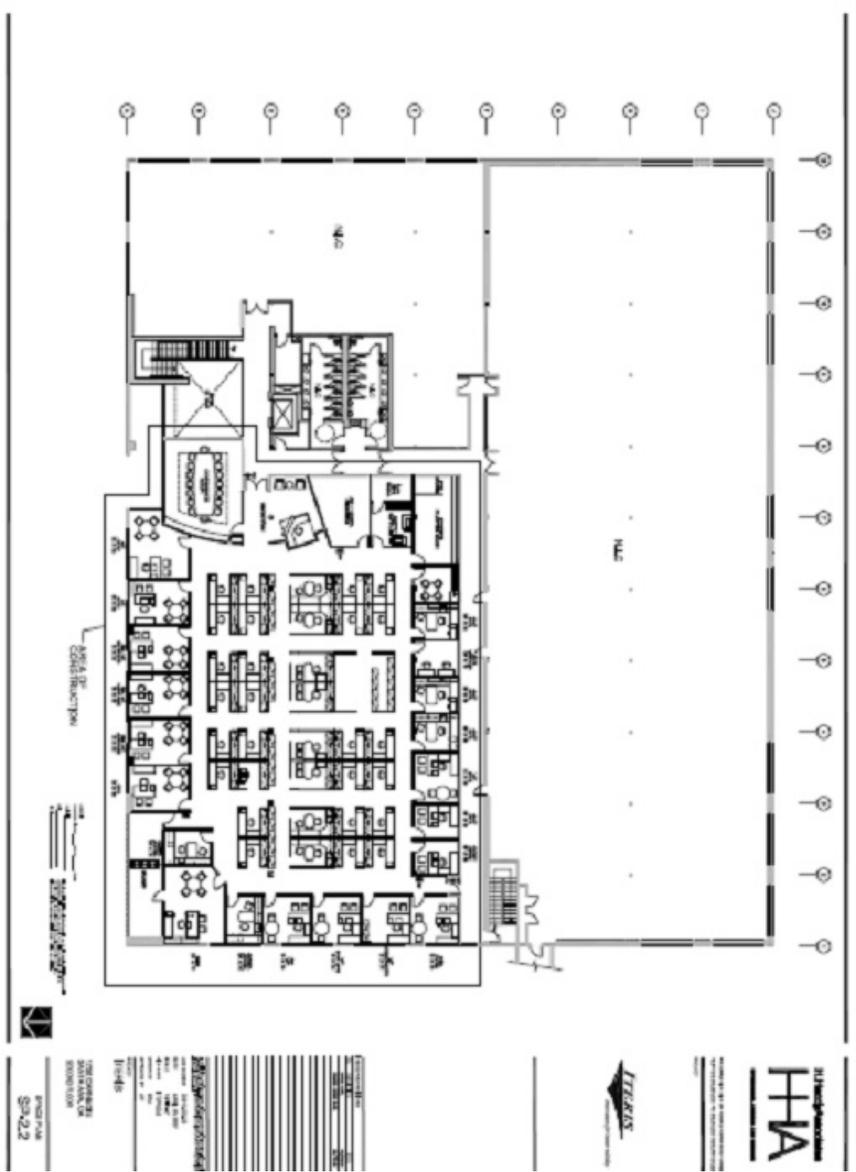


EXHIBIT "E"

INTENTIONALLY OMITTED

EXHIBIT "F"

TEST LANE & PARKING

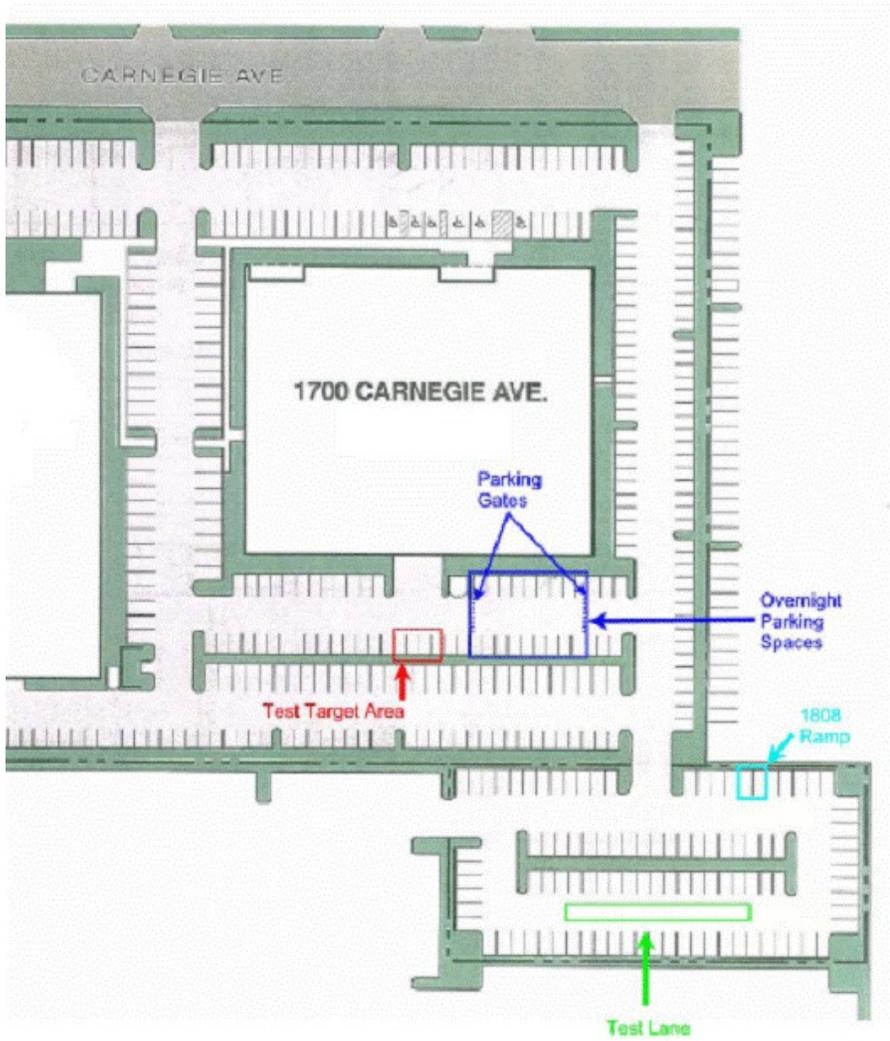


EXHIBIT "G"

JANITORIAL SPECIFICATIONS

CLEANING SPECIFICATIONS

1. Daily Services – 5 days per week

- A. Empty all waste baskets (replace liners if necessary)
- B. Dust furniture and window ledges
- C. Sweep or dust mop all hard floors
- D. Spot damp mop coffee stains and marks on hard floors
- E. Spot clean carpet where possible if shampooing is not required
- F. Spot clean fingerprints on doors, walls (and wall switches)
- G. Spot clean partition glass
- H. Vacuum carpets in all open areas
- I. Return all chairs and wastebaskets to their proper position.

2. Weekly Services (as per Detailing Schedule)

- A. Detail vacuum edges, corners, and under furniture
- B. High dusting, including picture frames and tops of partitions (not higher than six feet)
- C. Low dusting, including chair rungs and lower ledges
- D. Thoroughly wet mop all hard floors
- E. Clean desk tops only when cleared of papers and files

3. Monthly Services - (as per Detailing Schedule)

- A. Scrub and wax hard floors
- B. Dust window mini-blinds.
- C. Brush or vacuum upholstered furniture

4. Quarterly Services

- A. Dust ceiling and wall vents

HOURS OF SERVICE

All work will be performed during the normal working hours of 6:00 p.m. and 2:30 a.m., Sunday through Thursday, 5 days a week if not otherwise scheduled by the management.

EXCLUSIONS

Not included in this contract are hand towels, toilet tissue, seat covers, sanitary products, hand soap and plastic trash liners will be supplied to all common areas and not to private restrooms.

HOLIDAYS OBSERVED

The following holidays are observed and service is not provided on these days. An extra charge will be calculated for any services performed on these holidays at a rate of time and one-half.

- 1. New Year's Day
- 2. Memorial Day
- 3. Fourth of July
- 4. Labor Day
- 5. Thanksgiving Day
- 6. Day After Thanksgiving
- 7. Christmas Day

EXHIBIT "H"

ESTOPPEL

TENANT ESTOPPEL CERTIFICATE

To: Bank of America, N. A.

Attention: Relationship Administration
Real Estate Group

Re:

1 The undersigned, as Tenant of approximately _____ square feet of space (the "Premises") under that certain Lease dated _____, _____ (the "Lease") made with _____, Landlord, covering space in Landlord's building (the "Building") in _____ County, _____, known as _____, hereby certifies as follows:

(a) That attached hereto as Exhibit "A" is a true, correct and complete copy of the Lease, together with all amendments thereto;

(b) That the Lease is in full force and effect and has not been modified, supplemented or amended in any way except as set forth in Exhibit "A."
The interest of the undersigned in the Lease has not been assigned or encumbered;

(c) That the Lease, as amended as indicated in Exhibit "A." represents the entire agreement between the parties as to said leasing, and that there are no other agreements, written or oral, which affect the occupancy of the Premises by the undersigned;

(d) That all insurance required of the undersigned under the Lease has been provided by the undersigned and all premiums have been paid;

(e) That the commencement date of the term of the Lease was _____, _____;

(f) That the expiration date of the term of the Lease is _____, _____, including any presently exercised option or renewal term, and that the undersigned has no rights to renew, extend or cancel the Lease or to lease additional space in the Premises or the Building, except as expressly set forth in the Lease;

(g) That in addition to the Premises, the undersigned has the right to use or rent _____ parking spaces in or near the Building during the term of the Lease;

(h) That the undersigned has no option or preferential right to purchase all or any part of the Premises (or the land or Building of which the Premises are a part), and has no right or interest with respect to the Premises or the Building other than as Tenant under the Lease (except as specified in _____, a copy of which is attached hereto);

(i) That all conditions of the Lease to be performed by Landlord and necessary to the enforceability of the Lease have been satisfied. On this date there are no existing defenses, offsets, claims or credits which the undersigned has against the enforcement of the Lease except for prepaid rent through _____ (not to exceed one month);

(j) That all contributions required by the Lease to be paid by Landlord to date for improvements to the Premises have been paid in full. All improvements or work required under the Lease to be made by Landlord to date, if any, have been completed to the satisfaction of the undersigned. Charges for all labor and materials used or furnished in connection with improvements and/or alterations made for the account of the undersigned in the Building have been paid in full. The undersigned has accepted the Premises, subject to no conditions other than those set forth in the Lease. The undersigned has entered into occupancy of the Premises;

(k) That the annual minimum rent currently payable under the Lease is \$ _____ and such rent has been paid through _____ ;

[(l) That the annual percentage rent currently payable under the Lease is at the rate of _____ and such rent has been paid through _____ ;]

[(m) That additional rent is payable under the Lease for (i) operating, maintenance or repair expenses, (ii) property taxes, (iii) consumer price index cost of living adjustments, or (iv) percentage of gross sales adjustments (i.e., adjustments made based on underpayments of percentage rent). The base year amounts for additional rental items are as follows: (1) operating, maintenance or repair expenses \$ _____, (2) property taxes \$ _____, and (3) consumer price index _____ (indicate base year CPI level);]

(n) That the undersigned has made no agreement with Landlord or any agent, representative or employee of Landlord concerning free rent, partial rent, rebate of rental payments or any other similar rent concession (except as expressly set forth in _____, a copy of which is attached hereto). No rents have been prepaid more than one (1) month in advance and full rental, including basic minimum rent, if any, has commenced to accrue;

(o) That there are no defaults by the undersigned or Landlord under the Lease, and no event has occurred or situation exists that would, with the passage of time, constitute a default under the Lease;

(p) That the undersigned has paid to Landlord a security deposit in the amount of \$ _____ ;

(q) That the undersigned has all governmental permits, licenses and consents required for the activities and operations being conducted or to be conducted by it in or around the Building; and

(r) That as of this date there are no actions, whether voluntary or otherwise, pending against the undersigned or any guarantor of the Lease under the bankruptcy or insolvency laws of the United States or any state thereof.

2. The undersigned represents and warrants that it has not used, generated, released, discharged, stored or disposed of any Hazardous Material on, under, in or about the Building or the land on which the Building is located, other than in the ordinary and commercially reasonable course of the business of the undersigned in compliance with all applicable laws. Except for any such legal and commercially reasonable use by the undersigned, the undersigned has no actual knowledge that any Hazardous Material is present or has been used, generated, released, discharged, stored or disposed of by any party, on, under, in or about such Building or land. As used herein, "Hazardous Material" means any substance, material or waste (including petroleum and petroleum products) which is designated, classified or regulated as being "toxic" or "hazardous" or a "pollutant" or which is similarly designated, classified or regulated under any federal, state or local law or ordinance.

[If the tenant is signing an SNDA, delete any parts of Section 3 that are already in the SNDA.]

3. The undersigned hereby agrees:

(a) To send a copy of any notice or demand given or made to Landlord pursuant to the provisions of the Lease to Bank of America, N.A. ("Lender"), who is or will be the owner and holder of a mortgage or deed of trust on the demised premises, or its assignee upon being notified in writing of such assignee's name and address. Lender's copy of said notice or demand shall be sent by certified mail at the same time the notice or demand is sent to Landlord, to Bank of America, N.A., _____, Attention: Relationship Administration, Real Estate Group;

(b) To give to the holder of said mortgage or deed of trust a reasonable period of time, but in no event less than thirty (30) days, to cure any default complained of in said notice or demand;

(c) That no consent of Landlord to any modification or assignment of the Lease or any termination of the Lease (other than in accordance with the express terms of the Lease) shall be effective without the prior written consent of the holder of said mortgage or deed of trust; and

(d) That in the event that the holder of said mortgage or deed of trust acquires title to the property encumbered by the mortgage or deed of trust, such holder will not be liable for any security deposit that the undersigned may have given to any previous landlord (including Landlord) which has not, as such, been transferred to such holder.

4. The undersigned acknowledges the right of Lender to rely upon the certifications and agreements in this Certificate in making a loan to Landlord. The undersigned hereby agrees to furnish Lender with such other and further estoppel certificates as Lender may reasonably request. The undersigned understands that in connection with such loan, Landlord's interest in the rentals due under the Lease will be assigned to Lender pursuant to an assignment of leases by Landlord in favor of Lender. The undersigned agrees that if Lender shall notify the undersigned that a default has occurred under the documents evidencing such loan and shall demand that the undersigned pay rentals and other amounts due under the Lease to Lender, the undersigned will honor such demand notwithstanding any contrary instructions from Landlord.

EXECUTED this day of , .

By: _____
Name: _____
Title: _____

EXHIBIT "I"

SNDA

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:
Bank of America, National Association
Real Estate Banking Group No.

Attn.:
Loan No.:

THIS SPACE ABOVE FOR RECORDER'S USE

SUBORDINATION, NONDISTURBANCE AND ATTORNMEN AGREEMENT

NOTICE: THIS SUBORDINATION, NONDISTURBANCE AND ATTORNMEN AGREEMENT RESULTS IN YOUR LEASEHOLD ESTATE BECOMING SUBJECT TO AND OF LOWER PRIORITY THAN THE LIEN OF SOME OTHER OR LATER SECURITY INSTRUMENT.

This Subordination, Nondisturbance and Attornment Agreement (this "Agreement") dated _____, _____, is made among _____ ("Tenant"), ("Landlord"), and Bank of America, N.A., a national banking association ("Lender").

WHEREAS, Lender is the owner of a promissory or deed of trust note (herein, as it may have been or may be from time to time renewed, extended, amended, supplemented or restated, called the "Note") dated _____, executed by Landlord payable to the order of Lender, in the face principal amount of \$ _____, bearing interest and payable as therein provided, secured by, among other things, a [**Construction**] Deed of Trust, Assignment of Rents and Leases, Security Agreement and Fixture Filing (herein, as it may have been or may be from time to time renewed, extended, amended or supplemented, called the "Deed of Trust"), recorded or to be recorded in the real property records of _____ County, _____, covering, among other property, the land (the "Land") described in Exhibit "A" which is attached hereto and incorporated herein by reference, and the improvements ("Improvements") thereon (such Land and Improvements being herein together called the "Property");

WHEREAS, Tenant is the tenant under a lease from Landlord dated _____, as amended on _____, _____ (herein, as it may from time to time be renewed, extended, amended or supplemented, called the "Lease"), covering a portion of the Property (said portion being herein referred to as the "Premises"); and

WHEREAS, the term "Landlord" as used herein means the present landlord under the Lease or, if the landlord's interest is transferred in any manner, the successor(s) or assign(s) occupying the position of landlord under the Lease at the time in question.

NOW, THEREFORE, in consideration of the mutual agreements herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Subordination. Tenant agrees and covenants that the Lease and the rights of Tenant thereunder, all of Tenant's right, title and interest in and to the property covered by the Lease, and any lease thereafter executed by Tenant covering any part of the Property, are and shall be subject, subordinate and inferior to (a) the Deed of Trust and the rights of Lender thereunder, and all right, title and interest of Lender in the Property, and (b) all other security documents now or hereafter securing payment of any indebtedness of Landlord (or any prior landlord) to Lender which cover or affect the Property (the "Security Documents"). This Agreement is not intended and shall not be construed to subordinate the Lease to any mortgage, deed of trust or other security document other than those referred to in the preceding sentence, securing the indebtedness to Lender.
2. Nondisturbance. Lender agrees that so long as the Lease is in full force and effect and Tenant is not in default in the payment of rent, additional rent or other payments or in the performance of any of the other terms, covenants or conditions of the Lease on Tenant's part to be performed (beyond the period, if any, specified in the Lease within which Tenant may cure such default),

(a) Tenant's possession of the Premises under the Lease shall not be disturbed or interfered with by Lender in the exercise of any of its foreclosure rights under the Deed of Trust or in connection with any conveyance in lieu of foreclosure, and

(b) Lender will not join Tenant as a party defendant for the purpose of terminating Tenant's interest and estate under the Lease in any proceeding for foreclosure of the Deed of Trust.

3. Attornment.

(a) Tenant covenants and agrees that in the event of foreclosure of the Deed of Trust, whether by power of sale or by court action, or upon a transfer of the Property by conveyance in lieu of foreclosure (the purchaser at foreclosure or the transferee in lieu of foreclosure, including Lender if it is such purchaser or transferee, being herein called "New Owner"), Tenant shall attorn to New Owner as Tenant's new landlord, and agrees that the Lease shall continue in full force and effect as a direct lease between Tenant and New Owner upon all of the terms, covenants, conditions and agreements set forth in the Lease and this Agreement, except for provisions which are impossible for New Owner to perform; provided, however, that in no event shall New Owner be:

(i) liable for any act, omission, default, misrepresentation or breach of warranty of any previous landlord (including Landlord) or obligations accruing prior to New Owner's actual ownership of the Property;

(ii) subject to any offset, defense, claim or counterclaim which Tenant might be entitled to assert against any previous landlord (including Landlord);

(iii) bound by any payment of rent, additional rent or other payments made by Tenant to any previous landlord (including Landlord) for more than one (1) month in advance;

(iv) bound by any amendment or modification of the Lease hereafter made, or consent or acquiescence by any previous landlord (including Landlord) under the Lease to any assignment or sublease hereafter granted, without the written consent of Lender; or

(v) liable for any deposit that Tenant may have given to any previous landlord (including Landlord) which has not, as such, been transferred to New Owner.

(b) The provisions of this Agreement regarding attornment by Tenant shall be self-operative and effective without the necessity of execution of any new lease or other document on the part of any party hereto or the respective heirs, legal representatives, successors or assigns of any such party. Tenant agrees, however, to execute and deliver upon the request of New Owner, any instrument or certificate which in the reasonable judgment of New Owner may be necessary or appropriate to evidence such attornment, including a new lease of the Premises on the same terms and conditions as the Lease for the unexpired term of the Lease.

4. Estoppel Certificate. Tenant agrees to execute and deliver from time to time, upon the request of Landlord or of any holder(s) of any of the indebtedness or obligations secured by the Deed of Trust, a certificate regarding the status of the Lease, certifying (a) that the Lease is in full force and effect, (b) the date through which rentals have been paid, (c) the date of the commencement of the term of the Lease, (d) the nature of any amendments or modifications of the Lease, (e) that to the best of Tenant's knowledge no default, or state of facts which with the passage of time or notice (or both) would constitute a default, exists under the Lease, (f) that to the best of Tenant's knowledge, no setoffs, recoupments, estoppels, claims or counterclaims exist against Landlord, and (g) such other matters as may be reasonably requested. If any of the foregoing statements are untrue, Tenant's certificate shall state the reasons therefor.

5. Acknowledgment and Agreement by Tenant. Tenant acknowledges and agrees as follows:

(a) Tenant acknowledges that in connection with the financing of the Property, Landlord is executing and delivering to Lender the Deed of Trust which contains an assignment of leases and rents. Tenant hereby expressly consents to such assignment and agrees that such assignment shall, in all respects, be superior to any interest Tenant has in the Lease or the Property, subject to the provisions of this Agreement. Tenant will not amend, alter or waive any provision of, or consent to the amendment, alteration or waiver of, any provision of the Lease without the prior written consent of Lender. Tenant shall not prepay any rents or other sums due under the Lease for more than one (1) month in advance of the due date therefor. Tenant acknowledges that Lender will rely upon this instrument in connection with such financing.

- (b) Lender, in making any disbursements to Landlord, is under no obligation or duty to oversee or direct the application of the proceeds of such disbursements, and such proceeds may be used by Landlord for purposes other than improvement of the Property.
- (c) From and after the date hereof, in the event of any act or omission by Landlord which would give Tenant the right, either immediately or after the lapse of time, to terminate the Lease or to claim a partial or total eviction, Tenant will not exercise any such right (i) until it has given written notice of such act or omission to Lender, and (ii) until the same period of time as is given to Landlord under the Lease to cure such act or omission shall have elapsed following such giving of notice to Lender and following the time when Lender shall have become entitled under the Deed of Trust to remedy the same. In no event will Tenant exercise any such right less than 30 days after receipt of such notice or prior to the passage of such longer period of time as may be necessary to cure or remedy such default, act or omission including such period of time necessary to obtain possession of the Property and thereafter cure such default, act or omission, during which period of time Lender shall be permitted to cure or remedy such default, act or omission. Notwithstanding the foregoing, Lender shall have no duty or obligation to cure or remedy any breach or default. It is specifically agreed that Tenant shall not, as to Lender, require cure of any such default which is personal to Landlord and therefore not susceptible to cure by Lender.
- (d) In the event that Lender notifies Tenant of a default under the Deed of Trust, Note or Security Documents and demands that Tenant pay its rent and all other sums due under the Lease directly to Lender, Tenant shall honor such demand and pay the full amount of its rent and all other sums due under the Lease directly to Lender, without offset, or as otherwise required pursuant to such notice beginning with the payment next due after such notice of default, without inquiry as to whether a default actually exists under the Deed of Trust, Security Documents or otherwise in connection with the Note, and notwithstanding any contrary instructions of or demands from Landlord.
- (e) Tenant shall send a copy of any notice or statement under the Lease to Lender at the same time such notice or statement is sent to Landlord if such notice or statement has a material impact on the economic terms, operating covenants or duration of the Lease.
- (f) Tenant has no right or option of any nature whatsoever, whether pursuant to the Lease or otherwise, to purchase the Premises or the Property, or any portion thereof or any interest therein, and to the extent that Tenant has had, or hereafter acquires, any such right or option, the same is hereby acknowledged to be subject and subordinate to the Deed of Trust and is hereby waived and released as against Lender and New Owner.
- (g) This Agreement satisfies any condition or requirement in the Lease relating to the granting of a nondisturbance agreement and Tenant waives any requirement to the contrary in the Lease.
- (h) Lender and any New Owner shall have no liability to Tenant or any other party for any conflict between the provisions of the Lease and the provisions of any other lease affecting the Property, including any provisions relating to exclusive or non-conforming uses or rights, renewal options and options to expand, and in the event of such a conflict, Tenant shall have no right to cancel the Lease or take any other remedial action against Lender, New Owner or any other party.
- (i) Lender and any New Owner shall have no obligation nor shall they incur any liability with respect to the erection or completion of the improvements in which the Premises are located or for completion of the Premises or any improvements for Tenant's use and occupancy, either at the commencement of the term of the Lease, upon any renewal or extension thereof, or upon the addition of additional space pursuant to any expansion rights contained in the Lease.
- (j) Lender and any New Owner shall have no obligation nor shall they incur any liability with respect to any warranties of any nature whatsoever, whether pursuant to the Lease or otherwise, including any warranties respecting use, compliance with zoning, Landlord's title, Landlord's authority, habitability, fitness for purpose or possession.
- (k) In the event that Lender or any New Owner shall acquire title to the Premises or the Property, Lender or such New Owner shall have no obligation, nor shall it incur any liability, beyond Lender's or New Owner's then-equity interest, if any, in the Property or the Premises, and Tenant shall look exclusively to such equity interest of Lender or New Owner, if any, for the payment and discharge of any obligations imposed upon Lender or New Owner hereunder or under the Lease or for recovery of any judgment from Lender or New Owner, and in no event shall Lender, New Owner, or any of their respective officers, directors, shareholders, agents, representatives, servants, employees or partners ever be personally liable for such judgment.
- (l) Tenant has never permitted, and will not permit, the generation, treatment, storage or disposal of any hazardous substance as defined under federal, state, or local law, on the Premises or Property except for such substances of a type and only in a quantity normally used in connection with the occupancy or

operation of buildings (such as non-flammable cleaning fluids and supplies normally used in the day-to-day operation of first class establishments similar to the Improvements), which substances are being held, stored, and used in strict compliance with federal, state, and local laws. Tenant shall be solely responsible for and shall reimburse and indemnify Landlord, New Owner or Lender, as applicable, for any loss, liability, claim or expense, including cleanup and all other expenses, including legal fees that Landlord, New Owner or Lender, as applicable, may incur by reason of Tenant's violation of the requirements of this Section 5(l).

6. Acknowledgment and Agreement by Landlord. Landlord, as landlord under the Lease and trustor under the Deed of Trust, acknowledges and agrees for itself and its heirs, representatives, successors and assigns, that: (a) this Agreement does not constitute a waiver by Lender of any of its rights under the Deed of Trust, Note or Security Documents, nor does this Agreement in any way release Landlord from its obligations to comply with the terms, provisions, conditions, covenants, agreements and clauses of the Deed of Trust, Note and Security Documents; (b) the provisions of the Deed of Trust, Note and Security Documents remain in full force and effect and must be complied with by Landlord; and (c) Tenant is hereby authorized to pay its rent and all other sums due under the Lease directly to Lender upon receipt of a notice as set forth in Section 5(d) above from Lender and that Tenant is not obligated to inquire as to whether a default actually exists under the Deed of Trust or the Security Documents or otherwise in connection with the Note. Landlord hereby releases and discharges Tenant of and from any liability to Landlord resulting from Tenant's payment to Lender in accordance with this Agreement. Landlord represents and warrants to Lender that a true and complete copy of the Lease has been delivered by Landlord to Lender.

7. Lease Status. Landlord and Tenant certify to Lender that neither Landlord nor Tenant has knowledge of any default on the part of the other under the Lease, that the Lease is bona fide and contains all of the agreements of the parties thereto with respect to the letting of the Premises and that all of the agreements and provisions therein contained are in full force and effect.

8. Notices. All notices, requests, consents, demands and other communications required or which any party desires to give hereunder shall be in writing and shall be deemed sufficiently given or furnished if delivered by personal delivery, by telegram, telex, or facsimile, by expedited delivery service with proof of delivery, or by registered or certified United States mail, postage prepaid, at the addresses specified at the end of this Agreement (unless changed by similar notice in writing given by the particular party whose address is to be changed). Any such notice or communication shall be deemed to have been given either at the time of personal delivery or, in the case of delivery service or mail, as of the date of first attempted delivery at the address and in the manner provided herein, or, in the case of telegram, telex or facsimile, upon receipt. Notwithstanding the foregoing, no notice of change of address shall be effective except upon receipt. This Section 8 shall not be construed in any way to affect or impair any waiver of notice or demand provided in this Agreement or in the Lease or in any document evidencing, securing or pertaining to the loan evidenced by the Note or to require giving of notice or demand to or upon any person in any situation or for any reason.

9. Miscellaneous.

(a) This Agreement supersedes any inconsistent provision of the Lease.

(b) Nothing contained in this Agreement shall be construed to derogate from or in any way impair or affect the lien, security interest or provisions of the Deed of Trust, Note or Security Documents.

(c) This Agreement shall inure to the benefit of the parties hereto, their respective successors and permitted assigns, and any New Owner, and its heirs, personal representatives, successors and assigns; provided, however, that in the event of the assignment or transfer of the interest of Lender, all obligations and liabilities of the assigning Lender under this Agreement shall terminate, and thereupon all such obligations and liabilities shall be the responsibility of the party to whom Lender's interest is assigned or transferred; and provided further that the interest of Tenant under this Agreement may not be assigned or transferred without the prior written consent of Lender.

(d) THIS AGREEMENT AND ITS VALIDITY, ENFORCEMENT AND INTERPRETATION SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA AND APPLICABLE UNITED STATES FEDERAL LAW EXCEPT ONLY TO THE EXTENT, IF ANY, THAT THE LAWS OF THE STATE IN WHICH THE PROPERTY IS LOCATED NECESSARILY CONTROL.

(e) The words "herein," "hereof," "hereunder" and other similar compounds of the word "here" as used in this Agreement refer to this entire Agreement and not to any particular section or provision. The terms "include" and "including" shall be interpreted as if followed by the words "without limitation."

(f) This Agreement may not be modified orally or in any manner other than by an agreement in writing signed by the parties hereto or their respective successors in interest.

(g) If any provision of this Agreement shall be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality or unenforceability shall not apply to or affect any other provision hereof, but this Agreement shall be construed as if such invalidity, illegality or unenforceability did not exist.

(h) **[This Agreement will be recorded in the real property records of County, .]**

[Signatures appear on the following page]

NOTICE: THIS AGREEMENT CONTAINS A PROVISION WHICH ALLOWS THE PERSON OBLIGATED ON YOUR LEASE TO OBTAIN A LOAN, A PORTION OF WHICH MAY BE EXPENDED FOR PURPOSES OTHER THAN IMPROVEMENT OF THE PROPERTY.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and sealed as of the date first above written.

ADDRESS OF LENDER:

LENDER:

BANK OF AMERICA, N.A., a national
banking association

Attention:

By: _____
Name: _____
Title: _____

ADDRESS OF TENANT:

TENANT:

Attention:

By: _____
Name: _____
Title: _____

ADDRESS OF LANDLORD:

LANDLORD:

Attention:

By: _____
Name: _____
Title: _____

GUARANTOR'S CONSENT

, guarantor of the Lease, signs below to express its consent to the foregoing Agreement and its agreement that its guaranty of the Lease is and shall remain in full force and effect.

Dated: _____

By: _____

Name: _____

Title: _____

[Add Appropriate Acknowledgments]

EXHIBIT "A"

LEGAL DESCRIPTION OF THE LAND

ACKNOWLEDGMENT

STATE OF CALIFORNIA)
) ss.
COUNTY OF)

On _____, before me, _____, a Notary Public in and for said County and State, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) (is/are) subscribed to the within instrument, and acknowledged to me that (he/she/they) executed the same in (his/her/their) authorized capacit(-y/-ies), and that by (his/her/their) signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature of Notary Public

[SEAL]

ACKNOWLEDGMENT

STATE OF CALIFORNIA)
) ss.
COUNTY OF)

On _____, before me, _____, a Notary Public in and for said County and State, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) (is/are) subscribed to the within instrument, and acknowledged to me that (he/she/they) executed the same in (his/her/their) authorized capacit(-y/-ies), and that by (his/her/their) signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature of Notary Public

[SEAL]

ACKNOWLEDGMENT

STATE OF CALIFORNIA)
) ss.
COUNTY OF)

On _____, before me, _____, a Notary Public in and for said County and State, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) (is/are) subscribed to the within instrument, and acknowledged to me that (he/she/they) executed the same in (his/her/their) authorized capacit(-y/-ies), and that by (his/her/their) signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature of Notary Public

[SEAL]

TERMINATION AGREEMENT

THIS TERMINATION AGREEMENT (the "**Agreement**") is made and entered into this 30 day of May, 2007 by and among Transportation Planning Group, Inc., d.b.a. Crain & Associates, a California corporation ("**Crain**"), Abbas Mohaddes, an individual ("**Mohaddes**") and Iteris, Inc, a Delaware corporation ("**Iteris**"). Crain, Mohaddes and Iteris are sometimes referred to herein collectively as the "**Parties**" and individually as a "**Party**."

WHEREAS, Mohaddes is concurrently entering into that certain Agreement for Sale and Purchase of Stock ("**Stock Purchase Agreement**") with KOA Corporation, d.b.a. Katz, Okitsu & Associates (the "**Buyer**") to facilitate the sale (the "**Sale**") of Mohaddes' interest in Crain to the Buyer;

WHEREAS, in order to facilitate the Sale, the Parties hereto desire to terminate that certain Joint Development Agreement dated October 18, 2006 among the Parties (the "**JDA**") conditioned on and effective immediately prior to the closing of the Sale.

AGREEMENT

NOW, THEREFORE, in consideration of the covenants, and representations set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. **Termination.** The Parties agree that the JDA shall be terminated effective immediately prior to the closing of the Sale, and that neither Party shall have any further obligations to the other party under the JDA except (i) as set forth in Section 4 of the JDA, which shall survive the termination of the JDA; and (ii) Iteris' right to the bonus as set forth in Section 2 below. Without limiting the foregoing, the Parties expressly agree that the non-competition and non-solicitation obligations set forth in JDA shall be terminated effective immediately prior to the closing of the Sale. The Parties further agree that neither party shall have any further obligations or rights under that certain Confidentiality Agreement dated October 6, 2005 between Crain and Iteris, which was previously extended pursuant to the terms of the JDA. Mohaddes acknowledges that he has notified the Buyer that the JDA has been terminated in accordance with this Agreement.

2. **Payment Status; Change in Control Payment.** The Parties agree that no further amounts are due and payable by Iteris under the JDA. At the closing of the Sale, Mohaddes agrees to remit to Iteris \$[5,000] as payment of the bonus set forth in Section 2.4 of the JDA in full satisfaction of any bonus provisions set forth in the JDA.

3. **Waiver of Right of First Refusal.** Provided that the Sale is consummated substantially in accordance with the terms of the last version of the Stock Purchase Agreement provided to Iteris, Iteris hereby declines its right of first refusal in connection with the Sale and waives its right to prior notice of the same so that the Sale may be consummated with the Buyer within 120 days after the date hereof.

4. **General Provisions.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument. This Agreement constitutes the entire agreement among the parties with regard to the subject matter of this Agreement. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by all parties. This Agreement shall be binding on, and shall inure to the benefit of, the parties to it and their respective heirs, legal representatives, successors, and assigns. The terms of this Agreement shall be governed by the laws of the State of California applicable to agreements entered into, to be wholly performed in and among residents exclusively of California.

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Abbas Mohaddes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Iteris, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2007

/s/ ABBAS MOHADDES
Abbas Mohaddes
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James S. Miele, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Iteris, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2007

/s/ JAMES S. MIELE

James S. Miele

Chief Financial Officer

(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Iteris, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jack Johnson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ABBAS MOHADDES

Abbas Mohaddes
Chief Executive Officer

August 13, 2007

A signed original of this written statement required by Section 906, or any other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Iteris, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James S. Miele, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JAMES S. MIELE

James S. Miele
Chief Financial Officer

August 13, 2007

A signed original of this written statement required by Section 906, or any other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.