

**Audit Committee Charter
of the Audit Committee of the Board of Directors of
Iteris, Inc.**

Adopted as of March 18, 2004

1. Purposes.

The primary purposes of the Audit Committee (the “*Committee*”) of Iteris, Inc. (the “*Company*”) are to oversee on behalf of the Company’s Board of Directors (the “*Board*”): (a) the conduct of the Company’s accounting and financial reporting processes, the audits of the Company’s financial statements and the integrity of the Company’s audited financial statements and other financial reports; (b) the performance of the Company’s internal accounting and financial controls function; (c) the engagement, replacement, compensation, qualifications, independence and performance of the Company’s independent auditors, and (d) the portions of the Company’s Code of Ethics and Business Conduct and related policies regarding the Company’s accounting, internal accounting controls or auditing matters. The Committee’s function is one of oversight only and shall not relieve the responsibilities of the Company’s management for preparing financial statements that accurately and fairly present the Company’s financial results and condition, or the responsibilities of the independent auditors relating to the audit or review of financial statements.

2. Composition.

(a) At Least Three Members. The Committee shall consist of at least three independent directors as defined in Section 2(b) below. The Board shall designate a Committee member as the Chairperson of the Committee, or if the Board does not do so, the Committee members shall appoint a Committee member as Chairperson by a majority vote of the authorized members of the Committee.

(b) Independence. All members of the Committee shall be “independent” as determined by the Board and as defined in the listing standards of the Nasdaq Stock Market or such other national securities exchange, if any, on which the Company’s securities are then listed, as the same may be amended from time to time (the “*listing standards*”), Section 121A and Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”), any other rules or regulations of the Securities and Exchange Commission (the “*SEC*”) and any other laws applicable to the Company

(c) Financial Literacy. Each member of the Committee shall, upon appointment to the Committee, be able to read and understand fundamental financial statements, including balance sheets, income statements and cash flow statements. At least one member of the Committee shall be an “*audit committee financial expert*” as defined in applicable SEC rules and regulations, or otherwise meet the “*financial sophistication*” requirements set forth in the listing standards.

(d) Prohibition Against Past Involvement in Company Financial Statements. No Committee member shall have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the preceding three years.

(e) Appointment. Subject to the requirements of the listing standards and the Bylaws of the Company, the Board initially shall appoint the Committee members to serve until the first meeting of the Board following the next Annual Meeting of Stockholders. Thereafter, the Committee members shall be appointed by the Board for one year terms and until their successors are appointed and qualified, or until their earlier retirement, resignation or removal. Any member of the Committee may be removed, with or without cause, by the approval of a majority of the independent directors then serving on the full Board. The Board may fill any vacancies on the Committee by a majority vote of the authorized number of directors.

3. **Meetings; Reports and Resources of the Committee.**

(a) **Meetings.** The Committee shall meet as often as it determines necessary or advisable, but not less frequently than quarterly. The Committee also may hold special meetings or act by unanimous written consent as the Committee may decide. The meetings may be in person or by telephone. The Committee shall keep written minutes of its meetings and shall deliver a copy of such minutes to the Board and to the Corporate Secretary of the Company for inclusion in the Company's minute books. The Committee periodically shall meet separately with management, the internal auditors and the independent auditors. The Committee may request any officer or employee of the Company or the Company's independent counsel or the independent auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The foregoing notwithstanding, the Committee also may exclude from its meetings any persons it deems appropriate including, but not limited to, any director who is not a member of the Committee.

(b) **Procedures.** The Committee may establish its own procedures, including the formation and delegation of authority to subcommittees, in a manner not inconsistent with this Charter, the Company's Bylaws, applicable laws or regulations, or the listing standards. The Chairperson of the Committee or a majority of the Committee members may call meetings of the Committee. A majority of the authorized number of Committee members shall constitute a quorum for the transaction of Committee business, and the vote of a majority of the Committee members present at the meeting at which a quorum is present shall be the act of the Committee, unless in either case a greater number is required by this Charter, the Company's Bylaws, applicable laws or regulations, or the listing standards.

(c) **Reports.** The Committee shall report its actions and recommendations to the Board after each Committee meeting. The Committee also shall make regular reports to the Board regarding, among other things, any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors, and the performance of the Company's internal audit function. The Committee shall provide to the Board at an appropriate time prior to preparation of the Company's proxy statement for its Annual Meeting of Stockholders, a report of the Committee, which report shall be included in such proxy statement. The report shall include such information as may be required under the SEC's rules and regulations.

(d) **Committee Access and Resources.** The Committee is at all times authorized to have direct, independent and confidential access to the Company's other directors, management and personnel, as well as to the Company's books, records and facilities, to carry out the Committee's purposes. The Committee shall have the sole authority, to the extent it deems necessary or appropriate, to retain and terminate independent legal, accounting or other experts or advisers selected by the Committee for matters related to the Committee's purposes. The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services, compensation to any independent legal, accounting or other experts or advisers employed by the Committee, and ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out the Committee's duties.

4. **Authority and Responsibilities.**

The Committee's role is one of oversight. The Company's management is responsible for preparing the Company's financial statements and for their accuracy, and the Company's independent auditors are responsible for auditing those financial statements. While the Committee has certain authority and oversight responsibilities under this Charter, it is not the responsibility of the Committee to plan or conduct audits, or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles ("**GAAP**") and applicable rules and regulations. In the absence of their reason to believe that such reliance is unwarranted, the Committee members may rely without independent verification on the information provided to them and on the representations made by the Company's management and independent auditors.

Additionally, the Committee recognizes that the Company's management, as well as the Company's independent auditors, have more time, knowledge and more detailed information concerning the Company than do

Committee members. Consequently, in carrying out its oversight responsibilities, the Committee is not providing any expert or special assurance as to the Company's financial statements or any professional certification as to work of the Company's independent auditors. In addition, auditing literature, particularly Statement of Auditing Standards No. 71, defines the term "review" to include a particular set of required procedures to be undertaken by independent auditors. The Committee members are not independent auditors, and the term "review" as applied to the Committee in this Charter is not intended to have that meaning and should not be interpreted to suggest that the Committee members can or should follow the procedures required of auditors performing reviews of financial statements. Furthermore, the Committee's authority and oversight responsibilities do not assure that the audits of the Company's financial statements have been carried out in accordance with GAAP.

The Committee shall have the direct authority and responsibility to select, appoint, retain, compensate, evaluate and oversee the work of the Company's independent auditors (including resolving disagreements between management and the independent auditors regarding financial reporting) engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services, and, if necessary or advisable in the Committee's sole discretion, to terminate and replace the Company's independent auditors. The Committee shall have the sole authority to approve all audit engagement fees and terms. The Company's independent auditors shall report directly and be accountable to the Committee.

The following functions and responsibilities are set forth as a guide with the understanding that the Committee has the authority to diverge from this guide as appropriate given the circumstances. The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible to best react to changing conditions and circumstances, and that the Committee should take appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices and ethical behavior.

To fulfill its purposes, the Committee shall:

Financial Statements and Disclosure Matters

(a) Review the Company's financial statements and, as part of that review, (i) review and discuss with management and the independent auditors, prior to public release: (A) the Company's annual audited and quarterly financial statements to be filed with the SEC; (B) the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations;" (C) any certifications by the Company's principal executive officer and principal financial officer regarding the Company's financial statements, internal accounting and financial controls and procedures, and disclosure controls and procedures, that will be filed with or furnished to the SEC; and (ii) discuss with the independent auditors the matters of which the independent auditors inform the Committee and that are required to be discussed under applicable auditing standards; and (iii) make a recommendation to the Board regarding the inclusion of the annual audited financial statements in the Company's Annual Report on Form 10-K to be filed with the SEC.

(b) Discuss with management and the independent auditors and review (i) any major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles; (ii) any major issues regarding the adequacy of the Company's internal controls; (iii) any special audit steps adopted or which need to be adopted in light of material control deficiencies, if any; and (iv) any analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.

(c) At least annually, review and discuss reports from the independent auditors on:

- All critical accounting policies and practices to be used;
- All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors; and

- Other material written communications between the independent auditors and management, such as any management letter, any report on observations and recommendations on internal controls, any schedule of unadjusted audit differences and any listing of adjustments and reclassifications not recorded.

(d) Discuss with management and review the Company's press releases regarding financial results, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies, prior to any public disclosure thereof. Such discussion may be done generally (for instance, discussing the types of information to be disclosed and the types of presentations to be made).

(e) Review and discuss with management and the independent auditors the existence and effect of any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with entities of which the Committee is made aware whose accounts are not consolidated in the financial statements of the Company and that may have a material current or future effect on the Company's financial condition, results of operations, liquidity, capital expenditures, capital resources or significant components of revenues or expenses.

(f) Discuss with management and the independent auditors any significant new transactions or other significant matters or events not in the ordinary course of business that have occurred and their views of the accounting treatment given thereto.

(g) Review and discuss with management and the independent auditors (i) the accounting policies that may be viewed as critical; (ii) any significant changes in the accounting policies of the Company and any potential changes in accounting, auditing, review and financial reporting standards and regulations promulgated by authoritative standard setting or regulatory bodies that may have a significant impact on the Company's financial reports; and (iii) the independent auditors' views about management's choices among alternative accounting principles.

(h) Review and discuss periodically with legal counsel any legal and regulatory matters that may have a material impact on the Company's financial statements, or the Company's compliance policies and programs. Discuss with management and the independent auditors any correspondence with regulators or governmental agencies and any published reports that raise material issues regarding the Company's financial statements, disclosures or accounting policies.

(i) Discuss with management and the independent auditors the Company's significant financial risks or exposures and assess the steps management has taken to monitor, control and minimize such risks or exposures. Discuss with management and the independent auditors the Company's systems and policies with respect to risk monitoring, assessment and management.

(j) Discuss with the independent auditors and management, before filing with the SEC any periodic report containing financial statements, the matters required to be discussed by Statement on Auditing Standards No. 61 (as modified or amended from time to time), including the independent auditors' judgments about the quality, as well as the acceptability, of the accounting principles used and the judgments made in the preparation of the Company's financial statements.

(k) Consider and review with the independent auditors and management (i) the adequacy and effectiveness of the Company's disclosure controls and procedures and internal controls; (ii) all significant deficiencies and material weaknesses in the design or operation of the Company's internal controls that are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; (iii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; (iv) the adequacy and effectiveness of those portions of the Company's Code of Ethics and Business Conduct that relate to the integrity of the Company's financial reporting, including any changes to or waivers provided under such Code since the last review; and (v) the related findings and recommendations of the independent auditors together with management's responses.

Oversight of the Company's Relationship with the Independent Auditors

(l) At least annually, request and obtain from the independent auditors a formal written statement describing (i) all relationships between the independent auditors and the Company, consistent with Independence Standards Board Standard No. 1 (or any similar requirements as may be issued in the future by authoritative standards setting or regulatory bodies); (ii) the independent auditors' internal quality-control procedures; and (iii) any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, regarding one or more independent audits carried out by the independent auditors, and any steps taken to deal with any such issues. The Committee shall actively engage in a dialogue with management and the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors from management and the Company, and shall take, or recommend that the full Board take, appropriate action in response to the independent auditors' report to satisfy itself of the independent auditors' objectivity and independence.

(m) Consider and pre-approve all permissible non-audit services that are not prohibited under Section 10A(g) of the Exchange Act and all audit, review and attest services (including the fees and terms thereof) to be performed for the Company by its independent auditors, subject to the de minimis exceptions for permissible non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Committee prior to the completion of the audit. All such approvals shall be disclosed in the Company's definitive proxy statements for its Annual Meetings of Stockholders and additionally in its Annual Reports on Form 10-K if such information is not incorporated therein by reference to the proxy statement. The Committee may delegate the authority to grant pre-approvals to one or more members of the Committee, whose decisions must be presented to the full Committee at its next scheduled meeting.

(n) Review, evaluate and ensure the regular rotation of the lead or coordinating audit partners having primary responsibility for the audit, or the audit partners responsible for reviewing the audit, as required by Section 10A(j) of the Exchange Act.

(o) Establish clear policies, that are consistent with Section 10(A)(1) of the Exchange Act and Rule 2-01 of SEC Regulation S-K, for the Company's hiring of current or former partners, principals, shareholders or employees of the independent auditors in an accounting role or a financial reporting oversight role at the Company (or any of its subsidiaries or affiliates).

(p) Discuss with the independent auditors and management any problems or difficulties encountered in the course of the audit work, such as any restrictions on the scope of activities or access to requested information, and management's response to such problems or difficulties, including any significant disagreements with management.

(q) Review with the independent auditors (i) all of their significant findings during the year, including the status of previous audit recommendations; (ii) the overall scope and plans for the audit (including the audit budget and the adequacy of compensation and staffing); (iii) any changes required in the planned scope of the audit; and (iv) the coordination of audit efforts to monitor completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.

Compliance Oversight Responsibilities

(r) Obtain from the independent auditors assurance that Section 10A(b) of the Exchange Act, which addresses the discovery and disclosure of any illegal act, has not been implicated.

(s) Establish and maintain procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by the Company's employees of concerns regarding questionable accounting or auditing matters.

(t) Review any reports brought to the Committee by management, the independent auditors and the Company's legal counsel regarding evidence of any material violation by the Company, or by any officer, director, employee or agent of the Company, of an applicable United States federal or state securities law, a material breach of fiduciary duty arising under United States federal or state law, or a similar material violation of any United States federal or state law.

(u) Review and discuss with management and the independent auditors, on an ongoing basis, any proposed transactions or courses of dealing with related parties identified in Item 404 of SEC Regulation S-K (such as directors, director nominees, executive officers, significant stockholders of the Company, or any of their immediate family members) for potential conflict of interest situations. In such review consider: (i) the financial accounting accorded the transaction or course of dealing; (ii) whether the terms or other aspects differ from those that would likely be negotiated with independent parties; and (iii) whether the proposed disclosure of the transaction or course of dealing is in accordance with GAAP. Upon completion of such review, the Committee shall either approve or disapprove each reviewed related party transaction or course of dealing and recommend such approval or disapproval to the full Board.

(v) Prepare a report to be included in the Company's annual proxy statement stating whether or not the Committee (i) has reviewed and discussed the audited financial statements with management; (ii) has discussed with the independent auditors the matters (if any) that the independent auditors have informed the Committee are required to be discussed under applicable auditing standards; (iii) has received the written disclosure and letter from the independent auditors (delineating all relationships they have with the Company) and has discussed with them their independence; and (iv) based on the review and discussions referred to above, the members of the Committee recommended to the Board that the audited financials be included in the Company's Annual Report on Form 10-K for filing with the SEC.

(w) Annually evaluate its own performance as a committee, including its effectiveness and compliance with its Charter, and report to the Board the results of such evaluation and any recommended changes. Review and reassess, at least annually, the adequacy of this Charter and submit any recommended changes to the Board for its consideration.

(x) Perform any other activities, consistent with this Charter, the Company's Bylaws and applicable listing standards and laws, as the Committee or the Board deems necessary or appropriate.