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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934**

Date of report (Date of earliest event reported): **February 11, 2008**

**ITERIS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation)

**001-08762**

(Commission File Number)

**95-2588496**

(IRS Employer Identification No.)

**1700 Carnegie Avenue, Suite 100, Santa Ana, California 92705**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(949) 270-9400**

**Not Applicable**

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act
  - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act
  - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act
  - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act
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**Item 1.01 Entry into a Material Definitive Agreement.**

On February 11, 2008, Iteris, Inc. (the “Company”) entered into a Debenture Redemption Agreement with Potomac Capital Partners, LP and Potomac Capital International Ltd. (together, “Potomac”), pursuant to which the Company redeemed two convertible debentures, in the aggregate principal amount of \$1.1 million, held by Potomac. The debentures were redeemed for an aggregate payment of \$935,000 plus all accrued but unpaid interest. The debentures were originally issued by the Company to Potomac in May 2004, along with warrants to purchase an aggregate of 35,585 shares of the Company’s common stock at an exercise price of \$3.86 per share and warrants to purchase an aggregate of 34,103 shares of the Company’s common stock at an exercise price of \$4.03 per share, pursuant to a Debenture and Warrant Purchase Agreement dated May 2004 by and among the Company and certain investors, including Potomac. The warrants issued to Potomac were not redeemed or canceled in connection with the redemption of the debentures and will remain outstanding until their expiration in May 2009. The debentures were due and payable in full in May 2009, provided for 6.0% annual interest, payable quarterly, and were 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.

The foregoing summary of the Debenture Redemption Agreement is not complete and is qualified in its entirety by reference to the full text of the agreement, which is filed as an exhibit to this Current Report on Form 8-K.

**Item 9.01 Financial Statement and Exhibits.**

(d) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
10.1	Debenture Redemption Agreement, dated February 11, 2008, by and among Potomac Capital Partners, LP, Potomac Capital International Ltd. and Iteris, Inc.

**SIGNATURE**

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

Dated: February 15, 2008

ITERIS, INC.,  
a Delaware corporation

By: /s/ James S. Miele  
James S. Miele  
Chief Financial Officer

## EXHIBIT INDEX

Exhibit No.	Description
10.1	Debenture Redemption Agreement, dated February 11, 2008, by and among Potomac Capital Partners, LP, Potomac Capital International Ltd. and Iteris, Inc.

**DEBENTURE REDEMPTION AGREEMENT**

This Debenture Redemption Agreement ("**Agreement**") is entered into as of February 11, 2008 by and among Potomac Capital Partners, LP and Potomac Capital International Ltd. (together, "**Potomac**") and Iteris, Inc. ("**Iteris**" or the "**Company**").

**RECITALS**

WHEREAS, the Company and Potomac are parties to that certain Debenture and Warrant Purchase Agreement dated May 19, 2004 pursuant to which the Company issued 6% Convertible Debentures to Potomac;

WHEREAS, Potomac Capital Partners, LP holds a 6% Convertible Debenture dated May 19, 2004, issued by the Company, in the principal amount of \$800,000 (the "**Potomac Capital Partners Debenture**") and Potomac Capital International Ltd holds a 6% Convertible Debenture dated May 19, 2004, issued by the Company, in the principal amount of \$300,000 (the "**Potomac Capital International Debenture**"); and

WHEREAS, the parties hereto have reached certain agreements with respect to the redemption of the above-described debentures.

NOW, THEREFORE, in consideration of the foregoing and the mutual promises and agreements contained herein, the sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Debenture Redemption.**

1.1. The Company agrees to redeem from Potomac, and Potomac agrees to sell back to the Company, the Potomac Capital Partners Debenture and the Potomac Capital International Debenture (together, the "**Potomac Debentures**") for an aggregate payment of \$935,000 (the "**Aggregate Redemption Price**"). In addition to the payment of the Aggregate Redemption Price, the Company shall pay at the Closing (as defined below) all accrued but unpaid interest on such debentures as of the date of Closing.

1.2. The redemption of the Potomac Debentures (the "**Redemption**") shall take place at the offices of Dorsey & Whitney LLP, 38 Technology Drive, Irvine, California 92618, at 1:00 P.M. Pacific Time on February 11, 2008, or at such other time and place as the Company and Potomac mutually agree orally or in writing (which time and place are designated as the "**Closing**"). At the Closing, Potomac shall deliver to the Company the originals of the Potomac Debentures against payment by the Company of the amounts set forth in Section 1.1 by check, wire transfer or any combination thereof. Notwithstanding the foregoing, Potomac acknowledges and agrees that, upon and as of the payment by the Company of the amounts set forth in Section 1.1, whether or not Potomac has delivered and surrendered the originals of the Potomac Debentures to the Company, the Potomac Debentures shall be deemed null and void and cancelled in their entirety and Potomac shall have no further rights with respect to or under the Potomac Debentures, whether such rights shall have accrued prior to or after the date hereof.

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2. Representations and Warranties. Potomac hereby represents, warrants and acknowledges as follows:

2.1. As of the date hereof, the total outstanding under the Potomac Debentures (principal and accrued but unpaid interest) is One Million One Hundred Seven Thousand Four Hundred Thirteen Dollars and Seventy Cents (\$1,107,413.70).

2.2. Potomac is the sole record and beneficial owner of the Potomac Debentures. Upon payment of the amounts set forth in Section 1.1, the Company will acquire good and valid title to the Potomac Debentures, free and clear of all liens, security interests, pledges, claims and encumbrances of every kind, nature and description incurred or created by Potomac.

2.3. Potomac has the full right and power to enter into this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by Potomac, and the consummation of the transactions contemplated hereby, (i) have been duly authorized by all requisite organizational action of Potomac and (ii) do not and will not conflict with any law applicable to Potomac or any of its properties or assets or any provisions of Potomac's organizational documents or contracts, agreements or other instrument to which Potomac is a party or by which any of its properties or assets may be bound..

2.4. Potomac is an experienced and sophisticated investor, having such knowledge and experience in business and financial matters and investing as to be able to protect its own interests and assess the risks and merits of the Redemption. Potomac has independently determined the advisability of entering into this Agreement and is entering into this Agreement of its own volition, and is not relying on any representations or statements of the Company or its officers, directors, shareholders, employees, agents, attorneys and representatives except for those representations and statements expressly set forth herein.

2.5. Potomac has had the opportunity to consult with counsel of its choice regarding the meaning and legal effect of this Agreement, and regarding the advisability of making the agreements provided for herein, and fully understands the same.

3. Release. The following release shall be effective upon the Company's payment of the amounts set forth in Section 1.1.

3.1. Other than the obligations, covenants, representations and warranties provided for in this Agreement, Potomac, for itself and its predecessors, successors, agents and assigns (individually and collectively, the "**Potomac Releasing Parties**"), hereby waives, releases, and forever discharges Iteris and its predecessors, successors, assigns, officers, directors, shareholders, employees, agents, attorneys and representatives, past and present, (collectively, the "**Iteris Released Parties**") of and from any and all rights, claims, debts, liabilities, demands, obligations, promises, damages, causes of action and claims for relief of any kind, manner, nature and description, known or unknown, which any of the Potomac Releasing Parties have, may have had, might have asserted, may now have or assert, or may hereafter have or assert against the Iteris Released Parties, or any of them, related to or arising under the Redemption and Potomac's purchase and ownership of the Potomac Debentures. Potomac represents and warrants that it has not filed any claims, charges, complaints or actions against the Company and has not assigned or transferred to any person or entity any of the claims Potomac is releasing in this Agreement.

3.2. The Potomac Releasing Parties acknowledge and agree that the foregoing release includes in its effect all claims that they do not know or suspect to exist in their favor as of the date hereof, and the Potomac Releasing Parties expressly waive any statute, legal doctrine or other similar limitation upon the effect of general releases. In particular, the Potomac Releasing Parties waive any and all rights and benefits conferred upon them by Section 1542 of the California Civil Code, which states as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

4. Governing Law. This Agreement shall in all respects be interpreted, enforced, and governed by and under the internal laws of the State of Delaware, without giving effect to any choice of law or conflict of law principles.

5. Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the subject matter and supersedes all prior oral or written communications, understandings and agreements with respect thereto.

6. Headings. The use of headings in this Agreement is merely for convenience and such headings shall not be used in construing any provisions of this Agreement.

7. Interpretation. Each party has had the opportunity to negotiate modifications to the language of this Agreement and agrees that, in any dispute regarding the interpretation or construction of this Agreement, no presumption shall operate in favor of or against any party by virtue of its role in drafting or not drafting the terms and conditions set forth herein..

8. Severability. If any part, term or provision of this Agreement is held by a court to be void or voidable, illegal, unenforceable, invalid or otherwise in conflict with law, (i) the remaining provisions or applications of this Agreement shall not be affected and the rights and obligations of the parties shall be construed and enforced as if this Agreement did not contain the particular term or provision held to be invalid and (ii) such provision shall be amended to conform as nearly as possible, and only to the extent required, to applicable law.

9. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, and all such counterparts together shall constitute but one and the same instrument. A photocopy or facsimile signature may be used as an original.

*[Signature Page Follows]*

