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, 2010

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.)
1700 Carnegie Avenue, Suite 100 **Santa Ana, California** (Address of principal executive office)	**92705** (Zip Code)

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

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

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 July 23, 2010, there were 34,331,756 shares of common stock outstanding.

ITERIS, INC.
Quarterly Report on Form 10-Q
For the Three Months Ended June 30, 2010

Table of Contents

PART I.	**FINANCIAL INFORMATION**	3
ITEM 1.	FINANCIAL STATEMENTS	3
	UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS AT JUNE 30, 2010 AND MARCH 31, 2010	3
	UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE MONTHS ENDED JUNE 30, 2010 AND 2009	4
	UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED JUNE 30, 2010 AND 2009	5
	NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	6
ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	15
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	23
ITEM 4T.	CONTROLS AND PROCEDURES	23
PART II.	**OTHER INFORMATION**	24
ITEM 1.	LEGAL PROCEEDINGS	24
ITEM 1A.	RISK FACTORS	24
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	33
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	33
ITEM 4.	(REMOVED AND RESERVED)	33
ITEM 5.	OTHER INFORMATION	33
ITEM 6.	EXHIBITS	34

Unless otherwise indicated in this report, the "Company," "we," "us" and "our" refer to Iteris, Inc. and our wholly-owned subsidiary, Iteris Europe GmbH.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Iteris, Inc.
Unaudited Condensed Consolidated Balance Sheets
(In thousands, except par value)

	June 30, 2010	March 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 11,676	$ 10,405
Trade accounts receivable	11,599	11,311
Costs in excess of billings on uncompleted contracts	4,176	3,871
Inventories	3,043	2,727
Deferred income taxes	4,526	4,993
Prepaid expenses and other current assets	686	623
Total current assets	35,706	33,930
Property and equipment, net	2,407	2,550
Deferred income taxes	9,739	9,739
Intangible assets, net	416	452
Goodwill	27,791	27,791
Other assets	215	200
Total assets	$ 76,274	$ 74,662
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$ 3,285	$ 2,492
Accrued payroll and related expenses	3,173	2,709
Accrued liabilities	1,758	1,748
Billings in excess of costs and estimated earnings on uncompleted contracts	2,190	2,105
Current portion of long-term debt	2,324	2,324
Total current liabilities	12,730	11,378
Deferred rent	1,308	1,386
Unrecognized tax benefits	751	751
Other non-current liabilities	—	112
Long-term debt	2,512	2,969
Total liabilities	17,301	16,596
Commitments and contingencies		
Stockholders' equity:		
Common stock $0.10 par value, 70,000 shares authorized, 34,332 and 34,318 shares issued and outstanding at June 30, 2010 and March 31, 2010, respectively	3,433	3,432
Additional paid-in capital	137,612	137,503
Accumulated deficit	(82,072)	(82,869)
Total stockholders' equity	58,973	58,066
Total liabilities and stockholders' equity	$ 76,274	$ 74,662

See accompanying notes.

Table of Contents

Iteris, Inc.
Unaudited Condensed Consolidated Statements of Income
(In thousands, except per share amounts)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Net sales and contract revenues:		
Net sales	$ 9,462	$ 6,933
Contract revenues	6,212	7,701
Total net sales and contract revenues	15,674	14,634
Costs of net sales and contract revenues:		
Cost of net sales	4,520	3,843
Cost of contract revenues	4,137	5,209
Gross profit	7,017	5,582
Operating expenses:		
Selling, general and administrative	4,641	4,253
Research and development	941	964
Amortization of intangible assets	36	44
Total operating expenses	5,618	5,261
Operating income	1,399	321
Non-operating income (expense):		
Other income, net	1	19
Interest expense, net	(40)	(86)
Income before income taxes	1,360	254
Provision for income taxes	(563)	(110)
Net income	$ 797	$ 144
Earnings per share:		
Basic	$ 0.02	$ 0.00
Diluted	$ 0.02	$ 0.00
Weighted-average shares outstanding:		
Basic	34,329	34,192
Diluted	34,692	34,386

See accompanying notes.

Iteris, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows
(In thousands)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Cash flows from operating activities		
Net income	$ 797	$ 144
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in deferred tax assets	467	—
Depreciation of property and equipment	244	256
Stock-based compensation	91	89
Amortization of intangible assets	36	44
Changes in operating assets and liabilities:		
Accounts receivable	(288)	644
Net costs and estimated earnings in excess of billings	(220)	159
Inventories	(316)	503
Prepaid expenses and other assets	(78)	(128)
Accounts payable and accrued expenses	1,183	(1,690)
Net cash provided by operating activities	1,916	21
Cash flows from investing activities		
Purchases of property and equipment	(101)	(42)
Cash paid for business combination	(106)	(300)
Net cash used in investing activities	(207)	(342)
Cash flows from financing activities		
Borrowings on long-term debt	—	750
Payments on long-term debt	(457)	(889)
Proceeds from stock option exercises	19	72
Net cash used in financing activities	(438)	(67)
Effect of exchange rate changes on cash	—	34
Increase (decrease) in cash and cash equivalents	1,271	(354)
Cash and cash equivalents at beginning of period	10,405	6,372
Cash and cash equivalents at end of period	$ 11,676	$ 6,018
Supplemental disclosure of non-cash investing and financing activities:		
Liabilities incurred for business combination	$ —	$ 218

See accompanying notes.

Iteris, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
June 30, 2010

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Iteris, Inc. (including our subsidiary, referred to collectively in these consolidated financial statements as “Iteris,” the “Company,” “we,” “our” and “us”) is a leader in the traffic management market focused on the development and application of advanced technologies that reduce traffic congestion and improve the safety of surface transportation systems infrastructure. Additionally, we believe our products and services, in conjunction with sound traffic management, minimize the environmental imact of traffic congestion. By combining outdoor image processing, traffic engineering and information technology, we offer a broad range of Intelligent Transportation Systems (“ITS”) and driver safety solutions. Iteris was originally incorporated in Delaware in 1987.

Basis of Presentation

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) 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 Iteris as of June 30, 2010, the consolidated results of operations for the three months ended June 30, 2010 and 2009 and the consolidated cash flows for the three months ended June 30, 2010 and 2009. Certain information and footnote disclosures normally included in financial statements prepared in accordance with 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, 2010 are not necessarily indicative of those to be expected for future quarterly periods or the entire fiscal year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended March 31, 2010, which was filed with the SEC on May 21, 2010.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and 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, projections of taxable income used to assess realizability of deferred tax assets, inventory and warranty reserves, costs to complete long-term contracts, indirect cost rates used in cost-plus contracts, contract reserves, the valuation of debt and equity instruments and estimates of future cash flows used to assess the recoverability of long-lived assets and the impairment of goodwill.

Revenue Recognition

Net Sales

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 we believe collectibility of the net sales amount is probable. Accordingly, at the date revenue is recognized, the significant uncertainties concerning the sale have been resolved.

We recognize revenue from the sale of deliverables that are part of a multiple-element arrangement in accordance with applicable accounting guidance that establishes a selling price hierarchy permitting the use of an estimated selling price to determine the allocation of arrangement consideration to a deliverable in a multiple-element arrangement where neither vendor specific objective evidence (“VSOE”) nor third-party evidence (“TPE”) is available for that deliverable. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, we are required to estimate the selling prices of those elements. Overall arrangement consideration is allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on our estimated selling price.

We account for multiple-element arrangements that consist only of software and software-related services in accordance with industry-specific accounting guidance for software and software-related transactions. For such transactions, revenue on arrangements that include multiple elements is allocated to each element based on the relative fair value of each element, and fair value is generally determined by VSOE. If we cannot objectively determine the fair value of any undelivered element included in such multiple-element arrangements and the only undelivered element is post-contract customer support or maintenance, and VSOE of the fair value of such support or maintenance does not exist, revenue from the entire arrangement is recognized ratably over the support period. When the fair value of a delivered element has not been established, but VSOE of fair value exists for the undelivered elements, we use the residual method to recognize revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

We also derive revenue from the provision of specific non-recurring contract engineering services and royalties. 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 certain of our products. Non-recurring contract engineering and royalty revenues are included in net sales in the accompanying unaudited condensed consolidated statements of income and totaled $141,000 and $248,000 for the three months ended June 30, 2010 and 2009, respectively.

Contract Revenues

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 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.

Foreign Currency

We have determined that the functional currency of our subsidiary in Europe is the United States (“U.S.”) dollar. Local currency financial statements are remeasured into U.S. dollars at the exchange rate in effect as of the balance sheet date for monetary assets and liabilities and the historical exchange rate for nonmonetary assets and liabilities. Revenues and expenses are remeasured using the average exchange rate for the period, except items related to nonmonetary assets and liabilities, which are remeasured using historical exchange rates. Remeasurement gains and losses are reported in “other income, net” in the unaudited consolidated statements of income.

Concentration of Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk consist principally of cash and cash equivalents and trade accounts receivable.

Cash and cash equivalents consist primarily of demand deposits and money market funds maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with high credit quality financial institutions and therefore have minimal credit risk.

Our accounts receivable are primarily derived from revenues earned from customers located throughout North America and Europe. We generally do not require collateral or other security from customers. We maintain an allowance for doubtful accounts for potential credit losses, which losses have historically been within management’s expectations.

Fair Values of Financial Instruments

The fair value of cash and cash equivalents, receivables, accounts payable and accrued expenses approximate carrying value because of the short period of time to maturity. The fair value of line of credit agreements and long-term debt approximate carrying value because the related effective rates of interest approximate current market rates available to us for debt with similar terms and similar remaining maturities.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments with initial maturities of ninety days or less.

Allowance for Doubtful Accounts

The collectability of our accounts receivable is evaluated through review of invoices outstanding greater than a certain period of time and ongoing credit evaluations of our customers' financial condition. In cases where we are aware of circumstances that may impair a specific customer's ability to meet its financial obligations subsequent to the original sale, we will record an allowance against amounts due, and thereby reduce the net recognized receivable to the amount we reasonably believe will be collected. We also maintain an allowance based on our historical collections experience. When we determine that collection is not likely, we write off accounts receivable against the allowance for doubtful accounts.

Costs in Excess of Billings on Uncompleted Contracts

Costs in excess of billings on uncompleted contracts in the accompanying unaudited condensed consolidated balance sheets represent unbilled amounts earned and reimbursable under services sales arrangements. At any given period-end, a large portion of the balance in this account represents the accumulation of labor, materials and other costs that have not been billed due to timing, whereby the accumulation of each month's costs and earnings are not administratively billed until the subsequent month. Also included are amounts that become billable according to contract terms, which usually consider the passage of time, achievement of milestones or completion of the project. Generally, such unbilled amounts will be billed and collected within the next twelve months.

Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts

Billings in excess of costs and estimated earnings on uncompleted contracts in the accompanying unaudited condensed consolidated balance sheets is comprised of cash collected from customers and billings to customers on contracts in advance of work performed, advance payments negotiated as a contract condition, estimated losses on uncompleted contracts, project-related legal liabilities and other project-related reserves. The majority of the unearned amounts will be earned within the next twelve months.

We record provisions for estimated losses on uncompleted contracts in the period in which such losses become known. The cumulative effects of revisions to contract revenues and estimated completion costs are recorded in the accounting period in which the amounts become evident and can be reasonably estimated. These revisions can include such items as the effects of change orders and claims, warranty claims, liquidated damages or other contractual penalties, adjustments for audit findings on U.S. or other government contracts and contract closeout settlements.

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 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

Goodwill is tested for impairment on an annual basis in our fourth fiscal quarter or more frequently if indicators of impairment exist. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair value of our reporting units with each respective reporting unit's carrying amount, including goodwill. We determine the fair value of reporting units using the income approach with a reconciliation of the total reporting unit fair value to our total market capitalization plus an appropriate control premium. 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 and an impairment charge is recorded for any excess carrying amount over fair value. We performed annual impairment assessments of the carrying value of goodwill for each of the fiscal years ended March 31, 2010, 2009 and 2008. Based on these assessments, we determined that no impairment as of each of these dates was indicated as the estimated fair value of each of our reporting units exceeded its respective carrying value. We monitor the indicators for goodwill impairment testing between annual tests. Various circumstances including, among others, certain adverse business conditions impacting one or more reporting units or a decline in our market capitalization for an extended period of time, would cause us to test goodwill for impairment on an interim basis.

We also evaluate long-lived assets for impairment 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 of undiscounted expected future cash flows to the carrying value of the related net assets. 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 our 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

We utilize the liability method of accounting for income taxes, whereby 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.

We must review all of our tax positions and make a determination as to whether each position is more-likely-than-not to be sustained upon examination by taxing authorities. If a tax position meets the more-likely-than-not standard, then the related tax benefit is measured based on a cumulative probability analysis of the amount that is more-likely-than-not to be realized upon effective settlement or disposition of the underlying issue.

Stock-Based Compensation

We record stock-based compensation in the unaudited consolidated statements of income as an expense, based on the grant date fair values of our stock-based awards, whereby such fair values are amortized over the requisite service period. The fair value of our common stock option awards is estimated on the grant date using the Black-Scholes-Merton ("BSM") option-pricing formula, which considers, among other factors, the expected life of the award and the expected volatility of our stock price.

Research and Development Expenditures

Research and development expenditures are charged to expense in the period in which they are 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 unaudited condensed consolidated statements of income.

Warranty

We generally provide a one to three year warranty from the original invoice date on all products, materials and workmanship. Products sold to various original equipment manufacturer ("OEM") customers sometimes carry longer warranties. Defective products will be either repaired or replaced, usually 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 liabilities in the accompanying unaudited condensed consolidated balance sheets.

Repair and Maintenance Costs

We incur repair and maintenance costs in the normal course of business. Should the activity result in a permanent improvement to one of our 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.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2009-13, *Multiple-Deliverable Revenue Arrangements* ("ASU 2009-13"), which amends the existing multiple-element revenue arrangements guidance currently included in Accounting Standards Codification ("ASC") 605-25, *Revenue Recognition — Multiple Element Arrangements*. ASU 2009-13 provides for two significant changes to the existing multiple-element revenue arrangements guidance. The first relates to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. The second change modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. We adopted the amendments prescribed by ASU 2009-13 for our fiscal year beginning April 1, 2010 and such adoption did not have a material impact on our consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-14, *Certain Revenue Arrangements That Include Software Elements* ("ASU 2009-14"), which amends and modifies the scope of ASC 985-605, *Software — Revenue Recognition*, such that many sales transactions of tangible products that include software and other related transactions will fall outside its scope. We adopted the amendments prescribed by ASU 2009-14 for our fiscal year beginning April 1, 2010 and such adoption did not have a material impact on our consolidated financial statements.

2. Supplemental Financial Information

Inventories

The following table presents details of our inventories:

	June 30, 2010	March 31, 2010
	(In thousands)	
Materials and supplies	$ 2,443	$ 2,292
Work in process	72	49
Finished goods	528	386
	$ 3,043	$ 2,727

Intangible Assets

The following table presents details of our intangible assets:

	June 30, 2010		March 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Intangible assets subject to amortization:				
Developed technology	$ 996	$ (620)	$ 996	$ (595)
Patents	317	(277)	317	(266)
Total	$ 1,313	$ (897)	$ 1,313	$ (861)

As of June 30, 2010, future estimated amortization expense is as follows:

Year Ending March 31:	
(In thousands)	
Remainder of 2011	$ 110
2012	106
2013	100
2014	100
	$ 416

Warranty Reserve Activity

The following table presents activity related to the warranty reserve:

	Three Months Ended June 30, 2010	2009
	(In thousands)	
Balance at beginning of period	$ 468	$ 582
Additions charged to cost of sales	38	52
Warranty claims	(30)	(51)
Balance at end of period	$ 476	$ 583

Earnings Per Share

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

	Three Months Ended June 30,	
	2010	2009
	(In thousands, except per share amounts)	
Numerator:		
Net Income	$ 797	$ 144
Denominator:		
Weighted average common shares used in basic computation	34,329	34,192
Dilutive stock options	360	194
Dilutive warrants	3	—
Weighted average common shares used in diluted computation	34,692	34,386
Earnings per share:		
Basic	$ 0.02	$ 0.00
Diluted	$ 0.02	$ 0.00

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

	Three Months Ended June 30,	
	2010	2009
	(Shares in thousands)	
Stock options	860	2,583
Warrants	321	491

3. Fair Value Measurements

We measure fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value measurements are based on a three-tier hierarchy that prioritizes the inputs used to measure fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets for identical assets and liabilities; Level 2, defined as observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities or prices quoted in inactive markets; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

At June 30, 2010, we did not have any material financial assets or liabilities measured at fair value on a recurring basis using Level 3 inputs.

Our non-financial assets, such as goodwill, intangible assets and property and equipment, are measured at fair value on a non-recurring basis; generally when there is a transaction involving those assets such as a purchase transaction, a business combination or an adjustment for impairment. No non-financial assets were measured at fair value during the three months ended June 30, 2010 and 2009.

4. Revolving Line of Credit and Long-Term Debt

Revolving Line of Credit

In October 2008, we entered into a $19.5 million credit facility with California Bank & Trust, which provides for a two-year revolving line of credit with borrowings of up to $12.0 million and a $7.5 million 48-month term note (discussed below). Interest on borrowed amounts under the revolving line of credit are payable monthly at a rate equal to the current stated prime rate (3.25% at June 30, 2010) up to the current stated prime rate plus 0.50%, depending on aggregate deposit balances maintained at the bank in relation to the total loan commitment under the credit facility. We are obligated to pay an unused line fee of 0.25% per annum applied to the average unused portion of the revolving line of credit during the preceding month. The revolving line of credit does not contain any early termination fees and is secured by substantially all of our assets. As of June 30, 2010, no amounts were outstanding under the revolving line of credit portion of the facility.

Long-Term Debt — Bank Term Note

Under our current credit facility, we may borrow up to $7.5 million in the form of a 48-month term note. As of June 30, 2010, we had outstanding borrowings of approximately $4.8 million under this term note. Principal payments under this term note are required to be repaid in 48 monthly installments of $152,000 commencing on June 1, 2009. Additionally, beginning on November 1, 2009, and on November 1 of each year thereafter, we are required to repay additional principal of up to $500,000, calculated based on certain financial measures, as further defined in the agreement. These additional principal payments effectively reduce the total number of monthly installments necessary to repay the term note. As of June 30, 2010 and March 31, 2010, an additional $500,000 was included in the current portion of the term note, representing the amount we estimate will be due on November 1, 2010. Interest on the term note is payable monthly at a rate equal to the current stated prime rate plus 0.50% up to the current stated prime rate plus 1.00%, depending on aggregate deposit balances maintained at the bank in relation to the total loan commitment under the credit facility. The term note contains no early termination fees and, along with the revolving line of credit under the same credit agreement, is secured by substantially all of our assets.

5. Income Taxes

The following table sets forth our provision for income taxes, along with the corresponding effective tax rates:

	Three Months Ended June 30,	
	2010	2009
	(In thousands)	
Provision for income taxes	$ 563	$ 110
Effective tax rate	41.4%	43.3%

On an interim basis, we estimate what our anticipated annual effective tax rate will be, while also separately considering applicable discrete and other non-recurring items, and record a quarterly income tax provision in accordance with the anticipated annual rate. As the fiscal year progresses, we refine our estimates based on actual events and financial results during the year. This process can result in significant changes to our expected effective tax rate. When this occurs, we adjust our income tax provision during the quarter in which our estimates are refined so that the year-to-date provision reflects the expected annual effective tax rate. These changes, along with adjustments to our deferred taxes, among others, may create fluctuations in our overall effective tax rate from quarter to quarter.

6. Commitments and Contingencies

Litigation and Other Contingencies

From time to time, we have been involved in litigation relating to claims arising out of our operations in the normal course of business. We currently are 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 our consolidated results of operations, financial position or cash flows.

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

Related Party Transaction

In August 2009, MAXxess Systems, Inc. ("MAXxess) executed a promissory note payable to Iteris for $274,000 for amounts previously owed to us under a sublease agreement for which we had previously fully reserved. MAXxess is owned by an investor group that includes two of our directors. As of June 30, 2010, all accrued interest has been paid and the entire $274,000 principal balance was outstanding and payable to Iteris and remains fully reserved.

7. Stockholders' Equity

Stock-Based Compensation

The following table presents stock-based compensation expense that is included in each functional line item on our unaudited condensed consolidated statements of income:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
	(In thousands)	
Cost of net sales	$ 2	$ 2
Cost of contract revenues	8	10
Selling, general and administrative expense	74	71
Research and development expense	7	6
	$ 91	$ 89

At June 30, 2010, there was approximately $727,000 of total unrecognized compensation expense related to unvested stock options. This expense is expected to be recognized over a weighted average period of approximately 2.6 years. If there are any modifications or cancellations of the underlying unvested stock options, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we issue additional stock options or other stock-based awards.

Stock Options

A summary of activity in our stock option plans for the three months ended June 30, 2010 is as follows:

	Number of Shares	Weighted-Average Exercise Price
	(In thousands)	
Options outstanding at March 31, 2010	3,218	$ 1.77
Exercised	(14)	1.39
Expired	(14)	1.80
Options outstanding at June 30, 2010	3,190	$ 1.77

At June 30, 2010, there were 885,000 shares of common stock available for grant under our 2007 Omnibus Incentive Plan.

Included in the options outstanding at June 30, 2010 are currently exercisable options to purchase 769,000 shares of our common stock with an exercise price per share of $1.19 that, if remaining unexercised, are scheduled to expire in September 2011.

Common Stock Warrants

At June 30, 2010, there were outstanding warrants to purchase approximately 336,000 shares of our common stock with a weighted average exercise price per share of $3.56. All of the outstanding warrants were exercisable at June 30, 2010 and had a weighted average remaining contractual life of approximately 0.6 years.

In July 2010, warrants to purchase 75,000 shares of our common stock at an exercise price per share of $5.00 expired unexercised.

8. Business Segment Information

We currently operate in three reportable segments: Roadway Sensors, Vehicle Sensors and Transportation Systems. The Roadway Sensors segment includes our Vantage and VersiCam vehicle detection systems for traffic intersection control, incident detection and certain highway traffic data collection applications. This segment also includes our Pico compact video detection system, which was designed primarily to respond to international video detection needs. The Vehicle Sensors segment includes our lane departure warning products and is comprised of all of our activities related to 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. Certain corporate expenses, including interest and amortization of 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.

Table of Contents

The following table sets forth selected unaudited consolidated financial information for our reportable segments for the three months ended June 30, 2010 and 2009:

	Roadway Sensors	Vehicle Sensors	Transportation Systems	Total
	(In thousands)			
Three Months Ended June 30, 2010				
Product revenue	$ 7,693	$ 1,628	$ —	$ 9,321
Service and other revenue	—	141	6,212	6,353
Stock-based compensation	9	7	14	30
Depreciation and amortization	56	21	51	128
Segment income (loss)	1,370	(182)	313	1,501
Three Months Ended June 30, 2009				
Product revenue	$ 5,875	$ 810	$ —	$ 6,685
Service and other revenue	—	248	7,701	7,949
Stock-based compensation	8	8	14	30
Depreciation and amortization	62	22	58	142
Segment income (loss)	362	(506)	534	390

The following table reconciles segment income to consolidated income before income taxes:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
	(In thousands)	
Segment Income:		
Total income from reportable segments	$ 1,501	$ 390
Unallocated Amounts:		
Corporate and other expenses	(66)	(25)
Amortization of intangible assets	(36)	(44)
Other income, net	1	19
Interest expense, net	(40)	(86)
Income before income taxes	$ 1,360	$ 254

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 growth, sales, revenue, expenses, profits, capital needs, competition, development plans, 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 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, including to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Overview

General. We are a leader in the traffic management market focused on the development and application of advanced technologies that reduce traffic congestion and improve the safety of surface transportation systems infrastructure. Additionally, we believe our products and services, in conjunction with sound traffic management, minimize the environmental impact of traffic congestion. By combining outdoor image processing, traffic engineering and information technology, we offer a broad range of Intelligent Transportation Systems ("ITS") and driver safety solutions to customers in the United States ("U.S.") and internationally.

Business Segments. We currently operate in three reportable segments: Roadway Sensors, Vehicle Sensors and Transportation Systems. The Roadway Sensors segment includes our Vantage, VersiCam and Pico vehicle detection systems for traffic intersection control, incident detection and certain highway traffic data collection applications, as well as our Abacus family of products. The Vehicle Sensors segment includes our lane departure warning ("LDW") products, including our AutoVue LDW system, and is comprised of all of our activities related to in-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.

Our Roadway Sensors segment product line uses advanced image processing technology to capture and analyze video images through sophisticated algorithms, enabling vehicle detection and transmission of both video images and data using various communication technologies.

- Our Vantage video detection systems detect vehicle presence, count, speed and other traffic data used in traffic management systems. Our Vantage systems give traffic managers the ability to mitigate roadway congestion by modifying traffic signal timing or detecting incidents quickly.

- VersiCam, our integrated camera and processor video detection system, is a cost-efficient video detection system for smaller intersections that require only a few detection points.

- Pico, our compact video detection system, was developed primarily to address international video detection needs, and was designed for easy installation and configuration.

- Our Abacus products take advantage of the large number of extisting installed closed-circuit television video feeds monitoring roadways, signalized intersections, tunnels and bridges to allow for data collection and incident detection without the set-up and calibration required with other systems.

We believe that future growth domestically and internationally, particularly in developing countries, will be dependent in part on the continued adoption of above-ground video detection technologies, instead of traditional in-pavement loop technology, to manage traffic.

Our Vehicle Sensors segment addresses the leading cause of roadway fatalities: lane change, roadway departure and rear-end collision accidents. We developed the world's first production LDW system and offer a proven system that is available as an original equipment manufacturer ("OEM") and aftermarket option on heavy trucks worldwide and as an option in certain passenger cars. Our LDW products utilize video detection images to detect when a vehicle begins to drift toward an unintended lane change. When this occurs, the unit automatically emits a distinctive rumble strip or other audible warning sound, alerting the driver to make a correction. We believe that as a result of the expected 2013 European Union ("EU") mandate for LDW and other active safety systems, and an overall awareness of the potential benefits of LDW, that we will experience an even higher degree of competition from a variety of tier-one OEM suppliers and other potential market entrants worldwide. While we believe that this increased competition validates the long-term market opportunity for LDW systems in commercial vehicles, it could also adversely affect our future LDW sales and margins. We are currently working with our European OEM customer base to establish long-term supply agreements that extend to 2013 and beyond in order to meet the anticipated increase in demand; however, we cannot assure you that our efforts will be successful or that the increase in demand will occur. We have entered into an exclusive license of our LDW technology to our strategic partner, Valeo Schalter and Sensuren GmbH ("Valeo"), for the passenger car market. Recently, we and our partner have experienced a greater degree of competition in the passenger car market, as several passenger car OEMs have introduced vehicle platforms with competing LDW systems. However, Valeo continues to pursue opportunities in the passenger car market.

In addition to our LDW systems, our Vehicle Sensors portfolio includes radar-based Forward Collision Warning ("FCW") and Blind Spot Warning ("BSW") systems for the North American truck market, and our SafetyDirect product, a system that reports driver performance data captured by our LDW system, and has the ability to relay this data directly to fleet operators through integration with the truck's existing fleet communications system. We offer the FCW and BSW features through the resale of Delphi's radar-based systems, for which we are the exclusive North American dealer, while SafetyDirect was internally developed. These products, together with our LDW products, combine to create a suite of active safety driver assistance features focused on reducing the number of motor vehicle crashes and the severity of crash-related injuries.

Our Transportation Systems segment 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. Historically, these services and systems have primarily been sold to local, state and national transportation agencies in the United States under a broad range of fixed price and cost plus fixed fee contracts; however, in the fiscal year ended March 31, 2010 ("fiscal 2010"), we began work on our first two overseas contract awards and plan to pursue additional international opportunities for our Transportation Systems segment.

Our Transportation Systems segment is largely dependent upon governmental funding and is affected by state and local budgetary issues. We believe the overall expansion of our Transportation Systems segment in the future will at least in part be dependent on the passage of a new Federal Highway Bill, which Congress is currently working on. We anticipate continued delays in the enactment of such a new bill, and until such time as a bill becomes law, the allotment of transportation funds in federal, state and local budgets may be uncertain and we believe that prolonged uncertainty may adversely impact our net sales and contract revenues and our overall financial performance in future periods.

In April 2009, we completed the acquisition of certain assets of Hamilton Signal, which included the Abacus system, for an aggregate purchase price of approximately $518,000.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our unaudited consolidated financial statements included herein, which have been prepared in accordance with accounting principles generally accepted in the United States. 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 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 amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The accounting policies that affect our more significant judgments and estimates used in the preparation of our unaudited condensed consolidated financial statements are those relating to revenue recognition, accounts receivable, inventory, goodwill, warranty, income taxes, and stock-based compensation. These policies are described in further detail in our Annual Report on Form 10-K for fiscal 2010. There have been no significant changes in our critical accounting policies and estimates during the three months ended June 30, 2010 as compared to what was previously disclosed in our Annual Report on Form 10-K for fiscal 2010, except for our revenue recognition policy, which has been updated as follows:

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.

We recognize revenue from the sale of deliverables that are part of a multiple-element arrangement in accordance with applicable accounting guidance that establishes a selling price hierarchy permitting the use of an estimated selling price to determine the allocation of arrangement consideration to a deliverable in a multiple-element arrangement where neither vendor specific objective evidence (“VSOE”) nor third-party evidence (“TPE”) is available for that deliverable. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, we are required to estimate the selling prices of those elements. Overall arrangement consideration is allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on our estimated selling price.

We account for multiple-element arrangements that consist only of software and software-related services in accordance with industry-specific accounting guidance for software and software-related transactions. For such transactions, revenue on arrangements that include multiple elements is allocated to each element based on the relative fair value of each element, and fair value is generally determined by VSOE. If we cannot objectively determine the fair value of any undelivered element included in such multiple-element arrangements and the only undelivered element is post-contract customer support or maintenance, and VSOE of the fair value of such support or maintenance does not exist, revenue from the entire arrangement is recognized ratably over the support period. When the fair value of a delivered element has not been established, but VSOE of fair value exists for the undelivered elements, we use the residual method to recognize revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

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. Under the percentage of completion method, recognition of profit is dependent upon the accuracy of a variety of estimates, including engineering progress, materials quantities, and achievement of milestones, incentives, penalty provisions, labor productivity, cost estimates and others. Such estimates are based on various professional judgments we make with respect to those factors and are subject to change as the project proceeds and new information becomes available.

In addition to product and contract revenues, we derive revenue from the provision of specific non-recurring contract engineering services to our strategic partner, Valeo, related to our LDW systems, and royalties earned on unit sales of our LDW systems by Valeo to the passenger car market. 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. Non-recurring contract engineering revenues and royalty revenues are included in our 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 and are included in our net sales.

Recent Accounting Pronouncements

Refer to Note 1 of Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item I of this report for a discussion of recent accounting pronouncements.

Results of Operations

The following table sets forth statement of income data as a percentage of total net sales and contract revenues for the periods indicated:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Net sales and contract revenues:		
Net sales	60.4%	47.4%
Contract revenues	39.6	52.6
Total net sales and contract revenues	100.0%	100.0%
Costs of net sales and contract revenues:		
Cost of net sales	28.8	26.3
Cost of contract revenues	26.4	35.6
Gross profit	44.8	38.1
Operating expenses:		
Selling, general and administrative	29.6	29.1
Research and development	6.0	6.6
Amortization of intangible assets	0.2	0.3
Total operating expenses	35.8	36.0
Operating income	8.9	2.2
Non-operating income (expense):		
Other income, net	0.0	0.1
Interest expense, net	(0.3)	(0.6)
Income before income taxes	8.7	1.7
Provision for income taxes	(3.6)	(0.8)
Net income	5.1%	1.0%

Analysis of Quarterly Results of Operations

Net Sales and Contract Revenues. Net sales are comprised of product sales from our Roadway Sensors and Vehicle Sensors segments, as well as contract engineering revenue and royalty revenue generated from our Vehicle Sensors segment. Contract revenues consist entirely of Transportation Systems contract revenues, which are generated from systems integration and ITS consulting services primarily with federal, state, county and municipal agencies.

The following table presents details of our net sales and contract revenues for the three months ended June 30, 2010 and 2009:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Increase (Decrease)	% Change
	(In thousands, except percentages)			
Roadway sensors	$ 7,693	$ 5,875	$ 1,818	30.9%
Vehicle sensors	1,769	1,058	711	67.2
Net sales	9,462	6,933	2,529	36.5
Contract revenues	6,212	7,701	(1,489)	(19.3)
Total net sales and contract revenues	$ 15,674	$ 14,634	$ 1,040	7.1

We have historically had a diverse customer base. For the three months ended June 30, 2010, no individual customer represented greater than 10% of our total net sales and contract revenues. In the corresponding period in the prior fiscal year, one individual customer accounted for approximately 12.1% of our total net sales and contract revenues.

Roadway Sensors

The increase in Roadway Sensors net sales for the three months ended June 30, 2010 as compared to the corresponding period in the prior year was driven by strong domestic sales volumes in both our direct and dealer markets. In the current period, we saw particular strength in certain of our newer product lines such as VersiCam and Abacus. In the prior year period, we experienced significantly lower sales primarily as a result of the downturn in the overall economy, which brought declines in commercial and residential construction, reductions and delays in spending on infrastructure projects and government budgetary pressures.

Vehicle Sensors

Vehicle Sensors net sales were primarily made up of sales of our LDW systems to the heavy truck market, which aggregated approximately $1.6 million and $810,000 for the three months ended June 30, 2010 and 2009, respectively. In the prior year quarter ended June 30, 2009, we experienced a significant slowdown in overall LDW unit shipments to each of our key markets, driven largely by the weakness in the U.S. and worldwide economy at that time. Comparatively, in the current quarter we saw stronger shipments, particularly to our foreign OEM customers in Europe and Japan, as well as our domestic truck fleet customers. We remain cautious in the outlook for the remainder of our current fiscal year. We anticipate that Vehicle Sensors unit sales in future periods could be adversely impacted by, among other factors, slower than expected adoption rates of our LDW system across each of our target markets and the continuing uncertainty in the global economic environment. Additionally, future unit sales of LDW systems and unit pricing could be adversely impacted as a result of increased competition in this market.

Also included in Vehicle Sensors net sales are revenues from contract engineering services and royalty revenues in the passenger car market that are derived from our strategic relationship with Valeo, which aggregated approximately $141,000 and $248,000 for the three months ended June 30, 2010 and 2009, respectively. The decline in the current fiscal year continues to reflect decreases in contract engineering services provided to Valeo as the pertinent engineering development activities have generally reached maturity for the related vehicle platforms that currently incorporate our LDW system. Our LDW systems are currently offered as an option on four Infiniti models. While Valeo is promoting our LDW systems to other passenger car OEMs, we cannot assure you that Valeo will be successful in these efforts.

Contract Revenues

Contract revenues are primarily dependent upon the continued availability of funding at both the state and federal levels from the various departments of transportation. For the three months ended June 30, 2010, our contract revenues decreased compared to the corresponding period in the prior year due primarily to delays or reductions in funding for certain of our projects. Likewise, in the prior year period, we experienced higher revenues from several large contracts which contained higher than usual amounts of sub-consulting content. In the future, we plan to continue to pursue large contracts that may contain significant sub-consulting content, which will likely contribute to variability in the timing and amount of our contract revenues from period to period.

Gross Profit. The following table presents details of our gross profit for the three months ended June 30, 2010 and 2009:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Increase	% Change
	(In thousands, except percentages)			
Total gross profit	$ 7,017	$ 5,582	$ 1,435	25.7%
Total gross profit as a % of total net sales and contract revenues	44.8%	38.1%		
Gross profit as a % of net sales	52.2%	44.6%		
Gross profit as a % of contract revenues	33.4%	32.4%		

The increase in our total gross profit as a percent of total net sales and contract revenues for the three months ended June 30, 2010 as compared to the corresponding period in the prior year was primarily the result of our mix, whereby product net sales represents approximately 60% of our total net sales and contract revenues in the current period as compared to only 47% in the prior year period. Our product net sales generally carry higher margins than our contract revenues derived from our consulting services.

The increase in gross profit as a percent of net sales ("gross margin") for the three months ended June 30, 2010 as compared to the corresponding period in the prior year was primarily a result of higher margins in Roadway Sensors during the current quarter, driven by our customer mix and lower costs for certain key materials. We generally enjoy higher gross margins on direct sales as compared to dealer and aftermarket sales. In Vehicle Sensors, we also saw significant improvement in our year over year gross margins as a result of higher sales levels in the current period which provided for improved overhead absorption. Additionally, in the prior year period, we recorded certain estimates for excess and obsolete inventory in our Vehicle Sensors segment, which adversely affected our gross margins in that period. Gross profit as a percentage of net sales can fluctuate in any specific quarter or year based on, among other factors, customer and product mix, competitive pricing requirements, product warranty costs and provisions for excess and obsolete inventories, as well as possible shifts of engineering resources from development activities to sustaining activities, which we record as cost of goods sold.

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 slight increase in gross profit as a percent of contract revenues for the three months ended June 30, 2010 compared to the corresponding period in the prior year was primarily due to a contract mix weighted more toward higher margin contracts in the current quarter. As discussed above, a higher portion of our contract revenues in the three months ended June 30, 2009 were made up of sub-consultant content, which generally carry lower margins. We expect the variability and related timing of sub-consulting content in our Transportation Systems contracts in future periods to continue to cause fluctuations in this segment's gross margins from period to period.

Selling, General and Administrative Expense. The following table presents selling, general and administrative expense for the three months ended June 30, 2010 and 2009:

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009			
	Amount	% of Net Sales and Contract Revenues	Amount	% of Net Sales and Contract Revenues	Increase (Decrease)	% Change
	(In thousands, except percentages)					
Salary and personnel-related	$ 3,239	20.7%	$ 2,887	19.7%	$ 352	12.2%
Facilities, insurance and supplies	643	4.1	595	4.1	48	8.1
Professional and outside services	418	2.7	295	2.0	123	41.7
Travel and conferences	410	2.6	345	2.4	65	18.8
Other	(69)	-0.4	131	0.9	(200)	(152.7)
Selling, general and administrative	$ 4,641	29.6%	$ 4,253	29.1%	$ 388	9.1

The increase in selling, general and administrative expense for the three months ended June 30, 2010 compared to the corresponding period in the prior year was primarily due to higher selling and commission-related expenses for our Roadway Sensors and Vehicle Sensors segments, as total net sales for both segments collectively increased approximately 36% from the prior year quarter. We also saw a shift from cost of sales to sales and marketing of certain of our headcount expenses in our Transportation Systems segment in the current period commensurate with the overall decline in this segment's revenues as discussed above and the reallocation of existing personnel. As compared to the prior year quarter, we also incurred additional consulting and outside services expenses in our Vehicle Sensors segment related to market research and certain other sales and marketing activities. Additionally, in the current quarter, we realized approximately $200,000 in net reversals of previously recorded bad debt expense (included in the "Other" category in the table above) as a result of collecting certain large accounts receivable balances. In prior periods, we had recorded an estimated allowance for doubtful accounts against these receivables given the uncertainty of collection at that time. In the future, our operating results in any given period may be favorably or adversely impacted as a result of our estimates of the realization of our accounts receivable.

Research and Development Expense. The following table presents research and development expense for the three months ended June 30, 2010 and 2009:

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009			
	Amount	% of Net Sales and Contract Revenues	Amount	% of Net Sales and Contract Revenues	Increase (Decrease)	% Change
	(In thousands, except percentages)					
Salary and personnel-related	$ 620	4.0%	$ 683	4.7%	$ (63)	(9.2)%
Facilities, development and supplies	274	1.7	236	1.6	38	16.1
Other	47	0.3	45	0.3	2	4.4
Research and development	$ 941	6.0%	$ 964	6.6%	$ (23)	(2.4)

Our total research and development expenses in the three months ended June 30, 2010 were largely consistent with the corresponding period in the prior year. We currently expect our total research and development expenditures for the current fiscal year will be flat to slightly higher when compared to the prior fiscal year.

Interest Expense, Net. Net interest expense of $40,000 for the three months ended June 30, 2010 was lower than the $86,000 for the three months ended June 30, 2009 primarily due to the overall lower level of borrowings in the current fiscal year, as we continue to make monthly principal payments on our term note. As a result, we anticipate our interest expense will continue to decline for the remainder of the fiscal year ending March 31, 2011. See Liquidity and Capital Resources below for additional details on our borrowings.

Income Taxes. The following table presents our provision for income taxes for the three months ended June 30, 2010 and 2009:

	Three Months Ended June 30,			
	2010	2009	Increase	% Change
	(In thousands, except percentages)			
Provision for income taxes	$ 563	$ 110	$ 453	412%
Effective tax rate	41.4%	43.3%		

On an interim basis, we estimate what our anticipated annual effective tax rate will be, while also separately considering applicable discrete and other non-recurring items, and record a quarterly income tax provision in accordance with the anticipated annual rate. As the fiscal year progresses, we refine our estimates based on actual events and financial results during the year. This process can result in significant changes to our expected effective tax rate. When this occurs, we adjust our income tax provision during the quarter in which our estimates are refined so that the year-to-date provision reflects the expected annual effective tax rate. These changes, along with adjustments to our deferred taxes, among others, may create fluctuations in our overall effective tax rate from quarter to quarter.

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 the availability of borrowings on a line of credit facility to fund our operations, which we believe to be sufficient to fund our operations for at least the next twelve months. However, we may need or choose to raise additional capital to fund potential future acquisitions and our future growth. We may raise such funds by selling equity or debt securities to the public or to selected investors, or by borrowing money from financial institutions. If we raise additional funds by issuing equity or convertible debt securities, the ownership percentage of existing stockholders would likely be reduced.

At June 30, 2010, we had $23.0 million in working capital, which included no borrowings on our $12.0 million line of credit and $11.7 million in cash and cash equivalents. This compares to working capital of $22.6 million at March 31, 2010, which included no borrowings on our line of credit and $10.4 million in cash and cash equivalents.

The following table summarizes our cash flows for the three months ended June 30, 2010 and 2009:

	Three Months Ended June 30,	
	2010	2009
	(In thousands)	
Net cash provided by (used in):		
Operating activities	$ 1,916	$ 21
Investing activities	(207)	(342)
Financing activities	(438)	(67)

Operating Activities. Cash provided by our operations for the three months ended June 30, 2010 was primarily the result of (i) our net income of $797,000 during the current period; (ii) $838,000 in non-cash items within the statement of income, primarily adjustments to our deferred tax assets of $467,000 and depreciation expense of $244,000; and (iii) $281,000 in cash resulting from changes in our operating assets and liabilities during the period. Cash provided by operating activities during the three months ended June 30, 2009 was primarily the result of our net income during that period of $144,000, along with $389,000 in non-cash items within the statement of income, primarily depreciation and stock-based compensation expense. These cash inflows were substantially offset by $512,000 in net cash used by changes in operating assets and liabilities during the period.

Investing Activities. Cash used in our investing activities for the three months ended June 30, 2010 consisted of (i) $101,000 for purchases of property and equipment and (ii) $106,000 representing the first anniversary payment for the acquisition of certain assets of Hamilton Signal. Cash used in investing activities for the three months ended June 30, 2009 consisted of purchases of property and equipment of $42,000 as well as $300,000 used for the acquisition of Hamilton Signal. In April 2011, we expect to make the final payment of $112,000 related to the Hamilton Signal acquisition.

Financing Activities. Net cash used in financing activities during the three months ended June 30, 2010 was the result of payments on our long-term debt of $457,000. These payments were partially offset during the period by $19,000 in proceeds received from the exercise of outstanding stock options to purchase shares of our common stock. During the three months ended June 30, 2009, cash used in financing activities was the result of net payments on our long-term debt of $139,000, partially offset by $72,000 in proceeds from the exercise of outstanding stock options to purchase shares of our common stock.

Borrowings

In October 2008, we entered into a $19.5 million credit facility with California Bank & Trust, which provides for a two-year revolving line of credit with borrowings of up to $12.0 million and a $7.5 million 48-month term note (discussed below). Interest on borrowed amounts under the revolving line of credit are payable monthly at a rate equal to the current stated prime rate (3.25% at June 30, 2010) up to the current stated prime rate plus 0.50%, depending on aggregate deposit balances maintained at the bank in relation to the total loan commitment under the credit facility. We are obligated to pay an unused line fee of 0.25% per annum applied to the average unused portion of the revolving line of credit during the preceding month. The revolving line of credit does not contain any early termination fees and is secured by substantially all of our assets. As of June 30, 2010, no amounts were outstanding under the revolving line of credit portion of the facility. Availability under this line of credit may be reduced or otherwise limited as a result of our obligations to comply with certain financial covenants, as described further below.

As of June 30, 2010, we had outstanding borrowings of approximately $4.8 million under the term note included in our credit facility. Principal payments under this term note are required to be repaid in 48 monthly installments of $152,000 commencing on June 1, 2009. Additionally, beginning on November 1, 2009, and on November 1 of each year thereafter, we are required to repay additional principal of up to $500,000, calculated based on certain financial measures, as further defined in the loan agreement. These additional principal payments effectively reduce the total number of monthly installments necessary to repay the term note. Interest on the term note is payable monthly at a rate equal to the current stated prime rate plus 0.50% up to the current stated prime rate plus 1.00%, depending on aggregate deposit balances maintained at the bank in relation to the total loan commitment under the credit facility. The term note contains no early termination fees and, along with our revolving line of credit discussed above, is secured by substantially all of our assets.

In connection with our credit facility and loan agreement with California Bank & Trust, we are also required to comply with certain quarterly financial covenants. These include achieving ratios for working capital and debt service, as well as maintaining a level of profitability, all of which are further defined in the agreement. While we believe we are currently in compliance with all such financial covenants and expect to maintain compliance for the foreseeable future, we cannot assure you that we will not violate one or more covenants in the future. If we were to be in violation of covenants under this agreement, our lender could choose to accelerate payment on all outstanding loan balances and pursue its security interest in our assets. In this event, we cannot assure you that we would be able to quickly obtain equivalent or suitable replacement financing on acceptable terms, or at all. If we were not able to secure alternative sources of financing, such acceleration would have a material adverse impact on our business and financial condition.

Off Balance Sheet Arrangements

Other than our operating leases, we do not believe we have any other material off balance sheet arrangements at June 30, 2010.

Seasonality

We have historically experienced, and expect to continue to experience 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

Interest Rate Risk

Our exposure to interest rate risk is limited to our line of credit and our bank term note. Our line of credit bears interest equal to the prevailing prime rate plus 0% to 1.0%. We do not believe that a 10% increase in the interest rate on our line of credit or term note 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 under our credit facility approximates fair value.

Foreign Currency Risk

To date, a small portion of our net sales have been denominated in Euros. Gains or losses from foreign currency remeasurement are included in other income in our consolidated financial statements and to date have not been significant. We do not believe we are currently exposed to any material risk of loss from currency exchange fluctuations. We do not currently purchase derivative financial instruments to hedge foreign currency exchange risk, but may do so in the future.

ITEM 4T. 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, as amended) that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Inherent Limitations on Internal Control

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, 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 management override or improper acts, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to management override, error or improper acts may occur and not be detected. Any resulting misstatement or loss may have an adverse and material effect on our business, financial condition and results of operations.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under the heading "Litigation and Other Contingencies" in Note 6 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 annual report on Form 10-K and 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.

The economic slowdown has reduced and delayed government funding for transportation infrastructure projects and initiatives, decreased availability of financial capital for our customers and has adversely impacted real estate development, all of which is adversely impacting our net sales and could impact our contract revenues. Decreased consumer spending, the failure of certain financial institutions and businesses, concerns about the availability and cost of credit, and reduced corporate profits and capital spending have resulted in a downturn in worldwide economic conditions, as well as budgetary shortfalls increasingly present at all levels of government. These unfavorable economic conditions are having a negative impact on customer orders and government funding of infrastructure projects incorporating our products and services. Such factors have and may continue to result in cancellations and rescheduling of backlog and customer orders. In addition, the recent decline in the U.S. real estate market, particularly in new home and commercial construction, has adversely impacted new road construction and in the prior fiscal year resulted in flat or declining Roadway Sensor and Vehicle Sensor net sales and also adversely impacted Transportation Systems contract revenues. Any of the foregoing economic conditions may adversely affect our net sales and contract revenues in future periods and make it extremely difficult for our customers, our suppliers and us to accurately forecast and plan future business activities. Additionally, there continues to be uncertainties regarding the impact of the federal stimulus package and the fact that the accessibility of funds is taking longer than originally anticipated, as well as a delay in the passage of a new Federal Highway Bill. If such conditions continue or worsen, our business, financial condition and results of operations could be materially and adversely affected.

Because we depend on government contracts and subcontracts, we face additional risks related to contracting with federal, state and local governments, including budgetary issues and fixed price contracts. 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 45%, 45% and 38% of our total net sales and contract revenues for the fiscal years ended March 31, 2010, 2009 and 2008, respectively. We anticipate that revenue from government contracts will continue to remain a significant portion of our net sales and contract revenues. Government business is, in general, subject to special risks and challenges, including:

- delays in funding, including delays in the allocation of funds to state and local agencies from the U.S. federal government as a result of the expiration of the 2005 Federal Highway Bill on October 31, 2009, as well as delays or reductions in stimulus funds and other state and local funding dedicated for transportation projects;
- 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;
- other government budgetary constraints, cut-backs, delays or reallocation of government funding;
- milestone requirements and liquidated damage provisions for failure to meet contract milestones; and
- international conflicts or other military operations that could cause the temporary or permanent diversion of government funding from transportation or other infrastructure projects.

Governmental budgets and plans are subject to change without warning. Certain risks of selling to governmental entities include dependence on appropriations and administrative allocation of funds, changes in governmental procurement legislation and regulations and other policies that may reflect political developments or agendas, significant changes in contract scheduling, intense competition for government business and termination of purchase decisions for the convenience of the governmental entity. Substantial delays in purchase decisions by governmental entities, and the current constraints on government budgets at the federal, state and local level, could cause our net sales and contract revenues and income to drop substantially or to fluctuate significantly between fiscal periods.

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 period. 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.

California state budgetary constraints may have a material adverse impact on us. The state of California has experienced, and is continuing to experience, a significant budget shortfall and other related budgetary issues and constraints. The state of California has historically been and is considered to be a key geographic region for our Roadway Sensors and Transportation Systems segments. Ongoing uncertainty as to the timing and accessibility of federal stimulus monies to the state, changes in state funding allocations to local agencies and municipalities, or other delays in purchasing for, or commencement of, transportation projects has and may continue to have a negative impact on our net sales and contract revenues and our income.

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.

In Vehicle Sensors, we believe that as a result of the expected 2013 European mandate for LDW and other active safety systems, and an overall awareness of the potential benefits of LDW, we will experience an even higher degree of competition from a variety of tier-one OEM suppliers and other potential market entrants worldwide. We also expect such competition to increase due to technological advancements, industry consolidations and reduced barriers to entry. Increased competition is likely to result in loss of market share, price reductions and reduced gross margins, any of which could seriously harm our business, financial condition and results of operations. For example, a developer of LDW systems was acquired by a large multinational organization during our fiscal year ended March 31, 2009. This new competitor has recently increased its market share and could become more aggressive in pursuing market share in both the passenger car and heavy truck markets as a result of its greater access to resources and reputation in the market. Furthermore, awareness of LDW technology is increasing and other market players have developed competing technologies, which may contain improvements or added features beyond those offered by our LDW systems. Additionally, from time to time, we may be required to re-compete for LDW business from our main customer base of heavy truck OEMs. These OEMs could make a supplier change based on price, product performance or available features. Should our competition be successful, this could adversely affect our ability to successfully market and sell our LDW systems to new and existing customers.

We compete with existing, well-established companies in our Roadway Sensors segment, both domestically and abroad. Certain technological barriers to entry make it difficult for new competitors to enter the market with competing video or other technologies; however, we are aware of new market entrants from time to time. Increased competition could result in loss of market share, price reductions and reduced gross margins, any of which could seriously harm our business, financial condition and results of operations.

The Transportation Systems market is highly fragmented and is subject to evolving national and regional quality and safety standards. Our competitors vary in size, number, scope and breadth of the products and services they offer, and include large multi-national engineering firms and smaller local regional firms.

In all of our segments, 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.

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 completed the acquisition of certain assets of Hamilton Signal in April 2009. We have in the past acquired, and may in the future acquire, additional 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 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 any of our officers, or any of our other executives 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.

Our profitability could be adversely affected if we are not able to maintain adequate utilization of our Transportation Systems workforce. The cost of providing our Transportation Systems engineering and consulting services, including the extent to which we utilize our workforce, affects our profitability. The rate at which we utilize our workforce is affected by a number of factors, including:

- our ability to transition employees from completed projects to new assignments and to hire and assimilate new employees;
- our ability to forecast demand for our services and thereby maintain an appropriate headcount in our various regions;
- our need to devote time and resources to training, business development, professional development and other non-chargeable activities; and
- our ability to match the skill sets of our employees to the needs of the marketplace.

Our use of the percentage of completion method of accounting for our contract revenues could result in a reduction or reversal of previously recorded revenues and profits. A significant portion of our total net sales and contract revenues are measured and recognized using the percentage of completion method of accounting. Our use of this accounting method results in recognition of revenues and profits ratably over the life of a contract, based generally on the proportion of costs incurred to date to total costs expected to be incurred for the entire project. The effects of revisions to revenues and estimated costs are recorded when the amounts are known or can be reasonably estimated. Such revisions could occur in any period and their effects could be material. Although we have historically made reasonably reliable estimates of the progress towards completion of long-term engineering, program management, construction management or construction contracts, the uncertainties inherent in the estimating process make it possible for actual costs to vary materially from estimates, including reductions or reversals of previously recorded revenues and profits.

Our failure to successfully bid on new contracts and renew existing contracts could reduce our revenues and profits. Our business depends on our ability to successfully bid on new contracts and renew existing contracts with private and public sector customers. Contract proposals and negotiations are complex and frequently involve a lengthy bidding and selection process, which are affected by a number of factors, such as market conditions, financing arrangements and required governmental approvals. For example, a customer may require us to provide a surety bond or letter of credit to protect the client should we fail to perform under the terms of the contract. If negative market conditions arise, or if we fail to secure adequate financial arrangements or the required governmental approval, we may not be able to pursue particular projects, which could adversely reduce or eliminate our profitability.

We may experience production gaps that 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 adjust production to meet current demand for our products. We have historically used single suppliers for certain significant components in our products. Should any such delay or disruption occur, or should a key supplier discontinue operations because of the current economic climate, our future sales will likely be materially and adversely affected. Additionally, we rely heavily on select contract manufacturers to produce many of our products and do not have any long-term contracts to guarantee supply of such 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 for many of our products, if necessary, we could experience a production gap if for any reason our contract manufacturers were unable to meet our production requirements and our cost of goods sold could increase, adversely affecting our margins.

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 production 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, our ability to 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 LDW systems in the passenger car market. The success of our LDW 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 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 our ability to successfully redesign our products to incorporate compliant components and gain market acceptance of such redesigned products. In addition, we may experience a shortage of 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.

New environmental regulations may result in a decline in our Vehicle Sensors net sales. From time to time, environmental regulations are enacted, which can significantly increase the cost of manufacturing new vehicles as well as the cost of maintaining existing vehicles and truck fleets. As a result, we could experience a decline in sales of our Vehicle Sensors products as truck and vehicle manufacturers and fleet operators attempt to control their costs.

We depend upon Valeo to market our LDW technologies for the OEM passenger car market. We have granted Valeo the exclusive right to sell and manufacture our LDW system to the worldwide passenger car market in exchange for royalty payments for each LDW unit sold. As such, the future success and broad market acceptance of our 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. To date, we have not generated significant royalties from Valeo's efforts and have only been designed into one passenger car OEM product line. If Valeo does not devote considerable resources and aggressively pursue opportunities, our expansion into the passenger car market, and our related revenues from contract engineering services and royalty revenues, could be adversely affected or not materialize as originally anticipated.

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 pressures in the marketplace as technologies mature;
- changes in customer requirements;
- additional qualification requirements related to new products or components;
- frequent new product introductions and enhancements;
- inventory issues related to transition to new or enhanced models; 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 systems are 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.

Our international business operations may be threatened by many factors that are outside of our control. While we historically have had limited international sales and operations experience, we began work on our first overseas contracts in Abu Dhabi and Dubai in fiscal 2010. We plan to expand our international efforts in the future with respect to all three of our segments, but cannot assure you that we will be successful in those efforts. International operations subject us to various inherent risks including, among others:

- currency fluctuations and restrictions;
- political, social and economic instability, as well as international conflicts and acts of terrorism;
- 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.

Substantially 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 currently 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. Additionally, as we pursue the expansion of our international business, certain fixed and other overhead costs could outpace our revenues, thus adversely affecting our results of operations. We may likewise face local competitors in certain international markets who are more established, have greater economies of scale and stronger customer relationships. 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.

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. Section 404 of the Sarbanes-Oxley Act of 2002 currently requires us to evaluate the effectiveness of our internal controls over financial reporting at the end of each fiscal year and to include a management report assessing the effectiveness of our internal controls over financial reporting in all annual reports.

In July 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which was subsequently signed into law. Included in the act is a provision that permanently exempts small public companies that qualify as either a Non-Accelerated Filer or Smaller Reporting Company from the auditor attestation requirement of Section 404(b) of the Sarbanes-Oxley Act of 2002. For our fiscal year ending March 31, 2011, we currently expect to be exempt from such requirement; however, to the extent we do not qualify as a Non-Accelerated Filer or Smaller Reporting Company in subsequent fiscal years, we will be subject to such auditor attestation requirement. In such an event, we may not be able to complete the work required for such attestation on a timely basis, and even if we timely complete such requirements, our independent registered public accounting firm 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 errors or mistakes. 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.

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:

- delays in government contracts and funding from time to time and budgetary constraints at the federal, state and local levels;
- our ability to access stimulus funding, funding from a new Federal Highway Bill or other funding;
- declines in new home and commercial real estate construction and related road and other infrastructure construction;
- 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;
- the size, timing, rescheduling or cancellation of significant customer orders;
- our ability to control costs;
- our ability to raise additional capital;
- 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;
- 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 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; and
- international conflicts and acts of terrorism.

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.

As compared to recent prior fiscal years, we experienced a decline in our net sales and contract revenues in our most recently completed fiscal year ended March 31, 2010. If we fail to manage this decline effectively, we may be unable to execute our business plan and may experience future weaknesses in our operating results. We have expanded our overall business in the past few years; however, we experienced a reduction in our net sales and contract revenues in the fiscal year ended March 31, 2010. Based on our business objectives, and in order to achieve future growth, we will need to continue to add additional qualified personnel, and invest in additional research and development and sales and marketing activities, which could lead to increases in our expenses and further declines in our operating results. In addition, our past expansion has placed, and future expansion is expected to place, a significant strain on our managerial, administrative, operational, financial and other resources. If we are unable to manage these activities or any unexpected revenue declines successfully, our growth, our business, our financial condition and our results of operations could continue to be adversely affected.

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.

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 historically experienced volatility in our our earnings and cash flows from operations from year to year. Although we entered into a $19.5 million credit facility, effective October 2008, should we have an event of default, which includes, among other things, a failure to meet certain financial covenants and a material adverse change in the business, the bank could choose to limit or take away our ability to borrow these or any funds. Should this occur, or if the credit markets further tighten or our business declines, we may need or choose to raise additional capital to repay indebtedness, or pursue acquisitions or to expand our operations. 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 increase revenue and net income;
- increased research and development expenses and sales and marketing expenses;
- our need to respond to technological advancements and our competitors' introductions of new products or technologies;

- 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 the state of the financial markets, in general; 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 equity or debt 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 may be unable to maintain profitability on a quarterly or annual basis. 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. Our ability to maintain profitability in future periods could be impacted by budgetary constraints, government and political agendas, economic instability and other items that are not in our control. 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 experience operating losses and net losses in the future, 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.

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 2001, 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 $8.00 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 constraints;
- 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 from time to time experienced volatility, which has often 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.

Certain provisions of our charter documents may discourage a third party from acquiring us and may adversely affect the price of our common stock. Certain provisions of our certificate of incorporation 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. In August 2009, we adopted a stockholder rights plan and declared a dividend of preferred stock purchase rights to our stockholders. Generally, the stockholder rights plan provides that if a person or group acquires 15% or more of our common stock, subject to certain exceptions and under certain circumstances, the rights may be exchanged by us for common stock or the holders of the rights, other than the acquiring person or group, could acquire additional shares of our capital stock at a discount off of the then current market price. Such exchanges or exercise of rights 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. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

10b5-1 Plans

On July 27, 2010, two of our executive officers, James S. Miele and Greg McKhann, entered into stock selling plans pursuant to Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended. Mr. Miele's plan covers the sale over the next six months of up to an aggregate of 40,000 shares issuable upon exercise of a stock option held by him, which expires on September 26, 2011. Mr. Miele's previous 10b5-1 plan which covered these option shares expired on July 15, 2010. Mr. McKhann has authorized the sale over the next six months of up to an aggregate of 71,632 shares of our common stock under his plan. The shares covered by the above-described 10b5-1 plans will be sold if the price per share of our common stock reaches the amounts designated in the applicable plan.

Employment Agreements

On July 27, 2010, we entered into a letter agreement as well as a change in control agreement with Abbas Mohaddes, our Chief Executive Officer. The letter agreement provides for salary continuation payments for 12 months following termination and payment of 50% of his target bonus for the applicable year, payable at the end of the 12 month salary continuation period, in the event that Mr. Mohaddes is terminated without cause (as defined in the letter agreement) within three years after the effective date of the agreement. If his employment is terminated as a result of death or disability, then no salary continuation or other severance payments will be made but the vesting of any options, restricted stock or other similar awards then held by him will be accelerated by one year. The letter agreement also provides that Mr. Mohaddes will be granted a restricted stock unit award covering 50,000 shares of our common stock, which award will vest over four years. The change in control agreement provides for a lump sum payment of one year's base pay and 50% of his target bonus for the year in the event of an involuntary termination (as defined in the change in control agreement) of Mr. Mohaddes' employment in connection with or within 12 months after a change in control, except that such payment will be reduced to 50% of the annual base pay and no bonus if the involuntary termination is due to his voluntary resignation which does not occur within the first six months after the change in control. Mr. Mohaddes will also be entitled to receive reimbursement for the cost of COBRA coverage for a period of up to one year following any involuntary termination of his employment. The change in control agreement terminates on the fifth anniversary of the date of the agreement, unless earlier terminated in accordance therewith. No amounts will be payable and no acceleration of the vesting of any options or equity based awards will occur under the letter agreement in the event of a termination of Mr. Mohaddes' employment after a change in control; after a change in control, the change in control agreement will determine whether or not Mr. Mohaddes will be entitled to any payments or benefits, and the amount of any payments or benefits, in the event of the termination of his employment.

Table of Contents

ITEM 6. EXHIBITS

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

Exhibit Number	Description	Where Located
3.1	Restated Certificate of Incorporation of the registrant	*Exhibit 3.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 as filed with the SEC on October 30, 2009*
3.2	Bylaws of registrant, as amended	*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*
3.3	Certificates of Amendment to Bylaws of the registrant dated April 24, 1998 and August 10, 2001	*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*
3.4	Certificate of Amendment to Bylaws of registrant dated September 9, 2004	*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*
3.5	Certificate of Amendment to Bylaws of registrant dated September 16, 2005	*Exhibit 3.5 to the registrant's Annual Report on Form 10-K for the year ended March 31, 2007 as filed with the SEC on June 21, 2007*
3.6	Certificate of Amendment to Bylaws of registrant dated December 7, 2007	*Exhibit 3.1 to the registrant's Current Report on Form 8-K as filed with the SEC on December 13, 2007*
3.7	Certificate of Amendment to Bylaws of registrant, effective August 20, 2009	*Exhibit 3.3 to the registrant's Current Report on Form 8-K as filed with the SEC on August 21, 2009*
4.1	Rights Agreement dated August 20, 2009 between the registrant and Computershare Trust Company, N.A., including exhibits thereto	*Exhibit 4.1 to the registrant's Current Report on Form 8-K as filed with the SEC on August 21, 2009*
10.1	Letter Agreement dated July 27, 2010 by and between the registrant and Abbas Mohaddes	*Filed herewith*
10.2	Change in Control Agreement dated July 27, 2010 by and between the registrant and Abbas Mohaddes	*Filed herewith*
10.3	Form of Restricted Stock Unit Award Agreement under the 2007 Omnibus Incentive Plan	*Filed herewith*
31.1	Certification of the Principal Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*Filed herewith*
31.2	Certification of the Principal Financial and Accounting Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*Filed herewith*
32.1	Certification of the Chief Executive Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*Filed herewith*
32.2	Certification of the Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*Filed herewith*

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: July 27, 2010

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)

Table of Contents

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EXHIBIT 10.1

1700 Carnegie Ave.
Santa Ana, CA 92705

July 27, 2010

Mr. Abbas Mohaddes
3432 Seaglen Drive
Rancho Palos Verdes, CA 90275

Dear Abbas:

On behalf of the Board of Directors and the Compensation Committee of Iteris, Inc. ("Iteris" or the "Company"), I am pleased to present you with this letter agreement, which provides for certain compensation terms in connection with your continued employment with Iteris.

In addition to your base salary and annual bonus, and subject to all necessary Board or committee approval, we intend to issue you a restricted stock unit award (the "RSU") covering 50,000 shares of Iteris' common stock. The RSU will have a four-year vesting period and be subject to the terms of the 2007 Omnibus Incentive Plan and the related grant documents. We believe that the RSU will even further align your personal and professional objectives with those of the Company and its stockholders.

For a period of three years from your acceptance of this letter agreement (the "Term"), should your employment at Iteris be terminated by the Company and such termination is not for cause (as defined in Attachment A) or due to death or disability, you shall receive salary continuation payments consisting of the monthly rate of your then current base salary for a period of twelve (12) months. In addition, you shall be entitled at the end of that continuation period to receive a payment in lieu of bonus of 50% of your on-target bonus amount as in effect immediately prior to your termination.

In the event of the termination of your employment due to death or disability during the Term, in addition to the payment of any compensation earned through the date of the termination, you will receive a one year acceleration of the vesting of any unvested options or other equity-based awards then held by you (including the RSU described above).

We have also included with this letter as Attachment B, a Change in Control Agreement which provides for certain benefits and payments in the event of your involuntary termination after a change in control (as such terms are defined in the Change in Control Agreement). If a change in control occurs prior to the date which is three years from the date of your acceptance of this letter agreement, the amount of any severance or similar payments and benefits payable to you, and whether any such payments or benefits will be payable, will be determined pursuant to the Change in Control and not pursuant to the terms of this letter agreement.

In signing this letter, you agree that you will perform your duties faithfully and to the best of your abilities, and you agree to devote your full business time and effort to the performance of your duties.

This letter agreement (including the attachments hereto and the other documents referenced therein), the Company's Non-Competition Agreement, any confidentiality agreement, proprietary information and inventions agreement or other similar agreements, and the Company's equity incentive plans constitutes the complete agreement between the parties with respect to the subject matter hereof and thereof and supersedes any prior written or verbal agreement relating to such matter, including your offer letter dated February 2007. No modification, amendment, or waiver of any of the provisions contained in this letter agreement shall be binding upon any party to this letter agreement unless made in writing and signed by such party or by a duly authorized officer or agent of such party. This letter agreement may only be modified by a written agreement signed by you and the Chairman of the Board of Directors or the Chairman of the Compensation Committee, or either such person's designated representative. This letter agreement will be governed by California law without regard to the conflicts of law provisions thereof.

Please confirm your concurrence with this letter by signing and returning one copy of this letter.

FOR THE COMPENSATION COMMITTEE
OF THE BOARD OF DIRECTORS OF ITERIS, INC.:

Kevin C. Daly
Chairman

ACCEPTED:

/s/ ABBAS MOHADDES	July 27, 2010
Abbas Mohaddes	Date

Attachment A — Termination For Cause

Iteris shall have the right to immediately terminate your employment by written notice to you upon a good faith finding by Iteris or its Board of Directors, in its reasonable judgment, of any of the following occurrences:

1. your conviction of (a) a felony, or (b) another serious crime involving material harm to the standing or reputation of Iteris;

2. your willful misconduct or negligence in the performance of your duties for Iteris which causes material harm to Iteris;

3. your intentional conduct bringing Iteris into public disgrace or disrepute, including, but not limited to, dishonesty, fraud, material and deliberate injury or attempted injury, in each case related to Iteris or its business;

4. your material breach of any of the terms or conditions of this Agreement or the Non-competition Agreement which, if curable, is not cured to Iteris's reasonable satisfaction within fifteen (15) days (or such other time period as the parties may mutually agree in writing) of written notice thereof; or

Attachment B — Change in Control Agreement

CHANGE IN CONTROL AGREEMENT

THIS CHANGE IN CONTROL AGREEMENT (the "***Agreement***") is entered into as of July 27, 2010 (the "***Effective Date***"), by and between Abbas Mohaddes (the "***Employee***") and Iteris, Inc., a Delaware corporation (the "***Corporation***").

Section 1. Term of Agreement.

This Agreement shall take effect on the Effective Date and shall expire on the earlier of (i) the fifth anniversary of the Effective Date, or (ii) the date Employee's employment with the Corporation terminates for any reason other than an Involuntary Termination (as defined herein) that is in connection with or within twelve (12) months following a Change in Control.

Section 2. Definitions.

(a) "***Change in Control***" shall mean any of the following transactions effecting a change in ownership or control of this Corporation:

(i) a merger or consolidation of the Corporation with or into another entity or any other corporate reorganization, if persons who were not stockholders of the Corporation immediately prior to such merger, consolidation or other reorganization own immediately after such merger, consolidation or other reorganization 50% or more of the voting power of the outstanding securities of each of (i) the continuing or surviving entity and (ii) any direct or indirect parent corporation of such continuing or surviving entity.

(ii) The sale, transfer or other disposition of all or substantially all of the Corporation's assets;

(iii) the acquisition, directly or indirectly, by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by or in under common control with, the Corporation), of "beneficial ownership" as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "***Exchange Act***"), of securities of the Corporation representing at least 50% of the total combined voting power represented by the Corporation's then outstanding voting securities. For purposes of this subsection, the term "***person***" shall have the same meaning as when used in Sections 13(d) and 14(d) of the Exchange Act but shall exclude (i) a trustee or other fiduciary holding securities under an associate benefit plan of the Corporation or of a Parent or Subsidiary and (ii) a corporation owned directly or indirectly by the stockholders of the Corporation in substantially the same proportions as their ownership of the common stock of the Corporation.

Notwithstanding anything to the contrary contained herein, a Change in Control be not be deemed to occur in connection with any underwritten public offering of the Corporation's securities.

(b) "***Involuntary Termination***" shall mean the termination of the Service of any individual which occurs by reason of:

(i) Employee's involuntary dismissal or discharge by the Corporation for reasons other than Willful Misconduct, or

(ii) Employee's voluntary resignation following (A) a change in his position with the Corporation which materially reduces his level of responsibility, (B) a material reduction in his level of compensation (including base salary, fringe benefits and participation in bonus or incentive programs) or (C) a relocation of Employee's place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected by the Corporation without the Employee's consent. Notwithstanding the foregoing, for purposes of clause (ii), an Involuntary Termination shall only be found to exist if Employee has provided written notice to the Corporation indicating and describing the event under (A), (B) or (C) within 30 days of such event and the Corporation does not cure such event within 90 days following the receipt of such notice from Employee and the Employee resigns within 30 days after the cure period.

(c) **"Willful *Misconduct*"** shall mean (i) the misappropriation of the Corporation's funds or property, or any attempt by Employee to secure any personal profit related to the business or business opportunities of the Corporation without the informed, written approval of the Audit Committee of the Corporation's Board of Directors; (ii) any unauthorized use or disclosure by such person of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary); (iii) gross negligence or reckless or willful misconduct in the performance of Employee's duties; (iv) the failure to perform, or continuing neglect in the performance of, duties assigned to Employee for at least ten (10) days after receipt by Employee from the Corporation of prior written notice of such failure or neglect; (v) the conviction of, or plea of *nolo contendre* to, any felony or misdemeanor involving moral turpitude or fraud; or (vi) any other willful misconduct by Employee that the Board determines in good faith has had a material adverse effect upon the business or reputation of the Corporation.

(d) **"*Annual Base Pay*"** shall mean Employee's base salary at the highest rate in effect at any regularly scheduled payroll period preceding the occurrence of the Change in Control and does not include, for example, bonuses, overtime compensation, incentive pay, sales commissions or expense allowances.

(e) **"*Target Bonus*"** shall mean 50% of the bonus potential established for the Employee by the Corporation for the applicable fiscal year.

Section 3. Severance Payment; Employment at Will.

(a) Entitlement to Payment. Employee's employment with the Corporation is at will, which means that it is not for a specific term and may be terminated by either the Corporation or the Employee, at any time, for an reason, without advance notice. Similarly, the Corporation may change the terms and conditions of Employee's employment at any time, for any reason, without notice. Notwithstanding the foregoing, subject to Section 9, the Employee shall be entitled to receive a severance payment from the Corporation under this Agreement (the "***Severance Payment***") if, the Employee is Involuntarily Terminated in connection with or within twelve (12) months after a Change in Control. Employee understands, agrees and acknowledges that as a condition precedent to receiving any of the Severance Payments and other benefits set forth in this Agreement, Employee agrees to sign a Release in accordance with Section 9 herein.

(b) Time and Amount of Payment The Severance Payment shall be paid in one lump sum starting with the next normally scheduled payroll date of the Corporation following the latest of the following dates: (i) Employee's last day of employment, (ii) the date the Corporation receives Employee's signed general release of all claims pursuant to Section 9, or (iii) the date the revocation period (if any) specified in the general release of all claims expires. The amount of the Severance Payment shall be equal to the following:

- 100% of the Employee's Annual Base Pay, plus
- 50% of Employee's Target Bonus for the current fiscal year

Notwithstanding the foregoing, in the event the Involuntary Termination is the result of Employee's voluntary termination of employment with the Corporation and such termination does not occur within the first six months following the completion of the transaction giving rise to the Change in Control, Employee shall only be entitled to 50% of Employee's Annual Base Pay and no portion of Employee's Target Bonus. Payments made under this Agreement shall not be treated as "compensation" for purposes of the 401(k) Profit Sharing Plan. Employee will also receive his unpaid salary through his termination date and a lump sum payment for all accrued and unused vacation (through the termination date) in a final paycheck provided on his last day of work. This Severance Payment is intended to qualify as an involuntary separation pay arrangement that is exempt from application of Section 409A of the Internal Revenue Code of 1986, as amended (the "***Code***") because all severance payments are treated as paid on account of an involuntary separation (including a voluntary separation for good reason) and paid in a lump sum within the "short-term deferral" period following the time the Employee obtains a vested right to such payments.

(c) Mitigation and Reemployment. The Employee shall not be required to mitigate the amount of any payment contemplated by this Section 3 (whether by seeking new employment or in any other manner), nor shall any such payment be reduced by any earnings that the Employee may receive from any other source.

Section 4. Payments Unfunded and Non-Assignable.

(a) No Funding. Any payments to be made under Section 4 shall represent an unfunded and unsecured obligation of the Corporation, which shall represent an unfunded and unsecured obligation of the Corporation's general assets. The Employee shall be considered a general creditor of the Corporation and shall have no rights to any segregated funds or property of the Corporation.

(b) No Assignment. The Employee's right to payments under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this Section 4(b) shall be void.

Section 5. Group Insurance Coverage. If the Employee becomes entitled to a Severance Payment under this Agreement, then the Corporation shall continue to provide continued group health coverage, as otherwise required under applicable stated continuation law and the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended and all applicable regulations ("***COBRA***"). Provided that the Employee makes the necessary COBRA elections and payments, the Corporation shall reimburse Employee for the total applicable premium costs paid by Employee for such health COBRA continuation coverage for Employee (and if applicable Employee's dependents) until the earlier of (i) twelve months after the termination of Employee's employment, or (ii) the maximum COBRA period. The Corporation's obligation to reimburse premiums under this Section shall cease when the Employee obtains new employment offering healthcare benefits.

Section 6. Tax Effect of Payments.

(a) The amount of any cash payment to be received by Employee pursuant to Section 2 of this Agreement shall be reduced (but not below zero) to the extent required so that no portion of any payment or benefit in the nature of compensation received or to be received by Employee (whether payable pursuant to the terms of this Agreement or pursuant to any other plan, contract, agreement or arrangement with the Corporation or any other person) (Such payments or benefits are referred to collectively as the "***Total Payments***") shall be treated as an "excess parachute payment" within the meaning of Section 280G(b)(1) of the Code.

(b) The determination of whether any reduction in payments is required pursuant to Section 6(a) of this Agreement shall be made in writing by the Corporation's independent public accountants, or such other independent accounting firm or tax advisors selected by the Corporation in its sole discretion (the "***Accounting Firm***"), whose determination shall be conclusive and binding upon Employee and the Corporation for all purposes under this Agreement. For the purposes of making the calculations required by this Section 6, the Accounting Firm may make reasonable assumptions and approximations and may rely on reasonable, good faith interpretations concerning the application of Section 280G and 4999 of the Code, applicable regulations and other authority. The Corporation and the Employee shall furnish to the Accounting Firm such information and documents as the Accounting Firm may reasonably request in order to make a determination under this Section. The Accounting Firm shall provide detailed supporting calculations, in writing, to both the Corporation and the Employee of determinations made pursuant to this Section 6. The Corporation shall bear all of the costs that the Accounting Firm may reasonably incur in connection with any calculations contemplated by this section.

(c) In the event of any uncertainty as to whether a reduction in payments to Employee is required pursuant to Section 6(a) of this Agreement, the Corporation shall initially make the payment to Employee, and Employee shall be required to refund to the Corporation any amounts ultimately determined not to have been payable under the terms of this Agreement.

Section 7. Successors.

(a) Corporation's Successors. The Corporation shall require any successor (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Corporation's business and/or assets to assume this Agreement and to agree expressly and in writing to perform this Agreement in the same manner and to the same extent as the Corporation would have been required to perform it in the absence of a succession. The Corporation's failure to obtain such an assumption prior to the effectiveness of a succession shall be a breach of this Agreement and shall result in Employee's Involuntary Termination hereunder. For all purposes under this Agreement, the term "***Corporation***" shall include any successor to the Corporation's business and/or assets that executes and delivers the assumption agreement described in this Section 7(a) or that becomes bound by this Agreement by operation of law.

(b) Employee's Successors. This Agreement and all rights of the Employee hereunder shall inure to the benefit of, and be enforceable by, the Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

Section 8. Miscellaneous Previsions

(a) No Waivers. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Employee and by an authorized officer of the Corporation (other than the Employee). No waiver by either party of any breach of, or of compliance with, any condition or provision or of the same condition or provision at another time.

(b) Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.

(c) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(d) Arbitration. Except for responsibilities assigned to the Accounting Firm under Section 6, and except for the right of the Corporation and the Employee to seek injunctive relief in court, any controversy, claim or dispute of any type arising under or relating to Employee's employment or the provisions of this Agreement shall be resolved in accordance with this Section 8(d) of this Agreement, regarding resolution of disputes, which will be the sole and exclusive procedure for the resolution of any such disputes. This Agreement shall be enforced in accordance with the Federal Arbitration Act, the enforcement provisions of which are incorporated by this reference. Matters subject to those provisions include, without limitation, claims or disputes based on statute, contract, common law and tort and will include, for example, matters pertaining to termination, discrimination, harassment, compensation and benefits. Matters to be resolved under these procedures also include claims and disputes arising out of statues such as the Fair Labor Standards Act, Title VII of the Civil Rights Act, the Age Discrimination in Employment Act, the California Labor Code, and the California Fair Employment and Housing Act. Nothing contained in this provision is intended to restrict Employee from submitting any matter to an administrative agency with jurisdiction over such matter.

(1) Mediation. The Corporation and Employee will make a good faith attempt to resolve any and all claims and disputes relating to the subject matter of this Agreement through good faith negotiations. If such claims and disputes cannot be settled through negotiation, the Corporation and Employee agree to submit them to mediation in Orange County, California before resorting to arbitration or any other dispute resolution procedure. The mediation of any such claim or dispute must be conducted in accordance with the then current JAMS procedures for the resolution of employment disputes by mediation, by a mediator who has both training and experience as a mediator of general employment and commercial matters. If the parties to this Agreement cannot agree on a mediator, then the mediator will be selected by JAMS in accordance with JAMS' strike list method. Within thirty (30) days after the selection of the mediator for one mediation session of at least four (4) hours. If the claim or dispute cannot be settled during such mediation session or mutually agreed continuation of the session, either the Corporation or Employee may give the mediator and the other party to the claim or dispute written notice declaring the end of the mediation process. All discussion connection with this mediation provision will be confidential and treated as compromise and settlement discussions. Nothing disclosed in any such discussion, which is not independently discoverable, may be used for any purpose in any later proceeding. The mediator's fees will be paid in equal portions by the Corporation and the Employee, unless the Corporation agrees to pay all such fees.

(2) Arbitration. If a claim or dispute relating to the subject matter of this Agreement has not been resolved in accordance with Section 8(d)(1) above, then the claim or dispute will be determined by arbitration in accordance with the then current JAMS employment arbitration rules and procedures, except as modified herein. The arbitration will be conducted in Orange County, California by a sole neutral arbitrator who has training and experience as an arbitrator of general employment and commercial matters. If the Corporation and Employee cannot agree on an arbitrator, then the arbitrator will be selected by JAMS in accordance with Rule 12 of the JAMS employment arbitration rules and procedures. No person who has served as a mediator under the mediation provision above, however, may be selected as the arbitrator for the same claim or dispute. Reasonable discovery will be permitted and the arbitrator may decide any issue as to discovery. The arbitrator may decide any issue as to whether or as to the extent to which any dispute is subject to the dispute resolution provisions in Section 8, and the arbitrator may award any relief permitted by law. The arbitrator must base the arbitration award on the provisions of Section 8 of this Agreement and applicable law and must render the award in writing, including an explanation of the reasons for the award. Judgment upon the award may be entered by any court having jurisdiction of the matter, and the decision of the arbitrator will be final and binding. The parties hereto hereby waive to the fullest extent

permitted by law any rights to appeal or to review such award by any court. The statute of limitations applicable to the commencement of a lawsuit will apply to the commencement of an arbitration under Section 8(d)(2) of the Agreement. A the request of any party, the arbitrator, attorneys, parties to the arbitration, witnesses, experts, court reporters or other persons present at the arbitration shall agree in writing to maintain the strict confidentiality of the arbitration proceedings. The arbitrator's fees will be paid in full by the Corporation, unless Employee agrees in writing to pay some or all of such fees.

Section 9. Release and Waiver of Claims. In consideration for Employee's receipt of the Severance Payments or other benefits as specified in this Agreement, to which Employee is not otherwise entitled, Employee agrees to sign and agree to the terms of a broad, confidential release of all claims, causes of action, judgments, damages, liabilities, demands or any other claims Employee or Employee's heirs, assigns and agents may now or hereafter have against the Corporation, its subsidiaries and other related entities, and their respective employees, stockholders, directors, attorneys, accountants, successors and assigns or other agents in the form and manner required by the Corporation (the "***Release***"). Execution of the Release is a condition precedent for qualifying to receive any Severance Payments or other benefits as set forth in this Agreement. Employee further understands and acknowledges that if Employee refuses to sign the Release provided by the Corporation, or attempts to revoke such a Release, to the extent permitted by its terms, Employee shall be disqualified from receiving Severance Payments or any other benefits provided by this Agreement.

Section 10. Notices. All notices, demands and other communications required or permitted to be sent or given hereunder shall be in writing and will be duly given and effective (i) if delivered in person or by a reputable courier service, upon such deliver; (ii) if sent by first class US mail, on the fourth business day following its mailing, certified mail, postage prepaid and return receipt requested; or (iii) if sent by overnight mail, on the business day following its mailing provided that the delivery charges are prepaid. The addresses of the parties for the purposes of notice are set forth below. Each party may change its address from time to time upon ten days prior notice given in accordance with this Section.

Notice to the Corporation:	Iteris, Inc. 1700 Carnegie Avenue, Suite 100 Santa Ana, CA 92705-5551 Attn: Chief Executive Officer
Notice to Employee:	Abbas Mohaddes 3432 Seaglen Drive Rancho Palos Verdes, CA 90275

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Corporation by its duly authorized officer, as of the day and year first above written.

ITERIS, INC.

By: ______________________________

Kevin C Daly,
Chairman, Compensation Committee
Iteris, Inc. Board of Directors

/s/ ABBAS MOHADDES
ABBAS MOHADDES

EXHIBIT 10.2

CHANGE IN CONTROL AGREEMENT

THIS CHANGE IN CONTROL AGREEMENT (the "***Agreement***") is entered into as of July 27, 2010 (the "***Effective Date***"), by and between Abbas Mohaddes (the "***Employee***") and Iteris, Inc., a Delaware corporation (the "***Corporation***").

Section 1. Term of Agreement.

This Agreement shall take effect on the Effective Date and shall expire on the earlier of (i) the fifth anniversary of the Effective Date, or (ii) the date Employee's employment with the Corporation terminates for any reason other than an Involuntary Termination (as defined herein) that is in connection with or within twelve (12) months following a Change in Control.

Section 2. Definitions.

(a) "***Change in Control***" shall mean any of the following transactions effecting a change in ownership or control of this Corporation:

(i) a merger or consolidation of the Corporation with or into another entity or any other corporate reorganization, if persons who were not stockholders of the Corporation immediately prior to such merger, consolidation or other reorganization own immediately after such merger, consolidation or other reorganization 50% or more of the voting power of the outstanding securities of each of (i) the continuing or surviving entity and (ii) any direct or indirect parent corporation of such continuing or surviving entity.

(ii) The sale, transfer or other disposition of all or substantially all of the Corporation's assets;

(iii) the acquisition, directly or indirectly, by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by or in under common control with, the Corporation), of "beneficial ownership" as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "***Exchange Act***"), of securities of the Corporation representing at least 50% of the total combined voting power represented by the Corporation's then outstanding voting securities. For purposes of this subsection, the term "***person***" shall have the same meaning as when used in Sections 13(d) and 14(d) of the Exchange Act but shall exclude (i) a trustee or other fiduciary holding securities under an associate benefit plan of the Corporation or of a Parent or Subsidiary and (ii) a corporation owned directly or indirectly by the stockholders of the Corporation in substantially the same proportions as their ownership of the common stock of the Corporation.

Notwithstanding anything to the contrary contained herein, a Change in Control be not be deemed to occur in connection with any underwritten public offering of the Corporation's securities.

(b) "***Involuntary Termination***" shall mean the termination of the Service of any individual which occurs by reason of:

(i) Employee's involuntary dismissal or discharge by the Corporation for reasons other than Willful Misconduct, or

(ii) Employee's voluntary resignation following (A) a change in his position with the Corporation which materially reduces his level of responsibility, (B) a material reduction in his level of compensation (including base salary, fringe benefits and participation in bonus or incentive programs) or (C) a relocation of Employee's place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected by the Corporation without the Employee's consent. Notwithstanding the foregoing, for purposes of clause (ii), an Involuntary Termination shall only be found to exist if Employee has provided written notice to the Corporation indicating and describing the event under (A), (B) or (C) within 30 days of such event and the Corporation does not cure such event within 90 days following the receipt of such notice from Employee and the Employee resigns within 30 days after the cure period.

(c) **"Willful *Misconduct*"** shall mean (i) the misappropriation of the Corporation's funds or property, or any attempt by Employee to secure any personal profit related to the business or business opportunities of the Corporation without the informed, written approval of the Audit Committee of the Corporation's Board of Directors; (ii) any unauthorized use or disclosure by such person of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary); (iii) gross negligence or reckless or willful misconduct in the performance of Employee's duties; (iv) the failure to perform, or continuing neglect in the performance of, duties assigned to Employee for at least ten (10) days after receipt by Employee from the Corporation of prior written notice of such failure or neglect; (v) the conviction of, or plea of *nolo contendre* to, any felony or misdemeanor involving moral turpitude or fraud; or (vi) any other willful misconduct by Employee that the Board determines in good faith has had a material adverse effect upon the business or reputation of the Corporation.

(d) **"*Annual Base Pay*"** shall mean Employee's base salary at the highest rate in effect at any regularly scheduled payroll period preceding the occurrence of the Change in Control and does not include, for example, bonuses, overtime compensation, incentive pay, sales commissions or expense allowances.

(e) **"*Target Bonus*"** shall mean 50% of the bonus potential established for the Employee by the Corporation for the applicable fiscal year.

Section 3. Severance Payment; Employment at Will.

(a) Entitlement to Payment. Employee's employment with the Corporation is at will, which means that it is not for a specific term and may be terminated by either the Corporation or the Employee, at any time, for an reason, without advance notice. Similarly, the Corporation may change the terms and conditions of Employee's employment at any time, for any reason, without notice. Notwithstanding the foregoing, subject to Section 9, the Employee shall be entitled to receive a severance payment from the Corporation under this Agreement (the "***Severance Payment***") if, the Employee is Involuntarily Terminated in connection with or within twelve (12) months after a Change in Control. Employee understands, agrees and acknowledges that as a condition precedent to receiving any of the Severance Payments and other benefits set forth in this Agreement, Employee agrees to sign a Release in accordance with Section 9 herein.

(b) Time and Amount of Payment The Severance Payment shall be paid in one lump sum starting with the next normally scheduled payroll date of the Corporation following the latest of the following dates: (i) Employee's last day of employment, (ii) the date the Corporation receives Employee's signed general release of all claims pursuant to Section 9, or (iii) the date the revocation period (if any) specified in the general release of all claims expires. The amount of the Severance Payment shall be equal to the following:

- 100% of the Employee's Annual Base Pay, plus
- 50% of Employee's Target Bonus for the current fiscal year

Notwithstanding the foregoing, in the event the Involuntary Termination is the result of Employee's voluntary termination of employment with the Corporation and such termination does not occur within the first six months following the completion of the transaction giving rise to the Change in Control, Employee shall only be entitled to 50% of Employee's Annual Base Pay and no portion of Employee's Target Bonus. Payments made under this Agreement shall not be treated as "compensation" for purposes of the 401(k) Profit Sharing Plan. Employee will also receive his unpaid salary through his termination date and a lump sum payment for all accrued and unused vacation (through the termination date) in a final paycheck provided on his last day of work. This Severance Payment is intended to qualify as an involuntary separation pay arrangement that is exempt from application of Section 409A of the Internal Revenue Code of 1986, as amended (the "***Code***") because all severance payments are treated as paid on account of an involuntary separation (including a voluntary separation for good reason) and paid in a lump sum within the "short-term deferral" period following the time the Employee obtains a vested right to such payments.

(c) Mitigation and Reemployment. The Employee shall not be required to mitigate the amount of any payment contemplated by this Section 3 (whether by seeking new employment or in any other manner), nor shall any such payment be reduced by any earnings that the Employee may receive from any other source.

Section 4. Payments Unfunded and Non-Assignable.

(a) No Funding. Any payments to be made under Section 4 shall represent an unfunded and unsecured obligation of the Corporation, which shall represent an unfunded and unsecured obligation of the Corporation's general assets. The Employee shall be considered a general creditor of the Corporation and shall have no rights to any segregated funds or property of the Corporation.

(b) No Assignment. The Employee's right to payments under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this Section 4(b) shall be void.

Section 5. Group Insurance Coverage. If the Employee becomes entitled to a Severance Payment under this Agreement, then the Corporation shall continue to provide continued group health coverage, as otherwise required under applicable stated continuation law and the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended and all applicable regulations ("***COBRA***"). Provided that the Employee makes the necessary COBRA elections and payments, the Corporation shall reimburse Employee for the total applicable premium costs paid by Employee for such health COBRA continuation coverage for Employee (and if applicable Employee's dependents) until the earlier of (i) twelve months after the termination of Employee's employment, or (ii) the maximum COBRA period. The Corporation's obligation to reimburse premiums under this Section shall cease when the Employee obtains new employment offering healthcare benefits.

Section 6. Tax Effect of Payments.

(a) The amount of any cash payment to be received by Employee pursuant to Section 2 of this Agreement shall be reduced (but not below zero) to the extent required so that no portion of any payment or benefit in the nature of compensation received or to be received by Employee (whether payable pursuant to the terms of this Agreement or pursuant to any other plan, contract, agreement or arrangement with the Corporation or any other person) (Such payments or benefits are referred to collectively as the "***Total Payments***") shall be treated as an "excess parachute payment" within the meaning of Section 280G(b)(1) of the Code.

(b) The determination of whether any reduction in payments is required pursuant to Section 6(a) of this Agreement shall be made in writing by the Corporation's independent public accountants, or such other independent accounting firm or tax advisors selected by the Corporation in its sole discretion (the "***Accounting Firm***"), whose determination shall be conclusive and binding upon Employee and the Corporation for all purposes under this Agreement. For the purposes of making the calculations required by this Section 6, the Accounting Firm may make reasonable assumptions and approximations and may rely on reasonable, good faith interpretations concerning the application of Section 280G and 4999 of the Code, applicable regulations and other authority. The Corporation and the Employee shall furnish to the Accounting Firm such information and documents as the Accounting Firm may reasonably request in order to make a determination under this Section. The Accounting Firm shall provide detailed supporting calculations, in writing, to both the Corporation and the Employee of determinations made pursuant to this Section 6. The Corporation shall bear all of the costs that the Accounting Firm may reasonably incur in connection with any calculations contemplated by this section.

(c) In the event of any uncertainty as to whether a reduction in payments to Employee is required pursuant to Section 6(a) of this Agreement, the Corporation shall initially make the payment to Employee, and Employee shall be required to refund to the Corporation any amounts ultimately determined not to have been payable under the terms of this Agreement.

Section 7. Successors.

(a) Corporation's Successors. The Corporation shall require any successor (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Corporation's business and/or assets to assume this Agreement and to agree expressly and in writing to perform this Agreement in the same manner and to the same extent as the Corporation would have been required to perform it in the absence of a succession. The Corporation's failure to obtain such an assumption prior to the effectiveness of a succession shall be a breach of this Agreement and shall result in Employee's Involuntary Termination hereunder. For all purposes under this Agreement, the term "***Corporation***" shall include any successor to the Corporation's business and/or assets that executes and delivers the assumption agreement described in this Section 7(a) or that becomes bound by this Agreement by operation of law.

(b) Employee's Successors. This Agreement and all rights of the Employee hereunder shall inure to the benefit of, and be enforceable by, the Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

Section 8. Miscellaneous Previsions

(a) No Waivers. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Employee and by an authorized officer of the Corporation (other than the Employee). No waiver by either party of any breach of, or of compliance with, any condition or provision or of the same condition or provision at another time.

(b) Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.

(c) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(d) Arbitration. Except for responsibilities assigned to the Accounting Firm under Section 6, and except for the right of the Corporation and the Employee to seek injunctive relief in court, any controversy, claim or dispute of any type arising under or relating to Employee's employment or the provisions of this Agreement shall be resolved in accordance with this Section 8(d) of this Agreement, regarding resolution of disputes, which will be the sole and exclusive procedure for the resolution of any such disputes. This Agreement shall be enforced in accordance with the Federal Arbitration Act, the enforcement provisions of which are incorporated by this reference. Matters subject to those provisions include, without limitation, claims or disputes based on statute, contract, common law and tort and will include, for example, matters pertaining to termination, discrimination, harassment, compensation and benefits. Matters to be resolved under these procedures also include claims and disputes arising out of statues such as the Fair Labor Standards Act, Title VII of the Civil Rights Act, the Age Discrimination in Employment Act, the California Labor Code, and the California Fair Employment and Housing Act. Nothing contained in this provision is intended to restrict Employee from submitting any matter to an administrative agency with jurisdiction over such matter.

(1) Mediation. The Corporation and Employee will make a good faith attempt to resolve any and all claims and disputes relating to the subject matter of this Agreement through good faith negotiations. If such claims and disputes cannot be settled through negotiation, the Corporation and Employee agree to submit them to mediation in Orange County, California before resorting to arbitration or any other dispute resolution procedure. The mediation of any such claim or dispute must be conducted in accordance with the then current JAMS procedures for the resolution of employment disputes by mediation, by a mediator who has both training and experience as a mediator of general employment and commercial matters. If the parties to this Agreement cannot agree on a mediator, then the mediator will be selected by JAMS in accordance with JAMS' strike list method. Within thirty (30) days after the selection of the mediator for one mediation session of at least four (4) hours. If the claim or dispute cannot be settled during such mediation session or mutually agreed continuation of the session, either the Corporation or Employee may give the mediator and the other party to the claim or dispute written notice declaring the end of the mediation process. All discussion connection with this mediation provision will be confidential and treated as compromise and settlement discussions. Nothing disclosed in any such discussion, which is not independently discoverable, may be used for any purpose in any later proceeding. The mediator's fees will be paid in equal portions by the Corporation and the Employee, unless the Corporation agrees to pay all such fees.

(2) Arbitration. If a claim or dispute relating to the subject matter of this Agreement has not been resolved in accordance with Section 8(d)(1) above, then the claim or dispute will be determined by arbitration in accordance with the then current JAMS employment arbitration rules and procedures, except as modified herein. The arbitration will be conducted in Orange County, California by a sole neutral arbitrator who has training and experience as an arbitrator of general employment and commercial matters. If the Corporation and Employee cannot agree on an arbitrator, then the arbitrator will be selected by JAMS in accordance with Rule 12 of the JAMS employment arbitration rules and procedures. No person who has served as a mediator under the mediation provision above, however, may be selected as the arbitrator for the same claim or dispute. Reasonable discovery will be permitted and the arbitrator may decide any issue as to discovery. The arbitrator may decide any issue as to whether or as to the extent to which any dispute is subject to the dispute resolution provisions in Section 8, and the arbitrator may award any relief permitted by law. The arbitrator must base the arbitration award on the provisions of Section 8 of this Agreement and applicable law and must render the award in writing, including an explanation of the reasons for the award. Judgment upon the award may be entered by any court having jurisdiction of the matter, and the decision of the arbitrator will be final and binding. The parties hereto hereby waive to the fullest extent permitted by law any rights to appeal or to review such award by any court. The statute of limitations applicable to the commencement of a lawsuit will apply to the commencement of an arbitration under Section 8(d)(2) of the Agreement. A the request of any party, the arbitrator, attorneys, parties to the arbitration, witnesses, experts, court reporters or other persons present at the arbitration shall agree in writing to maintain the strict confidentiality of the arbitration proceedings. The arbitrator's fees will be paid in full by the Corporation, unless Employee agrees in writing to pay some or all of such fees.

Section 9. Release and Waiver of Claims. In consideration for Employee's receipt of the Severance Payments or other benefits as specified in this Agreement, to which Employee is not otherwise entitled, Employee agrees to sign and agree to the terms of a broad, confidential release of all claims, causes of action, judgments, damages, liabilities, demands or any other claims Employee or Employee's heirs, assigns and agents may now or hereafter have against the Corporation, its subsidiaries and other related entities, and their respective employees, stockholders, directors, attorneys, accountants, successors and assigns or other agents in the form and manner required by the Corporation (the "***Release***"). Execution of the Release is a condition precedent for qualifying to receive any Severance Payments or other benefits as set forth in this Agreement. Employee further understands and acknowledges that if Employee refuses to sign the Release provided by the Corporation, or attempts to revoke such a Release, to the extent permitted by its terms, Employee shall be disqualified from receiving Severance Payments or any other benefits provided by this Agreement.

Section 10. Notices. All notices, demands and other communications required or permitted to be sent or given hereunder shall be in writing and will be duly given and effective (i) if delivered in person or by a reputable courier service, upon such deliver; (ii) if sent by first class US mail, on the fourth business day following its mailing, certified mail, postage prepaid and return receipt requested; or (iii) if sent by overnight mail, on the business day following its mailing provided that the delivery charges are prepaid. The addresses of the parties for the purposes of notice are set forth below. Each party may change its address from time to time upon ten days prior notice given in accordance with this Section.

Notice to the Corporation: Iteris, Inc.
1700 Carnegie Avenue, Suite 100
Santa Ana, CA 92705-5551
Attn: Chief Executive Officer

Notice to Employee: Abbas Mohaddes
3432 Seaglen Drive
Rancho Palos Verdes, CA 90275

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Corporation by its duly authorized officer, as of the day and year first above written.

ITERIS, INC.

By: ______________________________

Kevin C Daly,
Chairman, Compensation Committee
Iteris, Inc. Board of Directors

/s/ ABBAS MOHADDES

ABBAS MOHADDES

EXHIBIT 10.3

ITERIS, INC.
RESTRICTED STOCK UNIT AWARD AGREEMENT

This RESTRICTED STOCK UNIT AWARD AGREEMENT (the "*Agreement*") is made as of (the "*Grant Date*"), by and between Iteris, Inc., a Delaware corporation (the "*Company*"), and ("*Participant*"). The Award (as defined below) is subject to the terms and conditions set forth in this Agreement and in the Iteris, Inc. 2007 Omnibus Incentive Plan (the "*Plan*"). Capitalized terms used but not otherwise defined herein shall have the meaning ascribed to such terms in the Plan.

1. Award. The Company hereby grants to Participant a restricted stock unit award (the "*Award*") covering restricted stock units (the "*Units*"). Each Unit represents the right to receive one share of common stock, par value $0.10 per share, of the Company (the "*Common Stock*"), subject to the vesting requirements of this Agreement and the terms of the Plan. The Award represents the right to receive shares of Common Stock (the "*Shares*") only when, and with respect to the number of Shares to which, the Units have vested.

2. Vesting. Except as otherwise provided in this Agreement, the Units shall vest in accordance with the following schedule:

On or after each of the following dates	**Number of Units vested**
First anniversary of the Grant Date	
Second anniversary of the Grant Date	
Third anniversary of the Grant Date	
Fourth anniversary of the Grant Date	

3. Restrictions on Transfer. The Units may not be sold, assigned, transferred or pledged, other than by will or the laws of descent and distribution, and any such attempted transfer shall be void.

4. Forfeiture. If Participant ceases to be employed by or provide Service to the Company or any Affiliate, whether or not terminated for cause, prior to vesting of the Units pursuant to Section 2 or Section 8 hereof, all of Participant's rights to all of the unvested Units (and the unvested Shares subject to such Units) shall be immediately and irrevocably forfeited. Upon forfeiture, Participant will no longer have any rights relating to the unvested Units (and the unvested Shares subject to such Units).

5. Issuance of Shares. As soon as administratively practicable following the Participant's vesting date under Section 2 or Section 8 hereof, as applicable, and the Participant's satisfaction of any required tax withholding obligations (but in no event later than 60 days following the vesting date), the Company shall cause to be issued and delivered to the Participant a certificate or certificates evidencing Shares registered in the name of the Participant (or in the name of the Participant's legal representatives, beneficiaries or heirs, as the case may be) or to instruct the Company's transfer agent to electronically deliver such shares to the respective

Participant. The number of Shares issued shall equal the number of Units vested, reduced as necessary to cover applicable withholding obligations in accordance with Section 7 hereof. If it is administratively impracticable to issue Shares within the time frame described above because issuances of Shares are prohibited or restricted pursuant to the policies of the Company that are reasonably designed to ensure compliance with applicable securities laws or stock exchange rules, then such issuance shall be delayed until such prohibitions or restrictions lapse.

6. Rights as Shareholder. Units are not actual Shares, and only represent a right to receive Shares according to the terms and conditions set forth herein and the terms of the Plan. Accordingly, the issuance of a Unit shall not entitle the Participant to any of the rights or benefits generally accorded to stockholders unless and until a Share is actually issued under Section 5 hereof.

7. Taxes. The Participant hereby agrees to make adequate provision for any sums required to satisfy the applicable federal, state, local or foreign employment, social insurance, payroll, income or other tax withholding obligations (the "*Withholding Obligations*") that arise in connection with this Agreement. The Company may establish procedures to ensure satisfaction of all applicable Withholding Obligations arising in connection with this Agreement, including any means described in Section 8 of the Plan. The Participant hereby authorizes the Company, at its sole discretion and subject to any limitations under applicable law, to satisfy any such Withholding Obligations by (a) withholding from the wages and other cash compensation payable to the Participant, (b) causing the Participant to tender a cash payment to the Company, (c) delivering to the Company for cancellation shares of the Company's Common Stock already owned by the Participant, or (d) selling on the Participant's behalf (using any brokerage firm determined acceptable to the Company for such purpose) a portion of the Shares issued in payment of the vested Units as the Company determines to be appropriate to generate cash proceeds sufficient to satisfy the Withholding Obligations, in connection with which the Participant shall concurrently provide, if necessary or applicable, irrevocable instructions (i) to the brokerage firm to effect the immediate sale of some or all of the Vested Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to satisfy the Withholding Obligations and (ii) to the Company to deliver the certificates for the Shares directly to such brokerage firm in order to complete the sale. The Participant shall be responsible for all brokerage fees and other costs of sale, and the Participant further agrees to indemnify and hold the Company harmless from any losses, costs, damages or expenses relating to any such sale. The Company may refuse to deliver Shares if the Participant fails to comply with the Participant's obligations in connection with the Withholding Obligations described in this paragraph.

8. Change in Control.

(a) Immediately prior to the effective date of a "Change in Control" (as defined below), all Units subject to this Award will vest, except and to the extent: (i) this Award is to be assumed by the successor corporation (or parent thereof) or is otherwise to be continued in full force and effect pursuant to the terms of the Change in Control transaction or (ii) this Award is to be replaced with a cash incentive program of the successor corporation which preserves the value (i.e., the Fair Market Value) of the unvested Units (and the unvested Shares) subject to this Award existing at the time of the Change in Control and provides for subsequent payout of that value no later than the time the Units subject to this Award would have vested.

(b) Immediately following the consummation of the Change in Control, this Award shall terminate, except to the extent assumed by the successor corporation (or parent thereof) or otherwise continued in effect pursuant to the terms of the Change in Control transaction.

(c) If this Award is assumed or otherwise continued in effect in connection with a Change in Control, then this Award shall be appropriately adjusted, upon such Change in Control, to apply to the number and class of securities which would have been issuable to Participant in consummation of such Change in Control had the Units subject to this Award been fully vested immediately prior to such Change in Control. To the extent that the holders of Common Stock receive cash consideration for their Common Stock in consummation of the Change in Control, the successor corporation (or its parent) may, in connection with the assumption of this Award, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Change in Control.

(d) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

(e) For purposes of this Agreement, "*Change in Control*" shall mean a change in ownership or control of the Company effected through any of the following transactions: (i) a merger, consolidation or other reorganization unless securities representing more than 50% of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the Company's outstanding voting securities immediately prior to such transaction; (ii) a sale, transfer or other disposition of all or substantially all of the Company's assets; or (iii) the acquisition, directly or indirectly, by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company), of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than 50% of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders.

9. Capital Adjustments and Reorganization. Should any change be made to the Common Stock by reason of any stock split, reverse stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Company's receipt of consideration, appropriate adjustments shall be made to the number and/or class of securities subject to this Award in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

10. Miscellaneous.

(a) Subject to Plan. This Award is subject to the terms and conditions of the Plan, but the terms of the Plan shall not be considered an enlargement of any benefits under this Agreement. In addition, this Award is subject to the rules and regulations promulgated pursuant to the Plan, now or hereafter in effect. A copy of the Plan will be furnished upon request of the Participant.

(b) No Right to Continued Service. This Agreement shall not confer on the Participant any right with respect to continuance of service to the Company, nor will it interfere in any way with the right of the Company to terminate such service at any time.

(c) Governing Law. The validity, construction and effect of the Plan and the Agreement, and any rules and regulations relating to the Plan and the Agreement, shall be determined in accordance with the internal laws, and not the law of conflicts, of the State of Delaware.

(d) Severability. If any provision of the Agreement is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Agreement under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the purpose or intent of the Plan or the Agreement, such provision shall be stricken as to such jurisdiction or the Agreement, and the remainder of the Agreement shall remain in full force and effect.

(e) No Trust or Fund Created. Neither the Plan nor the Agreement shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and Participant or any other person.

(f) Section 409A Provisions. The issuance of Shares under this Agreement are intended to be exempt from the application of section 409A of the Internal Revenue Code, as amended ("*Section 409A*") by reason of the short-term deferral exemption set forth in Treasury Regulation §1.409A-1(b)(4). Notwithstanding anything in the Plan or this Agreement to the contrary, to the extent that any amount or benefit hereunder that constitutes "deferred compensation" to the Participant under section 409A of the Internal Revenue Code, as amended ("*Section 409A*") and applicable guidance thereunder is otherwise payable or distributable to the Participant under the Plan or this Agreement solely by reason of the occurrence of a Change in Control or due to the Participant's disability or termination of employment, such amount or benefit will not be payable or distributable to the Participant by reason of such circumstance unless the Committee determines in good faith that (i) the circumstances giving rise to such Change in Control, disability or separation from service meet the definition of a change in ownership or control, disability, or separation from service, as the case may be, in Section 409A(a)(2)(A) of the Code and applicable final regulations, or (ii) the payment or distribution of such amount or benefit would be exempt from the application of Section 409A by reason of the short-term deferral exemption or otherwise (including, but not limited to, a payment made pursuant to an involuntary separation arrangement that is exempt from Section 409A under the "short-term deferral" exception). Any payment or distribution that otherwise would be made to a Participant who is a specified employee as defined in Section 409A(a)(2)(B) of the Code on account of separation from service may not be made before the date which is six months after the date of the specified employee's separation from service (or if earlier, upon the specified employee's death) unless the payment or distribution is exempt from the application of Section 409A by reason of the short term deferral exemption or otherwise.

(g) Headings. Headings are given to the Sections and subsections of the Agreement solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Agreement or any provision thereof.

IN WITNESS WHEREOF, the Company and Participant have executed this Agreement on the date set forth in the first paragraph.

ITERIS, INC.

By: ______________________________
Name: ______________________________
Title: ______________________________

PARTICIPANT

____
Print Name: ______________________________

EXHIBIT 31.1

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) 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: July 27, 2010

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

EXHIBIT 31.2

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) 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: July 27, 2010

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

EXHIBIT 32.1

**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, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Abbas Mohaddes, 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

July 27, 2010

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.

EXHIBIT 32.2

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, 2010 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

July 27, 2010

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.