

ITERIS, INC.
Form DEF 14A
July 28, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

ITERIS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
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 - (1) Amount Previously Paid:
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ITERIS, INC.

NOTICE OF THE ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD SEPTEMBER 18, 2009

To the Stockholders of Iteris, Inc.:

NOTICE IS HEREBY GIVEN that the 2009 Annual Meeting of Stockholders (the Annual Meeting) of Iteris, Inc., a Delaware corporation, will be held on September 18, 2009 at 10:00 a.m. Pacific Time, at our principal executive offices located at 1700 Carnegie Avenue, Suite 100, Santa Ana, CA 92705, for the following purposes, as more fully described in the proxy statement accompanying this Notice:

1. To elect seven directors to serve on the Board of Directors until the next annual meeting of stockholders. The nominees for election are Richard Char, Kevin C. Daly, Ph.D., Gregory A. Miner, Abbas Mohaddes, John W. Seazholtz, Joel Slutzky, and Thomas L. Thomas.
2. To approve the amendment of the Iteris, Inc. 2007 Omnibus Incentive Plan to increase the number of shares of common stock authorized for issuance under the plan by an additional 800,000 shares to 1,650,000 shares.
3. To ratify the appointment of McGladrey & Pullen, LLP as our independent auditors for the fiscal year ending March 31, 2010.
4. To transact any other business which may properly come before the Annual Meeting or any adjournment(s) or postponement(s) thereof.

All stockholders of record as of the close of business on July 21, 2009 are entitled to notice of and to vote at the Annual Meeting and at any postponement(s) or adjournment(s) thereof. You are cordially invited to be present and to vote at this Annual Meeting. Whether or not you plan to attend, it is important that your shares be represented and voted at the Annual Meeting. You can vote your shares by completing and returning the enclosed proxy card. If your shares are held in street name, that is, your shares are held in the name of a brokerage firm, bank or other nominee, in lieu of a proxy card you should receive from that institution an instruction form for voting by mail and you may also be eligible to vote your shares electronically over the Internet or by telephone. Should you receive more than one proxy card or voting instruction form because your shares are held in multiple accounts or registered in different names or addresses, please sign, date and return each proxy card or voting instruction form to ensure that all of your shares are voted. You may revoke your proxy at any time prior to the Annual Meeting. If you attend the Annual Meeting and vote by ballot, any proxy that you previously submitted will be revoked automatically and only your vote at the Annual Meeting will be counted. For further information, please see the discussion of voting rights and proxies beginning on page 1 of the enclosed proxy statement.

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BY ORDER OF THE BOARD OF DIRECTORS

Abbas Mohaddes
Chief Executive Officer and President

Santa Ana, California

July 28, 2009

YOUR VOTE IS VERY IMPORTANT REGARDLESS OF THE NUMBER OF SHARES YOU OWN. PLEASE READ THE ATTACHED PROXY STATEMENT CAREFULLY, COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE AND RETURN IT IN THE ENCLOSED ENVELOPE.

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ITERIS, INC.
1700 Carnegie Avenue, Suite 100
Santa Ana, California 92705

PROXY STATEMENT
FOR THE 2009 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD SEPTEMBER 18, 2009

General

These proxy materials and the enclosed proxy card are being furnished in connection with the solicitation of proxies by the Board of Directors of Iteris, Inc., a Delaware corporation (Iteris or the Company), to be voted at the 2009 Annual Meeting of Stockholders (the Annual Meeting) to be held on September 18, 2009 and at any adjournment(s) or postponement(s) of the meeting. The Annual Meeting will be held at 10:00 a.m. Pacific Time, at our principal executive offices located at 1700 Carnegie Avenue, Suite 100, Santa Ana, CA 92705. These proxy materials and the form of proxy are expected to be mailed to our stockholders who are entitled to vote at the Annual Meeting on or about August 5, 2009.

Purpose of Meeting

The specific proposals to be considered and acted upon at the Annual Meeting are summarized in the accompanying Notice of the Annual Meeting of Stockholders and are described in more detail in this proxy statement.

Internet Availability of Materials

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON SEPTEMBER 18, 2009: The Proxy Statement, proxy card, and Annual Report on Form 10-K for the fiscal year ended March 31, 2009 are available at <http://www.edocumentview.com/ITI>.

Voting Rights

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The record date for determining those stockholders who are entitled to notice of, and to vote at, the Annual Meeting has been fixed as July 21, 2009. At the close of business on the record date, 34,265,094 shares of our common stock, par value \$0.10 per share, were outstanding and no shares of our preferred stock were outstanding. Each stockholder is entitled to one vote for each share of common stock held by such stockholder as of the record date.

The presence in person or by proxy of the holders of a majority of the outstanding shares of the common stock entitled to vote will constitute a quorum for the transaction of business at the Annual Meeting. If a quorum is not present, the Annual Meeting will be adjourned until a quorum is obtained.

In the election of directors under Proposal One, directors will be elected by a plurality of the common stock entitled to vote and present in person or represented by proxy at the Annual Meeting, unless cumulative voting is in effect. Pursuant to our bylaws, no stockholder is entitled to cumulate his or her votes for candidates other than those whose names have been placed in nomination prior to the commencement of voting and unless at least one stockholder has given notice prior to commencement of voting of his or her intention to cumulate votes. If any stockholder has given such notice, then each stockholder may cumulate votes by multiplying the number of shares of common stock the stockholder is entitled to vote by the number of directors to be elected. The number of cumulative votes thus determined may be voted all for one candidate or distributed among several candidates, at the discretion of the stockholder. The candidates receiving the highest number of votes, up to the number of directors to be elected, will be elected. If cumulative voting is in effect, the persons named in the accompanying proxy will vote the shares of common stock covered by proxies received by them (unless authority to vote for directors is withheld) among the named candidates as they determine.

With regard to Proposals Two and Three, the affirmative vote of the holders of a majority of our common stock present or represented by proxy and entitled to vote at the Annual Meeting is being sought.

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All votes will be tabulated by the inspector of election appointed for the Annual Meeting, who will separately tabulate affirmative and negative votes, abstentions, and broker non-votes. Broker non-votes occur when brokers who hold stock in street name return proxy cards stating that they do not have authority to vote the stock which they hold on behalf of beneficial owners. Abstentions and broker non-votes are counted as present for purposes of determining the presence or absence of a quorum for the transaction of business. Abstentions will be counted towards the tabulations of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes will not be counted for purposes of determining whether a proposal has been approved.

Voting

You may vote by one of three ways: (i) by mail, (ii) electronically over the Internet or by telephone, or (iii) by ballot in person at the Annual Meeting. If you are a registered holder, that is, your shares are registered in your own name through our transfer agent, you may vote by returning a completed proxy card in the enclosed postage-paid envelope. If your shares are held in street name, that is, your shares are held in the name of a brokerage firm, bank or other nominee, in lieu of a proxy card you should receive a voting instruction form from that institution by mail. The voting instruction form should indicate whether the institution has a process for beneficial holders to vote over the Internet or by telephone. Stockholders who vote over the Internet or by telephone need not return a proxy card or voting instruction form by mail, but may incur costs, such as usage charges, from telephone companies or Internet service providers. If your voting instruction form does not reference Internet or telephone information, please complete and return the paper voting instruction form in the self-addressed, postage-paid envelope provided.

If you are a registered holder, you may also vote your shares in person at the Annual Meeting. If your shares are held in street name and you wish to vote in person at the meeting, you must obtain a proxy issued in your name from the record holder and bring it with you to the Annual Meeting. We recommend that you vote your shares in advance as described above so that your vote will be counted if you later decide not to attend the Annual Meeting.

Proxies

Please use the enclosed proxy card to vote by mail. If your shares are held in street name, then in lieu of a proxy card you should receive from that institution an instruction form for voting by mail, the Internet or by telephone. Should you receive more than one proxy card or voting instruction form because your shares are held in multiple accounts or registered in different names or addresses, please be sure to complete, sign, date, and return each proxy card or voting instruction form to ensure that all of your shares will be voted. Only proxy cards and voting instruction forms that have been signed, dated, and timely returned (or otherwise properly voted by Internet or telephone) will be counted in the quorum and voted. Properly executed proxies will be voted in the manner directed by the stockholders. If the proxy does not specify how the shares represented thereby are to be voted, the proxy will be voted FOR the election of the directors proposed by the Board under Proposal One unless the authority to vote for the election of any director is withheld and, if no contrary instructions are given, the proxy will be voted FOR the approval of each of the other proposals as described in this proxy statement and the accompanying notice.

The enclosed proxy also grants the proxy holders discretionary authority to vote on any other business that may properly come before the Annual Meeting as well as any procedural matters. We have not been notified by any stockholder of his or her intent to present a stockholder proposal at the Annual Meeting.

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If your shares are held in your name, you may revoke or change your vote at any time before the Annual Meeting by filing a notice of revocation or another signed proxy card with a later date with our Secretary at our principal executive offices. If your shares are held in street name, you should contact the record holder to obtain instructions if you wish to revoke or change your vote before the Annual Meeting. If you attend the Annual Meeting and vote by ballot, any proxy that you submitted previously to vote the same shares will be revoked automatically and only your vote at the Annual Meeting will be counted. *Please note, however, that if your shares are held in street name, your vote in person at the Annual Meeting will not be effective unless you have obtained and present a proxy issued in your name from the record holder.* Attendance at the Annual Meeting will not, by itself, revoke a proxy.

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Solicitation

The enclosed proxy is being solicited by our Board of Directors. We will bear the entire cost of proxy solicitation, including the costs of preparing, assembling, printing, and mailing this proxy statement, the proxy card, and any additional material furnished to the stockholders. Copies of the solicitation materials will be furnished to brokerage houses, fiduciaries, and custodians holding shares in their names that are beneficially owned by others so that they may forward this solicitation material to such beneficial owners. In addition, we may reimburse such persons for their reasonable expenses in forwarding the solicitation materials to the beneficial owners. The original solicitation of proxies by mail may be supplemented by a solicitation by personal contact, telephone, facsimile, email or any other means by our directors, officers, or employees. No additional compensation will be paid to these individuals for any such services.

In the discretion of management, we reserve the right to retain a professional firm of proxy solicitors to assist in solicitation of proxies. Although we do not currently expect to retain such a firm, it estimates that the fees of such firm would range from \$5,000 to \$20,000 plus out-of-pocket expenses, all of which would be paid by us.

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PROPOSAL ONE:

ELECTION OF DIRECTORS

Our bylaws provide for a Board of Directors consisting of not less than seven nor more than eleven members. The exact number may be changed, within such limits, by a resolution duly adopted by the Board or by the stockholders. The number of directors constituting the full Board is currently set at seven. All directors are elected annually and hold office until the next annual meeting of stockholders and until their successors are duly elected and qualified.

On the recommendation of the Nominating and Corporate Governance Committee, our Board of Directors selected and approved the following persons as nominees for election at the Annual Meeting to serve until the next annual meeting of stockholders, or until their successors are duly elected and qualified or until their earlier resignation or removal: Richard Char, Kevin C. Daly, Ph.D., Gregory A. Miner, Abbas Mohaddes, John W. Seazholtz, Joel Slutzky, and Thomas L. Thomas. Each nominee for election is currently a member of our Board of Directors and has agreed to serve if elected. We have no reason to believe that any of the nominees will be unavailable to serve. In the event any of the nominees named herein is unable to serve or declines to serve at the time of the Annual Meeting, the persons named in the enclosed proxy will exercise discretionary authority to vote for substitutes. Unless otherwise instructed, the proxy holders will vote the proxies received by them FOR the nominees named above.

Stockholder Approval

The seven candidates receiving the highest number of affirmative votes, present in person or represented by proxies and entitled to vote at the Annual Meeting, will be elected as our directors. However, if cumulative voting is in effect, the proxy holders will have the right to cumulate and allocate votes among those nominees standing for election as such proxy holders in their discretion elect.

Recommendation of the Board of Directors

Our Board of Directors recommends a vote FOR the seven director nominees listed above.

Directors and Nominees

The following table sets forth certain information, as of June 30, 2009, concerning our directors and director nominees.

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Name	Age	Current Position(s) with Iteris	Director Since
Richard Char(1)	50	Director	2005
Kevin C. Daly, Ph.D.(2)(3)	64	Director and Assistant Secretary	1993
Gregory A. Miner	54	Chairman of the Board	1998
Abbas Mohaddes	52	Chief Executive Officer, President, Assistant Secretary and Director	2005
John W. Seazholtz(1)(2)(3)	72	Director	1998
Joel Slutzky (3)	70	Director and Assistant Secretary	1969
Thomas L. Thomas(1)(2)(3)	60	Director	1999

-
- (1) Member of the Audit Committee.
 - (2) Member of the Compensation Committee.
 - (3) Member of the Nominating and Corporate Governance Committee.

Abbas Mohaddes has served as our Chief Executive Officer and President since March 2007, as an Assistant Secretary since May 2004 and as a director since September 2005. Prior to his promotion in March 2007, Mr. Mohaddes served as our Executive Vice President and a General Manager from October 2004. He was the Executive Vice President of our former Iteris, Inc. subsidiary (the Iteris Subsidiary) from March 2004 to October 2004 and its Secretary from September 2001 to October 2004. Prior to that, he served as the Senior Vice President and Director of Transportation Systems of the Iteris Subsidiary from May 2000 to March 2004 and as its Vice President and Deputy Director of Transportation from October 1998 to May 2000. Mr. Mohaddes also served as President and Chief Executive Officer of Meyer, Mohaddes Associates, Inc. (MMA), an ITS and transportation firm that he co-founded in 1991, which was acquired by the Iteris Subsidiary in October 1998 and dissolved in April 2006. Mr. Mohaddes is a founding and a current board member of ITS America and a member of several trade organizations including Transportation Research Board, Institute of Transportation Engineers, and the Design/Build Institute of America.

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Richard Char has served as a director since September 2005. Since October 2008, Mr. Char has served as CEO of VIPGift LLC, a provider of corporate and consumer loyalty and incentive programs. From June 2006 to July 2008, Mr. Char was the Senior Vice President of Corporate Development and General Counsel at Blackhawk Network, Inc., a provider of prepaid merchant gift cards and network branded cards. From March 2003 to April 2005, Mr. Char served as the President and Chief Executive Officer of IC Media, a developer of CMOS image sensors that was acquired in April 2005 by MagnaChip Semiconductors, a developer and manufacturer of mixed-signal and digital multimedia semiconductors. Prior to joining IC Media, from March 1999 to January 2002, Mr. Char was Managing Director with the Technology Group of Credit Suisse First Boston. From 1997 to 1999, Mr. Char was Co-Head of Technology Investment Banking at Cowen & Company, and from 1984 to 1997, he was a partner in the law firm of Wilson Sonsini Goodrich & Rosati. Mr. Char received his A.B. degree from Harvard College and his J.D. degree from Stanford Law School.

Kevin C. Daly, Ph.D. has served as a director since 1993. Dr. Daly assumed the responsibility of Chief Executive Officer of iStor Networks, Inc., a leading supplier of network storage solutions, in August 2007. He has also served as the Chief Executive Officer of MAXxess Systems, Inc., a provider of electronic security solutions, since November 2005. From June 2002 to June 2005, Dr. Daly was the Chief Executive Officer of Avamar Technologies, Inc., a provider of high availability storage software solutions. Dr. Daly was Chief Technical Officer of Quantum Corporation's Storage Solutions Group from October 2001 to July 2002. Dr. Daly is also a member of the Board of Directors of iStor Networks Inc.

Gregory A. Miner has served as a director since 1998 and as our Chairman of the Board of Directors since October 2004. Mr. Miner is also the Managing Partner of Merchant Capital Source, LLC, a company that provides working capital financing solutions to merchants. Prior to that, Mr. Miner served as our Chief Executive Officer from February 2002 to October 2004 and as our Chief Financial Officer from January 1994 to October 2004. He also served as our Chief Operating Officer from 1998 to 2002 and as the Chairman of the Board of the Iteris Subsidiary from December 2003 to October 2004. Mr. Miner has served in various capacities for our other subsidiaries from time to time. From December 1984 until joining us, Mr. Miner served as the Vice President, Chief Financial Officer and a director of Laser Precision Corporation, a manufacturer of telecommunications test equipment. Mr. Miner is a Certified Public Accountant and, from 1979 to 1984, was employed by Deloitte Haskins and Sells (now known as Deloitte & Touche LLP) in various capacities, the most recent of which was Audit Manager.

John W. Seazholtz has served as a director since May 1998. From May 1998 to April 2000, Mr. Seazholtz served as the President and Chief Executive Officer of Telesoft America, Inc. He retired in April 1998 as the Chief Technology Officer of Bell Atlantic after 36 years of service with that company and its predecessor. Mr. Seazholtz was a senior officer of Bell Atlantic from 1986, serving in various positions, including the positions of Vice President, Operations and Engineering, Vice President, Marketing, Vice President of New Services, and Vice President, Technology and Information Systems. Mr. Seazholtz currently serves as the Chairman of the Board of Westell Technologies, Inc.

Joel Slutzky has served as a director since he co-founded our company in 1969. Mr. Slutzky was the Chairman of the Board of Directors from 1969 to October 2004 and our Chief Executive Officer from 1975 to February 2002. Mr. Slutzky also served as the Chairman of the Board of the Iteris Subsidiary until December 2003 and served in various capacities for our other subsidiaries from time to time. Mr. Slutzky currently serves on the Board of Directors of Project Tomorrow, an organization focused on improving Kindergarten through 12th grade science education in Orange County, California and the Butterfly Connection, an organization that promotes creativity and critical thinking skills in K-12 education.

Thomas L. Thomas has served as a director since May 1999. From February 2004 to July 2008, Mr. Thomas served as the President and Chief Operating Officer of Global Exchange Services (GXS), a provider of business-to-business EDI and supply chain management solutions. Mr. Thomas retired from GXS in July 2008, and currently has his own management consulting business, T2 Partners. Prior to his service with GXS, Mr. Thomas was the Chairman of the Board, President and Chief Executive Officer of HAHT Commerce, a provider of software applications that enable companies to use the Internet to conduct business, from February 2000 until February 2004 when HAHT Commerce

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was sold to GXS. Mr. Thomas also served as the President and Chief Executive Officer of Ajuba Solutions, a provider of B2B integration solution software, from February 2000 until its sale to Interwoven in October 2000, and as the President, Chief Executive Officer and Chairman of the Board of Vantive Corporation, a customer relationship management software vendor, from April 1999 until its acquisition by Peoplesoft in January 2000. From 1981 to 1999, Mr. Thomas served in various senior and executive positions at 3Com Corporation, Dell Computer Corporation, Kraft General Foods and Sara Lee Corporation. Mr. Thomas also serves on the Board of Directors of InfoGroup, Inc.

Family Relationships

There are no family relationships among any of our directors, director nominees, or executive officers.

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CORPORATE GOVERNANCE

Code of Ethics and Business Conduct

Our Board of Directors has adopted a Code of Ethics and Business Conduct which applies to all directors, officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) and employees. The full text of our Code of Ethics and Business Conduct is available on the Investor Relations section of our website at www.iteris.com. We intend to disclose future amendments to certain provisions of the Code of Ethics and Business Conduct, and any waivers of provisions of the Code of Ethics required to be disclosed under the rules of the Securities and Exchange Commission (SEC), at the same location on our website.

Director Independence

The Board of Directors has determined that Messrs. Char, Daly, Seazholtz, Slutzky, and Thomas each satisfy the requirements for independence under the listing standards of NYSE Amex.

Board Meetings and Committees

We currently have several standing committees of the Board of Directors, including the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee. The Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee each has a written charter that is reviewed annually and revised as appropriate. A copy of each committee's charter is available on the Investor Relations section of our website at www.iteris.com.

During the fiscal year ended March 31, 2009 (Fiscal 2009), the Board of Directors and the various committees of the Board held the following number of meetings: Board of Directors seven; Audit Committee eight; Compensation Committee one; and Nominating and Corporate Governance Committee one. During Fiscal 2009, no director attended fewer than 75% of the aggregate of the total number of meetings of the Board of Directors and the total number of meetings of any committees of the Board held while he was serving on the Board or such committee.

Audit Committee. The current members of our Audit Committee are Messrs. Char, Seazholtz, and Thomas. Each member of the Audit Committee is independent under the current listing standards of NYSE Amex and the SEC rules regarding audit committee memberships. The Board has identified Mr. Char as the member of the Audit Committee who qualifies as an audit committee financial expert under applicable SEC rules and regulations governing the composition of the Audit Committee.

The Audit Committee oversees on behalf of the Board (a) the conduct of the accounting and financial reporting processes, the audits of our financial statements and the integrity of our audited financial statements and other financial reports; (b) the performance of our internal

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accounting and financial controls function; (c) the engagement, replacement, compensation, qualifications, independence and performance of our independent auditors; and (d) the portions of the Code of Ethics and Business Conduct and related policies regarding our accounting, internal accounting controls or auditing matters.

The Audit Committee meets privately with our independent auditors, and the independent auditors have unrestricted access to and report directly to the Audit Committee. The Audit Committee has selected McGladrey & Pullen, LLP as our independent auditors for the fiscal year ending March 31, 2010 and is recommending that our stockholders ratify this appointment at the Annual Meeting.

Compensation Committee. The current members of our Compensation Committee are Messrs. Daly, Seazholtz, and Thomas. The Board has concluded that each member of the Compensation Committee is independent under the listing standards of NYSE Amex.

The Compensation Committee (a) evaluates officer and director compensation policies, goals, plans and programs; (b) determines the cash and non-cash compensation of our executive officers as defined in the rules promulgated under Section 16 of the Securities Exchange Act of 1934, as amended (the Exchange Act); (c) reviews and makes recommendations to the Board with respect to our equity-based and other incentive compensation plans for employees; (d) evaluates the performance of our executive officers; (e) assists the Board in evaluating potential candidates for executive officer positions and oversee management succession planning; and (f) produces the Committee report required by the applicable rules and regulations of the SEC and other regulatory bodies for inclusion in our annual proxy statement.

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Nominating and Corporate Governance Committee. The current members of the Nominating and Corporate Governance Committee are Messrs. Daly, Seazholtz, Slutzky, and Thomas. The Board has determined that each of the members of this committee are independent under the listing standards of NYSE Amex.

The primary purposes of the Nominating and Corporate Governance Committee are to (a) identify, screen and review individuals qualified to serve as directors; (b) select or recommend to the Board of Directors the selection of nominees for election at the next annual meeting of stockholders; (c) recommend to the Board of Directors candidates to fill any vacancies on the Board; (d) oversee the implementation and monitoring the effectiveness of our corporate governance policies and developing and recommending to the Board modifications and or additions to such policies; and (e) review on a regular basis our overall corporate governance and recommend improvements when necessary.

In connection with their recommendations regarding the size and composition of the Board, the Nominating and Corporate Governance Committee reviews the appropriate qualities and skills required of directors in the context of the then current make-up of the Board. This includes an assessment of each candidate's independence, personal and professional integrity, financial literacy or other professional or business experience relevant to an understanding of our business, ability to think and act independently and with sound judgment, and ability to serve our company's and our stockholders' long-term interests. These factors, and others as considered useful by the Nominating and Corporate Governance Committee, are reviewed in the context of an assessment of the perceived needs of the Board at a particular point in time. As a result, the priorities and emphasis of the Nominating and Corporate Governance Committee and of the Board may change from time to time to take into account changes in business and other trends, and the portfolio of skills and experience of current and prospective directors. The Nominating and Corporate Governance Committee leads the search for and selects, or recommends that the Board select, candidates for election to the Board. Consideration of new director candidates typically involves a series of committee discussions, review of information concerning candidates and interviews with selected candidates. Candidates for nomination to our Board typically have been suggested by other members of the Board or by our executive officers. From time to time, the Nominating and Corporate Governance Committee may engage the services of a third-party search firm to identify director candidates.

The Nominating and Corporate Governance Committee will consider candidates for directors recommended by our stockholders who meet the eligibility requirements for submitting stockholder proposals for inclusion in our next proxy statement. This committee will evaluate such recommendations applying its regular nominee criteria. Eligible stockholders wishing to recommend a nominee must submit such recommendation in writing to the Chair, Nominating and Corporate Governance Committee, care of our corporate Secretary, by the deadline for stockholder proposals set forth in our last proxy statement, specifying the following information: (a) the name and address of the nominee, (b) the name and address of the stockholder making the nomination, (c) a representation that the nominating stockholder is a stockholder of record of our stock entitled to vote at the next annual meeting and intends to appear in person or by proxy at such meeting to nominate the person specified in the notice, (d) the nominee's qualifications for membership on the Board, (e) a resume of the candidate's business experience and educational background as well as all of the information that would be required in a proxy statement soliciting proxies for the election of the nominee as a director, (f) a description of all direct or indirect arrangements or understandings between the nominating stockholder and the nominee and any other person or persons (naming such person or persons) pursuant to whose request the nomination is being made by the stockholder, (g) all other companies to which the nominee is being recommended as a nominee for director, and (h) a signed consent of the nominee to cooperate with reasonable background checks and personal interviews, and to serve as a director, if elected. In connection with its evaluation, the Nominating and Corporate Governance Committee may request additional information from the candidate or the recommending stockholder, and may request an interview with the candidate. The Nominating and Corporate Governance Committee has the discretion to decide which individuals to recommend for nomination as directors.

No candidates for director nominations were submitted to the Nominating and Corporate Governance Committee by any stockholder in connection with the election of directors at the Annual Meeting. Each of the director nominees standing for election at this Annual Meeting is a current director.

Compensation of Directors

Non-employee directors receive an annual fee of \$12,000 per year, paid quarterly, in addition to \$1,500 for each Board meeting attended in person, and \$250 for each telephone conference Board meeting. All directors are reimbursed for their out-of-pocket expenses incurred in attending meetings of our Board of Directors and its committees.

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Non-employee directors were also eligible to receive periodic option grants pursuant to the Directors' Automatic Option Grant Program under our 2007 Omnibus Incentive Plan. Under that plan, each non-employee director receives an option to purchase 20,000 shares of common stock upon his initial appointment to the Board of Directors and an additional option to purchase 5,000 shares of common stock on the date of each annual meeting after his appointment, provided he has served on the Board for at least six months. Each option granted to non-employee directors under the Directors' Automatic Option Grant Program will have an exercise price equal to the fair market value of the common stock on the grant date and a maximum term of ten years, subject to earlier termination following the optionee's cessation of service as a Board member. Prior to the adoption of the 2007 Omnibus Incentive Plan, non-employee directors received option grants pursuant to the Automatic Option Grant Program of our 1997 Stock Incentive Plan (the "1997 Plan"), having substantially the same terms as the grants provided under the 2007 Omnibus Incentive Plan.

Stockholder Communications

The Board has implemented a process by which stockholders may send written communications directly to the attention of the Board, any committee of the Board or any individual Board member, care of our corporate Secretary. The name of any specific intended Board recipient should be noted in the communication. Our corporate Secretary will be primarily responsible for collecting, organizing and monitoring communications from stockholders and, where appropriate depending on the facts and circumstances outlined in the communication, providing copies of such communications to the intended recipients. Communications will be forwarded to directors if they relate to appropriate and important substantive corporate or Board matters. Communications that are of a commercial or frivolous nature or otherwise inappropriate for the Board's consideration will not be forwarded to the Board. Stockholders who wish to communicate with the Board can write to the corporate Secretary at Iteris, Inc., 1700 Carnegie Avenue, Suite 100, Santa Ana, California 92705.

Annual Meeting Attendance

We do not have a formal policy regarding attendance by members of our Board of Directors at annual meetings of our stockholders; however, directors are encouraged to attend all such meetings. Three of our current directors attended our 2008 annual meeting of stockholders.

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PROPOSAL NO. 2

APPROVAL OF AN AMENDMENT TO THE 2007 OMNIBUS INCENTIVE PLAN

The Iteris, Inc. 2007 Omnibus Incentive Plan was adopted by our Board of Directors on July 19, 2007 and approved by our stockholders on September 21, 2007. As of June 30, 2009, there were options outstanding under the plan to purchase 767,000 shares of common stock and an aggregate remaining authority to grant awards for the issuance of 83,000 shares of common stock. On July 15, 2009, our Board of Directors adopted an amendment of the plan, subject to stockholder approval, to increase the number of shares of common stock reserved for issuance thereunder by 800,000 shares to 1,650,000 shares.

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

We are asking our stockholders to approve the amendment to the plan to authorize the issuance of an additional 800,000 shares of common stock thereunder. Our Board of Directors believes the amendment is necessary to assure that a sufficient reserve of the common stock remains available for issuance under the plan to allow us to continue to utilize equity incentives to attract and retain the services of individuals essential to our long-term growth and success.

Amended Plan Description

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

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

Eligible Participants. Any employee, officer, consultant, advisor or director providing services to us or any of our affiliates (including our current and future subsidiaries), who is selected by the committee, is eligible to receive an award under the 2007 Plan. As of June 30, 2009, 235 employees (including officers) and six non-employee directors were eligible to be selected by the committee to receive awards under the 2007 Plan.

Shares Available For Awards. The aggregate number of shares of common stock that may be issued under all stock-based awards made under the 2007 Plan will be 1,650,000. The shares of common stock issuable under the 2007 Plan may be drawn from shares of authorized but unissued common stock or from shares of common stock that the Company acquires. Subject to the provisions of Section 422 or 424 of the Code or any successor provision, all of the shares reserved for issuance under the 2007 Plan may be used for grants of incentive stock options under the plan. No person may be granted stock options or SARs (defined below) under the 2007 Plan with respect to more than 500,000 shares of common stock in the aggregate within any fiscal year.

The committee may adjust the number of shares and share limits described above in the case of a stock dividend or other distribution, including a stock split, merger or other similar corporate transaction or event, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be provided under the 2007 Plan. If any shares of our common stock subject to any award or to which an award relates are forfeited or are reacquired by the Company, or if any award terminates without the delivery of any shares, the shares previously set aside for such awards will be available for future awards under the 2007 Plan.

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

- stock options (including both incentive and non-qualified stock options);

- stock appreciation rights (SARs);

- restricted stock and restricted stock units;

- performance awards of cash, stock or property;

- dividend equivalents;

- other stock grants; and

- other stock-based awards.

Awards may be granted alone, in addition to, in combination with or in substitution for, any other award granted under the 2007 Plan or any other compensation plan. Awards can be granted for no cash consideration or for cash or other consideration as determined by the committee or as required by applicable law. Awards may provide that upon the grant or exercise thereof, the holder will receive shares of our common stock or other securities or property, or any combination of these, in a single payment or installments. The exercise price per share under any stock option and the grant price of any SAR will be determined by the committee and may not be less than the fair market value on the date of grant of such option or SAR, or less than 110% of fair market value for incentive stock options granted to holders of more than 10% of our common stock. When our common stock is listed on a stock exchange in the U.S., the fair market value is the closing sale price of one share of our common stock on the date of determination (or the last preceding date for which such price exists), as reported on the principal U.S. exchange on which our common stock is listed. If our common stock is not listed on a stock exchange in the U.S., the fair market value will be determined in accordance with methods and procedures established by the committee. The term of awards will not be longer than 10 years, or in the case of incentive stock options, longer than 5 years with respect to holders of more than 10% of our common stock.

Stock Options. The holder of an option will be entitled to purchase a number of shares of our common stock at a specified exercise price during a specified time period, all as determined by the committee. The option exercise price may be payable either in cash or, at the discretion of the committee, in other securities or other property having a fair market value on the exercise date equal to the exercise price. The shares subject to each option will generally vest in one or more installments over a specified period of service measured from the grant date. We receive no payment for the grant of an option. Upon cessation of service, the optionee will have a limited period of time in which to exercise his or her

outstanding options to the extent exercisable for vested shares.

Stock Appreciation Rights. The holder of a SAR is entitled to receive the excess of the fair market value (calculated as of the exercise date or, at the committee's discretion, as of any time during a specified period before or after the exercise date) of a specified number of shares of our common stock over the grant price of the SAR, as determined by the committee, paid solely in shares of common stock. SARs vest and become exercisable in accordance with a vesting schedule established by the committee. This type of SAR is sometimes described as a stock only settled stock appreciation right.

Restricted Stock and Restricted Stock Units. The holder of restricted stock will own shares of our common stock subject to restrictions imposed by the committee (including, for example, restrictions on transferability or on the right to vote the restricted shares or to receive any dividends with respect to the shares) for a specified time period determined by the committee. The restrictions may lapse or be waived separately or collectively, in installments or otherwise, as the committee may determine. The holder of restricted stock units will have the right, subject to any restrictions imposed by the committee, to receive shares of our common stock at some future date determined by the committee. The committee also may permit accelerated vesting in the case of a participant's death, disability or retirement, or a change in control. If the participant's employment or service as a director terminates during the vesting period for any other reason, the restricted stock and restricted stock units will be forfeited, unless the committee determines that it would be in our best interest to waive the remaining restrictions.

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Performance Awards. Performance awards granted under the 2007 Plan are intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code. Performance awards give participants the right to receive payments in stock or property based solely upon the achievement of certain performance goals during a specified performance period. The committee must designate all participants for each performance period, and establish performance goals and target awards for each participant no later than 90 days after the beginning of each performance period within the parameters of Section 162(m) of the Code. Performance goals must be based solely on one or more of the following business criteria: (i) revenue; (ii) cash flow; (iii) gross profit; (iv) earnings before interest and taxes; (v) earnings before interest, taxes, depreciation and amortization; (vi) net earnings; (vii) diluted earnings per share; (viii) margins, including gross profit, operating and net income margins; (ix) returns, including return on assets, equity, investment, capital and revenue and total stockholder return; (x) stock price; (xi) economic value added; (xii) working capital; (xiii) market share; (xiv) cost reductions; (xv) workforce satisfaction and diversity goals; (xvi) employee retention; (xvii) customer satisfaction; (xviii) completion of key projects; and (ixx) strategic plan development and implementation.

The measure of performance may be set by reference to an absolute standard or a comparison to specified companies or groups of companies, or other external measures, and may be applied at individual or organizational levels. No person may be granted under the 2007 Plan qualified performance based awards which could result in such person receiving more than \$1,500,000 in cash or the equivalent fair market value of shares of common stock determined at the date of grant for each full or partial fiscal year contained in the performance period of a particular qualified performance based award, except that if any other qualified performance based awards are outstanding for such person for a given fiscal year, such dollar limitation shall be reduced for each such fiscal year by the amount that could be received by the person under all such qualified performance based awards, divided, for each such qualified performance based award, by the number of full or partial fiscal years contained in the performance period of each such outstanding qualified performance based award (subject to adjustment in the case of a stock dividend or other distribution, including a stock split, merger or other similar corporate transaction or event, but only to the extent that such adjustment does not affect the status of any award intended to qualify as performance based compensation under Section 162(m) of the Code.

Dividend Equivalents. The holder of a dividend equivalent will be entitled to receive payments in shares of our common stock, other securities or other property equivalent to the amount of cash dividends paid by us or our stockholders, with respect to the number of shares determined by the committee. Dividend equivalents will be subject to other terms and conditions determined by the committee.

Stock Awards. The committee may grant unrestricted shares of our common stock, subject to terms and conditions determined by the committee and the 2007 Plan limitations.

Automatic Option Grant Program. Under the automatic option grant program, eligible non-employee Board members receive a series of option grants over their period of Board service. Each non-employee Board member will, at the time of his or her initial election or appointment to the Board, receive an option grant for 20,000 shares of common stock provided such individual has not been in the previous employ of the Company. In addition, on the date of each annual stockholders meeting, each individual who is to continue to serve as a non-employee Board member will automatically be granted an option to purchase 5,000 shares of common stock, provided he or she has served as a non-employee Board member for at least six (6) months. There will be no limit on the number of such 5,000-share option grants any one eligible non-employee Board member may receive over his or her period of continued Board service.

Each automatic grant will have an exercise price per share equal to the fair market value per share of common stock on the grant date and will have a maximum term of 10 years, subject to earlier termination following the optionee's cessation of Board service. Each automatic option will be immediately exercisable for any or all of the option shares; the shares acquired under those options will be subject to repurchase by the Company, at the exercise price paid per share, if the optionee ceases service with the Company prior to vesting in those shares. Each initial 20,000-share automatic option will be fully vested on the grant date. Each annual 5,000-share automatic option will vest in four (4) successive equal annual installments upon the optionee's completion of each year of service as a director, measured from the grant date. However, each outstanding automatic option grant will automatically accelerate and become immediately exercisable for any or all of the option shares as

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fully-vested shares upon certain changes in control or ownership of the Company or upon the optionee's death or disability while a Board member. Following the optionee's cessation of Board service for any reason, each option will remain exercisable for a 12-month period and may be exercised during that time for any or all shares in which the optionee is vested at the time of such cessation of service as a director.

Duration, Termination and Amendment. Unless earlier discontinued or terminated by the Board, the 2007 Plan will expire on July 19, 2017. No awards may be made after that date. However, unless otherwise expressly provided in an applicable award agreement, any award granted under the 2007 Plan prior to expiration of the 2007 Plan may extend beyond the end of the expiration of the plan through the award's normal expiration date.

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The Board and, pursuant to the delegation of its authority, the committee may amend, alter or discontinue the 2007 Plan at any time, although stockholder approval must be obtained for any action that would, absent such approval, (i) violate the rules and regulations of any securities exchange applicable to the Company, (ii) cause Rule 16b-3 of the Securities Exchange Act of 1934 or Section 162(m) of the Code to become unavailable with respect to the 2007 Plan or (iii) cause the Company to be unable under the Code to grant incentive stock options under the 2007 Plan.

Acceleration. In the event that we are acquired by merger, asset sale or sale by the stockholders of more than 50% of our outstanding voting stock recommended by the Board, each outstanding option under the 2007 Plan that is not to be assumed or replaced by the successor corporation or otherwise continued in effect will automatically accelerate in full, and all unvested shares outstanding under the 2007 Plan will immediately vest, except to the extent our repurchase rights with respect to those shares are to be assigned to the successor corporation or otherwise continued in effect.

The plan administrator will have the authority under the 2007 Plan to provide that options and other awards granted under the 2007 Plan will automatically vest in full (i) upon an acquisition of the Company, whether or not those awards are assumed or replaced, (ii) upon a hostile change in control of the Company effected through a tender offer for more than 50% of our outstanding voting stock or by proxy contest for the election of Board members, or (iii) in the event the individual's service is terminated, whether involuntarily or through a resignation for good reason, within a designated period (not to exceed 18 months) following an acquisition in which the options are assumed or replaced or otherwise continued in effect upon a hostile change in control. The options granted under the director automatic option grant program will automatically accelerate and become exercisable in full upon any acquisition or change in control transaction.

The acceleration of vesting in the event of a change in the ownership or control of the Company may be seen as an anti-takeover provision and may have the effect of discouraging a merger proposal, a takeover attempt or other efforts to gain control of the Company.

Transferability of Awards. Unless otherwise provided by the committee, awards under the 2007 Plan may only be transferred by will or by the laws of descent and distribution.

Delivery of Shares for Tax Obligation. Under the 2007 Plan, the committee may permit participants receiving or exercising awards, subject to the discretion of the committee and upon such terms and conditions as it may impose, to deliver shares of our common stock (either shares received upon the receipt or exercise of the award or shares previously owned by the holder of the option) to the Company to satisfy federal and state income tax obligations.

Certain Federal Income Tax Consequences

The following is a summary of the principal U.S. federal income tax consequences generally applicable to awards under the 2007 Plan.

Grant of Options and SARs. The grant of a stock option or SAR is not expected to result in any taxable income for the recipient.

Exercise of Options and SARs. Upon exercising a non-qualified stock option, the optionee will recognize ordinary income equal to the excess of the fair market value of the shares of our common stock acquired on the date of exercise over the exercise price, and we will generally be entitled at that time to an income tax deduction for the same amount. Upon exercising an incentive stock option, the optionee generally will not recognize taxable income (except that an alternative minimum tax liability may arise), and we will not be entitled to an income tax deduction. Upon exercising a SAR, the recipient of the SAR will recognize ordinary income in an amount equal to the fair market value on the exercise date of any shares of our common stock received, and we will receive an income tax deduction in the same amount.

Disposition of Shares Acquired Upon Exercise of Options and SARs. The tax consequence upon a disposition of shares acquired through the exercise of an option or SAR will depend on how long the shares have been held and whether the shares were acquired by exercising an incentive stock option or by exercising a non-qualified stock option or SAR. Generally, there will be no tax consequence to us in connection with the disposition of shares acquired under an option or SAR, except that we may be entitled to an income tax deduction in the case of the disposition of shares acquired under an incentive stock option before the applicable incentive stock option holding periods set forth in the Code have been satisfied.

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Awards Other than Options and SARs. As to other awards granted under the 2007 Plan that are payable in either cash or shares of our common stock that are either transferable or not subject to substantial risk of forfeiture, the holder of the award must recognize ordinary income equal to (a) the amount of cash received or, as applicable, (b) the excess of (i) the fair market value of the shares received (determined as of the date of receipt) over (ii) the amount (if any) paid for the shares by the holder of the award. We will generally be entitled at that time to an income tax deduction for the same amount.

As to an award that is payable in shares of our common stock that are restricted from transfer and subject to substantial risk of forfeiture, unless a special election is made by the holder of the award under the Code, the holder must recognize ordinary income equal to the excess of (i) the fair market value of the shares received (determined as of the first time the shares become transferable or not subject to substantial risk of forfeiture, whichever occurs earlier) over (ii) the amount (if any) paid for the shares by the holder of the award. We will generally be entitled at that time to an income tax deduction for the same amount.

Income Tax Deduction. Subject to the usual rules concerning reasonable compensation, and assuming that, as expected, performance awards paid under the 2007 Plan are qualified performance-based compensation within the meaning of Section 162(m) of the Code, we will generally be entitled to a corresponding income tax deduction at the time a participant recognizes ordinary income from awards made under the 2007 Plan.

Application of Section 16. Special rules may apply to individuals subject to Section 16 of the Exchange Act. In particular, unless a special election is made pursuant to the Code, shares received through the exercise of a stock option or SAR may be treated as restricted as to transferability and subject to a substantial risk of forfeiture for a period of up to six months after the date of exercise. Accordingly, the amount of any ordinary income recognized and the amount of our income tax deduction will be determined as of the end of that period.

Deductibility of Executive Compensation Under Code Section 162(m). Section 162(m) of the Code generally limits to \$1,000,000 the amount that a publicly-held corporation is allowed each year to deduct for the compensation paid to each of the corporation's chief executive officer and the corporation's other four most highly compensated executive officers. However, qualified performance-based compensation is not subject to the \$1,000,000 deduction limit. In general, to qualify as performance-based compensation, the following requirements need to be satisfied: (1) payments must be computed on the basis of an objective, performance-based compensation standard determined by a committee consisting solely of two or more outside directors, (2) the material terms under which the compensation is to be paid, including the business criteria upon which the performance goals are based, and a limit on the maximum bonus amount which may be paid to any participant pursuant with respect to any performance period, must be approved by a majority of our stockholders and (3) the committee must certify that the applicable performance goals were satisfied before payment of any performance-based compensation.

The 2007 Plan has been designed to permit grants of stock options and SARs issued under the 2007 Plan to qualify under the performance-based compensation rules so that income attributable to the exercise of a non-qualified stock option or a SAR may be exempt from the \$1,000,000 deduction limit. Grants of other awards under the 2007 Plan may not so qualify for this exemption. The 2007 Plan's provisions are consistent in form with the performance-based compensation rules, so that if the committee that grants options or SARs consists exclusively of members of the board of directors of the Company who qualify as outside directors, and the exercise price (or deemed exercise price, with respect to SARs) is not less than the fair market value of the shares of common stock to which such grants relate, the compensation income arising on exercise of those options or SARs should qualify as performance-based compensation which is deductible even if that income would be in excess of the otherwise applicable limits on deductible compensation income under Code Section 162(m).

Amended Plan Benefits

As of June 30, 2009, options for 767,000 shares of common stock have been granted or awarded and are outstanding under the 2007 Plan. The committee in its sole discretion determines the number and types of awards that will be granted in the future. Thus, other than with respect to the Automatic Grant Program described above, it is not possible to determine the benefits or amounts that will be received by eligible participants under the 2007 Plan after the date of this proxy statement because no decisions have been made on the amount and type of awards to be granted under the 2007 Plan to eligible participants in the future, nor do we have any specific current plans or commitments for any future awards. Currently, the fair market value per share of common stock on any relevant date under the 2007 Plan is the closing sale price per share of the common stock on NYSE Amex. The closing sale price of a share of our common stock as reported by NYSE Amex on the record date was \$1.28.

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The following table sets forth, with respect to our named executive officers (as defined in Summary Compensation Table below) and the other indicated individuals and groups, information regarding the stock options and awards that have been granted under our 2007 Plan from the effective date of the plan through June 30, 2009:

Name and Position	Aggregate Number of Shares Underlying Stock Options Granted	Weighted Average Exercise Price Per Share	
		\$	
Abbas Mohaddes Chief Executive Officer, President, Assistant Secretary and Director	300,000	\$	2.03
James S. Miele Vice President, Chief Financial Officer and Secretary	25,000		1.41
Alan Clelland Senior Vice President	50,000		1.94
Gregory McKhann Senior Vice President	25,000		1.41
Francis Memole(1) Former Senior Vice President and General Manager			
All current executive officers as a group (5 persons)	450,000	(2)	1.94
All current directors who are not executive officers as a group (6 persons)	60,000		2.16
Each nominee for election as a director (7 persons)	360,000		2.05
Each associate of any of such directors, executive officers or nominees			
Each other person who received or is to receive 5% of such options, warrants or rights			
All employees, including all current officers who are not executive officers, as a group (21 persons)	257,000		1.79

(1) Mr. Memole served as our Senior Vice President and General Manager of our Vehicle Sensors segment until May 2009.

(2) Includes shares underlying options granted to Todd Kreter, our Senior Vice President, Sensors Development and Operations, and does not include shares held by Francis Memole, who served as a Senior Vice President and our General Manager of the Vehicle Sensors segment until May 2009.

Stockholder Approval

The affirmative vote of a majority of the shares of common stock present in person or by proxy at the Annual Meeting and entitled to vote on this matter is required for approval of the proposed amendment to the 2007 Omnibus Incentive Plan. Should such stockholder approval not be obtained, then the share reserve will not be increased. The plan will, however, continue to remain in effect, and option grants and stock issuances may continue to be made pursuant to the provisions of the plan prior to its amendment until the available reserve common stock under the plan is issued.

Recommendation of the Board of Directors

The Board of Directors recommends a vote FOR approval of the amendment to the 2007 Omnibus Incentive Plan to increase the number of shares reserved for issuance thereunder by 800,000 shares.

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PROPOSAL THREE:

RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS

The accounting firm of McGladrey & Pullen, LLP was engaged to serve as our independent auditors for the fiscal year ended March 31, 2009. The Audit Committee of the Board of Directors has selected that firm to continue in this capacity for the fiscal year ending March 31, 2010. We are asking our stockholders to ratify the selection by the Audit Committee of McGladrey & Pullen, LLP as our independent auditors to audit our consolidated financial statements for the fiscal year ending March 31, 2010 and to perform other appropriate services. Stockholder ratification of the selection of McGladrey & Pullen, LLP as our independent auditors is not required by our bylaws or otherwise. In the event that the stockholders fail to ratify the appointment, the Audit Committee will reconsider its selection. Even if the selection is ratified, the Audit Committee, in its sole discretion, may direct the appointment of a different independent accounting firm at any time during the year if the committee feels that such a change would be in the best interests of us and our stockholders.

A representative of McGladrey & Pullen, LLP is expected to be present at the Annual Meeting to respond to stockholders' questions, and that representative will have the opportunity to make a brief presentation to the stockholders if he or she so desires and will be available to respond to appropriate questions from stockholders.

Stockholder Approval

The affirmative vote of a majority of the common stock, present or represented by proxy and entitled to vote at the Annual Meeting will be required for ratification of the selection of McGladrey & Pullen, LLP as our independent auditors for the fiscal year ending March 31, 2010.

Recommendation of the Board of Directors

The Board of Directors recommends that the stockholders vote FOR the ratification and approval of the selection of McGladrey & Pullen, LLP as our independent auditors for the fiscal year ending March 31, 2010.

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FEES PAID TO INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Principal Accountant Fees

The following table presents the aggregate fees billed for the indicated services performed by McGladrey & Pullen, LLP for the fiscal years ended March 31, 2008 and 2009:

	Fiscal Year Ended March 31,	
	2008	2009
Audit Fees	\$ 412,000	\$ 314,000
Audit-Related Fees	77,000	40,000
Tax Fees		
All Other Fees		