ITERIS HOLDINGS INC
Form S-1/A
February 17, 2004

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As filed with the Securities and Exchange Commission on February 17, 2004

Registration No. 333-110344

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Amendment No. 1
to
FORM S-1

**REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

ITERIS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**8748**	**95-2588496**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

**1515 South Manchester Avenue
Anaheim, California 92802
(714) 774-5000**

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

**GREGORY A. MINER
Chief Executive Officer and Chief Financial Officer
Iteris Holdings, Inc.
1515 South Manchester Avenue
Anaheim, California 92802
(714) 774-5000**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:

**Ellen S. Bancroft, Esq.
Dorsey & Whitney LLP
38 Technology Drive
Irvine, California 92618
(949) 932-3600**

Approximate date of commencement of proposed sale to the public: from time to time after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: ý

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED FEBRUARY 17, 2004

4,533,332 Shares

ITERIS HOLDINGS, INC.

Class A Common Stock

This prospectus relates to the offering from time to time of a total of 4,533,332 shares of the Class A common stock of Iteris Holdings, Inc., formerly known as Odetics, Inc., a Delaware corporation or interests therein by the selling stockholders listed on page 46 and their transferees. All of these shares were issued or are issuable to the selling stockholders in connection with a private placement completed in July 2003 or in connection with the July 2003 restructuring of the lease for our principal operating facilities located in Anaheim, California. The prices at which the selling stockholders may sell their shares will be determined by the prevailing market price for their shares or in negotiated transactions. We will not receive any of the proceeds from the sale of these shares.

We have two classes of common stock outstanding: Class A common stock and Class B common stock. The rights, preferences and privileges of each class of common stock are identical in all respects except for voting and conversion rights. As of the date of this prospectus, the holders of the Class A common stock are entitled to elect 25% of the Board of Directors rounded up to the nearest whole number, or two directors, and the holders of the Class A common stock and the Class B common stock, voting together as a single class, are entitled to elect the balance of the Board, or six directors. On all other matters to be addressed by a stockholder vote, the holders of Class A common stock have one-tenth of one vote per share held and the holders of Class B common stock have one vote per share held. In addition, each share of Class B common stock is convertible into one share of Class A common stock at the option of the holder of such Class B common stock.

Our Class A common stock and our Class B common stock are quoted on the OTC Bulletin Board under the symbols "ITRSA.OB" and "ITRSB.OB," respectively. On February 13, 2004, the last reported sale price for the Class A common stock was $2.65 per share. The last reported sale of the Class B common stock occurred on February 11, 2004 at a price of $2.15 per share.

You should carefully consider the risk factors beginning on page 5 of this prospectus before purchasing any of the Class A common stock offered by this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or passed on the accuracy or adequacy of the disclosures in this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is February , 2004.

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We have not authorized any person to make a statement that differs from what is in this prospectus. If any person does make a statement that differs from what is in this prospectus, you should not rely on it.

PROSPECTUS SUMMARY

This summary highlights selected information in this document and may not contain all of the information that is important to you. You should carefully read the entire prospectus, including "Risk Factors" and the consolidated financial statements and related notes, before making an investment decision. This summary and the balance of this document contain forward-looking statements about events that are not certain to occur, and you should not place undue reliance on those statements. Please carefully read "Forward-Looking Statements" at page 13 of this document. The information in this prospectus is complete and accurate as of its date, but the information may change after that date. Unless otherwise indicated, references to "we," "us" and "our" are references to Iteris Holdings, Inc. and its subsidiaries.

Our Company

Iteris Holdings, Inc., formerly known as Odetics, Inc., is the majority stockholder of Iteris, Inc., a leading provider of outdoor machine vision systems, sensors and consulting services that optimize the flow of traffic and enhance driver safety. Leveraging our expertise in video image processing, we entered into the intelligent transportation systems ("ITS") business in 1993 with the introduction of a video-based vehicle detection system. In June 1997, we acquired certain assets comprising the Transportation Systems business from Rockwell International, creating our ITS division, which expanded our offerings to include advanced traffic management systems and advanced traveler information systems. We incorporated our ITS division as Odetics ITS, Inc. and broadened our systems offerings by acquiring Meyer, Mohaddes Associates, Inc. in 1998. In January 2000, we reincorporated Odetics ITS in Delaware and changed its name to Iteris, Inc. As of December 31, 2003, Iteris Holdings owned 74.5% of the outstanding common stock of Iteris, Inc. and 59.1% of the common stock of Iteris, Inc., assuming full conversion of the outstanding Series A preferred stock of Iteris, Inc. We currently operate Meyer, Mohaddes Associates, Inc. as a wholly-owned subsidiary of Iteris, Inc.

We historically operated multiple business units including MAXxess Systems, Inc., formerly known as Gyyr Incorporated, which designed and manufactured security management systems; Zyfer, Inc., which developed and manufactured timing and synchronization products; and Broadcast, Inc., which developed and supplied software-based systems to automate and control the multiple classes of equipment used in broadcast studios and satellite uplink facilities. Beginning in late 2001, we began divesting certain of our business units in order to reduce our operating expenses and to focus on what we believe is our core business Iteris, Inc. In September 2001, we sold the assets of our Gyyr Closed Circuit Television Products line, which included video recorders and equipment that facilitated video switching and multiplexing. Upon completion of this sale, we changed the name of our Gyyr subsidiary to MAXxess Systems, Inc. In September 2003, we sold substantially all of the assets of MAXxess to an investor group that included certain members of the MAXxess management group. In March 2003, we decided to cease the development and sale of any new Broadcast products and in September 2003, we sold the balance of our Broadcast business. In May 2003, we sold substantially all of the assets of Zyfer.

Iteris Holdings, Inc. was incorporated in Delaware in October 1987 as Odetics, Inc. and changed its name to Iteris Holdings, Inc. in September 2003 in order to communicate our focus on our ITS business. Our Class A common stock and our Class B common stock are currently traded on the OTC Bulletin Board under the symbols "ITRSA.OB" and "ITRSB.OB," respectively. Our principal executive offices are located at 1515 South Manchester Avenue, Anaheim, California 92802, and our telephone number is (714) 774-5000. Our website is www.iteris.com. Information available on our website does not constitute part of this prospectus.

The Offering

Common stock offered by selling stockholders	4,533,332 shares(1)
Common stock outstanding prior to and after this offering	19,941,839 shares(2)
Use of proceeds	We will not receive any proceeds from sales of the shares offered by this prospectus. However, we will receive the proceeds from the exercise of the warrants by the selling stockholders, and those proceeds are expected to be used for our general corporate purposes. See "Use of Proceeds."
OTC Bulletin Board trading symbols	ITRSA.OB and ITRSB.OB

(1) Consists solely of Class A common stock and includes an aggregate of 441,666 shares of Class A common stock issuable upon exercise of warrants issued in connection with a private placement completed in July 2003 and a warrant issued in connection with the July 2003 restructuring of the lease for our principal operating facilities located in Anaheim, California.

(2) As of December 31, 2003. Includes 19,009,909 shares of Class A common stock and 931,930 shares of Class B common stock. Excludes 3,555,833 shares of Class A common stock issuable upon exercise of outstanding warrants and 1,133,134 shares of Class A common stock issuable upon exercise of outstanding stock options.

Selling Stockholders

The shares of Class A common stock being offered for resale by the selling stockholders pursuant to this prospectus may be offered by them in varying amounts and transactions so long as this prospectus is then current under the rules and regulations of the SEC and the registration statement has not been withdrawn by us. See "Selling Stockholders" on page 46. The offering may be completed through the facilities of the OTC Bulletin Board or such other exchange or reporting system where our Class A common stock may be traded. Brokerage commissions may be paid or discounts allowed in connection with such sales; however, it is anticipated that the discounts allowed or commitments paid will be no more than the ordinary brokerage commissions paid on sales effected through brokers or dealers.

Summary Consolidated Financial Data

	Fiscal Year Ended March 31,					Nine Months Ended December 31,	
	1999	2000	2001	2002	2003	2002	2003
						(unaudited)	
	(in thousands, except per share data)						
Consolidated Statement of Operations Data:							
Net sales and contract revenues:							
Net sales	$ 4,339	$ 7,740	$ 10,626	$ 17,104	$ 19,112	$ 14,000	$ 17,608
Contract revenues	10,240	15,671	17,430	20,205	22,283	16,510	16,300
Total net sales and contract revenues	14,579	23,411	28,056	37,309	41,395	30,510	33,908
Costs and expenses:							
Cost of net sales	3,129	4,308	5,558	8,401	9,366	6,796	9,491
Cost of contract revenues	7,196	11,310	11,463	12,043	15,110	11,225	11,027
Selling, general and administrative expenses	9,619	15,201	15,882	14,627	14,105	9,351	9,754
Research and development expenses	2,150	3,698	5,526	3,434	3,908	2,758	3,044
Restructuring charges			367	1,142			
Total costs and expenses	22,094	34,517	38,796	39,647	42,489	30,130	33,316
Income (loss) from operations	(7,515)	(11,106)	(10,740)	(2,338)	(1,094)	380	592
Non-operating income (expense):							
Royalty income		38,437	17,825				
Other income (expense), net	323		188	(1,365)	417	640	970
Interest expense, net	(1,807)	(1,919)	(1,762)	(4,190)	(761)	(694)	(92)
Income (loss) before income taxes	(8,999)	25,412	5,511	(7,893)	(1,438)	326	1,470
Income tax benefit (provision)				785			(744)
Income (loss) from continuing operations before minority interest	(8,999)	25,412	5,511	(7,108)	(1,438)	326	726
Minority interest in earnings of subsidiary				(1,910)	(3,818)	(2,992)	(2,518)
Income (loss) from continuing operations	(8,999)	25,412	5,511	(9,018)	(5,256)	(2,666)	(1,792)
Income (loss) from discontinued operations, net of taxes of $0	(11,119)	(27,691)	(38,051)	(17,120)	(7,892)	(2,157)	1,682
Extraordinary loss from early extinguishment of debt, net of taxes of $0				(450)			
Net loss	$ (20,118)	$ (2,279)	$ (32,540)	$ (26,588)	$ (13,148)	$ (4,823)	$ (110)
Basic earnings (loss) per share:							
Continuing operations	$ (1.15)	$ 2.80	$ 0.55	$ (0.80)	$ (0.37)	$ (0.19)	$ (0.10)
Discontinued operations	(1.42)	(3.05)	(3.81)	(1.52)	(0.55)	(0.15)	0.09
Extraordinary loss				(0.04)			
Basic loss per share	$ (2.57)	$ (0.25)	$ (3.26)	$ (2.36)	$ (0.92)	$ (0.34)	$ (0.01)
Diluted earnings (loss) per share							
Continuing operations	$ (1.15)	$ 2.69	$ 0.54	$ (0.80)	$ (0.37)	$ (0.19)	$ (0.10)

	Fiscal Year Ended March 31,					Nine Months Ended December 31,	
Discontinued operations	(1.42)	(2.93)	(3.73)	(1.52)	(0.55)	(0.15)	0.09
Extraordinary loss				(0.04)			
Diluted loss per share	$ (2.57)	$ (0.24)	$ (3.19)	$ (2.36)	$ (0.92)	$ (0.34)	$ (0.01)
Shares used in calculating basic loss per share	7,820	9,089	9,977	11,267	14,276	13,996	17,705
Shares used in calculating diluted loss per share	7,820	9,444	10,209	11,267	14,276	13,996	17,748

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	At March 31,					At December 31,	
	1999	2000	2001	2002	2003	2002	2003
						(unaudited)	
				(in thousands)			
Consolidated Balance Sheet Data:							
Working capital (deficit)	$ 26,066	$ 26,830	$ 2,114	$ (7,349)	$ 3,368	$ 11,142	$ 6,907
Total assets	81,355	81,850	68,061	52,238	34,842	40,062	27,934
Long-term debt (less current portion)	19,962	10,649	4,791	2,042	1,265	1,680	902
Accumulated deficit	(23,913)	(26,192)	(58,732)	(85,320)	(98,468)	(90,143)	(98,578)
Total stockholders' equity (deficit)	36,323	36,110	20,378	5,255	(4,288)	(3,169)	(1,597)

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RISK FACTORS

Our business is subject to a number of risks, some of which are discussed below. You should consider the following risks carefully in addition to the risks and information contained elsewhere in this prospectus before purchasing shares of our common stock. The risks and uncertainties described below are not the only ones facing us. 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 occur, our business, financial condition or results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose all or part of your investment.

We Have Experienced Substantial Losses And May Continue To Experiencing Losses For The Foreseeable Future. We experienced net losses of $110,000 in the nine months ended December 31, 2003, $13.1 million in the year ended March 31, 2003 and $26.6 million in the year ended March 31, 2002. While we have divested all of our business units other than our Iteris, Inc. subsidiary, we cannot assure you that our efforts to downsize our operations or reduce our operating expenses will improve our financial performance, or that we will be able to achieve profitability on a quarterly or annual basis in the future. Most of our expenses are fixed in advance. As such, we generally are unable to reduce our expenses significantly in the short-term to compensate for any unexpected delay or decrease in anticipated revenues. As a result, we may continue to experience operating losses and net losses, which would make it difficult to fund our operations and achieve our business plan, and could cause the market price of our common stock to decline.

We May Need To Raise Additional Capital In The Future, But We May Not Be Able To Secure Adequate Funds On Terms Acceptable To Us, Or At All. We have generated significant net losses and operating losses in recent periods, and have experienced negative cash flows from operations of $2.4 million in the nine months ended December 31, 2003, $4.8 million in the year ended March 31, 2003, $18.2 million in the year ended March 31, 2002 and $20.1 million in the year ended March 31, 2001. Although we completed a private placement in July 2003, the sale of our Anaheim, California property in 2002 and the divestiture of our Zyfer, Broadcast and MAXxess subsidiaries in 2003, the majority of the proceeds from such sales were used to pay our outstanding debts and accounts payables. As of December 31, 2003, our cash balance was approximately $0.3 million. We may need to raise additional capital in the future to fund our operations or to purchase the minority interests in

Iteris, Inc. Our Iteris, Inc. subsidiary currently maintains a line of credit with a maximum availability of $5.0 million, which expires in August 2004. Substantially all of the assets of Iteris, Inc. have been pledged to the lender to secure the outstanding indebtedness under this facility ($611,000 was outstanding under the line of credit at December 31, 2003).

We may raise additional capital in the near future, either 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. These conditions, together with our recurring losses and cash requirements, raise substantial doubt about our ability to continue as a going concern.

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

- our ability to control costs;
- market acceptance of our products and the overall level of sales of our products;
- our ability to generate operating income;
- increased research and development funding, and required investments in our Iteris, Inc. subsidiary;
- our ability to purchase the minority interests in Iteris, Inc.;
- increased sales and marketing expenses;

- technological advancements and our competitors' response to our products;
- capital improvements to new and existing facilities;
- potential acquisitions of businesses and product lines;
- our relationships with customers and suppliers; and
- general economic conditions, including the effects of the current economic slowdown and international conflicts.

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

We Have Adopted A New Operating Strategy, Which Is Untried And Exposes Us To New Risks. We recently divested ourselves of many of our business units and significantly scaled back our operations in order to focus on the business of our Iteris, Inc. subsidiary. We have abandoned our strategy of incubating emerging companies, which historically required us to make significant investments in new business units. Our current business strategy is narrow and untried, and there is no assurance that our new business strategy or the continued execution of the Iteris, Inc. business will be successful.

The Trading Price Of Our Common Stock Is Highly Volatile And Our Shares Are No Longer Listed On The Nasdaq SmallCap Market. As Such, You May Not Be Able To Resell Your Shares Of Stock At Or Above The Price You Paid For Them Or At All. The trading price of our common stock has been subject to wide fluctuations in the past. Since January 2000, our Class A common stock has traded at prices as low as $0.45 per share and as high as $29.44 per share and our Class B common stock has traded at prices as low as $0.20 per share and as high as $29.62 per share. In 2003, because we failed to meet the minimum stockholder's equity and minimum share price requirements for continued listing on the Nasdaq SmallCap Market, both our Class A common stock and Class B common stock were delisted from the Nasdaq SmallCap Market and currently trade on the OTC Bulletin Board. As such, the average daily trading volume of common stock has decreased, and it may be more difficult for you to sell your shares in the future at or above the price you paid for them, or at all. This delisting may also make it more difficult for us to raise additional funds in the future. In addition, our securities are subject to "penny stock" restrictions, including Rule 15g-9 under the Securities Exchange Act of 1934, as amended, which imposes additional sales practice requirements on broker-dealers, such as requirements pertaining to the suitability of the investment for the purchaser and the delivery of specific disclosure materials and monthly statements. Consequently, the liquidity of our securities could be impaired, not only in the number of securities that can be bought and sold, but also through delays in the timing of the transactions, reduction in security analysts' and the news media's coverage of us, adverse effects on the ability of broker-dealers to sell our securities, and lower prices for our securities than might otherwise be obtained.

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 and improve cash flow;
- our ability to raise additional capital or repurchase the minority interest in Iteris, Inc.;

- shortages announced by suppliers;
- announcements of technological innovations or new products or applications by our competitors, customers or us;
- acquisitions or businesses, products or technologies;
- the impact of any litigation;
- changes in investor perceptions;
- changes in earnings estimates or investment recommendations by securities analysts; and
- international conflicts, political unrest and acts of terrorism.

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

We Depend On Government Contracts And Subcontracts, And Because Many Of Our Government Contracts Are Fixed Price Contracts, Higher Than Anticipated Costs Will Reduce Our Profit And Could Adversely Impact Our Operating Results. A significant portion of the sales by Iteris, Inc. were derived from contracts with governmental agencies, either as a general contractor, subcontractor or supplier. Government contracts represented approximately 26%, 38% and 47% of our total net sales and contract revenues for the years ended

March 31, 2001, 2002 and 2003, respectively. We anticipate that revenue from government contracts will continue to increase in the near future. Government business is, in general, subject to special risks and challenges, including:

- long purchase cycles or approval processes;
- competitive bidding and qualification requirements;
- the impact of international conflicts;
- performance bond requirements;
- changes in government policies and political agendas;
- delays in funding, budgetary constraints and cut-backs; and
- milestone requirements and liquidated damage provisions for failure to meet contract milestones.

In addition, a large number of our government contracts are fixed price contracts. As a result, we may not be able to recover for any cost overruns. 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. These additional costs 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 in any given quarter. Our inability to address any of the foregoing concerns or the loss or renegotiation of any material government contract could seriously harm our business, financial condition and results of operations.

Economic Slowdown And Related Uncertainties Could Adversely Impact The Demand For Our Products. Concerns about inflation, decreased consumer confidence, reduced corporate profits and capital spending, and recent international conflicts and terrorist and military actions have resulted in a downturn in worldwide economic conditions, particularly in the United States. As a result of these unfavorable economic conditions, we have experienced a slowdown in customer orders, cancellations and rescheduling of backlog and higher overhead costs. In addition, recent political and social turmoil related to international conflicts and terrorist acts can be expected to put further pressure on economic conditions in the U.S. and worldwide. These political, social and economic conditions make it extremely difficult for our customers, our suppliers and us to accurately forecast and plan future business activities. If such conditions continue or worsen, our business, financial condition and results of operations will likely be materially and adversely affected.

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:

- our ability to raise additional capital and repurchase the minority interest in Iteris, Inc.;
- our ability to control costs;
- international conflicts and acts of terrorism;

- our ability to develop, introduce, market and gain market acceptance of new products, applications and product enhancements in a timely manner, or at all;
- the size, timing, rescheduling or cancellation of significant customer orders;
- the introduction of new products by competitors;
- the availability of components used in the manufacture of our products;
- changes in our pricing policies and the pricing policies by 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;
- our success in expanding and implementing our sales and marketing programs;
- the effects of technological changes in our target markets;
- our relatively small level of backlog at any given time;
- the mix of our sales;
- 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.

In addition, our sales in any quarter may consist of a relatively small number of large customer orders. As a result, the timing of a small number of orders may impact our quarter-to-quarter results. The loss of or a substantial reduction in orders from any significant customer could seriously harm our business, financial condition and results of operations.

Due to all of the factors listed above and, 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.

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

rapid technological advances;

downward price pressure in the marketplace as technologies mature;

changes in customer requirements;

frequent new product introductions and enhancements; and

evolving industry standards and changes in the regulatory environment.

Our future success will depend upon our ability to anticipate and adapt to changes in technology and industry standards, and to effectively develop, introduce, market and gain broad acceptance of new products and product enhancements incorporating the latest technological advancements.

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. 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. We cannot assure you that any such investments in research and development will lead to any corresponding increase in revenue.

If We Are Unable To Develop And Introduce New Products And Product Enhancements Successfully And In A Cost-Effective And Timely Manner, Or To Achieve Market Acceptance Of Our New Products, Our Operating Results Would Be Adversely Affected. We believe our revenue growth and future operating results will depend on our ability to complete development of new products and enhancements, introduce these products in a timely, cost-effective manner, achieve broad market acceptance of these products and enhancements, and reduce our product costs. We 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. Our future success will also depend in part on the success of several products including AutoVue , our lane departure warning system. We currently outsource the manufacture of our AutoVue product line to a single manufacturer. This manufacturer may not be able to produce sufficient quantities of this product in a timely manner or at a reasonable cost, which could materially and adversely affect our ability to launch or gain market acceptance of AutoVue .

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

The Markets In Which We Operate Are Highly Competitive And Have Many More Established Competitors, Which Could Adversely Affect Our Sales Or The Market Acceptance Of Our Products. We compete with numerous other companies in our target markets including, but not limited to, large, multinational corporations and many smaller regional engineering firms. We expect such competition to increase due to technological advancements, industry consolidations and reduced barriers to entry. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, any of which could seriously harm our business, financial condition and results of operations. 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 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, particularly Joel Slutzky, our Chairman of the Board, who retired in February 2002 as our Chief Executive Officer, Gregory A. Miner, our current Chief Executive Officer and Chief Financial Officer, and Jack Johnson, the Chief Executive Officer of Iteris, Inc. The loss of any of these individuals 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. Competition for 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.

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.

From time to time, we have received notices that claim we have infringed upon the intellectual property of others. Even if these claims are not valid, they could subject us to significant costs. We have engaged in litigation in the past, and 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, both in legal fees and expenses, and the diversion of management's 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 Engage In Acquisitions Of Companies Or Technologies That May Require Us To Undertake Significant Capital Infusions And Could Result In Disruptions Of Our Business And Diversion Of Resources And Management Attention. We have historically, and may in the future, acquire complementary businesses, products and technologies. Acquisitions may require significant capital infusions and, in general, acquisitions also involve a number of special risks, including:

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

- increased interest expense and amortization of acquired intangible assets.

Our competitors are also soliciting potential acquisition candidates, which could both increase the price of any acquisition targets and decrease the number of attractive companies available for acquisition. Acquisitions may also materially and adversely affect our operating results due to large write-offs, contingent liabilities, substantial depreciation, deferred compensation charges or intangible asset amortization, or other adverse tax or audit 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.

Our International Business Operations May Be Threatened By Many Factors That Are Outside Of Our Control. Despite the reorganization of our European operations and the resulting reduction in international sales, we continue to engage in international operations. International business operations are also subject to other inherent risks, including, among others:

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

We believe that continued growth and profitability could require expansion of our international operations. Nearly all of our international sales from this point on are denominated in U.S. dollars. As a result, an increase in the relative value of the dollar could make our products more expensive and potentially less price competitive in international markets. We do not engage in any transactions as a hedge against risks of loss due to foreign currency fluctuations.

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

Some Of Our Directors, Officers And Their Affiliates Can Control The Outcome Of Matters That Require The Approval Of Our Stockholders, And Accordingly We Will Not be Able To Engage In Certain Transactions Without Their Approval. As of December 31, 2003, our officers and directors beneficially owned approximately 21% of the total combined voting power of the outstanding shares of our Class A common stock and Class B common stock. As a result of their stock ownership, our management will be able to significantly influence the election of our directors and the outcome of corporate actions requiring stockholder approval, such as mergers and acquisitions, regardless of how our other stockholders may vote. This concentration of voting control may have a significant effect in delaying, deferring or preventing a change in our management or change in control and may adversely affect the voting or other rights of other holders of common stock.

Our Stock Structure And Certain Anti-Takeover Provisions May Affect The Price Of Our Common Stock And Discourage A Third Party From Acquiring Us. Certain provisions of our certificate of incorporation and our stockholder rights plan could make it difficult for a third party to acquire us, even though an acquisition might be beneficial to our stockholders. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. Our Class A common stock entitles the holder to one-tenth of one vote per share and our Class B common stock entitles the holder to one vote per share. The disparity in the voting rights between our common stock, as well as our insiders' significant ownership of the Class B common stock, could discourage a proxy contest or make it more difficult for a third party to effect a change in our management and control. In addition, 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, as well as additional shares of Class B common stock. Our future issuance of preferred stock or Class B common stock could be used to discourage an unsolicited acquisition proposal.

In March 1998, we adopted a stockholder rights plan and declared a dividend of preferred stock purchase rights to our stockholders. In the event a third party acquires more than 15% of the outstanding voting control of our company or 15% of our outstanding common stock, the holders of these rights will be able to purchase the junior participating preferred stock at a substantial discount off of the then current market price. The exercise of these rights and purchase of a significant amount of stock at below market prices could cause substantial dilution to a particular acquirer and discourage the acquirer from pursuing our company. The mere existence of a stockholder rights plan often delays or makes a merger, tender offer or proxy contest more difficult.

FORWARD-LOOKING STATEMENTS

All statements included in this prospectus, other than statements or characterizations of historical fact, are forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements concerning projected expenses, growth in revenue, our ability to control costs, our accounting estimates, assumptions and judgments, the need for additional capital, the investment in research and development for our subsidiaries and business units, the market acceptance and performance of our products, the competitive nature of our markets, our ability to achieve product integration, the status of, and our ability to keep pace with, evolving technologies, the development and market acceptance of new products, enhancements or applications, the adoption of future industry standards, our production capacity, our ability to raise capital, and our ability to achieve profitability, or repurchase the minority interest in our Iteris subsidiary. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management's beliefs, and certain assumptions made by us. Forward-looking statements can often be identified by words such as "anticipates," "expects," "intends," "plans," "predicts," "believes," "seeks," "estimates," "may," "will," "should," "would," "potential," "continue," similar expressions and variations or negatives of these words. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These forward-looking statements speak only as of the date of this prospectus and are based upon the information available to us at this time. Such information is subject to change, and we will not necessarily inform you of such changes. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, some of which are listed under the section "Risk Factors" beginning on page 5 of this prospectus. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

USE OF PROCEEDS

The shares of Class A common stock offered by this prospectus will be sold by the selling stockholders, and the selling stockholders will receive all of the proceeds from sales of such shares. We will not receive any proceeds from sales of the shares offered by this prospectus. However, we will receive the proceeds from the exercise of the warrants held by the selling stockholders and those proceeds will be used for our general corporate purposes.

PRICE RANGE OF COMMON STOCK

Our Class A common stock and Class B common stock were delisted from the Nasdaq SmallCap Market in August 2003 and April 2003, respectively, and are currently quoted on the OTC Bulletin Board under the symbols "ITRSA.OB" and "ITRSB.OB," respectively. Prior to that, our Class A common stock and Class B common stock were listed on the Nasdaq SmallCap Market under the symbols "ODETA" and "ODETB," respectively. Prior to April 22, 2002, our Class A common stock and Class B common stock were listed on the Nasdaq National Market. The following table sets forth for the fiscal periods indicated the high and low sales prices for the Class A common stock and Class B common stock as reported by the Nasdaq Stock Market and the OTC Bulletin Board, as applicable.

	Class A Common Stock		Class B Common Stock	
	High	**Low**	**High**	**Low**
Fiscal 2002				
Quarter Ended June 30, 2001	$ 4.60	$ 1.88	$ 4.64	$ 2.95
Quarter Ended September 30, 2001	2.49	1.24	3.80	1.37
Quarter Ended December 31, 2001	2.10	1.05	2.58	1.35
Quarter Ended March 31, 2002	1.95	1.34	3.75	1.82
Fiscal 2003				
Quarter Ended June 30, 2002	$ 1.70	$ 1.27	$ 2.57	$ 1.85
Quarter Ended September 30, 2002	1.52	.85	2.00	1.00
Quarter Ended December 31, 2002	1.03	.45	1.00	.42
Quarter Ended March 31, 2003	.74	.51	.75	.52
Fiscal 2004				
Quarter Ended June 30, 2003	$ .89	$ .45	$ .53	$ .20
Quarter Ended September 30, 2003	1.75	.51	.20	.20
Quarter Ended December 31, 2003	2.60	1.36	.40	.20
Quarter Ending March 31, 2004 (through February 13, 2004)	2.65	1.91	2.15	.40

As of December 31, 2003, we had 509 holders of record of Class A common stock and 97 holders of record of Class B common stock according to information furnished by our transfer agent. On February 13, 2004, the last reported sale price for the Class A common stock was $2.65 per share. The last reported sale of the Class B common stock occurred on February 11, 2004 at a price of $2.15 per share.

DIVIDEND POLICY

We have never paid or declared cash dividends on either class of our common stock, and have no current plans to pay such dividends in the foreseeable future. We currently intend to retain any earnings for working capital and general corporate purposes. The payment of any future dividends will be at the discretion of our Board of Directors, and will depend upon a number of factors, including, but not limited to, future earnings, the success of our business, our capital requirements, our general financial condition and future prospects, the consent of current or future lenders and such other factors as the Board may deem relevant.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth our selected consolidated financial data for each of the five fiscal years ended March 31, 1999, 2000, 2001, 2002 and 2003, and comparative nine month periods ended December 31, 2002 and 2003. The statement of operations and balance sheet data for the years ended and as of March 31, 1999, 2000, 2001, 2002 and 2003 are derived from our audited consolidated financial statements. The financial data for the nine months ended and as of December 31, 2002 and 2003 are derived from our interim unaudited consolidated financial statements. Such unaudited financial statements include all adjustments which we consider necessary for a fair presentation of our financial position and results of operations for such period. Operating results for the nine months ended December 31, 2003 are not necessarily indicative of results that may be expected for the year ended March 31, 2004. The accompanying consolidated financial statements have been restated to reflect the classification and presentation of Broadcast, Zyfer and MAXxess as discontinued operations for all periods presented. See Notes 1 and 2 to consolidated financial statements. The following information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with our consolidated financial statements and the related notes thereto included elsewhere in this prospectus.

	Fiscal Year Ended March 31,					Nine Months Ended Dec. 31,	
	1999	2000	2001	2002	2003	2002	2003
						(unaudited)	
	(in thousands, except per share data)						
Consolidated Statement of Operations Data							
Net sales and contract revenues:							
Net sales	$ 4,339	$ 7,740	$ 10,626	$ 17,104	$ 19,112	$ 14,000	$ 17,608
Contract revenues	10,240	15,671	17,430	20,205	22,283	16,510	16,300
Total net sales and contract revenues	14,579	23,411	28,056	37,309	41,395	30,510	33,908
Costs and expenses:							
Cost of net sales	3,129	4,308	5,558	8,401	9,366	6,796	9,491
Cost of contract revenues	7,196	11,310	11,463	12,043	15,110	11,225	11,027
Selling, general and administrative expenses	9,619	15,201	15,882	14,627	14,105	9,351	9,754
Research and development expenses	2,150	3,698	5,526	3,434	3,908	2,758	3,044
Restructuring charges			367	1,142			
Total costs and expenses	22,094	34,517	38,796	39,647	42,489	30,130	33,316
Income (loss) from operations	(7,515)	(11,106)	(10,740)	(2,338)	(1,094)	380	592
Non-operating income (expense):							
Royalty income		38,437	17,825				
Other income, net	323		188	(1,365)	417	640	970
Interest expense, net	(1,807)	(1,919)	(1,762)	(4,190)	(761)	(694)	(92)
Income (loss) before income taxes	(8,999)	25,412	5,511	(7,893)	(1,438)	326	1,470
Income tax benefit (provision)				785			(744)
Income (loss) from continuing operations before minority interest	(8,999)	25,412	5,511	(7,108)	(1,438)	326	726
Minority interest in earnings of subsidiary				(1,910)	(3,818)	2,992	2,518
Income (loss) from continuing operations	(8,999)	25,412	5,511	(9,018)	(5,256)	(2,666)	(1,792)
Income (loss) from discontinued operations, net of taxes of $0	(11,119)	(27,691)	(38,051)	(17,120)	(7,892)	(2,157)	1,682
Extraordinary loss from early extinguishment of debt, net of taxes of $0				(450)			
Net loss	$ (20,118)	$ (2,279)	$ (32,540)	$ (26,588)	$ (13,148)	$ (4,823)	$ (110)
Basic earnings (loss) per share:							
Continuing operations	$ (1.15)	$ 2.80	$ 0.55	$ (0.80)	$ (0.37)	$ (0.19)	$ (0.10)
Discontinued operations	(1.42)	(3.05)	(3.81)	(1.52)	(0.55)	(0.15)	0.09
Extraordinary loss				(0.04)			
Basic loss per share	$ (2.57)	$ (0.25)	$ (3.26)	$ (2.36)	$ (0.92)	$ (0.34)	$ (0.01)
Diluted earnings (loss) per share:							
Continuing operations	$ (1.15)	$ 2.69	$ 0.54	$ (0.80)	$ (0.37)	$ (0.19)	$ (0.10)
Discontinued operations	(1.42)	(2.93)	(3.73)	(1.52)	(0.55)	(0.15)	0.09
Extraordinary loss				(0.04)			

	Fiscal Year Ended March 31,					Nine Months Ended Dec. 31,	
Diluted loss per share	$ (2.57)	$ (0.24)	$ (3.19)	$ (2.36)	$ (0.92)	$ (0.34)	$ (0.01)
Shares used in calculating basic loss per share	7,820	9,089	9,977	11,267	14,276	13,996	17,705
Shares used in calculating diluted loss per share	7,820	9,444	10,209	11,267	14,276	13,996	17,748

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	At March 31,					At Dec. 31,	
	1999	2000	2001	2002	2003	2002	2003
						(unaudited)	
				(in thousands)			
Consolidated Balance Sheet Data:							
Working capital (deficit)	$ 26,066	$ 26,830	$ 2,114	$ (7,349)	$ 3,368	$ 11,142	$ 6,907
Total assets	81,355	81,850	68,061	52,238	34,842	40,062	27,934
Long-term debt (less current portion)	19,962	10,649	4,791	2,042	1,265	1,680	902
Accumulated deficit	(23,913)	(26,192)	(58,732)	(85,320)	(98,468)	(90,143)	(98,578)
Total stockholders' equity (deficit)	36,323	36,110	20,378	5,255	(4,288)	(3,169)	(1,597)

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

You should read the following discussion in conjunction with our consolidated financial statements and the related notes and other financial information appearing elsewhere in this prospectus. In addition to historical information, the following discussion and other parts of this document contain forward-looking information that involves risk and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to factors discussed under the sections entitled "Risk Factors," "Business" and elsewhere in this document. We undertake no obligation to revise or update publicly any forward-looking statement for any reason.

Overview

We have historically operated multiple business units. During the fiscal year ended March 31, 2003 ("fiscal 2003"), we operated in three business segments consisting of ITS, video products and telecom products. The ITS segment consisted of our majority-owned subsidiary, Iteris, Inc., which designs, develops, markets and implements video sensor systems and transportation management and traveler information systems for the ITS industry. The video products segment consisted of our former wholly-owned subsidiaries, MAXxess Systems, Inc. (previously known as Gyyr Incorporated), which designed and manufactured security management systems, and Broadcast, Inc., which developed and supplied software based systems to automate and control the multiple classes of equipment used in broadcast studios and satellite uplink facilities. Our telecom segment consisted of our wholly-owned subsidiary, Zyfer, Inc., which developed and manufactured timing and synchronization products and which, prior to its incorporation, was operated as our Communications division. All references to our subsidiaries in this prospectus include the prior business and results of operations of such subsidiaries as our business units prior to their incorporation.

During the quarter ended December 31, 2000, we began a restructuring to reduce our overall expenses and to focus our business on those areas that we believe would provide the highest return for our stockholders. This restructuring resulted in a 25% reduction in our workforce in the fiscal year ended March 31, 2001 ("fiscal 2001") as compared to the prior year and the discontinuation of certain product lines.

Beginning in 2001, we began divesting certain of our business units in order to reduce our operating expenses and to focus on what we believe is our core business, Iteris, Inc. In April 2001, we bifurcated Gyyr's operations into the Gyyr Closed Circuit Television ("CCTV")

Products line, which manufactured analog and digital storage systems, and the Gyyr Electronic Access Control division, which develops and manufactures enterprise security management systems for facility security and trace detection of dangerous chemicals. In September 2001, we sold substantially all of the assets and certain liabilities of the Gyyr CCTV Products line for $8.8 million. In connection with this sale, we changed the name of Gyyr to MAXxess Systems, Inc. to reflect the focus of this business on electronic access control systems.

In September 2001, in connection with continued cost control efforts and the slowdown in the telecommunications industry, our Board of Directors approved the immediate discontinuation of Mariner Networks, Inc., our former wholly-owned subsidiary, that was historically part of our telecom segment. Mariner had previously been a manufacturer of telecommunications equipment. As a result of the sale of the Gyyr CCTV Products line and the discontinuation of Mariner Networks, we reorganized our European operations and further reduced our overall staffing levels. The reorganization of the European operations included the discontinuation of our Odetics Europe Ltd., Gyyr Europe Ltd., Mariner France and Mariner Europe Ltd. operations, and the transition of our Broadcast and MAXxess international operations to branch office operations with the intent of lowering our

international costs. In connection with this restructuring, 34 employees were terminated in the quarter ended December 31, 2001 and 78 employees were terminated in the quarter ended March 31, 2002.

In March 2003, we decided to cease the development and sale of any new Broadcast products and in September 2003, we sold the balance of our Broadcast business.

In May 2003, we sold substantially all of the assets of Zyfer for a purchase price of $2.3 million in cash and the assumption of liabilities, plus future incentive payments of up to $1 million in each of the years ended April 30, 2004 and 2005. The amount of these future incentive payments will be based on the revenues generated by the sale of Zyfer's products or the license of its technologies.

The Company currently operates in two reportable segments: Sensors and Systems. The Sensor segment includes Vantage vehicle detection systems for traffic intersection control and AutoVue sensors for vehicle safety. Systems includes transportation engineering and consulting activities.

In September 2003, we sold substantially all of the assets of MAXxess to an investor group that included certain members of the MAXxess management group. The consideration for the sale consisted of the assumption of $2.7 million of liabilities, resulting in a net gain of $2.3 million on this sale.

Our financial statements for all periods presented in this report have been restated to reflect the discontinuation of the operations of Gyyr, Broadcast, Zyfer, Mariner Networks and MAXxess and, accordingly, only reflect the operations of Iteris Inc.

The Company currently operates in two reportable segments: Sensors and Systems. The Sensors segment includes Vantage vehicle detection systems for traffic intersection control and AutoVue sensors for in vehicle safety. Systems includes transportation engineering and consulting activities.

We have historically generated significant net losses including $13.1 million in fiscal 2003 and $26.6 million in fiscal 2002. While we have substantially reduced our operating losses in recent periods, we have experienced negative cash flows from operations in the amount of $2.4 million for the nine months ended December 31, 2003, $4.8 million in fiscal 2003 and $18.2 million in fiscal 2002 and had a stockholders' deficit of $1.6 million at December 31, 2003 and $4.3 million at March 31, 2003. Our operations may continue to use net cash at least through the end of fiscal 2004. These conditions, together with our recurring losses, cash requirements and stockholders' deficit, raise substantial doubt about our ability to continue as a going concern.

Critical Accounting Policies And Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our 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 disclosure 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 receivables, the valuation of inventories, the recoverability of long-lived assets, including goodwill, and reserves for restructuring and related activities. 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 following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition. We record product revenues and related cost 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 probable. Accordingly, at the date revenue is recognized, the significant uncertainties concerning the sale have been resolved. Unless otherwise stated in our product literature, we provide a one to two year warranty on all product material and workmanship, and establish reserves for potential warranty returns as products are shipped. Defective products are either repaired or replaced, at our option, upon meeting certain criteria.

Contract revenue is derived primarily from long-term contracts with governmental agencies. Contract revenue includes 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. We record a charge to earnings for any anticipated losses on contracts in the period in which such losses are identified. Changes in job performance and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to cost and revenue and are recognized in the period in which the revisions are determined.

We record revenues from follow-on service and support, for which we charge separately, in the period in which such services are performed.

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

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

Goodwill and Purchased Intangible Assets. The purchase method of accounting for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired. Goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests. The amounts and useful lives assigned to other intangible assets impact future amortization. If the assumptions and estimates used to allocate the purchase price are not correct or if business conditions change, purchase price adjustments or future asset impairment charges could be required.

Impairment of Assets and Restructuring. During fiscal 2003, we recorded reserves and asset write-downs in connection with the sale of substantially all of the assets of Zyfer and the discontinuation of Broadcast. These include estimates pertaining to the fair value of assets and facility closure costs. Although we do not anticipate significant changes, the actual assets values and closure costs may differ from the amounts estimated.

Results of Operations

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

Operations.

	Fiscal Year Ended March 31,			Nine Months Ended December 31,	
	2001	2002	2003	2002	2003
Net sales and contract revenues:					
Net sales	37.9%	45.8%	46.2%	45.9%	51.9%
Contract revenues	62.1	54.2	53.8	54.1	48.1
Total net sales and contract revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:					
Cost of net sales	19.8	22.5	22.6	22.3	28.0
Cost of contract revenues	40.9	32.3	36.5	36.8	32.5
Selling, general and administrative expense	56.6	39.2	34.1	30.6	28.7
Research and development expense	19.7	9.2	9.4	9.0	9.0
Restructuring charges	1.3	3.1			
Total costs and expenses	138.3	106.3	102.6	98.7	98.2
Income (loss) from operations	(38.3)	(6.3)	(2.6)	1.3	1.8
Non-operating income (expense):					
Royalty income	63.5				
Other income (loss), net	0.6	(3.7)	1.0	2.1	2.9
Interest expense, net	(6.3)	(11.2)	(1.8)	(2.3)	(0.3)
Income (loss) before income taxes	19.5	(21.2)	(3.5)	1.1	4.4
Income tax benefit (provision)		2.1			(2.2)
Income (loss) from continuing operations before minority interest	19.5	(19.1)	(3.5)	1.1	2.2
Minority interest in earnings of subsidiary		(5.1)	(9.2)	(9.8)	(7.4)
Income (loss) from continuing operations	19.5	(24.2)	(12.7)	(8.7)	(5.2)
Income (loss) from discontinued operations, net of income taxes of $0	(135.6)	(45.9)	(19.1)	(7.1)	5.0
Extraordinary loss from early extinguishment of debt, net of income taxes of $0		(1.2)			
Net loss	(116.1)%	(71.3)%	(31.8)%	(15.8)%	(0.2)%

Nine Months Ended December 31, 2003 Compared to Nine Months Ended December 31, 2002

Net Sales and Contract Revenues. Net sales and contract revenues consist principally of (i) sales of products and services to commercial customers and municipal agencies ("net sales") and primarily consists of sales of our Vantage video detection systems and AutoVue lane departure warning systems

and (ii) revenues derived from systems integration and ITS consulting services with state, county and municipal agencies ("contract revenues"). Total net sales and contract revenues increased 4.7% to $11.1 million for the three months ended December 31, 2003, compared to $10.6 million

in the corresponding period of the prior fiscal year, and increased 11.1% to $33.9 million for the nine months ended December 31, 2003, compared to $30.5 million in the corresponding period of the prior fiscal year.

Net sales increased 22.9% to $5.9 million for the three months ended December 31, 2003, compared to $4.8 million in the corresponding period of the prior fiscal year and increased 25.7% to $17.6 million for the nine months ended December 31, 2003, compared to $14.0 million in the corresponding period of the prior fiscal year. Sales of Vantage video detection products increased 5.8% and 14.9% in the three and nine month periods ended December 31, 2003, respectively, compared to the corresponding period of the prior year. Net sales derived from AutoVue products and license revenue increased 197.8% and 142.0% in the three and nine month periods ended December 31, 2003 compared to the corresponding period of the prior year. The increase in Vantage net sales reflects increased unit sales in North America compared to the same period of the prior fiscal year. The increase in net sales of AutoVue products reflects license fee revenue and fees for non-recurring engineering costs derived from Valeo, our strategic partner for the passenger car OEM customer base, in addition to increased unit sales of AutoVue products to the European commercial truck market. The increase in AutoVue unit sales reflects increased unit sales to both new and existing customers in addition to technology license revenue derived from our agreement with Valeo.

Contract revenues decreased 10.3% to $5.2 million for the three months ended December 31, 2003, compared to $5.8 million in the corresponding period of the prior fiscal year and decreased 1.2% to $16.3 million for the nine months ended December 31, 2003, compared to $16.5 million in the corresponding period of the prior fiscal year. Our contract revenues are represented by a broad range of fixed price and cost plus fixed fee contracts for engineering study, design, systems integration and implementation. The market for these services is highly dependent upon continued budget appropriations and contract grants at the Federal and State level. We are particularly dependent upon contract activity within the State of California, where a significant portion of our business has been derived for the nine months ended December 31, 2003. The decrease in contract revenues in the three and nine month periods reflects near term softness in the market which we believe is a result of California's budget turmoil.

Gross Profit. Gross profit as a percentage of net sales and contract revenues decreased to 39.6% for the three months ended December 31, 2003, compared to 40.3% in the corresponding period in the prior fiscal year. Gross profit as a percentage of net sales and contract revenues decreased to 39.5% for the nine months ended December 31, 2003, compared to 40.9% in the corresponding period in the prior fiscal year.

Gross profit as a percentage of net sales decreased to 47.3% for the three months ended December 31, 2003, compared to 52.7% in the corresponding period of the prior fiscal year. Gross profit as a percentage of net sales decreased to 46.1% for the nine months ended December 31, 2003, compared to 51.5% in the corresponding period of the prior fiscal year. The decrease in the three month period primarily reflects the impact to gross profit of competitive pricing on large state contracts for Vantage products, which was partially offset by increased gross profit on AutoVue products. Gross profit on AutoVue products increased in the three months ended December 31, 2003 compared to the corresponding period of the prior fiscal year as a result of the impact of license fee revenue derived from Valeo in 2003. Gross profits for the nine months ended December 31, 2003 were negatively affected by the continued impact of pricing pressures on large state contracts for Vantage products, in addition to lower gross profits on AutoVue products as a result of increased unit sales of product to the commercial truck market. During the nine months ended December 31, 2002, revenues from AutoVue consisted primarily of sales of sample product and non-recurring engineering fees at relatively

high gross profit margins and unit sales to the commercial truck market. During the nine months ended December 31, 2003, commercial truck unit sales increased and AutoVue recognized license revenue derived from its relationship with Valeo. This resulted in a 142.0% increase in AutoVue revenues compared to the corresponding period of the prior fiscal year. Gross profit derived from unit sales to the truck market was lower than gross profit derived from engineering activities historically conducted during fiscal 2003.

Gross profit as a percentage of contract revenues marginally increased to 30.7% for the three months ended December 31, 2003, compared to 30.1% in the corresponding period of the prior fiscal year. Gross profit as a percentage of contract revenues was 32.3% for the nine months ended December 31, 2003 compared to 32.0% in the corresponding period of the prior fiscal year. Contract revenues historically have been derived from a large number of individual contracts. The underlying mix of contracts and the related timing of revenue and cost recognition will impact quarterly gross profit performance on contract revenues in a given quarter. We recognize contract revenues and the related gross profit using percentage of completion contract accounting.

Selling, General and Administrative Expense. Selling, general and administrative expense decreased 9.0% to $3.0 million (or 26.9% of total net sales and contract revenues) in the three months ended December 31, 2003, compared to $3.3 million (or 31.1% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. Selling, general and administrative expense increased 4.3% to $9.8 million (or 28.8% of total net sales and contract revenues) in the nine months ended December 31, 2003, compared to $9.4 million (or 30.6% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. In the three and nine month periods ended December 31, 2003 we engaged in substantial cost reduction efforts which included the restructuring of our facilities leases and substantial reductions in expenses related to executive services, accounting and information technology, compared to the corresponding period of the prior

fiscal year. The decrease in the three month periods principally reflects the results of these efforts. The increase in the nine month periods primarily reflects increased spending to support sales and marketing infrastructure and programs in both Vantage and AutoVue products, which was only partially offset by the aforementioned reduction in administrative expenses. These programs include the international expansion of Vantage products, and product marketing and public relations support of AutoVue products.

Research and Development Expense. Research and development expense increased 11.7% to $1.0 million (or 9.3% of total net sales and contract revenues) in the three months ended December 31, 2003, compared to $928,000 (or 8.8% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. Research and development expense increased 10.4% to $3.0 million (or 9.0% of total net sales and contract revenues) in the nine months ended December 31, 2003 compared to $2.8 million (or 9.0% of total net sales and contract revenues) in the corresponding period of the prior fiscal year. The increase in the three and nine month periods reflects increased spending to support the development of Vantage products which was partially offset by decreased spending to support the development of AutoVue products. Vantage product development primarily reflects activities for product line extensions to support new communications platforms and to accommodate new camera designs. These increases were primarily in the areas of personnel costs and related benefits and overhead, prototype material cost and consulting fees. For competitive reasons, we closely guard the confidentiality of our specific development projects.

Other Income. Other income during the nine months ended December 31, 2003 primarily reflects the gain recognized on the renegotiation of our facilities leases, which was completed during the three months ended September 30, 2003. Other income during the nine months ended December 31, 2002 reflects the gain recognized on the sale of our Anaheim facilities in fiscal 2002.

Interest Expense. Interest expense decreased 74.5% to $25,000 in the three months ended December 31, 2003, compared to $98,000 in the corresponding period of the prior fiscal year. The

decrease was primarily as a result of lower interest rates and lower average outstanding borrowings. Interest expense decreased 86.7% to $92,000 in the nine months ended December 31, 2003, compared to $694,000 in the corresponding period of the prior year because we repaid $16.4 million in outstanding indebtedness upon the sale and leaseback of our Anaheim, facilities.

Income Taxes. Iteris Holdings owns less than 80% of its operating subsidiary, Iteris, Inc. and accordingly does not file a consolidated federal tax return. Income tax expense of $293,000 and $744,000 in the three and nine months ended December 31, 2003, respectively, reflects the estimated tax provisions of Iteris, Inc. based upon its actual taxable income in the current fiscal year. On a consolidated basis, we have not provided any income tax benefit for the losses incurred in the three and nine months ended December 31, 2003 due to the uncertainty as to the ultimate realization of the related benefit.

Years Ended March 31, 2003, 2002 and 2001

Net Sales and Contract Revenues. We currently have a diverse customer base and no customer constituted over 10% of our total net sales and contract revenues in fiscal 2003. Total net sales and contract revenues increased 11.0% to $41.4 million for the fiscal year ended March 31, 2003 ("fiscal 2003") compared to $37.3 million in fiscal 2002, and increased 33.0% for the fiscal year ended March 31, 2002 ("fiscal 2002") compared to $28.1 million for the fiscal year ended March 31, 2001 ("fiscal 2001").

Net sales increased 11.7% to $19.1 million in fiscal 2003 compared to $17.1 million in fiscal 2002, and increased 61.0% in fiscal 2002 compared to $10.6 million in fiscal 2001. The increase in net sales in each of the periods primarily reflects an increase in the unit sales of our Vantage vehicle detection systems, and to a lesser extent increased sales of our Iteris' AutoVue lane departure warning systems. Vantage sales comprised 93.9%, 89.6%, and 92.0% of net sales in each of the three fiscal years ended 2001, 2002, and 2003, respectively. All of the Vantage revenues were derived from sales within North America. The sales growth reflects the market adoption of video based detection technologies for traffic intersection management.

Contract revenues increased 10.3% to $22.3 million in fiscal 2003 compared to $20.2 million in fiscal 2002, and increased 15.9% compared to $17.4 million in fiscal 2001. The increase in contract revenues in each fiscal year primarily reflects an increase in volume of ITS projects. The growth in contract revenues reflects a general expansion of our systems consulting and integration business. This expansion has been characterized by the addition of new offices into additional geographic regions including Georgia, Colorado and Idaho. All of our contract revenue is currently derived from North America.

Gross Profit. Total gross profit was unchanged at $16.9 million in fiscal 2003 compared to $16.9 million in fiscal 2002, and increased 52.8% in fiscal 2002 compared to $11.0 million in fiscal 2001. Total gross profit as a percent of net sales and contract revenues decreased to 40.9% in fiscal 2003 compared to 45.2% in fiscal 2002 and 39.3% in fiscal 2001.

Gross profit as a percentage of net sales increased to 51.0% in fiscal 2003 compared to 50.9% in fiscal 2002 and 47.7% in fiscal 2001. The increase in gross profit as a percent of net sales in fiscal 2003 compared to 2002 reflects the net effect of increased gross profit on Vantage product sales offset by decreased margins on AutoVue product sales. We achieved a 200 basis point increase in gross profit on sales of Iteris' Vantage video detection systems, in conjunction with a 14.7% increase in sales of these products in fiscal 2003 compared to 2002. In fiscal 2003, however, AutoVue product sales began transitioning from low volume, high margin sample sales to early production volume of units for the truck market. The impact of this transition was to lower overall gross profit in net sales in fiscal 2003.

The increase in gross profit as a percent of net sales in fiscal 2002 compared to fiscal 2001 reflected increased gross profit on both Vantage and AutoVue products. The increase in Vantage gross profit in fiscal 2002 largely reflects a 53.5% increase in Vantage sales and related improved manufacturing efficiencies. The increase in AutoVue gross profit primarily reflects increased volume of sample sales to selected customers in fiscal 2002 at an average gross profit of 72.5% in fiscal 2002 compared to 60.8% in fiscal 2001.

Gross profit as a percent of contract revenues decreased to 32.2% in fiscal 2003 compared to 40.4% in fiscal 2002 and 34.2% in fiscal 2001. The decrease in fiscal 2003 reflects a mix of lower margin contracts in fiscal 2003 as compared to fiscal 2002. Furthermore, gross profit on contract revenues in fiscal 2002 benefited approximately 610 basis points from a $1.4 million reduction in loss reserves on certain long-term contracts resulting from changes in the scope of work defined by a major customer, most of which were nonrecurring in fiscal 2003. Net of such adjustments and profit realizations, we anticipate that gross profits as a percent of contract revenues are typically realized in a range of 31.0% to 35.0%, depending upon the mix and scope of work undertaken during any given reporting period. We recognize contract revenues and related gross profit using percentage of completion contract accounting, and the underlying mix of contract activity primarily affects the related gross profit recognized in any given year.

Selling, General and Administrative Expense. Selling, general and administrative expense decreased 3.6% to $14.1 million (or 34.1% of total net sales and contract revenues) in fiscal 2003 compared to $14.6 million (or 39.2% of total net sales and contract revenues) in fiscal 2002, and decreased 7.9% in fiscal 2002 compared to $15.9 million (or 56.6% of total net sales and contract revenues) in fiscal 2001. The decrease in selling, general and administrative expense in fiscal 2003 reflects general cost reductions related to staffing and outside services for legal and accounting expenses, which was partially offset by increased sales and marketing costs to support Vantage and AutoVue products.

The decrease in selling, general and administrative expense in fiscal 2002 reflects the cost savings associated with our abandonment of investment in personalized transfer information programs in late fiscal 2001, and the restructuring of our cost structure following our aborted initial public offering in March 2000.

Research and Development Expense. Research and development expense increased 13.8% to $3.9 million (or 9.4% of total net sales and contract revenues) in fiscal 2003 compared to $3.4 million (or 9.2% of total net sales and contract revenues) in fiscal 2002, and decreased 37.9% in fiscal 2002 compared to $5.5 million (or 19.7% of total net sales and contract revenues) in fiscal 2001. For competitive reasons, we closely guard the confidentiality of specific development projects.

The increase in research and development expense in fiscal 2003 compared to 2002 primarily reflects software algorithm development and new hardware designs for enhancements to our existing product family of Vantage video detection systems, in addition to development of video detection products that are expected to be announced in fiscal 2004.

The decrease in research and development expense in fiscal 2002 reflects reduced spending on development of technology to support personalized traveler information systems. The decrease in research and development expense in fiscal 2002 was primarily in the areas of payroll and related benefits, prototype material costs and consulting fees.

Restructuring Charges. The restructuring charge of $1.1 million in fiscal 2002 reflects costs related to the reorganization of our European operations and costs for severance for labor reductions domestically and abroad totalling approximately $400,000 in addition to $700,000 related to severance charges incurred upon the retirement of the former Chief Executive Officer of Iteris Holdings.

In fiscal 2001, we incurred restructuring charges of $367,000 related to severance payments for staffing reductions.

Royalty Income. During fiscal 2001, in connection with the settlement of patent litigation that Iteris Holdings filed against StorageTek, we received proceeds, net of expenses and fees, of approximately $17.8 million in full settlement of the amounts due to us.

Other Income (Expense), Net. Other income (expense), net reflects the following (in thousands):

	Year Ended March 31,		
	2001	2002	2003
Gain on sale of real estate	$	$	$ 640
Loss on sale of Iteris common stock		(1,596)	(310)
Other	188	231	87
Other income (expense), net	$ 188	$ (1,365)	$ 417

Other income (expense), net in fiscal 2003 includes a gain of $640,000 recognized on the sale and leaseback of our Anaheim, California facility, which was consummated in May 2002. We sold shares of our Iteris common stock that yielded gross proceeds of $3.8 million and $900,000 in fiscal 2002 and 2003, respectively.

Interest Expense, Net. Interest expense, net reflects the net of interest expense and interest income as follows (in thousands):

	Year Ended March 31,		
	2001	2002	2003
Interest expense	$ 2,012	$ 4,190	$ 761
Interest income	250		
Interest expense, net	$ 1,762	$ 4,190	$ 761

Interest expense decreased 81.8% in fiscal 2003 compared to fiscal 2002 and increased 108.8% in fiscal 2002 compared to fiscal 2001. As a result of the sale and leaseback of our Anaheim, California facilities, we repaid a $16.4 million outstanding indebtedness under a promissory note in May 2002. The increase in interest expense in fiscal 2002 reflects an increase in our average outstanding borrowings, an increase in our cost of borrowing and $1.2 million of amortization of debt discount associated with a warrant issued in connection with certain of our financing transactions.

Extraordinary Item. The extraordinary loss incurred in fiscal 2002 relates to a prepayment penalty we incurred in fiscal 2002 in connection with the retirement of our mortgage note payable resulting from the refinancing of our Anaheim real property.

Income Taxes. During fiscal 2002, we recognized an income tax benefit of $785,000 for the recovery of net operating loss carry backs made available under the Job Creation and Workers Association Act of 2002. We have not provided income tax benefit for the losses incurred in fiscal 2003 due to the uncertainty as to the ultimate realization of the related benefit.

Minority Interest in Subsidiary. The minority interest represents the minority stockholders' share of Iteris' net income or loss and the accretion of the redemption preference of Iteris's Series A preferred stock.

Liquidity and Capital Resources

During fiscal 2003, we used $4.8 million of cash to fund our operations. Operating cash flow reflects our net loss of $13.1 million in fiscal 2003 increased for non-cash gains of $1.7 million related to the sale of our Anaheim real property, and decreased by $4.1 million in non-cash reserves for asset impairments related to the write-down of the assets of the discontinued operations of Broadcast and Zyfer, by non-cash charges of $3.8 million related to the minority interest in our Iteris subsidiary and $816,000 for depreciation and amortization. As of December 31, 2003,

we had cash and cash equivalents of $329,000.

During the nine months ended December 31, 2003, we incurred a net loss of $110,000, and used $2.4 million of net cash to fund our operations. Our net loss included non-cash charges related to depreciation and amortization of $643,000 and charges for minority interest in earnings of our Iteris subsidiary of $2.5 million, and was impacted by non-cash gains of $1.6 million related to the amortization of deferred gain on the sale of our facilities, which was completed in September 2002.

In May 2002, we completed the sale and leaseback of our Anaheim, California facilities for an aggregate sale price of $22.6 million. Approximately $16.4 million of the proceeds from this sale were used to repay the outstanding indebtedness under a promissory note, which was secured by a first deed of trust on our Anaheim facilities. In connection with the sale and leaseback, we pledged cash of $2.5 million to secure our obligations under the lease. The pledged amounts were to be released to us based upon our continued compliance with financial covenants and performance under the lease. The balance of the proceeds from this sale was used for general working capital purposes. We committed to lease one of the two buildings on this property for a period of ten years, and to lease the other building for a period of 30 months.

In August 2002, we completed a private placement of 2,500,000 of our Class A common stock to an institutional investor for $3.0 million in cash. The transaction, net of expenses, raised net proceeds of approximately $2.7 million. In connection with this offering, we also issued warrants to the investor to purchase up to another 1,250,000 shares at an exercise price of $1.50 per share, and up to 1,250,000 shares at an exercise price of $1.80 per share. The warrants are exercisable at any time by the investor, and are callable by us if the market price of our Class A common stock trades for 20 consecutive days at a price equal or greater than two times the exercise price of the warrants. If all of the warrants are exercised, the total gross proceeds from this transaction are expected to be $7.2 million. The proceeds from the transaction were used to fund general working capital requirements.

In May 2003, we completed the sale of substantially all the assets of our wholly-owned subsidiary, Zyfer, Inc., for $2.3 million in cash plus the assumption of certain liabilities. The cash proceeds were used to fund working capital requirements and pay short-term liabilities. The asset purchase agreement provides for future incentive payments to us of up to $1.0 million in each of the twelve months ended April 30, 2004 and 2005 based upon the revenues generated from the sale of Zyfer's products or the license of its technologies.

In July 2003, we concluded a restructuring of our facility lease obligations for our principal operating facilities located in Anaheim, California. Under the revised terms, Iteris Holdings and its Iteris, Inc. subsidiary entered into two separate leases for space totaling 80,000 square feet located at our current Anaheim location. We have been relieved of a continuing lease obligation on approximately 257,000 square feet. In consideration for the restructured agreement, We paid approximately $2.5 million in cash that had been previously pledged as collateral on the lease, in addition to issuing to the lessor 425,000 shares of Iteris Holdings Class A common stock and a note payable for $811,000.

In July 2003, we completed a private placement of 3,666,666 of our Class A common stock to seven accredited investors for net proceeds of $2.2 million in cash. In connection with this offering, we also issued warrants to the investors to purchase up to another 366,666 shares at an exercise price of

$1.50 per share. The warrants expire in July 2006 and became exercisable in January 2003. The proceeds from the transaction were used to fund our general working capital requirements.

In September 2003, we completed the sale of the assets of our MAXxess subsidiary to an investor group that included certain members of the MAXxess management group. The consideration for the sale consisted of the assumption by the buyer of $2.7 million of liabilities, resulting in a net gain to Iteris Holdings of approximately $2.3 million. We did not receive any cash in this transaction.

Our contractual obligations are as follows at December 31, 2003 (in thousands):

	Payments Due by Period				
	Total	Remainder of 2004	2005	2006	After 2006
Lines of credit	$ 611	$ 611	$	$	$
Capital Lease obligations	50	50			
Notes payable	811			811	

	Payments Due by Period				
Operating leases	4,556	1,494	2,411	651	
Total	$ 6,028	$ 2,155	$ 2,411	$ 1,462	$

Although we have achieved operating income and earnings before interest, taxes, depreciation and amortization during the three and nine months ended December 31, 2003, our operations may continue to use net cash. Our Iteris subsidiary has a revolving line of credit with its principal bank, which expires August 2004 and which provides for available borrowings up to $5.0 million subject to a borrowing formula based upon qualified accounts receivable as defined in the agreement. Borrowings on the line of credit bear interest at prime plus 2.0% (4.0% at December 31, 2003). Borrowings at December 31, 2003 were $611,000 on this line, and $3.8 million was available for borrowing subject to the borrowing base in the credit agreement. Our future cash requirements will be highly dependent upon our ability to control expenses, as well as the successful execution of our revenue plans. As a result, any projections of future cash requirements and cash flows are subject to substantial uncertainty.

In January 2004, we entered into a non-binding letter of intent to purchase the outstanding shares of preferred stock in our Iteris, Inc. subsidiary. In connection with this proposed transaction, we may engage in an equity or debt financing to fund this acquisition. We cannot assure you that this acquisition will occur on acceptable terms, in a timely manner, or at all.

Recent Accounting Pronouncements

In November 2002, the Emerging Issues Task Force ("EITF") issued EITF No. 00-21, "*Revenue Arrangements with Multiple Deliverables*," which provides guidance on the timing and method of revenue recognition for sales arrangements that include the delivery of more than one product or service. EITF No. 00-21 is effective prospectively for arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF No. 00-21 is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 148, "*Accounting for Stock-Based Compensation Transition and Disclosure*" ("SFAS No. 148") which is effective for fiscal years ending after December 15, 2002. SFAS No. 148 amends Statement of Financial Accounting Standards No. 123, "*Accounting for Stock-Based Compensation*" ("SFAS No. 123") to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation if a company elects to account for its equity awards under this method. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and Accounting Principles Board Opinion No. 28, "*Interim Financial Reporting*", ("APB 25") to require disclosure effects of an entity's accounting policy with respect to stock-based employee

compensation on reported net income (loss) and net income (loss) per share in both annual and interim financial statements. We follow the disclosure-only provisions of SFAS No. 123, as amended by SFAS No. 148, and, accordingly, accounts for its stock-based compensation plans using the intrinsic value method under Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*" and related interpretations.

In January 2003, the FASB issued Interpretation No. 46, "*Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*," ("FIN 46"). FIN 46 requires certain variable interest entities ("VIEs") to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new VIEs created or acquired after January 31, 2003. For VIEs created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period ending after March 15, 2004. The adoption of FIN 46 has not and is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS 150, "*Accounting For Certain Financial Instruments with Characteristics of Both Liabilities and Equity*" ("SFAS No. 150") which establishes standards for how an issuer of financial instruments classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) if, at inception, the monetary value of the obligation is based solely or predominantly on a fixed monetary amount known at inception, variations in something other than the fair value of the issuer's equity shares or variations inversely related to changes in the fair value of the issuer's equity shares. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 is

not expected to have a material impact on the Company's financial position, results of operations or cash flows.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our exposure to interest rate risk is limited to our lines of credit. Iteris' and Iteris Holdings' lines of credit bear interest at the prevailing prime rate, plus 2% and 4% (6% and 10% as of December 31, 2003), respectively. Our $16.0 million note payable, prior to its repayment in May 2002, carried a fixed rate of interest. We estimate that, based on amounts outstanding at December 31, 2003, a 10% increase in the prime rate would result in an increase in interest expense, on an annualized basis, of less than $0.1 million.

BUSINESS

Overview

Iteris Holdings, Inc. is the majority stockholder of Iteris, Inc., a leading provider of outdoor machine vision systems and sensors that optimize the flow of traffic and enhance driver safety. Using our proprietary software and ITS industry expertise, we provide video sensor systems and transportation management and traveler information systems for the ITS industry. The ITS industry is comprised of companies applying a variety of technologies to enable the safe and efficient movement of people and goods. We use our outdoor image recognition software expertise to develop proprietary algorithms for video sensor systems that improve vehicle safety and the flow of traffic. Using our knowledge of the ITS industry, we design and implement transportation management systems that help public agencies reduce traffic congestion and provide greater access to traveler information.

Our proprietary image recognition systems include AutoVue and Vantage . AutoVue is a small windshield mounted sensor that uses proprietary software to detect and warn drivers of unintended lane departures. Iteris has approximately 3,000 production AutoVue units that are in use on truck platforms in the European market and are offered as an option on certain Actros trucks, which are part of the Daimler group. We believe that AutoVue is a broad sensor platform that, through additional software development, may be expanded to incorporate additional safety and convenience features. Vantage is a video vehicle sensing system that detects the presence of vehicles at signalized intersections enabling a more efficient allocation of green signal time.

Our transportation management systems includes the design, development and implementation of our 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 and other engineering for the implementation of transportation related communications systems, analysis and study related to goods movement and commercial vehicle operations, and parking systems designs.

Sales, Marketing and Principal Customers

We market and sell our transportation management systems and services directly to government agencies pursuant to negotiated contracts that involve competitive bidding and specific qualification requirements**.** Most of our contracts with federal, state and municipal customers provide for cancellation or renegotiation at the option of the customer upon reasonable notice and fees paid for modification. We use selected members of our engineering team divided on a regional basis to serve in sales and business development functions. We do not engage in international ITS sales. Sales of our systems contracts generally involve long lead times and require extensive specification development, evaluation and price negotiations. No single customer of Iteris accounted for more than 10% of our total net sales and contract revenues.

We sell our Vantage vehicle detection systems primarily through indirect sales channels comprised of independent dealers in the United States and Canada who sell integrated systems and related products to the traffic intersection market. Our independent dealers are primarily responsible for sales, installation and support of Vantage systems. These dealers maintain an inventory of demonstration traffic products including the Vantage vehicle detection systems and sell directly to government agencies and installation contractors. These dealers often have long-term arrangements with the government agencies in their territory for the supply of various products for the construction and renovation of traffic intersections. We hold technical training classes for its dealers and maintains a full-time staff of customer support technicians to provide technical assistance when needed.

Our marketing strategy for AutoVue is to establish it as the leading platform for in vehicle video sensing for trucks and passenger cars. We sell AutoVue directly to vehicle manufacturers and major automotive suppliers. We also markets to the manufacturers of automobiles through a strategic relationship with Valeo.

Manufacturing and Materials

We use local manufacturers based near our Anaheim facility to build subassemblies that are used in its Vantage products. These subassemblies are delivered to our Anaheim facility where they go through a final assembly and test prior to the shipment to our customers. Our manufacturing activities are conducted in approximately 6,000 square feet of space at our Anaheim facility. Most subassemblies used in our products are manufactured by subcontractors who are local to our Anaheim, California facilities. Certain of our cameras used in our products have historically been provided by a Japanese supplier who is sole sourced; however, we are currently qualifying other sources of supply. Production volume is based upon quarterly forecasts that we readjust on a monthly basis to control inventory. We subcontract the manufacture of our AutoVue systems to one manufacturer, and our internal processes are limited primarily to testing and final verification. We currently doe not manufacture any of the hardware used in the transportation management and traveler information systems that we design and implement. Our production facility is currently ISO 9001 certified.

Customer Support and Services

We provide warranty service and support for each of our products and follow-up service and support, for which we charge separately. Service revenue accounts for less than 5% of total net sales and contract revenues for the year ended March 31, 2003. Customer support is a critical competitive factor.

Backlog

Our backlog of unfulfilled firm orders was approximately $24.8 million as of March 31, 2003 and was approximately $40.7 million as of March 31, 2002. Approximately 62% of our backlog at March 31, 2002 was recognized as revenues in the fiscal year ended March 31, 2003, and approximately 63% of our backlog at March 31, 2003 is expected to be recognized as revenues in the fiscal year ended March 31, 2004. Pursuant to the customary terms of our agreements with government contractors and other customers, customers can generally cancel or reschedule orders with little or no penalties. Lead times for the release of purchase orders depend upon the scheduling and forecasting practices of our individual customers, which also can affect the timing of the conversion of our backlog into revenues. For these reasons, among others, our backlog at a particular date may not be indicative of our future revenues.

Product Development

Most of our development activities are conducted at our principal facilities in Anaheim, California. Our company-sponsored research and development costs and expenses were approximately $5.5 million in fiscal 2001, $3.4 million in fiscal 2002 and $3.9 million in fiscal 2003. Although spending for product development declined sharply in fiscal 2002 compared to fiscal 2001, principally due to the discontinuation of development activities related to personalized traveler information products in Iteris and the sale of Gyyr's CCTV Products line, we expect to continue to pursue significant product development programs and incur significant research and development expenditures.

Competition

We generally face significant competition in each of our target markets. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on our business, financial condition and results of operations. We believe that AutoVue is the only commercially-available lane departure warning system used in the U.S. and in Europe, potential competitors of AutoVue include Delphi Automotive Systems Corporation domestically, NEC Corporation and Hitachi Ltd. in Japan and Robert Bosch Gmbh in Europe, which we suspect are currently developing video sensor technologies for the vehicle industry that could be used for lane departure warning systems. In the market for our Vantage vehicle detection systems, we compete with manufacturers of other "above ground" video camera detection systems such as Econolite Control Products, Inc., Trafficon, N.V., Peek Traffic Systems, and other non-intrusive detection devices including microwave, infrared, ultrasonic and magnetic detectors, as well as manufacturers and installers of in-pavement inductive loop products. Our competitors for Vantage products do not disclose specific sales numbers, either because they are private companies or because they are part of larger companies. Based on our interface with them in the market, we believe that we are leading our competitors in annual sales volume for video detection products.

The transportation management and traveler information systems market is highly fragmented and is subject to evolving national and regional quality and safety standards. Our competitors vary in number, scope and breadth of the products and services they offer. Our competitors in advanced transportation management and traveler information systems include large multi-national corporations such as Transcore, Lockheed Martin Corporation, PB Farradyne Inc., Kimley-Horn and Associates, Inc. and National Engineering Technology, Inc. Iteris' competitors in transportation engineering, planning and design include major firms such as Parsons Brinkerhoff, Inc. and Parsons Transportation Group Inc., as well as many smaller regional engineering firms.

In general, the markets for the products and services offered by our businesses are highly competitive and are characterized by rapidly changing technology and evolving standards. Many of our current and prospective competitors have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, technical, manufacturing, distribution and marketing resources than us. As a result, they may be able to adapt more quickly to new or emerging standards or technologies or to devote greater resources to the promotion and sale of their products. It is also possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share. We believe that our ability to compete effectively in our target markets will depend on a number of factors, including the success and timing of our new product development, the compatibility of our products with a broad range of computing systems, product quality and performance, reliability, functionality, price, and service and technical support. Our failure to provide services and develop and market products that compete successfully with those of other suppliers and consultants in our target markets would have a material adverse effect on our business, financial condition and results of operations.

Intellectual Property and Proprietary Rights

Our ability to compete effectively depends in part on our ability to develop and maintain the proprietary aspects of our technology. Our policy is to obtain appropriate proprietary rights protection for any potentially significant new technology acquired or developed each of our business units. Iteris currently holds six U.S. patents, which expire commencing in 2012, and has eighteen U.S. patent applications pending, mostly relating to our outdoor image processing techniques used in our AutoVue and Vantage systems. Two of our patents relate specifically to our AutoVue technology and provide a basis for enhanced functionality for rain sensing and improved performance. We believe that our other patents, while important for our technology platforms are less critical to near term product strategy. We

cannot assure you that any new patents will be granted pursuant to any outstanding or subsequent applications.

In addition to patent laws, we rely on copyright and trade secret laws to protect our proprietary rights. We attempt to protect our trade secrets and other proprietary information through agreements with customers and suppliers, proprietary information agreements with our employees and consultants, and other similar measures. We do not have any material licenses or trademarks other than those relating to product names. We cannot be certain that we will be successful in protecting our proprietary rights. While we believe our patents, patent applications, software and other proprietary know-how have value, changing technology makes our future success dependent principally upon our employees' technical competence and creative skills for continuing innovation.

Litigation has been necessary in the past and may be necessary in the future to enforce our proprietary rights, to determine the validity and scope of the proprietary rights of others, or to defend us against claims of infringement or invalidity by others. An adverse outcome in such litigation or similar proceedings could subject us to significant liabilities to third parties, require disputed rights to be licensed from others or require us to cease marketing or using certain products, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, the cost of addressing any intellectual property litigation claim, both in legal fees and expenses, as well as from the diversion of management's resources, regardless of whether the claim is valid, could be significant and could have a material adverse effect on our business, financial condition and results of operations.

Employees

We refer to our employees as associates. As of December 31, 2003, Iteris Holdings and its subsidiaries employed an aggregate of 213 associates, including 36 associates in general management, administration and finance; 27 associates in sales and marketing; 122 associates in product development; 22 associates in operations, manufacturing and quality; and 6 associates in customer service. None of our associates are represented by a labor union, and we have never experienced a work stoppage.

Government Regulation

Our manufacturing operations are subject to various federal, state and local laws and regulations, including those restricting the discharge of materials into the environment. We are not involved in any pending or, to our knowledge, threatened governmental proceedings, which would

require curtailment of our operations because of such laws and regulations. We continue to expend funds in connection with our compliance with applicable environmental regulations. These expenditures have not, however, been significant in the past, and we do not expect any significant expenditure in the near future. Currently, compliance with foreign laws has not had a material impact on our business and is not expected to have a material impact in the near future.

Properties

Our headquarters and principal operations consist of leased facilities located in Southern California and consist of a 80,000 square feet of space located at 1515 and 1585 South Manchester Boulevard in Anaheim, California. The Anaheim facilities are leased by Iteris Holdings and its Iteris subsidiary under two separate leases and house our administrative offices (approximately 15,000 dedicated square feet), as well as the operations of our former subsidiary, MAXxess (which subleases approximately 10,000 dedicated square feet), and Iteris (approximately 55,000 dedicated square feet).

We currently operate a single shift in each of our manufacturing and assembly facilities, and we believe that our facilities are adequate for our needs for at least the next twelve months.

Legal Proceedings

We are not currently a party to any material legal proceedings.

MANAGEMENT

Directors and Executive Officers

The following table sets forth certain information regarding all directors and executive officers of Iteris Holdings as of September 30, 2003.

Name	Age	Position
Gregory A. Miner(3)	48	Chief Executive Officer, Chief Financial Officer and Director of Iteris Holdings, Secretary Director of Iteris, Inc. and Director, Chief Financial Officer and Secretary of Meyer, Mohaddes Associates
John E. Johnson	56	Vice President of Iteris Holdings, Director, President and Chief Executive Officer of Iteris, Inc. and Director of Meyer, Mohaddes Associate
Joel Slutzky(3)	64	Chairman of the Board of Iteris Holdings, Chairman of the Board of Iteris, Inc. and Director of Meyer, Mohaddes Associates, Inc.
Kevin C. Daly, Ph.D.(2)(3)	59	Director of Iteris Holdings
Crandall L. Gudmundson	72	Director of Iteris Holdings
Jerry F. Muench	68	Director and Assistant Secretary of Iteris Holdings
John W. Seazholtz(1)(2)	66	Director of Iteris Holdings
Thomas L. Thomas(1)(2)	54	Director of Iteris Holdings
Paul E. Wright(1)(3)	72	Director of Iteris Holdings and Director of Iteris, Inc.

(1) Member of the Audit Committee.

(2) Member of the Compensation and Stock Option Committee.

(3) Member of the Finance Committee.

Gregory A. Miner has served as the Chief Executive Officer of Iteris Holdings since February 2002, as a director since 1998, as a Vice President and Chief Financial Officer since he joined Iteris Holdings in January 1994. From 1998 to 2002, Mr. Miner also served as Iteris Holdings' Chief Operating Officer. Mr. Miner served as the Vice President and Chief Financial Officer of ATL Products, Inc., a former subsidiary of Iteris Holdings, from 1994 to 1998. Mr. Miner has also served in various capacities for the other subsidiaries of Iteris Holdings from time to time. From December 1984 until joining Iteris Holdings, Mr. Miner served as the Vice President, Chief Financial Officer and a Director of Laser Precision Corporation, a manufacturer of telecommunications test equipment. From 1979 to 1984, Mr. Miner 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 E. Johnson has served as a Vice President of Iteris Holdings since 1986 and has served as the President, Chief Executive Officer and a director Iteris, Inc. since December 1999. Prior to that, he served as the General Manager of the Odetics ITS division (now Iteris, Inc.) from 1996 to 1998, prior to its incorporation. From 1990 to 1996, Mr. Johnson served as the General Manager of the Iteris Holdings Customer Service division. Mr. Johnson served in various other capacities with Iteris Holdings since joining Iteris Holdings in 1974, including the Vice President and General Manager of the Omutec division from 1986 to 1990, the Director of Contracts for the Space division of Iteris Holdings from

1980 to 1986, the Controller of Infodetics, a former subsidiary of Iteris Holdings, from 1975 to 1980 and the Controller of Iteris Holdings from 1974 to 1975. Prior to joining Iteris Holdings, Mr. Johnson served as a certified public accountant with Peat Marwick.

Joel Slutzky has served as the Chairman of the Board of Directors since he co-founded Iteris Holdings in 1969. Mr. Slutzky served as the Chief Executive Officer of Iteris Holdings from 1975 to February 2002. Mr. Slutzky is also the Chairman of the Board of Iteris, Inc. Mr. Slutzky also served on the Board of ATL Products, Inc. and in various capacities for other subsidiaries of Iteris Holdings from time to time. Mr. Slutzky currently serves on the Board of Directors for of the American Electronics Association, KOCE, Future Scientists and Engineers of America, and the Orange County Business Council Workforce Task Group. Mr. Slutzky is also the Chairman of Project Tomorrow, an organization focused on improving Kindergarten through 12th grade science education in Orange County, California.

Kevin C. Daly, Ph.D. has served as a director of Iteris Holdings since 1993. Since July 2002, Dr. Daly has been the Chief Executive Officer of Avamar Technologies, Inc., a provider of high availability storage software solutions. Dr. Daly was previously Chief Technical Officer of Quantum Corporation's Storage Solutions Group from October 2001 to July 2002 and, prior to that, he was Chief Executive Officer of ATL Products, Inc. from its foundation in 1993 until 2001. Dr. Daly also served as Chief Technical Officer of Iteris Holdings from 1985 until ATL's separation from Iteris Holdings in an initial public offering in 1997. Prior to Iteris Holdings, Dr. Daly was Director of the Control and Dynamics Division of the Charles Stark Draper Laboratory at MIT from 1974 through 1985. Dr. Daly is also a member of the Board of Directors of Danka Business Systems PLC.

Crandall L. Gudmundson is a co-founder of Iteris Holdings and served as its President from 1975 until his retirement in 1998. Mr. Gudmundson has served as a director of Iteris Holdings since 1979 and served as a director of ATL Products, Inc. from 1993 to 1998. Prior to co-founding Iteris Holdings, Mr. Gudmundson was the lead project engineer for Leach Corporation.

Jerry F. Muench is a co-founder of Iteris Holdings and has served as a director since 1969. From 1969 to 2002, Mr. Muench served as also the Secretary of Iteris Holdings. Mr. Muench served as the Vice President, Marketing of Iteris Holdings from 1975 until his retirement in December 1997. Prior to co-founding Iteris Holdings, Mr. Muench was the manager of applications engineering at Leach Corporation.

John W. Seazholtz has served as a director of Iteris Holdings since May 1998. He also served as a director of Mariner Networks, Inc., a subsidiary of Iteris Holdings that has been discontinued, from March 2000 to September 2001. 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 since 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. and is a member of the Board of Directors of Advanced Switching Communications, Inc.

Thomas L. Thomas has served as a director of Iteris Holdings since May 1999. From January 2000 to September 2001, he also served as the Chairman of the Board of Mariner Networks, Inc. Mr. Thomas is 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. A veteran Silicon Valley executive, Mr. Thomas was previously the President and Chief Executive Officer of Ajuba Solutions, a provider of B2B integration solution software, which was sold to Interwoven in October 2000. From April 1999 until January 2000, he served as the President, Chief Executive Officer and Chairman of the Board of Vantive Corporation, a customer relationship

management software vendor which was acquired by Peoplesoft in January 2000. Prior to that, from September 1995 to April 1999, Mr. Thomas served as the Senior Vice President of e-Business and Information Services and Chief Information Officer at 3Com Corporation. From 1993 to 1995, Mr. Thomas served as a Vice President and the Chief Information Officer of Dell Computer Corporation. From 1987 to 1993, he served as the Vice President of Management Information Systems at Kraft General Foods, and at Sara Lee Corporation from 1981 to 1987. Mr. Thomas also serves on the Board of Directors of iManage, Inc.

Paul E. Wright has served as a director of Iteris Holdings since June 1993 and as a director of Iteris, Inc. since January 1999. Mr. Wright is the President of Wright Associates Engineering and Business Consultants, a company he formed in 1997. From 1988 until his retirement in 1997, Mr. Wright served as the Chairman of Chrysler Technologies Corp., the aerospace and defense electronics subsidiary of Chrysler Corporation. From 1986 to 1988, Mr. Wright served as the President and Chief Operating Officer of Fairchild Industries, Inc. Prior to joining Fairchild, he was employed for 28 years by RCA Corporation, where he last served as the Senior Vice President, responsible for planning RCA's merger into General Electric Corporation.

Officers are elected by and serve at the discretion of the Board of Directors.

EXECUTIVE COMPENSATION

Summary of Cash and Certain Other Compensation

The following table provides certain summary information concerning the compensation earned by the Chief Executive Officer and each of the four other most highly compensated executive officers of Iteris Holdings whose total cash salary and bonus during the fiscal year ended March 31, 2003 exceeded $100,000 (collectively, the "Named Executive Officers") for each of the three fiscal years ended March 31, 2001, 2002 and 2003. No other executive officers who would have otherwise been includable in such table on the basis of salary earned for the fiscal year ended March 31, 2003 has been excluded by reason of his or her termination of employment or change in executive status during that year. Other than the bonus paid to Mr. Johnson for the fiscal year ended March 31, 2002, no bonuses were paid to the Named Executive Officers during the fiscal years ended March 31, 2001, 2002 and 2003.

SUMMARY COMPENSATION TABLE

		Annual Compensation		Long-Term Compensation Awards		
Name and Principal Positions with Iteris Holdings	**Fiscal Year**	**Salary ($)(1)**	**Bonus ($)**	**Restricted Stock ($)**	**Securities Underlying Options (#)(2)**	**All Other Compensation ($)(3)**
Gregory A. Miner	2003	284,169			310,000(4)	5,671
Chief Executive Officer, Chief	2002	217,200				4,830
Financial Officer and Director	2001	214,662			30,000	3,891
John E. Johnson(5)	2003	202,086			12,000(6)	4,263

				Long-Term Compensation	
Vice President	2002	185,958	21,000		4,164
	2001	185,958			2,831
Hugo Fruehauf(7)	2003	158,004		12,000(6)	4,741
Vice President	2002	172,206			5,100
	2001	174,969			3,875
Steven A. L'Heureux(8)	2003	170,682		10,000(6)	5,029
Vice President	2002	189,231			4,950
	2001	183,462			3,975
Gary W. Smith(9)	2003	108,199		45,000(6)	3,056
Vice President, Controller and	2002	115,235			2,881
Secretary	2001	114,821			2,106

(1) Represents all amounts earned from Iteris Holdings and its subsidiaries during the fiscal years shown, including amounts deferred under the Executive Deferral Plan and the Iteris Holdings 401(k) and Stock Ownership Plan.

(2) Consists of options granted pursuant to Iteris Holdings' 1994 Long-Term Equity Incentive Plan and 1997 Stock Incentive Plan entitling the holder to purchase shares of Class A common stock of Iteris Holdings.

(3) Consists solely of the matching contribution of Iteris Holdings to the respective accounts of the Named Executive Officers under the Iteris Holdings 401(k) and Stock Ownership Plan.

(4) Includes 110,000 shares underlying the regrant option issued in May 2002 to replace options cancelled in November 2001. See "2001 Option Exchange Program."

(5) Does not include an option granted to Mr. Johnson to purchase up to 40,000 shares of common stock of Iteris, Inc. in the year ended March 31, 2002. Mr. Johnson is also the Chief Executive Officer of Iteris, Inc.

(6) Consists of shares underlying regrant options issued in May 2002 to replace options cancelled in November 2001. See "2001 Option Exchange Program."

(7) Does not include an option granted in the year ended March 31, 2001 to Mr. Fruehauf to purchase up to 250,000 shares of common stock of Zyfer, Inc., a former subsidiary of Iteris Holdings. Mr. Fruehauf resigned from his positions with Iteris Holdings and its subsidiaries effective as of May 9, 2003.

(8) Mr. L'Heureux resigned from his positions with Iteris Holdings and its subsidiaries effective as of February 21, 2003.

(9) Mr. Smith resigned from his position with Iteris Holdings and its subsidiaries effective as of September 30, 2003.

Option Grants in Last Fiscal Year

The following table provides information regarding option grants made to our Named Executive Officers during the fiscal year ended March 31, 2003. No stock appreciation rights were granted to any of the Named Executive Officers during such fiscal year.

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3)	
	Number of Securities Underlying Options Granted(1)	Percent of Total Options Granted to Employees in Fiscal 2003	Exercise Price Per Share(2)	Expiration Date	5%	10%
Gregory A. Miner	310,000	56.47%	$ 1.40	05/20/12	272,940	691,684
John E. Johnson	12,000	2.19	$ 1.40	05/20/12	10,565	26,775
Hugo Fruehauf(4)	12,000	2.19	$ 1.40	05/20/12	10,565	26,775
Steven A. L'Heureux(5)	10,000	1.82	$ 1.40	05/20/12	8,805	22,312
Gary W. Smith(6)	45,000	8.20	$ 1.40	05/20/12	39,620	100,406

(1) Each option was granted pursuant to Iteris Holdings' 1997 Stock Incentive Plan (the "1997 Plan") and entitles the holder to purchase shares of Class A common stock of Iteris Holdings. Each option has a maximum term of ten years, subject to earlier termination in the event of the optionee's termination of employment with Iteris Holdings or its subsidiaries. Each option vests in three equal annual installment with the first installment vesting on the first year anniversary of the grant date, subject to acceleration of vesting in the event of the merger, consolidation or reorganization of Iteris Holdings if such option is not assumed or other wise continued in effect in such transaction. In addition, the Compensation and Stock Option Committee has the authority to provide for the accelerated vesting of the option whether or not the option is assumed or other wise continued in effect or upon the termination of the optionee's employment following such transaction.

Includes shares underlying regrant options issued in May 2002 to replace options cancelled in November 2001. See "2001 Option Exchange Program."

(2) Iteris Holdings may also finance the option exercise by loaning the optionee sufficient funds to pay the exercise price for the purchased shares and the applicable federal and state withholding taxes to which the optionee becomes subject in connection with such exercise.

(3) The 5% and 10% assumed rates of appreciation are prescribed by the rules and regulations of the SEC and do not represent management's estimate or projection of future trading prices of the Class A common stock. Unless the market price of the Class A common stock does in fact appreciate over the option term, no value will be realized from the option grants. Actual gains, if any, are dependent upon numerous factors, including, without limitation, the future performance of Iteris Holdings and its business units, overall business and market conditions, and the option holder's continued employment with Iteris Holdings throughout the entire vesting period and option term, which factors are not reflected in this table.

(4) Mr. Fruehauf resigned from his positions with Iteris Holdings and its subsidiaries effective as of May 9, 2003.

(5) Mr. L'Heureux resigned from his positions with Iteris Holdings and its subsidiaries effective as of February 21, 2003.

(6) Mr. Smith resigned from his position with Iteris Holdings and its subsidiaries effective as of September 30, 2003.

Aggregated Option Exercises and Fiscal Year End Values

The following table provides information with respect to the Named Executive Officers concerning the unexercised options held by them at of the end of the fiscal year ended March 31, 2003. None of the Named Officers exercised any options or stock appreciation rights during the fiscal year ended March 31, 2003 and no stock appreciation rights were held by the Named Executive Officers at the end of such fiscal year.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION/SAR VALUES

	Number of Securities Underlying Unexercised Options at Fiscal Year End (#)(1)		Value of Unexercised In-the-Money Options at Fiscal Year End ($)	
Name	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
Gregory A. Miner Chief Executive Officer, Chief Financial Officer and Director	155,556	154,444		
John E. Johnson(2) Vice President	12,000			
Hugo Fruehauf(3) Vice President	12,000			
Steven A. L'Heureux(4) Vice President				
Gary W. Smith(5) Vice President, Controller and Secretary	45,000			

(1) Includes both in-the-money and out-of-the money options.

(2) Mr. Johnson is also the Chief Executive Officer of Iteris, Inc.

(3) Mr. Fruehauf resigned from his positions with Iteris Holdings and its subsidiaries effective as of May 9, 2003.

(4) Mr. L'Heureux resigned from his positions with Iteris Holdings and its subsidiaries effective as of February 21, 2003.

(5) Mr. Smith resigned from his position with Iteris Holdings and its subsidiaries effective as of September 30, 2003.

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2001 Option Exchange Program

In November 2001, Iteris Holdings implemented an option exchange program to address the substantial loss in value of the outstanding stock options held by Iteris Holdings' executive officers and the increasing inability of those options to serve as a meaningful incentive for optionees to remain employed with Iteris Holdings. Under the program, each executive officer who held outstanding stock options with an exercise price of $4.00 or more per share under the 1997 Plan or the 1994 Long-Term Equity Plan (the "1994 Plan"), was given the opportunity to exchange that option for a new option under the 1997 Plan for the same number of shares that would be granted at least six months and one day after the completion of the option exchange program.

On November 16, 2001, Iteris Holdings accepted for exchange and cancellation options to purchase an aggregate of 349,000 shares of Iteris Holdings' Class A common stock representing 100% of the options eligible to be tendered under the option exchange program. On May 20, 2002, Iteris Holdings granted new options to purchase an aggregate of 349,000 shares of Class A common stock under the 1997 Plan to replace the eligible options that had been tendered and cancelled under the program.

In general, the exercise price per share for the new options was $1.40, the last reported sales price of the Class A common stock on the grant date. In the case of Joel Slutzky, who was a holder of 10% or more of the common stock at that time, the exercise price per share for the new options was $1.54 or 110% of the last reported trading price of the Class A common stock on the grant date.

Each new option issued in exchange for a cancelled option will continue to vest and become exercisable for the option shares in accordance with the same vesting schedule in effect for the cancelled option.

The table below provides certain information concerning our executive officers who tendered eligible options in the option exchange program and the options that were cancelled pursuant to that program. Except for the November 2001 option exchange program, Iteris Holdings has not implemented any other option repricing or option cancellation/regrant programs.

10-YEAR OPTION REPRICINGS

Name and Principal Position	Date of Cancellation	Number of Securities Underlying Options at Time of Cancellation	Market Price of Stock at Time of Cancellation	Exercise Price at Time of Cancellation	New Exercise Price of Replacement Option	Length of Original Option Term Remaining at Date of Cancellation
Joel Slutzky	11/16/01	50,000	$ 1.26	$ 4.625	$ 1.54	7 years
Chairman of the Board	11/16/01	55,000	1.26	8.663	1.54	8 years
	11/16/01	55,000	1.26	11.344	1.54	8 years
Gregory A. Miner	11/16/01	25,000	1.26	4.625	1.40	7 years
Chief Executive Officer, Chief	11/16/01	30,000	1.26	10.313	1.40	8 years
Financial Officer and Director	11/16/01	25,000	1.26	7.875	1.40	8 years
	11/16/01	30,000	1.26	10.000	1.40	9 years
John E. Johnson (1)	11/16/01	12,000	1.26			
Vice President						