

ITERIS, INC.
Non-GAAP Financial Measures and Reconciliation

In addition to results presented in accordance with GAAP, the Company has included the following non-GAAP financial measures in this release: non-GAAP operating expenses, non-GAAP operating (loss) income, non-GAAP net income and non-GAAP basic and diluted earnings per share from continuing operations. These non-GAAP financial measures exclude the following items: (a) audit fee overruns; (b) financial consulting services; (c) severance and transition related costs paid to the Company's former Chief Executive Officer; and (d) the estimated income tax effect of the foregoing non-GAAP adjustments.

Iteris believes that the presentation of these non-GAAP financial measures provides important supplemental information to management and investors regarding financial and business trends relating to its financial condition and results of operations. Iteris' management believes that the use of these non-GAAP financial measures provides consistency and comparability among and between results from prior periods or forecasts and future prospects, and also facilitates comparisons with other companies in its industry. The Company's management believes that the exclusion of the items described above provides insight into core operating results, the ability to generate cash and underlying business trends affecting performance. Iteris has chosen to provide this information to investors to enable them to perform additional analysis of past, present and future operating performance and as a supplemental means to evaluate ongoing core operations.

Management uses certain non-GAAP financial measures internally for strategic decision making, forecasting future results and evaluating current performance. Non-GAAP financial measures are not prepared in accordance with GAAP; therefore, the information is not necessarily comparable to other companies' financial information and should be considered as a supplement to, not a substitute for, or superior to, the corresponding financial measures calculated in accordance with GAAP.

Details of the items excluded from GAAP financial results in calculating non-GAAP financial measures and explanatory footnotes are as follows:

- a) Audit fee overruns were calculated as the amount of audit fees that exceeded the expected fees per the Company's audit engagement letters. For the audit of Fiscal 2015, approximately \$150,000 of fee overruns were recorded into the first fiscal quarter of 2016 and no audit fees were incurred in second fiscal quarter of 2016. For the audit of Fiscal 2014, approximately \$345,000 and \$596,000 of fee overruns were recorded into the first and second fiscal quarters of 2015, respectively.
- b) Management engaged financial consulting service firms to assist with the completion of its Fiscal 2015 and Fiscal 2014 audits. The fees incurred for assistance with the Fiscal 2015 audit were incurred during the first quarter of Fiscal 2016. The fees incurred for assistance with the Fiscal 2014 audit were incurred during the first and second fiscal quarters of 2015.

- c) On February 25, 2015, the Company's Chief Executive Officer resigned and, as a result, the Company incurred approximately \$86,000 and \$63,000 in severance and transition related expenses in the first and second fiscal quarters of 2016, respectively.
- d) The amount represents the estimated income tax effect of the non-GAAP adjustments. The tax effect of non-GAAP adjustments was calculated by applying an estimated tax rate of 38% to each specific non-GAAP item.

Iteris, Inc.
Schedule Reconciling GAAP Net (Loss) to Non-GAAP Net (Loss) Income
(\$ in thousands, except per share amounts)
(unaudited)

	For the Three Months Ended September 30,	
	2015	2014
GAAP net loss	\$ <u>(395)</u>	\$ <u>(187)</u>
GAAP loss per share from continuing operations - basic and diluted	\$ (0.01)	\$ (0.01)
The non-GAAP amounts have been adjusted to exclude the following items:		
Excluded from operating expenses		
Audit Fee overrun (a)	\$ -	\$ (596)
Financial consulting services (b)	-	(654)
Executive management severance costs (c)	(63)	-
Total excluded from operating expenses	\$ <u>(63)</u>	\$ <u>(1,250)</u>
Total excluded operating loss	\$ <u>(63)</u>	\$ <u>(1,250)</u>
Income tax effect on non-GAAP adjustments (d)	24	475
Total excluded from operating expenses after taxes	\$ <u>(39)</u>	\$ <u>(775)</u>
Non-GAAP net (loss) income	\$ <u>(356)</u>	\$ <u>588</u>
Non-GAAP (loss) income per share from continuing operations - basic and diluted	\$ (0.01)	\$ 0.02

(a) - (d) See corresponding footnotes above.

Iteris, Inc.
Schedule Reconciling GAAP Net (Loss) to Non-GAAP Net (Loss) Income
(\$ in thousands, except per share amounts)
(unaudited)

	For the Six Months Ended	
	September 30,	
	2015	2014
GAAP net loss	\$ <u>(587)</u>	\$ <u>(206)</u>
GAAP loss per share from continuing operations - basic and diluted	\$ (0.02)	\$ (0.01)
The non-GAAP amounts have been adjusted to exclude the following items:		
Excluded from operating expenses		
Audit Fee overrun (a)	\$ (150)	\$ (941)
Financial consulting services (b)	(161)	(685)
Executive management severance costs (c)	(149)	-
Total excluded from operating expenses	\$ <u>(460)</u>	\$ <u>(1,626)</u>
Total excluded operating loss	\$ <u>(460)</u>	\$ <u>(1,626)</u>
Income tax effect on non-GAAP adjustments (d)	175	618
Total excluded from operating expenses after taxes	\$ <u>(285)</u>	\$ <u>(1,008)</u>
Non-GAAP net (loss) income	\$ <u>(302)</u>	\$ <u>802</u>
Non-GAAP (loss) income per share from continuing operations - basic and diluted	\$ (0.01)	\$ 0.02

(a) - (d) See corresponding footnotes above.

Iteris, Inc.
Schedule Reconciling GAAP Operating (Loss) to Non-GAAP Operating (Loss) Income
(\$ in thousands, except per share amounts)
(unaudited)

	For the Three Months Ended	
	September 30,	September 30,
	2015	2014
GAAP operating expenses	\$ 8,452	\$ 7,619
Audit Fee overrun (a)	-	(596)
Financial consulting services (b)	-	(654)
Executive management severance costs (c)	(63)	-
Non-GAAP operating expenses	<u>\$ 8,389</u>	<u>\$ 6,369</u>
GAAP operating loss	\$ (569)	\$ (320)
Audit Fee overrun (a)	-	(596)
Financial consulting services (b)	-	(654)
Executive management severance costs (c)	(63)	-
Non-GAAP operating (loss) income	<u>\$ (506)</u>	<u>\$ 930</u>

	For the Six Months Ended	
	September 30,	September 30,
	2015	2014
GAAP operating expenses	\$ 16,535	\$ 14,521
Audit Fee overrun (a)	(150)	(941)
Financial consulting services (b)	(161)	(685)
Executive management severance costs (c)	(149)	-
Non-GAAP operating expenses	<u>\$ 16,075</u>	<u>\$ 12,895</u>
GAAP operating loss	\$ (1,014)	\$ (415)
Audit Fee overrun (a)	(150)	(941)
Financial consulting services (c)	(161)	(685)
Executive management severance costs (d)	(149)	-
Non-GAAP operating (loss) income	<u>\$ (554)</u>	<u>\$ 1,211</u>