

## 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) quarterly review fee increases; (c) financial consulting services; (d) severance and transition related costs paid to the Company's former Chief Executive Officer; (e) executive management recruiting costs; (f) loss on impairment of Goodwill; (g) the estimated income tax effect of the foregoing non-GAAP adjustments; and (h) the recording of a valuation allowance on the company's deferred tax assets.

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, \$0 and approximately \$150,000 of fee overruns were recorded into the three and twelve month periods ending March 31, 2016, respectively. For the audit of Fiscal 2014, \$0 and approximately \$941,000 of audit fee overruns were recorded into the three and twelve month periods ending March 31, 2015, respectively.
- b) Fiscal 2015 quarterly review fee increases were incurred during third and fourth quarters of Fiscal 2015 and related to the additional testing procedures required in connection with the Fiscal 2015 quarterly reviews. The quarterly review fee increases were calculated as the amount of review fees that exceeded the quarterly review fees in Fiscal years 2013 and 2014.

- c) 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 quarters of 2015.
- d) On February 25, 2015, the Company's Chief Executive Officer resigned and, as a result, the Company incurred severance and transition costs. In the three and twelve month periods ending March 31, 2016 the company incurred \$0 and approximately \$150,000 in severance and transition related expenses.
- e) The Company incurred third party recruiting service fees in the third and fourth fiscal quarters of 2015 in connection with the search for a permanent CFO and CEO.
- f) As a result of the Company's annual goodwill impairment test for Fiscal 2017, Management concluded that the carrying value of goodwill related to legacy acquisitions by our Agriculture and Weather Analytic reporting unit, exceeded its fair value. This resulted in an approximately \$2.2 million impairment charge in the fourth quarter of Fiscal 2017.
- g) The amount represents the estimated income tax effect of the non-GAAP adjustments. The tax effect of non-GAAP adjustments for Fiscal 2017 and Fiscal 2016 were calculated by applying an estimated tax rate of 1% to each specific non-GAAP item, due to the impact of the valuation allowance on our effective tax rate in those years. The tax effect of non-GAAP adjustments for Fiscal 2015 was calculated by applying an estimated tax rate of 38% to each specific non-GAAP item.
- h) The Company recorded an approximate \$10.1 million valuation allowance at December 31, 2015 related to its Federal Net Operating Loss (NOL) carryforwards, which are at risk of expiring in future years. As a result, the Company reserved approximately \$2.5 million and \$7.6 million in current and long-term deferred tax assets, respectively, from the Balance Sheet and recorded the related \$10.1 million adjustment in tax expense in the Statement of Operations.

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

	<b>For the Three Months Ended</b>		
	<b>March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
GAAP net loss	<u>\$ (3,368)</u>	<u>\$ (1,292)</u>	<u>\$ (766)</u>
GAAP net loss per share - basic and diluted	<u>\$ (0.10)</u>	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>
The non-GAAP amounts have been adjusted to exclude the following items:			
Excluded from operating expenses:			
Quarterly review fee increases (b)	\$ -	\$ -	\$ (53)
Financial consulting service fees (c)	-	-	(12)
Executive management severance costs (d)	-	-	(594)
Executive management recruiting costs (e)	-	-	(272)
Loss on impairment of Goodwill (f)	(2,168)	-	-
Total excluded from operating expenses	<u>\$ (2,168)</u>	<u>\$ -</u>	<u>\$ (931)</u>
Total excluded operating loss	<u>\$ (2,168)</u>	<u>\$ -</u>	<u>\$ (931)</u>
Income tax effect on non-GAAP adjustments (g)	22	-	363
Total excluded from operating expenses after income tax effect	<u>\$ (2,146)</u>	<u>\$ -</u>	<u>\$ (568)</u>
Non-GAAP net loss	<u>\$ (1,222)</u>	<u>\$ (1,292)</u>	<u>\$ (198)</u>
Non-GAAP net loss per share - basic and diluted	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>

(b) - (g) See corresponding footnotes above.

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

	<b>For the Twelve Months Ended</b>		
	<b>March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
GAAP net loss	\$ (4,826)	\$ (12,321)	\$ (1,070)
GAAP net loss per share - basic and diluted	\$ (0.15)	\$ (0.38)	\$ (0.03)
The non-GAAP amounts have been adjusted to exclude the following items:			
Excluded from operating expenses			
Audit Fee overruns (a)	\$ -	\$ (150)	\$ (941)
Quarterly review fee increases (b)	-	-	(174)
Financial consulting service fees (c)	-	(88)	(768)
Executive management severance costs (d)	-	(150)	(594)
Executive management recruiting costs (e)	-	-	(383)
Loss on impairment of Goodwill (f)	(2,168)	-	-
Total excluded from operating expenses	<u>\$ (2,168)</u>	<u>\$ (388)</u>	<u>\$ (2,860)</u>
Total excluded operating loss	<u>\$ (2,168)</u>	<u>\$ (388)</u>	<u>\$ (2,860)</u>
Income tax effect on non-GAAP adjustments (g)	22	4	1,116
Total excluded from operating expenses after income tax effect	<u>\$ (2,146)</u>	<u>\$ (384)</u>	<u>\$ (1,744)</u>
Excluded from income tax expenses			
Valuation allowance on deferred tax assets (h)	-	(10,064)	-
Non-GAAP net (loss) income	<u>\$ (2,680)</u>	<u>\$ (1,873)</u>	<u>\$ 674</u>
Non-GAAP net (loss) income per share - basic and diluted	<u>\$ (0.08)</u>	<u>\$ (0.06)</u>	<u>\$ 0.02</u>

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

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

	<b>For the Three Months Ended</b>		
	<b>March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
GAAP operating expenses	\$ 13,406	\$ 9,259	\$ 8,285
Quarterly review fee increases (b)	-	-	(53)
Financial consulting service fees (c)	-	-	(12)
Executive management severance costs (d)	-	-	(594)
Executive management recruiting costs (e)	-	-	(272)
Loss on impairment of Goodwill (f)	(2,168)	-	-
Non-GAAP operating expenses	<u>\$ 11,238</u>	<u>\$ 9,259</u>	<u>\$ 7,354</u>
GAAP operating loss	\$ (3,488)	\$ (1,321)	\$ (1,071)
Quarterly review fee increases(b)	-	-	(53)
Financial consulting service fees (c)	-	-	(12)
Executive management severance costs (d)	-	-	(594)
Executive management recruiting costs (e)	-	-	(272)
Loss on impairment of Goodwill (f)	(2,168)	-	-
Non-GAAP operating loss	<u>\$ (1,320)</u>	<u>\$ (1,321)</u>	<u>\$ (140)</u>

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

	<b>For the Twelve Months Ended</b>		
	<b>March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
GAAP operating expenses	\$ 42,639	\$ 34,139	\$ 30,261
Audit Fee overruns (a)	-	(150)	(941)
Quarterly review fee increases (b)	-	-	(174)
Financial consulting service fees (c)	-	(88)	(768)
Executive management severance costs (d)	-	(150)	(594)
Executive management recruiting costs (e)	-	-	(383)
Loss on impairment of Goodwill (f)	(2,168)	-	-
Non-GAAP operating expenses	<u>\$ 40,471</u>	<u>\$ 33,751</u>	<u>\$ 27,401</u>
GAAP operating loss	\$ (5,237)	\$ (3,470)	\$ (2,079)
Audit Fee overruns (a)	-	(150)	(941)
Quarterly review fee increases (b)	-	-	(174)
Financial consulting service fees (c)	-	(88)	(768)
Executive management severance costs (d)	-	(150)	(594)
Executive management recruiting costs (e)	-	-	(383)
Loss on impairment of Goodwill (f)	(2,168)	-	-
Non-GAAP operating (loss) income	<u>\$ (3,069)</u>	<u>\$ (3,082)</u>	<u>\$ 781</u>