Itron Reports Record Financial Results for Second Quarter 2005

New Quarterly-Highs Achieved for Revenues, Earnings and New Order Bookings

SPOKANE, WA. — July 26, 2005 — Itron, Inc. (NASDAQ:ITRI), today reported its financial results for the quarter ended June 30, 2005.

Revenues were $135.1 million for the quarter, compared with second quarter revenues in 2004 of $79.6 million. Year-to-date revenues were $251.6 million compared with $145.2 million in 2004. The majority of the increases in 2005 resulted from the acquisition of Schlumberger's electricity metering business which was completed July 1, 2004.

On a GAAP basis, net income was $9.3 million, or 38 cents per diluted share for the quarter, compared with $818,000, or 4 cents per diluted share in the second quarter of 2004. GAAP net income for the quarter included a $5.9 million tax benefit for additional research and development (R&D) tax credits for the years 1997 through 2004. Year-to-date, on a GAAP basis, net income was $10.1 million, or 43 cents per diluted share, compared with approximately break-even GAAP net income in the six months ended June 30, 2004.

Pro forma net income was $10.4 million, or 42 cents per diluted share for the quarter, compared with $2.3 million, or 11 cents per diluted share in the second quarter of 2004. Year-to-date pro forma net income was $17.7 million, or 75 cents per diluted share, compared with $4.5 million, or 20 cents per diluted share in 2004. Pro forma net income excludes the amortization of intangible assets and debt placement fees, restructurings and the benefit of the prior year R&D tax credits. A schedule reconciling GAAP and pro forma net income is attached to this release.

"Itron delivered very strong results again this quarter," said LeRoy Nosbaum, Chairman and CEO. "Record new order bookings are evidence of the increasing momentum we are seeing in the AMR and electricity metering markets. Utility customers are embracing our solutions as they look for ways to operate more efficiently, reduce costs, and provide better customer service. 2005 is shaping up to be a very good year for Itron."

Additional segment revenue details for the quarter are as follows:

Electricity Metering revenues, which include meters with embedded automatic meter reading (AMR) technology, were $60.6 million in the quarter and $114.7 million for the six months ended June 30, 2005. There were no Electricity Metering revenues in the 2004 comparable periods as the acquisition was completed July 1, 2004. We shipped more than 1.1 million electricity meters in the quarter, approximately 7% more than in the first quarter. Of those, approximately 38% were equipped with Itron AMR technology.
Meter Data Collection (MDC) revenues were $62.2 million during the quarter compared with $67.2 million in the second quarter of 2004. Year-to-date, MDC revenues were $111.9 million compared with $121.9 million in 2004. The lower revenues during the quarter and year-to-date periods in 2005 are primarily due to lower average selling prices for electric AMR modules as shipments of total standalone AMR modules (electric, gas and water) were comparable. Shipments of standalone AMR modules were approximately 1.1 million in the second quarters of 2005 and 2004 and 1.9 million for the year-to-date periods in 2005 and 2004.

New order bookings (which do not include maintenance revenues) were strong during the quarter. Details for new order bookings and quarter-end backlog are as follows:

New order bookings during the quarter were $177 million, compared with $66 million in the second quarter of last year. New order bookings in the first six months of 2005 were $294 million, compared with $132 million in the first six months of 2004.
Total backlog increased to $243 million at June 30, 2005. By comparison, total backlog was $190 million at March 31, 2005 and $153 million at June 30, 2004.
Twelve-month backlog, which represents the estimated portion of backlog that will be earned over the next twelve months, was $151 million at June 30, 2005, compared with $116 million at March 31, 2005 and $76 million at June 30, 2004.
Not included in the above bookings or backlog is a contract with Progress Energy, worth approximately $120 million over two years, that was signed in July 2005.

Gross margins for the quarter and year-to-date periods in 2005 were 42% and 43%, respectively, compared with 46% in the second quarter and year-to-date periods in 2004. Lower MDC gross margins in 2005 are due primarily to lower average selling prices for standalone electric AMR modules. Electricity Metering gross margin was 41% during the quarter compared with 45% during the first quarter of 2005. The decrease from the previous quarter results from pass-through sales of third party equipment for a smart metering system in Ontario along with changes in the mix of meters sold.

Sales and marketing, product development and general and administrative expenses were $36.7 million and $71.8 million in the quarter and year-to-date periods in 2005 compared with $29.5 million and $56.0 million in the comparable periods in 2004, with the increased spending primarily due to the Electricity Metering acquisition. Intangible asset amortization expenses also increased as a result of the acquisition and were $9.7 million and $19.4 million in the 2005 periods compared with $2.0 million and $4.1 million in the 2004 periods.

Excluding intangible asset amortization expenses and restructurings, operating income was $20.0 million and $35.9 million, or 14.8% and 14.3% of revenues for the quarter and six months ended 2005, compared with $6.8 and $10.2 million, or 8.5% and 7.0% of revenues for the same periods in 2004. The improved operating leverage in 2005 reflects the lower level of spending required for Electricity Metering marketing and product development as well as operating efficiencies and cost savings from headcount reductions in 2004.

During the quarter, we conducted a study of tax credits for research activities for the years 1997 through 2004 (prior periods) and for 2005. Second quarter 2005 GAAP results include an income tax benefit for prior period R&D tax credits of approximately $5.9 million. Additionally, we estimate that our R&D tax credit in 2005 will be approximately $1.2 million, which is reflected in our estimated annual GAAP tax rate of approximately 34%. R&D tax credits will be used to offset future federal tax liabilities.

The income tax benefit of $4.8 million for the quarter ended June 30, 2005 reflects the $5.9 million prior period tax benefit, a provision for income taxes using the estimated full year GAAP rate of 34.0%, and other miscellaneous adjustments. Our estimated tax rate for pro forma purposes in 2005 is 38.3%. For comparative purposes, our full year tax rates in 2004 were 44.1% for GAAP and 39.8% for pro forma.

We generated $12.9 million of cash from operations during the quarter compared to a use of cash of $6.8 million during the second quarter of last year. Cash flow decreased from $23.9 million in the prior quarter primarily due to the increase in accounts receivable during the quarter driven by higher revenues, and due to a semi-annual interest payment on our senior subordinated notes during the quarter of approximately $4.8 million. Cash flow from operations was $36.8 million for the six months ended June 30, 2005 compared with $7.2 million for the same period in 2004.

In May 2005, we received approximately $60 million in net proceeds from the issuance of 1,725,000 shares of common stock. We made a total of $87.0 million in optional repayments on our term bank debt during the quarter, bringing the balance to $42.3 million at June 30, 2005, which means in the twelve months since the Electricity Metering acquisition, we have repaid $142.7 million of the $185 million term bank debt borrowed in connection with the acquisition.

Itron also announced today the retirement of Rob Neilson as president and chief operating officer and as a member of the Company's Board of Directors, effective December 31, 2005. Mr. Neilson has been with Itron since 1983 and was named president and COO in 2000 and elected a director in 2002. Mr. Neilson's wife Randi, will retire as vice president of marketing effective December 31, 2005 as well.

“As my trusted partner, Rob has worked closely with me in developing Itron's growth strategies and plans,” commented LeRoy Nosbaum, chairman and CEO. “His focus on organizational excellence and efficiency improvements in running operations has been a big factor in Itron's improved financial performance. For two decades, Rob and Randi have been significant contributors to the success of Itron. Their influence has been strongly felt within the company from strategy development through operations and they are recognized thought leaders within the industry – with customers, regulators and others. We will miss their contributions, but we understand and respect their decision to spend more time with their family and to pursue other areas of personal, public and community interest.”

Nosbaum added that the Company will not fill the position of president and COO. Instead, the Hardware and Software Solutions Group vice presidents will report directly to Nosbaum. “With the Company-wide reorganization in 2004 into hardware and software, we set the stage for two strong operations groups and we have been very pleased with the performance of both.” The Company has already begun a search for a new vice president of marketing.

Business Outlook

Our outlook for 2005 does not include any impact related to the expensing of stock options. We expect to implement FASB's Statement 123R, which requires the expensing of stock options and ESPP shares issued at a discount, in 2006. Expensing of stock options will decrease gross margin, increase operating expenses and influence our effective tax rate.

For the full year 2005, we expect:

Revenues to be between $535 and $545 million (previous guidance was $510 to $520 million).
Pro forma diluted earnings per share between $1.65 and $1.70 (previous guidance was $1.50 to $1.55).

Use of Non-GAAP Financial Information

To supplement our consolidated financial statements presented in accordance with GAAP, we use certain non-GAAP measures, including pro forma earnings and EPS and EBITDA. Pro forma earnings and EPS are adjusted from GAAP-based results to exclude certain costs and expenses that we believe are not indicative of our core operating results. Pro forma results are one of the primary indicators management uses for evaluating historical results and for planning and forecasting future periods. We believe pro forma results provide consistency in our financial reporting which enhances our investor's understanding of our current financial performance as well as our future prospects. Pro forma results along with EBITDA measures should be viewed in addition to, and not in lieu of, GAAP results.

Earnings Conference Call

Itron will host a conference call to discuss the financial results contained in this release at 1:45 p.m. PST on July 26, 2005. The call will be webcast in a listen only mode and can be accessed online at www.itron.com, "About Itron – Investor Events." The live webcast will begin at 1:45 p.m. (PST). The webcast replay will begin shortly after the conclusion of the live call and will be available for two weeks. A telephone replay of the call will also be available approximately one hour after the conclusion of the live call, for 48 hours, and is accessible by dialing (888) 203-1112 (Domestic) or (719) 457-0820 (International), entering passcode #4296398.

Forward Looking Statements

This release contains forward-looking statements concerning Itron's operations, financial performance, sales, earnings and cash flow. These statements reflect our current plans and expectations and are based on information currently available. They rely on a number of assumptions and estimates, which could be inaccurate, and which are subject to risks and uncertainties that could cause our actual results to vary materially from those anticipated. Risks and uncertainties include the rate and timing of customer demand for the Company's products, rescheduling of current customer orders, changes in estimated liabilities for product warranties, changes in laws and regulations and other factors which are more fully described in our Annual Report on Form 10-K for the year ended December 31, 2004 and our Form 10-Q for the quarter ended March 31, 2005 on file with the Securities and Exchange Commission. Itron undertakes no obligation to update publicly or revise any forward-looking statements.

About Itron

Itron is a leading technology provider and critical source of knowledge to the global energy and water industries. Nearly 3,000 utilities worldwide rely on Itron technology to deliver the knowledge they require to optimize the delivery and use of energy and water. Itron delivers value to its clients by providing industry-leading solutions for electricity metering, meter data collection, energy information management, demand side management and response, load forecasting, analysis and consulting services, transmission and distribution system design and optimization, Web-based workforce automation, commercial and industrial customer care and residential energy management. To know more, start here: www.itron.com.

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Related Documents

Itron Q2 2005 Earnings Release Statement