Itron

Itron Announces Third Quarter Results

Financial Results Include Full Quarter Operating Results for Actaris Consolidated Quarterly Revenue Exceeds $430 Million Bookings in Excess of $440 Million

LIBERTY LAKE, WA. — November 1, 2007 — Itron, Inc. (NASDAQ:ITRI), today reported financial results for its third quarter ended September 30, 2007. Highlights include:

Quarterly and year-to-date revenues of $434 million and $984 million;
Quarterly and year-to-date non-GAAP diluted EPS of 65 cents and $1.99 per share; and
Quarterly and year-to-date Adjusted EBITDA of $67 million and $158 million.

"Our results for the quarter were about in line with our expectations," said LeRoy Nosbaum, chairman and CEO. "We had our highest bookings ever at $440 million and Actaris operating results are showing the positive effect of a more geographically diverse business model. Although we have experienced a pause in business in the US that we thought might occur, we continue to drive revenue and EPS growth in the short-term and believe that we are very well positioned for the long-term."

Third Quarter Statement of Operations Highlights:
Revenues – Total revenues for the third quarter of $434 million were $269 million, or 164%, higher than 2006 third quarter revenues of $165 million. Itron North America (INA) revenues for the third quarter of $153 million were about $12 million, or 7%, lower than the third quarter of 2006. Actaris revenues of $281 million were comprised of shipments to electric, gas and water utilities of approximately 40%, 32% and 28%, respectively.

Gross Margin – Gross margin for the third quarter of 2007 was 33%. This compares with 41% in the third quarter of 2006. Third quarter 2007 INA gross margin of 40% was similar to the third quarter of 2006. Actaris gross margin of 30% was comparable to the second quarter of 2007 without the effect of the inventory charge.

Operating Expenses – Total operating expenses for the third quarter of 2007 were $116 million. INA operating expenses were $43 million, reflecting a $2 million decrease over the third quarter of 2006. INA operating expenses as a percentage of revenue were 28%, which was similar to 2006. Actaris operating expenses of $64 million were 23% of revenue. Corporate unallocated expenses were $8.5 million for the quarter, or about $2.3 million higher than the third quarter of 2006. The increase was primarily attributable to higher expenses for internal controls for financial reporting and consulting services for tax planning related to the Actaris acquisition. Corporate unallocated expenses also include an impairment charge for our old corporate headquarters building. A sale of this facility is currently pending and is expected to close by year end.

Interest and Other Income – Net interest expense of $34 million in the third quarter of 2007 was substantially higher than the $561,000 in the comparable period in 2006, primarily due to the placement of $1.2 billion in senior secured bank debt for the Actaris acquisition. Debt fee amortization expense, which is included in net interest expense, was $9.2 million in the third quarter. Debt fee amortization expense included $6.6 million of accelerated amortization related to our convertible subordinated debt becoming subject to conversion. Our convertible debt became subject to conversion during the quarter because our stock price exceeded the conversion parameters. Other expense of $873,000 was comprised primarily of foreign currency revaluation of trade receivables and payables.

Income Taxes – We had a $2.7 million GAAP income tax benefit for the third quarter of 2007. This compares with a GAAP income tax provision of $5.9 million in the third quarter of 2006. The benefit is due to the pre-tax GAAP loss and also includes a benefit related to legislative reductions in tax rates in Germany and the United Kingdom in the third quarter.

GAAP Net Income/Loss and EPS – Our GAAP net loss and fully diluted EPS loss for the third quarter of 2007 was $3.4 million, or 11 cents per share, compared with net income of $9.2 million, or 35 cents per share, in the same period in 2006. The loss was primarily due to the accelerated amortization of debt fees.

Non-GAAP Operating Income, Net Income and Diluted EPS – Non-GAAP operating income, which excludes amortization expense related to intangible assets, was $55 million, or 13% of revenues, in the third quarter of 2007, compared with $24 million, or 15% of revenues, in the third quarter of 2006. Non-GAAP net income, which also excludes amortization of debt fees, was $21 million in 2007 compared with $15 million in the 2006 period. Non-GAAP diluted EPS, was 65 cents in the 2007 period compared with 56 cents in 2006. Fully diluted shares outstanding in the third quarter of 2007 were approximately 6 million higher than the same period in 2006. Non-GAAP net income and diluted EPS are higher in the third quarter of 2007 primarily due to the Actaris acquisition. Our non-GAAP tax rates were 27% and 38% for the third quarter of 2007 and 2006, respectively. The lower 2007 rate is due to lower tax rates for Actaris.

Year-To-Date Statement of Operations Highlights:

Revenues – Total revenues for the nine months ended September 30, 2007 of $984 million were $499 million or 103%, higher than 2006 nine-month revenues of $484 million. INA revenues for the first nine months of 2007 of $453 million were approximately $31 million, or 6%, lower than the same period in 2006.

Gross Margin – Total company gross margin for the nine months ended September 30, 2007 was 34%. Business combination accounting rules require the valuation of inventory on hand at the acquisition date to equal the sales price, less costs to complete and a reasonable profit allowance for selling effort. Accordingly, the historical cost of inventory acquired was increased by $16 million, which lowered gross margins by two percentage points for the nine months ended September 30, 2007. Year-to-date 2007 INA gross margin of 41% was slightly lower than the 42% for the first nine months of 2006 primarily due to lower production volumes for electricity meters.

Operating Expenses – Total operating expenses for the first nine months of 2007 were $316 million and included $36 million of expense related to in-process research and development (IPR&D). Without this expense, operating expenses would have been $280 million, or 28% of revenue. INA operating expenses were $135 million, reflecting a $4 million increase over the first nine months of 2006. The increase was primarily due to increased product marketing and product development expenses related to development of our next generation technology, OpenWay. Corporate unallocated expenses were approximately $24 million for the first nine months of 2007 or about $4 million higher than the same period in 2006. The increase was primarily attributable to higher expenses for internal controls for financial reporting and consulting services for tax planning related to the Actaris acquisition. Corporate unallocated also includes impairment charges of $1.6 million for our old corporate headquarters building.

Interest and Other Income – Net interest expense of $54 million in the first nine months of 2007 was substantially higher than the $8 million net interest expense in the comparable period in 2006. The increased net interest expense in 2007 was due to the placement of $1.2 billion in debt for the Actaris acquisition and the accelerated expensing of debt fees. Other income of $6 million was primarily due to realized gains of approximately $4 million for acquisition-related foreign exchange transactions and other foreign currency exchange gains.

Income Taxes – We had a $13 million GAAP income tax benefit for the first nine months of 2007. This compares with a GAAP income tax provision of $17 million in the first nine months of 2006. The benefit is due to the pre-tax GAAP loss and a benefit related to legislative reductions in tax rates in Germany and the United Kingdom.

GAAP Net Income/Loss and Diluted EPS – Our GAAP net loss and fully diluted EPS loss for the first nine months of 2007 was $20 million, or 69 cents per share, compared with net income of $26 million, or $1.01 per share in the first nine months of 2006. The loss was primarily due to acquisition-related charges for IPR&D and inventory and the accelerated expensing of debt fees.

Non-GAAP Operating Income, Net Income and EPS – Non-GAAP operating income, which excludes amortization expense related to intangibles assets, and excludes acquisition related charges for IPR&D and inventory was $125 million, or 13% of revenues, in the first nine months of 2007, compared with $76 million or 16% of revenues, in the same period in 2006. Non-GAAP net income and diluted EPS, which also excludes amortization of debt fees was $61 million or $1.99 per share in 2007 compared with $43 million and $1.64 per share in the 2006 period. Non-GAAP net income and diluted EPS are higher in 2007 primarily due to the Actaris acquisition. Fully diluted shares outstanding for the first nine months of 2007 were approximately 4 million higher than the same period in 2006.

Other Financial Highlights:

New Order Bookings and Backlog - New order bookings for the third quarter were $440 million, compared with $128 million in the third quarter of 2006. Our third quarter 2007 book-to-bill ratio was 1.05 to 1. Total backlog was $668 million at September 30, 2007 compared to $325 million at September 30, 2006. Twelve month backlog of $494 million at September 30, 2007 was higher than twelve month backlog at September 30, 2006 of $194 million, but also higher than twelve month backlog at June 30, 2007 of $491 million. The increased bookings and backlog amount in 2007 are primarily due to the Actaris acquisition.

Cash Flows from Operations – Net cash provided by operating activities was $90 million for the first nine months of 2007, compared with $87 million in the same period in 2006. Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) in the third quarter of 2007, was $67 million compared with $28 million for the same period in 2006. Adjusted EBITDA for the first nine months of 2007 was $158 million, or more than $72 million higher than the first nine months of 2006, primarily due to the acquisition of Actaris.

Forward Looking Statements:

This release contains forward-looking statements concerning our expectations about operations, financial performance, sales, earnings and cash flows. 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 our products, rescheduling of current customer orders, changes in estimated liabilities for product warranties, changes in laws and regulations, our dependence on new product development and intellectual property, future acquisitions, changes in estimates for stock based compensation, changes in foreign exchange rates, foreign business risks and other factors which are more fully described in our Annual Report on Form 10-K for the year ended December 31, 2006 and other reports on file with the Securities and Exchange Commission. Itron undertakes no obligation to update publicly or revise any forward-looking statements, including our business outlook.

Business Outlook:
The outlook information provided below and elsewhere in this release is based on information available today. Itron assumes no obligation to publicly update or revise our business outlook. Our future performance involves risks and uncertainties.

For the full year 2007, we expect

Revenues between $1.425 billion and $1.435 billion;
Diluted non-GAAP EPS of between $2.65 and $2.75; and
Adjusted EBITDA in excess of $220 million.

Non-GAAP Financial Information:
To supplement our consolidated financial statements presented in accordance with GAAP, we use certain non-GAAP financial measures, including non-GAAP operating income, non-GAAP net income and diluted EPS and Adjusted EBITDA. We provide these non-GAAP financial measures because we believe they provide greater transparency and represent supplemental information used by management in its financial and operational decision making. Specifically, these non-GAAP financial measures are provided to enhance investors' overall understanding of our current financial performance and our future anticipated performance by excluding infrequent costs associated with acquisitions. We exclude these expenses in our non-GAAP financial measures as we believe that they are a measure of our core business that is not subject to the variations of expenses associated with these infrequently occurring items. Non-GAAP performance measures should be considered in addition to, and not as a substitute for, results prepared in accordance with GAAP. Finally, our non-GAAP financial measures may be different from those reported by other companies. A more detailed discussion of why we use non-GAAP financial measures, the limitations of using such measures and reconciliations between non-GAAP and the nearest GAAP financial measures are included in this press release.

Earnings Conference Call:
Itron will host a conference call to discuss the financial results contained in this release at 2:00 p.m. (PDT) on November 1, 2007. The call will be webcast in a listen only mode and can be accessed online at www.itron.com, *Investors, Presentations*. The live webcast will begin at 2:00 p.m. (PDT). The webcast replay will begin 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 # **4780106.**

About Itron:
Itron is a leading technology provider and critical source of knowledge to the global energy and water industries. Itron operates in two divisions; as Itron in North America and as Actaris outside of North America. Our company is the world's leading provider of metering, data collection and software solutions, with nearly 8,000 utilities worldwide relying on our technology to optimize the delivery and use of energy and water. Itron delivers industry leading solutions for electricity, gas and water utilities by offering meters; data collection and communication systems, including automated meter reading (AMR) and advanced metering infrastructure (AMI); meter data management and utility software applications; as well as comprehensive project management, installation and consulting services. To know more, start here: www.itron.com.

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Statements of operations, segment information, balance sheets, cash flow statements and reconciliations of non-GAAP financial measures to the most directly comparable financial measures follow.

Related Documents
Itron Q3 2007 Earnings Statement