Itron Announces Strong Fourth Quarter and Record Full-Year Results

Sets Records for Backlog and Full-Year Revenue, Cash Flows from Operations and Non-GAAP EPS

LIBERTY LAKE, WA. — February 13, 2007 — Itron, Inc. (NASDAQ:ITRI), today reported financial results for its fourth quarter and full-year ended December 31, 2006. Highlights include:

Quarterly and full-year revenues of $160 million and $644 million;
Quarterly and full-year new order bookings of $211 million and $652 million;
Quarterly and full-year GAAP diluted EPS of $.28 and $1.28;
Quarterly and full-year non-GAAP diluted EPS of $.56 and $2.39; and
Full-year cash flows from operations of $95 million.

"2006 was a banner year for Itron," said LeRoy Nosbaum, chairman and CEO. "We set new records for revenue, backlog, non-GAAP earnings per share and cash flow from operations. We delivered results to our shareholders while continuing to build a platform to drive growth."

Full-Year Financial Summary:
Revenue was $644 million, an increase of 16.5% over 2005 revenue of $553 million. Gross margin of 41.5% in 2006 was lower than gross margin of 42.3% in 2005 due primarily to an increase in lower margin installation revenue in 2006.

We report operating income, net income and earnings per share (EPS) on a GAAP basis and on a non-GAAP basis. The non-GAAP measures are described below and are reconciled to their most directly comparable GAAP measures in the accompanying financial information. GAAP net income and diluted EPS for 2005 included tax benefits of approximately $14 million related to the restructuring of certain foreign operations and prior year research and development credits. These tax benefits are not reflected in non-GAAP measures of net income or EPS. Operating income, net income and diluted EPS in 2006 were all positively impacted by the increase in revenues. Stock based compensation in 2006 was $9.7 million compared to $739,000 in 2005. The increase in 2006 was due to the adoption of FAS 123® on January 1, 2006.

GAAP operating income for 2006 was $61.7 million, or 9.6% of revenues. This compares to GAAP operating income of $46.2 million, or 8.4% of revenues for 2005.
Non-GAAP operating income for 2006 of $101.5 million was 19% higher than the $85.5 million for 2005.
GAAP net income for 2006 was a record $33.8 million, compared with $33.1 million for 2005.
Non-GAAP net income for 2006 of $62.8 million was 38% higher than 2005.
Despite slightly higher net income, diluted GAAP EPS of $1.28 for 2006 was less than 2005 diluted GAAP EPS of $1.33 due to increased shares outstanding in 2006.
Non-GAAP diluted EPS for 2006 of $2.39 was approximately 30% higher than 2005 non-GAAP diluted EPS of $1.84.

Q4 Financial Summary:
Revenue was $160 million, equal to revenue in the fourth quarter of 2005 although we shipped about 250,000 fewer electricity meters in the 2006 quarter due to the substantial completion of the Progress Energy contract. Gross margin of 40.1% was slightly lower than the 40.5% in 2005 due primarily to shipments of our first-generation advanced metering infrastructure (AMI) meters, which have higher costs as expected. Quarterly GAAP net income and diluted EPS for 2005 included a tax benefit of approximately $8 million related to the restructuring of certain foreign operations. This tax benefit was excluded from non-GAAP results for 2005. 2006 operating income, net income and diluted EPS were all negatively impacted by lower margin AMI shipments as well as unplanned legal and accounting due diligence fees of $1.1 million related to an acquisition opportunity we did not complete and a $639,000 impairment charge related to our former headquarters building. Stock based compensation was $2.9 million in 2006 compared with $340,000 in 2005.

GAAP operating income for 2006 was $9.2 million, or 5.8% of revenues. This compares to GAAP operating income of $16.0 million, or 10.0% of revenues for 2005.
Non-GAAP operating income of $19.8 million in 2006 was approximately $6 million lower than 2005.
GAAP net income for 2006 was $7.3 million compared with $16.9 million in 2005.
Non-GAAP net income of $14.7 million in 2006 was approximately $1 million lower than 2005.
Diluted GAAP EPS in 2006 was 28 cents per diluted share compared with 65 cents per diluted share in the 2005 period.
Diluted non-GAAP EPS for the fourth quarter was 56 cents compared with 59 cents in the fourth quarter of 2005.

“We had excellent financial results for both the quarter and the year,” said Nosbaum. “Although our fourth quarter net income was slightly less than we would have liked, it was caused in part by activities that Itron will eventually benefit from, including our initial AMI product shipments and related development efforts. The AMI products were shipped at lower than normal margins because they are new, which we expected. We also incurred legal and accounting charges related to a potential acquisition opportunity that came up during the quarter. We did not complete the acquisition, but felt that evaluating the opportunity was in our best interest.”

2006 Financial Highlights:

Revenue **-** Hardware solutions revenue for the fourth quarter and full-year 2006 of approximately $144 million and $585 million, respectively was $2 million lower than the fourth quarter of 2005 but $84 million higher than the full-year 2005. Electricity metering revenue in 2006 was $8 million higher in the fourth quarter and $85 million higher in the full-year 2006 compared with 2005 due to a strategic shift toward selling new electric meters with embedded AMR. Shipments of electricity meters increased 12% in the fourth quarter and 42% for the full-year of 2006 compared with the same periods in 2005. Meter data collection (MDC) revenues decreased approximately $10 million in the fourth quarter, yet full-year 2006 revenues were comparable with 2005. The decrease in the quarter was due to lower shipments of standalone electric meter modules and related royalties due to the strategic selling shift to new electric meters with embedded AMR and lower shipments of handheld computers in the fourth quarter of 2006 offset somewhat by increased shipments of stand alone gas AMR modules. Software revenues were $2 million and $8 million higher in the quarter and full-year 2006 periods due to an increased number of software projects.

Gross Margin – Electricity metering gross margin of 34% was five percentage points lower in the fourth quarter of 2006 and 2 percentage points lower for the full-year than the same periods of 2005 due to a larger level of lower margin installation revenue and initial shipments of AMI products to a customer. There was no installation revenue reflected in electricity metering in the 2005 period. MDC gross margin of 46% in the fourth quarter and 45% in the full year of 2006 was six percentage points and two percentage points higher than the comparable 2005 periods due to an increased proportion of revenue associated with gas meter modules. Software solutions gross margin of 44% in the fourth quarter of 2006 was three percentage points lower and full year margins were one percentage point lower than the same periods of 2005 due primarily to the timing of completion of several projects.

Operating Expenses – Total operating expenses for the quarter of $55 million were approximately $6 million higher than the fourth quarter of 2005. The higher operating expenses in the quarter were primarily driven by increased research and development expenses related to our AMI initiative; unplanned legal and accounting due diligence expenses for an acquisition opportunity we pursued but did not complete; an impairment charge related to our former headquarter building which is classified as held for sale; costs associated with our corporate headquarters move; and an upgrade of our ERP system. Operating expenses for the full-year 2006 are more than $18 million higher than the full year of 2005 for the same reasons. Although operating expenses were higher in the 2006 full-year, as a percentage of revenue they decreased two percentage points from the full-year 2005.

Stock-Based Compensation – In the fourth quarter of 2006 total stock based compensation expense was $2.9 million, $2.7 million of which is due to the adoption of FAS 123®. For the full-year 2006 our total stock-based compensation was $9.7 million, $8.6 million of which was due to the adoption of FAS 123®. Stock-based compensation in the 2005 periods was $340,000 and $739,000, respectively.

Interest and Other Income – Interest income of $5.3 million in the fourth quarter and $9.5 million for the full-year 2006 was substantially higher than the $135,000 and $302,000 in the comparable periods of 2005. The increased interest income in the 2006 periods is due to interest earned on the investment of net proceeds from our $345 million convertible debt issuance in August of 2006. Interest expense of $5.4 million for the fourth quarter of 2006 was higher than the fourth quarter of 2005 due to interest expense and debt amortization fees associated with our outstanding convertible debt. Interest expense of $17.8 million for the full-year 2006 was lower than 2005 due primarily to repayment of variable rate debt in 2005 and early 2006.

Income Taxes – Our effective tax rate was 17% for the fourth quarter of 2006 and 35.4% for the full year. The effective rate for the quarter includes the annual benefit of the federal research and development tax credit which was recently renewed. Our effective rate in the fourth quarter and full year 2005 was a benefit of 37% and 20.1%, respectively. The effective rate in 2005 was impacted positively by $8.2 million and $14.1 million for the quarter and full-year related to discrete tax benefits from restructuring of certain foreign operations and the recognition of prior year research and development credits. Our non-GAAP tax rates were 27% and 34.8% for the fourth quarter and full-year 2006 compared to 32.6% and 36.4% for the fourth quarter and full-year 2005.

New Order Bookings and Backlog **-** New order bookings for the fourth quarter were $211 million compared to $149 million in the fourth quarter of 2005. New order bookings for 2006 were $652 million, compared to $655 million in 2005. Full-year 2005 new order bookings included our largest contract to date of $118 million for Progress Energy, which has been substantially completed. Our 2006 book-to-bill ratios were 1.4 for the quarter and 1.1 for the full-year. Total backlog at December 31, 2006 was $392 million compared to $324 million one year ago. Twelve month backlog at December 31, 2006 was $225 million, which is 20% higher than the $188 million in twelve-month backlog at the end of 2005.

Cash Flow from Operations – Net cash provided by operating activities of $95 million for the full-year 2006 was up 19% from $80 million in 2005. Earnings before interest, taxes, depreciation and amortization and non-cash stock based compensation expenses in 2006 (Adjusted EBITDA), which is used as an internal performance indicator and a measure of our ability to service debt, was $115 million for the year compared with $98 million for the full year 2005.

Forward Looking Statements:
This release contains forward-looking statements concerning our expectations about our 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 and other factors which are more fully described in our Annual Report on Form 10-K for the year ended December 31, 2005 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 and does not include the effect of any pending or future acquisitions. 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 $680 and $700 million;
Diluted non-GAAP EPS of between $2.70 and $2.90 (excludes approximately $0.27 - $0.31 of stock-based compensation expense);
Adjusted EBITDA of $130 to $135 million; and
First quarter revenues between $140 and $150 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, EBITDA 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 and non-cash stock based compensation. 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 or non-cash 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 1:45 p.m. (PDT) on February 13, 2007. The call will be webcast in a listen only mode and can be accessed online at www.itron.com, "*Investors – Investor Events*." The live webcast will begin at 1:45 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 **# 5745059.**

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, 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.

For additional information, contact:

Deloris Duquette
Vice President, Investor Relations and Corporate Communications
(509) 891-3523
deloris.duquette@itron.com

Related Documents
Itron Q4 and year-End Earnings Statement