Itron Announces Record Financial Results for Fourth Quarter and Full Year 2005

- Total revenues were $552.7 million in 2005 compared with $399.2 million in 2004.
- Full year GAAP net income was $33.1 million, or $1.33 per diluted share, compared to a net loss of $5.3 million, or 25 cents per diluted share, in 2004. GAAP net income in 2005 includes $13.9 million, or 56 cents per diluted share, of tax benefits.
- Full year pro forma net income was $45.6 million, or $1.84 per diluted share (excluding the tax benefits), compared to $20.4 million, or 93 cents per diluted share, in 2004.

SPOKANE, WA. — February 14, 2006 — Itron, Inc. (NASDAQ:ITRI) today reported financial results for its fourth quarter and year ended December 31, 2005. Full year results include twelve months of Electricity Metering operations in 2005, compared with six months in 2004, as the acquisition of that business closed on July 1, 2004.

Fourth quarter 2005 revenues were $160.0 million, 22% higher than fourth quarter 2004 revenues of $131.4 million. For the full year, revenues were $552.7 million in 2005, compared with $399.2 million in 2004, with growth in 2005 reflecting a full year of Electricity Metering revenues as well as internal growth in all segments. Revenue highlights by segment for the fourth quarters and full years in 2005 and 2004 include:

Hardware

- Meter Data Collection (MDC) revenues were $79.5 million in the quarter, compared with $59.8 million in the fourth quarter of 2004. Year-to-date, MDC revenues were $262.0 million compared with $238.6 million in 2004.
- For both the quarter and full year 2005, increased shipments of gas AMR modules, increased handheld sales outside of North America and increased contract manufacturing services and royalties related to embedding our AMR technology into other vendors' solid-state meters, were partially offset by lower sales of third-party hardware. Implementation revenues were also lower for the full year 2005.
- Electricity Metering revenues in the quarter were $66.4 million compared with $58.4 million in the fourth quarter of 2004. Electricity Metering revenues were $239.8 million for the full year 2005. Electricity Metering revenues were $125.0 million in the last six months of 2005 compared to $112.6 million for the last six months of 2004. In 2004, revenues included contract manufacturing services for a former affiliate which we phased out by the end of 2004. Excluding these manufacturing services, revenues were $55.5 million and $105.5 million for the fourth quarter and last six months of 2004.
- Revenues increased in the fourth quarter and last six months of 2005, compared with the same periods in 2004, primarily as a result of a large order from Progress Energy for residential meters with AMR.
- Unit shipments of Itron AMR technology increased 81% and 34% in the fourth quarter and full year 2005, compared with the same periods in 2004. Itron AMR technology includes standalone AMR modules, Itron electricity meters with embedded AMR and other vendors' electricity meters with Itron AMR. The percentage increase in AMR unit shipments is greater than the percentage increase in hardware revenues due to changes in the mix and type of AMR product and declines in average selling prices for AMR, primarily resulting from large volume purchases. Additional unit shipment information is detailed in the segment information schedule included with this release.

Software

- Software revenues were $14.0 million in the quarter, compared to $13.2 million in the fourth quarter of 2004. For the full year, software revenues were $50.9 million in 2005, compared with $48.0 million in 2004. Revenues in 2004 included approximately $2.8 million of revenues for transmission line design and joint use services, which we had exited as of December 31, 2004. Software licenses were 25% of revenues in 2005, compared with 20% in 2004, reflecting increased sales of meter data management and knowledge applications software along with commercial and industrial meter data collection software upgrades.

GAAP net income was $16.9 million, or 65 cents per diluted share, for the quarter, compared with a loss of $7.0 million, or 33 cents per diluted share, for the fourth quarter of 2004. GAAP net income for the full year 2005 was $33.1 million, or $1.33 per diluted share, compared with a loss of $5.3 million, or 25 cents per diluted share, in 2004.

GAAP net income in the fourth quarter of 2005 includes approximately $8.0 million of tax benefits associated primarily with a reorganization of legal entities that allowed us to recognize foreign subsidiary deferred tax assets from prior years. Full year 2005 GAAP net income also includes a tax benefit of $5.9 million for the recognition of R&D tax credits related to prior year qualifying R&D expenditures.

Pro forma net income in 2005 excludes expenses for amortization of intangible assets and debt placement fees, restructurings and $13.9 million in tax credits and benefits related to prior years' activities. Pro forma net income in 2004 excludes expenses for amortization of intangible assets and debt placement fees, restructurings and acquisition related in-process R&D.

Pro forma net income was $15.3 million, or 59 cents per diluted share for the quarter, compared with $9.0 million, or 40 cents per diluted share, in the fourth quarter of 2004. Year-to-date pro forma net income was $45.6 million, or $1.84 per diluted share, compared with $20.4 million, or 93 cents per diluted share in 2004. Our pro forma tax rates in 2005 were 32.6% for the fourth quarter and 36.4% for the full year, compared with 39.0% and 39.8% for the fourth quarter and full year 2004. The lower tax rates in 2005 result primarily from higher estimated tax credits for R&D activities in 2005 compared to 2004.

Gross margins were 41% for the quarter and 42% for the full year 2005, compared with 42% and 43% for the same periods in 2004.

- MDC gross margin was 40% in the quarter compared to 44% in the fourth quarter of last year. Full year MDC gross margin was 43% compared with 45% in 2004. The lower margins in 2005 result from lower average selling prices for standalone AMR modules, offset by a higher mix of gas AMR modules and handheld systems.
- Electricity Metering gross margin was 39% during the quarter compared with 40% during the fourth quarter of 2004. For the full year 2005, Electricity Metering gross margin was 41% compared to 40% in 2004. Gross margin changes from 2004 to 2005 are primarily related to changes in the mix of meters sold and services provided.
- Software Solutions gross margins were 47% for the quarter and 43% for the full year in 2005, compared with 42% and 37% for the same periods in 2004. The higher margins in 2005 reflect a higher mix of license and maintenance fees.

Pro forma operating income, which excludes intangible asset amortization expenses and restructurings in both 2005 and 2004 and in-process R&D in 2004, was $25.7 million, or 16.1% of revenues for the quarter, compared with $19.0 million, or 14.5%, in the fourth quarter of 2004, and was $85.5 million, or 15.5%, of revenues for the full year 2005, compared with $45.5 million, or 11.4%, in 2004. The improved operating margins in 2005 reflect higher sales of meters and AMR, lower product development spending as a percentage of revenues for Electricity Metering, as well as operating efficiency improvements.

New order bookings during the quarter were $149 million, compared with $128 million in the fourth quarter of 2004. New order bookings for the full year 2005 were $655 million, surpassing the previous record of $358 million in new orders in 2004 (2004 reflects six months of Electricity Metering new order bookings compared with twelve months in 2005).

Total backlog was $324 million at December 31, 2005, compared with $179 million one year ago. Twelve-month backlog, which represents the estimated portion of backlog that is expected to be earned over the next twelve months, was $188 million at December 31, 2005, compared with $97 million one year ago.

We generated $30.1 million of cash from operations during the quarter compared with $25.5 million during the fourth quarter of 2004. Cash flow from operations was $79.6 million for the full year 2005 compared with $53.1 million for 2004. Net capital expenditures (Capex), were approximately $21.7 million for the fourth quarter of 2005, of which $19.8 million was for the purchase of a new headquarters building, and $32.0 million for the full year. By comparison, net Capex were $2.8 million in the fourth quarter and $12.8 million for the full year in 2004.

EBITDA (earnings before interest, income taxes, depreciation and amortization) more than doubled in 2005. EBITDA was $28.7 million and $97.7 million for the fourth quarter and full year 2005 compared with $12.7 million and $42.4 million for the same periods in 2004.

During the fourth quarter and full year 2005, we made $3 million and $124 million in optional repayments on our term bank debt. Approximately $60 million of repayments in 2005 came from proceeds from the issuance of 1.7 million shares of common stock in May 2005. So far in 2006, we have made $9.7 million in additional optional repayments, resulting in our having repaid $170 million of the $185 million term bank debt borrowed in connection with the Electricity Metering acquisition on July 1, 2004.

During the fourth quarter of 2005, we closed on the purchase of a new headquarters facility for a total purchase price of approximately $19.8 million, of which $5 million was paid in cash and the remaining balance of $14.8 million was financed with a new real estate loan.

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

We expect to implement FASB's Statement 123R – *Share Based Payment* on January 1, 2006, which requires the expensing of share-based compensation, including stock options. We currently estimate pre-tax stock option compensation expense in 2006 of approximately $9 to $10 million. Estimating the value of stock option awards at the grant date requires judgment, including estimating stock price volatility, forfeiture rates and expected option life. Our outlook for GAAP net income in 2006 includes that expense while our outlook for pro forma net income excludes stock option compensation expense.

For the full year 2006, we expect:

- Revenues between $605 and $615 million.
- GAAP net income between $26 and $28 million.
- Pro forma net income between $54 and $56 million (excluding pre-tax expenses of approximately $9 million for stock option compensation expense and approximately $33 million for amortization related to intangible assets and debt fees).
- Our net income outlook is based on an estimated income tax rate of 45% for GAAP and 38% for pro forma.
- Pro forma EPS between $2.07 and $2.13 per diluted share, which excludes approximately 21 cents per share of stock option compensation expense, and is based on an estimated 26.2 million in diluted shares outstanding.
- Adjusted EBITDA between $110 and $114 million (excluding $9 million of stock option compensation expense).

For the quarter ended March 31, 2006, we expect

- Revenues between $145 and $150 million.

Use of Non-GAAP Financial Information
To supplement our consolidated financial statements presented in accordance with GAAP, we use certain non-GAAP financial measures, including pro forma operating income, pro forma net income and EPS, and EBITDA. Management believes the non-GAAP results provide useful information to both management and investors by excluding certain expenses, gains and losses that may not be indicative of our core results and provides for consistency in our financial reporting. We provide these non-GAAP financial measures because we believe they provide greater transparency with respect to supplemental information used by management in its financial and operational decision making. Specifically, these non-GAAP measures are provided to enhance investors' overall understanding of our current financial performance and our future prospects. These measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered as a substitute for, or superior to, GAAP results. Reconciliations between GAAP and non-GAAP results are included in the financial tables that accompany 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. PST on February 14, 2006. 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. (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 **#3754612**.

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, our dependence on new product development and intellectual property, future acquisitions, changes in estimates for share-based compensation 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 Forms 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 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's award-winning technology to provide the knowledge they require to optimize the delivery and use of energy and water. Itron creates value for its clients by providing industry-leading solutions for electricity metering; meter data collection; energy information management; demand response; load forecasting, analysis and consulting services; distribution system design and optimization; web-based workforce automation; and enterprise and residential energy management. To know more, start here: www.itron.com.

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Related Documents

Itron Q4 and Year -End Earnings Statement