



## **Itron Reports Second Quarter 2003 Results**

### **Q2 Revenues and EPS Slightly Better Than Consensus Estimates**

SPOKANE, WA. — July 16, 2003 — Itron, Inc. (NASDAQ:ITRI), today reported its financial results for the quarter ended June 30, 2003.

Second quarter revenues were \$80.3 million, up \$7.8 million, or 11% over second quarter 2002 revenues. Year-to-date revenues were \$154.9 million, up \$20.4 million, or 15% over revenues in the first half of 2002.

The increase in revenues in 2003 for both the second quarter and year-to-date periods was primarily driven by higher sales of automatic meter reading (AMR) systems and handheld meter reading system upgrades.

We shipped 1.1 million AMR meter modules in the second quarter, 8% more than in the second quarter of last year. Year-to-date, we have shipped just over 2.0 million units, for a 9% increase over last year.

In the second quarter we shipped a little more than 3,000 handheld computers for meter reading systems bringing the total for the first six months of 2003 to approximately 6,000 units. Shipments for both the quarter and year-to-date periods in 2003 are more than double the volumes last year.

Also contributing to increased revenues in 2003 are software and services revenues of \$4.4 million for the quarter, and \$7.5 million year-to-date from two acquisitions completed within the last twelve months.

Offsetting the increased revenues from hardware sales and acquisitions are lower revenues in 2003 compared with 2002 for AMR installation services and commercial and industrial meter data collection software system sales.

On a GAAP basis, Itron had net income of \$4.2 million in the second quarter of 2003, or 19 cents per diluted share, compared with \$6.3 million in the second quarter of 2002, or 28 cents per diluted share. Year-to-date net income was \$7.1 million for 2003, or 33 cents per diluted share, compared with \$3.4 million, or 17 cents per diluted share in the first six months of 2002.

Pro forma net income for the second quarter of 2003 was \$6.1 million, or 28 cents per diluted share, compared with \$6.5 million, or 29 cents per diluted share, in the second quarter of 2002. Year-to-date pro forma net income was \$12.4 million, or 57 cents per diluted share compared with \$11.8 million, or 53 cents per diluted share. Pro forma results exclude intangible amortization expenses, restructuring charges, and in-process R&D charges. A schedule reconciling income between GAAP and pro forma is attached to this release.

"We are quite pleased with our results so far in 2003," said LeRoy Nosbaum, Itron chairman and CEO. "We are having a particularly good year so far in our core meter reading business, with hardware sales up twenty percent over last year. Economic conditions continue to affect purchasing decisions for software and services, as we knew they would. The good news there is that while we are experiencing a longer sales cycle than we would like in software and services, we continue to have a good pipeline. Customers that have recently implemented our software products for transmission and distribution systems design (TDS), as well as distribution asset management are seeing results quickly and in a number of cases, cost savings well in excess of what they targeted. That bodes well for future sales."

Gross margin for the second quarter of 2003 was 49%, compared with 47% in the second quarter of last year, and 49% in the previous quarter. The higher gross margin in 2003 results principally from continuing improvements in hardware margin due to changes in product mix, higher manufacturing volumes, and lower component prices.

Operating expenses, which include intangible asset amortization expenses, were higher in the second quarter and year-to-date periods in 2003, compared with the same periods in 2002, due to the four acquisitions completed since March 2002. In addition, general and administrative expenses in 2003 were higher by approximately \$800,000 related to legal defense costs for the Benghiat patent litigation matter and increased consulting related to Sarbanes-Oxley compliance.

Net interest expense was \$901,000 for the second quarter of 2003 compared with \$366,000 in 2002. Year-to-date net interest expense in 2003 was \$1.2 million in 2003 compared with \$1.3 million last year. Interest expense in 2003 includes interest on a \$50 million term loan related to the Silicon Energy acquisition in March 2003. Interest expense in 2002 included interest expense for \$53.2 million in subordinated debt, which was converted to common stock during the second quarter of 2002.

Operating cash flow for the second quarter was \$1.5 million compared to \$15.1 million in the second quarter of 2002. Year-to-date cash flow from operations was \$9.3 million in 2003 compared with \$21.8 million in 2002. During the second quarter of 2003, we paid \$4 million to a customer in connection with an amendment to a long-term warranty and maintenance agreement. The payment did not impact net earnings as it was charged against an accrued loss related to the agreement, but it did result in a reduction of operating cash flow for the quarter and year-to-date. Tax benefits from stock option exercises were \$2.7 million and \$3.5 million less in the second quarter and year-to-date periods in 2003 compared with 2002 as fewer options were exercised. Also driving the lower operating cash flow in 2003 was a large and temporary increase in accounts receivable, primarily due to sales later in the second quarter.

New order bookings were \$41 million during the second quarter of 2003 compared with \$45 million in the second quarter of 2002. Year-to-date, new order bookings were \$101 million, 22% higher than the \$83 million in new order bookings during the first six months of 2002. "The amount of bookings in any given quarter can be greatly impacted by whether a larger sized order gets signed in the last few days of the quarter or the first few days of the next quarter," said Nosbaum. "Subsequent to quarter-end, we signed an AMR order with an existing meter reading handheld system customer worth approximately \$11 million." Nosbaum also commented that while the Houston City Council approved the continuation of the City's multi-year AMR roll out of Itron AMR technology in June, that is not included in new order bookings yet as the related documentation has not yet been received.

Total backlog, which represents the value of undelivered contractual orders, excluding annual maintenance, joint pole use and engineering services contracts, was \$173 million at June 30, 2003, compared with \$203 million at March 31, 2003. Twelve-month backlog represents the portion of backlog that will be earned over the next twelve months and was \$79 million at June 30, 2003, compared with \$102 million at March 31, 2003.

#### **Acquisition of SEM:**

In a separate release issued today, we announced that we have reached an agreement to acquire Schlumberger Electricity Metering, Inc. ("SEM") for a purchase price of \$255 million. The acquisition combines the industry leader in automatic meter reading technology ("AMR") and meter data management solutions with the industry leader in electric metering and expands Itron's business into the North American electric meter market. A complete copy of that press release can be accessed at [www.itron.com](http://www.itron.com).

#### **Business Outlook:**

The following statements are based on management's current expectations and do not include the impact of the pending acquisition of SEM. That acquisition is expected to be slightly accretive and we will provide more detail on the expected financial impact of the SEM acquisition at closing, which is expected to occur in the third or fourth quarter. These forward-looking statements are made as of the date of this press release. Actual results may differ materially due to a number of risks and uncertainties. Itron undertakes no obligation to update publicly or revise any forward-looking statements.

Our guidance for earnings for the full year 2003 remains unchanged with pro forma EPS expected to be between \$1.20 and \$1.25. Pro forma results for the year and quarter exclude restructuring charges, intangible asset amortization, and in-process R&D. Our expected range of revenues for 2003 is \$320 to \$330 million, approximately \$10 million lower than previous guidance primarily due to continued slowness in software and services businesses. Third quarter revenues and EPS are expected to be slightly better than or comparable with those of the second quarter.

"We are lowering our expectations for Transmission and Distribution Solutions software and services revenues in the second half of the year on the assumption that those orders are going to continue to take longer to close," commented Nosbaum. "Sales so far in 2003 are comparable with 2002 and we have recently closed some smaller TDS deals, including one in Spain. However, we acknowledge that an increase in TDS revenues in 2003 over 2002 is unlikely unless we close a large order within the next month or so. We remain bullish about the long-term prospects for our TDS business."

#### **Use of Pro Forma Financial Information:**

To supplement our consolidated financial statements presented in accordance with GAAP, Itron uses pro forma measures of operating results, net income and earnings per share. Pro forma results are adjusted from GAAP-based results to exclude certain costs, expenses and expense reversals 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 the pro forma results provide useful information to investors in terms of enhancing their overall understanding of our current financial performance as well as our future prospects. We have historically provided pro forma results and believe the inclusion of them provides investors with consistency in our financial reporting. Pro forma results should be viewed in addition to, and not in lieu of, GAAP results.

#### **Forward Looking Statements:**

This release contains forward-looking statements concerning Itron's operations, economic performance, sales, earnings growth and cost reduction programs. These statements reflect the Company's current plans and expectations and are based on information currently available to it. They rely on a number of assumptions and estimates, which could be inaccurate, and which

are subject to risks and uncertainties that could cause the Company's actual results to vary materially from those anticipated. Risks and uncertainties include 1) the timing of the SEM acquisition closing or the failure to finalize satisfactory credit arrangements for that acquisition, 2) the rate and timing of customer demand for the Company's products, 3) rescheduling of current customer orders, 4) the outcome of appeals or any negotiation efforts associated with the Benghiat litigation and estimating costs associated with litigation defense, 5) changes in law and regulation (including FCC licensing actions), 6) and other factors which are more fully described in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and Form 10-Q for the quarter ended March 31, 2003 on file with the Securities and Exchange Commission. Itron undertakes no obligation to update publicly or revise any forward-looking statements.

**Investor Conference Call:**

Itron will host a teleconference with institutional investors and analysts at 6:00 a.m. Pacific Time (9:00 a.m. Eastern Time), on Thursday, July 17, 2003 to discuss financial results for the second quarter 2003 as well as the acquisition of SEM. Internet users can hear a simultaneous live webcast of the teleconference at [www.itron.com](http://www.itron.com), "*About Itron – Investor Relations – Investor Events*." Webcast replays will begin shortly after the conclusion of the call and will be available through August 31, 2003. 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 800-428-6051 (Domestic) or 973-709-2089 (International), passcode 299315.

**About Itron:**

Itron is a leading technology provider and critical source of knowledge to the global energy and water industries. More than 2,800 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 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.

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[Itron Q2 Earnings Statement](#)