Itron

# ITRON ANNOUNCES RECORD SECOND QUARTER RESULTS

## Financial Results Include Actaris Consolidated Quarterly Revenue Exceeds $400 Million, Setting New Record

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

Quarterly and year-to-date revenues of $402 million and $549 million;
Quarterly and year-to-date non-GAAP diluted EPS of 89 cents and $1.34 per share; and
Quarterly and year-to-date Adjusted EBITDA of $69 and $92 million.

“We are obviously pleased with our financial results for the quarter,” said LeRoy Nosbaum, chairman and CEO. “As expected, the acquisition of Actaris dramatically improved the operating profile of our company and provides a platform for future growth opportunities in the global energy and water markets.”

We completed the acquisition of Actaris on April 18, 2007. Actaris products include electricity meters sold outside of the U.S. and Canada and gas and water meters sold around the world. We have changed our segment reporting starting this quarter to now reflect our two operating businesses: Itron North America (“INA”), which includes the operating results for Itron prior to the acquisition, and Actaris. Comparisons for the current periods to 2006 will focus on INA since there were no consolidated results related to Actaris in the 2006 periods.

**Quarter Statement of Operations Highlights:**
***Revenue*** – Total revenues for the second quarter 2007 of $402 million were $238 million, or 145%, higher than 2006 second quarter revenues of $164 million. INA revenues for the second quarter of $152 million were approximately $12 million, or 7%, lower than the second quarter of 2006. 2006 second quarter revenues included over $30 million from our contract with Progress Energy. This contract also contributed to the higher number of meters shipped during the second quarter of 2006. Actaris revenues of $250 million were comprised of shipments to electric, gas and water utilities of approximately 40%, 31% and 29%, respectively.

***Gross Margin*** – Gross margin for the second quarter of 2007 was 31%. Business combination accounting rules require that we revalue inventory at the sales price, less costs to complete and a reasonable profit allowance for selling effort. This is a specific expense during the quarter and is not expected to impact the remainder of the year. The value of the inventory acquired was increased by $16 million for this purchase accounting requirement, which resulted in a 4% decrease in total gross margin in the quarter ended June 30, 2007. Second quarter 2007 INA gross margin of 42% was similar to the second quarter of 2006. Actaris gross margin of 25% included the effect of the inventory purchase accounting adjustment. Actaris gross margin would have been 31% without the purchase accounting adjustment.

***Operating Expenses*** – Total operating expenses for the second quarter of 2007 were $148 million and included $36 million for in-process research and development (“IPR&D”) expenses related to the Actaris acquisition, which is a one-time expense. Operating expenses without the acquisition-related IPR&D expense were $112 million, or 28% of revenue. INA operating expenses were $47 million, reflecting a more than $2 million increase over the second quarter of 2006. The increase was primarily due to higher product marketing and product development expenses in support of our OpenWay platform. Actaris operating expenses of $93 million included $36 million of IPR&D expense related to the acquisition. Without this expense, Actaris operating expenses were $57 million, or 23% of revenue. Corporate unallocated expenses were nearly $8 million for the quarter, or about $1.6 million higher than the second quarter of 2006. The increase was attributable to higher depreciation expenses for our new corporate facilities and ERP system as well as an impairment charge for our previous corporate headquarters, which is held for sale.

***Interest and Other Income*** – Net interest expense of nearly $21 million in the second quarter of 2007 was $18 million higher than the comparable period in 2006. The increased net interest expense in 2007 was primarily due to the placement of $1.2 billion in debt for the Actaris acquisition. Other income included net realized gains of $2.2 million of acquisition-related foreign exchange transactions and $3.3 million of unrealized foreign currency exchange gains.

***Income Taxes*** – We had a $14.8 million GAAP income tax benefit for the second quarter of 2007. This compares with a GAAP income tax provision of $5 million in the second quarter of 2006. The benefit is due to the pre-tax GAAP loss.

***GAAP Net Income/Loss and EPS*** – Our GAAP net loss and fully diluted EPS loss for the second quarter of 2007 was $24 million, or 79 cents per share, compared with net income of $10 million, or 39 cents per share, in the same period in 2006. The loss was primarily due to acquisition-related charges for IPR&D and inventory.

***Non-GAAP Operating Income, Net Income and Diluted EPS*** – Non-GAAP operating income, which excludes amortization expense related to intangible assets, and excludes acquisition related charges for IPR&D and inventory, was $53 million, or 13% of revenues, in the second quarter of 2007, compared with $25 million, or 15% of revenues, in the second quarter of 2006. Non-GAAP net income and diluted EPS, which also excludes amortization of debt fees, was $27.7 million or 89 cents per share in 2007 compared with $15 million or 57 cents per share in the 2006 period. Non-GAAP net income and diluted EPS are higher in the second quarter of 2007 primarily due to the Actaris acquisition. Our non-GAAP tax rates were 31% and 35% for the second 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**:
***Revenue*** – Total revenues for the six-months ended June 30, 2007 of $549 million were $230 million or 72%, higher than 2006 six-month revenues of $319 million. INA revenues for the first six months of 2007 of $300 million were approximately $20 million, or 6%, lower than the same period of 2006. 2006 revenues included $63 million from our contract with Progress Energy. We shipped 1.6 million meters to Progress Energy during the first six months of 2006.

***Gross Margin*** – Total company gross margin for the six months ended June 30, 2007 was 34% and also included the 3% decrease in margins from the revaluation of inventory described above. Year-to-date 2007 INA gross margin of 42% was slightly lower than the 43% for the first six months of 2006 primarily due to lower production volumes for electricity meters.

***Operating Expenses*** – Total operating expenses for the first six months of 2007 were $200 million and included $36 million of expense related to IPR&D. Without this expense, operating expenses would have been $164 million, or 30% of revenue. INA operating expenses were $92 million, reflecting a $6 million increase over the first half of 2006. The increase was primarily due to increased product marketing and product development expenses related to our OpenWay development. Corporate unallocated expenses were approximately $15 million for the first six months of 2007 or about $2 million higher than the same period in 2006. The increase was attributable to higher depreciation expenses for our new corporate facilities and ERP system as well as an impairment charge for our previous corporate headquarters, which is held for sale.

***Interest and Other Income*** – Net interest expense of $20 million in the first six months of 2007 was $13 million higher than the comparable period of 2006. The increased net interest expense in 2007 was due to the placement of $1.2 billion in debt for the Actaris acquisition offset by interest income related to interest on the cash invested from the net proceeds of the convertible debt offering in the third quarter of 2006 and the net proceeds from the placement of equity in the first quarter of 2007. Other income included net realized gains of $3.8 million of acquisition-related foreign exchange transactions and $3.3 million of unrealized foreign currency exchange gains.

***Income Taxes*** – We had a $10.5 million GAAP income tax benefit for the first six months of 2007. This compares with a GAAP income tax provision of $11.1 million in the first six months of 2006. The benefit is due to the pre-tax GAAP loss.

***GAAP Net Income/Loss and Diluted EPS*** – Our GAAP net loss and fully diluted EPS loss for the first six months of 2007 was $16.7 million, or 58 cents per share, compared with net income of $17 million, or 66 cents per share in the first six months of 2006. The loss was primarily due to acquisition-related charges for IPR&D and inventory.

***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 $70 million, or 13% of revenues, in the first six months of 2007, compared with $52 million or 16% of revenues, in the same period of 2006. Non-GAAP net income and diluted EPS, which also excludes amortization of debt fees was $39.7 million or $1.34 per share in 2007 compared with $28.3 million and $1.08 per share in the 2006 period. Non-GAAP net income and diluted EPS are higher in the first half of 2007 primarily due to the Actaris acquisition.

**Other Financial Highlights:**
***New Order Bookings and Backlog*** - New order bookings for the second quarter were $413 million, compared with $107 million in the second quarter of 2006. New order bookings in 2007 included bookings for Actaris from April 18, 2007 through June 30, 2007. Our second quarter 2007 book-to-bill ratio was 1.06 to 1. Total backlog was $656 million at June 30, 2007 compared to $351 million at June 30, 2006. Twelve month backlog of $491 million at June 30, 2007 was higher than twelve month backlog at June 30, 2006 of $225 million, primarily due to the Actaris acquisition. Acquired backlog from the Actaris acquisition was $262 million.

***Cash Flows from Operations*** – Net cash provided by operating activities was $63 million for the first six months of 2007, compared with $57 million in the same period of 2006. Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) in the second quarter of 2007, was $69 million compared with $29 million for the same period in 2006. Adjusted EBITDA for the first six months of 2007 was $92 million, or more than $33 million higher than the first six 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 $1.42 billion and $1.44 billion;
Diluted non-GAAP EPS of between $2.75 and $3.00; and
Adjusted EBITDA in excess of $230 million.

Third quarter revenues are expected to be between $425 million and $445 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 1:45 p.m. (PDT) on August 1, 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 **# 4792735.**

**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 Q2 Earnings Statement]