Itron

Itron Announces Fourth Quarter and Full Year Results

New Record Quarterly and Full Year Revenue Record non-GAAP EPS and EBITDA

LIBERTY LAKE, WA. — February 20, 2008 — Itron, Inc. (NASDAQ:ITRI), today reported financial results for its fourth quarter and year ended December 31, 2007. Highlights include:

Quarterly and year-to-date revenues of $481 million and $1.464 billion;
Quarterly and year-to-date non-GAAP diluted EPS of 81 cents and $2.81; and
Quarterly and year-to-date Adjusted EBITDA of $67 million and $225 million.

"2007 was a transformational year for Itron," said LeRoy Nosbaum, chairman and CEO. "We closed the largest acquisition in the history of the company, expanded our product offering and geographical footprint, grew revenue by 127% over 2006 and substantially added to shareholder value, while building a solid platform and infrastructure to support additional growth in the future."

Fourth Quarter Statement of Operations Highlights:

Revenues – Total revenues for the fourth quarter of $481 million were $321 million, or 200%, higher than 2006 fourth quarter revenues of $160 million. Itron North America (INA) revenues for the fourth quarter of $177 million were about $17 million, or 11%, higher than the fourth quarter of 2006, reversing a trend in INA sales that we experienced in the first three quarters of the year. Actaris revenues of $303 million were comprised of shipments to electric, gas and water utilities of approximately 40%, 32% and 28%, respectively.

Gross Margin – Gross margin for the fourth quarter of 2007 was 33%. This compares with 40% in the fourth quarter of 2006. Fourth quarter 2007 INA gross margin of 40% was comparable with gross margin in the fourth quarter of 2006. Actaris gross margin of 28% was about one percentage point lower than the previous quarter due to higher indirect costs from the timing of gas and water production volumes.

Operating Expenses – Total operating expenses for the fourth quarter of 2007 were $125 million. INA operating expenses were $47 million, which was comparable with the fourth quarter of 2006. INA operating expenses as a percentage of revenue were 26%, which was lower than the 30% in 2006. Actaris operating expenses of $70 million were 23% of revenue. Corporate unallocated expenses of $8.3 million for the quarter were $553,000 higher than the fourth quarter of 2006. The increase was primarily attributable to Actaris-related integration expenses for internal controls for financial reporting and tax consulting.

Interest and Other Income – Net interest expense of $25 million in the fourth quarter of 2007 was substantially higher than the $118,000 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 $1.4 million in the fourth quarter. Other expense of $5.6 million was comprised primarily of unrealized foreign exchange losses on working capital accounts including intercompany interest balances.

Income Taxes – We had a $3.2 million GAAP income tax benefit for the fourth quarter of 2007. This compares with a GAAP income tax provision of $1.5 million in the fourth quarter of 2006. The benefit in the quarter was primarily driven by a one-time benefit for acquisition-related tax planning for Actaris and a tax benefit related to our investment in Brazilian operations.

GAAP Net Income/Loss and EPS – Our GAAP net income and fully diluted EPS for the fourth quarter of 2007 was $4 million, or 12 cents per share, compared with net income of $7.3 million, or 28 cents per share, in the same period in 2006. GAAP net income in the fourth quarter of 2007 was favorably impacted by the tax benefits.

Non-GAAP Operating Income, Net Income and Diluted EPS – Non-GAAP operating income, which excludes amortization expense related to intangible assets, was $58 million, or 12% of revenues, in the fourth quarter of 2007, compared with $17 million, or 11% of revenues, in the fourth quarter of 2006. Non-GAAP net income, which also excludes amortization of debt fees, was $26.5 million in 2007 compared with $12.5 million in the 2006 period. Non-GAAP diluted EPS, was 81 cents in the 2007 period compared with 48 cents in 2006. Fully diluted shares outstanding in the fourth quarter of 2007 were approximately 6 million higher than the same period in 2006 due to the equity offering of 4.1 million shares in the first quarter and the dilutive effect of our convertible debt. Non-GAAP net income and diluted EPS were higher in the fourth quarter of 2007 primarily due to the Actaris acquisition. Our non-GAAP tax rates were 6% and 28% for the fourth quarter of 2007 and 2006. The lower 2007 rate is due to the tax credits discussed above and lower tax rates for Actaris.

Year-To-Date Statement of Operations Highlights:

Revenues – Total revenues for the full year ended December 31, 2007 of $1.464 billion were $820 million, or 127%, higher than 2006 full year revenues of $644 million. INA revenues for the full year of 2007 of $630 million were approximately $14 million, or 2%, lower than the same period in 2006.

Gross Margin – Total company gross margin for the year ended December 31, 2007 was 33%. 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 one percentage point for the year ended December 31, 2007. INA gross margin of 41% was comparable to full year 2006.

Operating Expenses – Total operating expenses for the full year 2007 were $441 million and included $36 million of expense for in-process research and development (IPR&D) related to the Actaris acquisition, which is required by purchase accounting rules and we do not expect to be a recurring expense. Without this expense, operating expenses would have been $405 million, or 28% of revenue. INA operating expenses were $182 million, reflecting a $4 million increase over the full year 2006. The increase was primarily due to increased product marketing and product development expenses related to development of our next generation advanced metering infrastructure (AMI) technology, OpenWay. Corporate unallocated expenses were approximately $32 million for the full year 2007 or about $5 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, as well as impairment charges of $1.6 million for our former corporate headquarters building, which was sold in the fourth quarter of 2007.

Interest and Other Income – Net interest expense of $79 million for the full year 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 placement fees. Other income was $435,000 for the twelve months ended December 31, 2007 compared to a loss of $1.2 million in the same period of 2006.

Income Taxes – We had a $16 million GAAP income tax benefit for the full year 2007. This compares with a GAAP income tax provision of $18 million for the full year 2006. The benefit in 2007 is due to the pre-tax GAAP loss, legislative reductions in tax rates in France, Germany and the United Kingdom and tax benefits for acquisition-related tax planning for Actaris and the investment in our Brazilian operations.

GAAP Net Income/Loss and Diluted EPS – Our GAAP net loss and fully diluted loss per share for the full year 2007 was $16.1 million, or 55 cents per share, compared with net income of $33.8 million, or $1.28 per share in the full year 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 intangible assets and excludes acquisition related charges for IPR&D and inventory, was $182 million, or 12.5% of revenues, in the full year 2007, compared with $93 million or 14.4% of revenues, in the same period in 2006. Non-GAAP net income and diluted EPS, which also excludes amortization of debt placement fees was $87.3 million or $2.81 per diluted share in 2007, compared with $55.6 million and $2.12 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 full year 2007 were approximately 5 million higher than the same period in 2006.

Other Financial Highlights:

New Order Bookings and Backlog - New order bookings for the fourth quarter were $448 million, compared with $211 million in the fourth quarter of 2006. Our fourth quarter 2007 book-to-bill ratio was .97 to 1. Total backlog was $659 million at December 31, 2007 compared with $392 million at December 31, 2006. Twelve month backlog of $501 million at December 31, 2007 was higher than twelve month backlog at December 31, 2006 of $225 million and higher than twelve month backlog at September 30, 2007 of $494 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 $133 million for the full year ended December 31, 2007, compared with $95 million in the same period in 2006. Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) in the fourth quarter of 2007 was $67 million compared with $21 million for the same period in 2006. Adjusted EBITDA for the full year 2007 was $225 million, or $118 million higher than the full year 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 2008, we expect

Revenues between $1.87 billion and $1.91 billion;
Diluted non-GAAP EPS of between $3.20 and $3.45; and
Adjusted EBITDA in excess of $275 million.
First quarter 2008 revenue between $450 million and $465 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 February 20, 2008. The call will be webcast in a listen only mode and can be accessed online at www.itron.com, "Investors – Investor 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 #4223492. You may also view presentation materials related to the earnings call on Itron's website, www.itron.com, Investors, Presentations.

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 Q4 2007 Earnings Statement
Itron Q4 2007 Non-GAAP Financial Measures