ITRON ANNOUNCES STRONG THIRD QUARTER RESULTS

SPOKANE, WA. — November 1, 2006 — Itron, Inc. (NASDAQ:ITRI), today reported financial results for its third quarter ended September 30, 2006. Highlights of the results include:

Record quarterly and year-to-date revenues of $164.7 million and $484.1 million;
Quarterly and year-to-date GAAP diluted EPS of $.35 and $1.01;
Record quarterly and year-to-date pro forma diluted EPS of $.63 and $1.83;
Record year-to-date cash flow from operations of $87 million.

Revenues for the third quarter of 2006 were $164.7 million, 17% higher than third quarter 2005 revenues of $141.1 million. Revenues for the nine months ended September 30, 2006 were $484.1 million, which reflects a 23% increase over revenues of $392.7 million in the first nine months of 2005.

“We continue to deliver solid operating results,” said LeRoy Nosbaum, chairman and CEO. “We had our highest quarterly revenue in the company’s history despite the expected decline from the first half of the year in revenue associated with our Progress Energy contract. The overall level of activity in the industry continues to be high and our competitive position remains excellent.”

Electricity Metering segment revenues were $81.6 million in the third quarter compared with $58.6 million in the third quarter of 2005. For the nine months ended September 30, 2006 Electricity Metering revenues were $250.4 million compared with $173.3 million in the same period in 2005. The 39% and 44% respective increases in revenues were primarily driven by shipments of electricity meters with embedded AMR and related installation services to Progress Energy. Without the effect of Progress Energy, Electricity Metering revenues in the quarter increased 7% over 2005. The Progress Energy contract accounted for meter shipments of approximately 300,000 and 1.9 million in the quarter and year-to-date periods.
Meter Data Collection (MDC) segment revenues of $69.4 million in the third quarter of 2006 were down slightly from $70.6 million in the third quarter of 2005. Year-to-date 2006 MDC revenues of $191.3 million were 5% higher than the $182.5 million year-to-date in 2005 despite a planned sales shift from stand-alone electric AMR modules to electric meters with embedded AMR, which are reflected in Electricity Metering segment revenues. The higher year-to-date MDC revenue is primarily due to shipments of gas ERT modules associated with several AMR projects.
Software Solutions revenues were $13.7 million during the quarter or 15% higher than $11.9 million in the third quarter of 2005. For the nine months ended September 30, 2006, software revenues of $42.4 million were 15% higher than revenues of $36.9 million for the same period in 2005. Software revenues have increased in 2006 primarily due to increased software license sales for a variety of products.

New order bookings for the quarter and year-to-date periods in 2006 were $128 million and $441 million, compared with $212 million and $506 million in 2005. New order bookings in 2005 included $118 million from one contract with Progress Energy, which was signed in the third quarter of 2005. Twelve-month backlog, which represents the portion of backlog that will be earned over the next twelve months, was $194 million at September 30, 2006, compared with $198 million one year ago. At September 30, 2006 and 2005 total backlog was $325 million. Twelve-month and total backlog at September 30, 2005 included $77 million and $118 million respectively, related to our contract with Progress Energy. At September 30, 2006 there was $14 million remaining in backlog related to this contract.

“New order bookings and resulting backlog remain strong,” said LeRoy Nosbaum, “both of which mitigate the effect of the large order with Progress Energy winding down.”

Total company gross margins of 41% for the quarter were slightly lower than the 43% in the third quarter of 2005. Gross margins for the year-to-date periods in 2006 were 42% which was in line with the 43% in the same period of 2005. Current quarter and year-to-date gross margins were lower for Electricity Metering due to a higher portion of lower margin installation revenue in both periods. Software Solutions gross margins were lower for the quarter due to the timing of projects. Software margin for the nine months ended September 30, 2006 of 42% was slightly higher than the 41% in the same period of 2005 due to a higher proportion of revenue from software licenses.

On January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123®, *Share-Based Payment* (SFAS 123 ®*,* which requires the expensing of share-based compensation. Total stock-based compensation in the quarter and year-to-date periods was $2.7 million and $6.8 million respectively, of which $2.3 million and $5.9 million was due to the adoption of SFAS 123® for stock options.

Pro forma operating income, which excludes intangible asset amortization expenses in both 2006 and 2005, restructuring charges in 2005 and SFAS 123® stock option compensation expense in 2006, was $26.5 million for the quarter, or 16.1% of revenues, compared with $23.9 million or 16.9% of revenues in the third quarter of 2005. Year-to-date pro forma operating income was $81.7 million, or 16.9% of revenues compared with $59.8 million or 15.2% of revenues for the nine months ended September 30, 2005, even with increased investments in research and development in 2006.

GAAP net income was $9.2 million, or 35 cents per diluted share, for the current quarter, compared with net income of $6.0 million, or 23 cents per diluted share, for the third quarter of 2005. For the nine months ended September 30, 2006, GAAP net income was $26.5 million, or $1.01 per diluted share, compared with $16.1 million, or 66 cents per diluted share for the same period in 2005. GAAP net income in the nine month 2005 period included a $5.9 million tax benefit for additional research and development (R&D) credits for the years 1997 through 2004.

Pro forma net income was $16.6 million, or 63 cents per diluted share, for the quarter and $48.2 million, or $1.83 per diluted share, for the nine months ended September 30, 2006, compared with $12.6 million, or 49 cents per diluted share, in the third quarter of 2005 and $30.3 million or $1.24 per diluted share for the nine months ended September 30, 2005. Pro forma net income excludes intangible asset and debt fee amortization expense in 2005 and 2006, restructuring charges and the benefit of R&D tax credits in 2005 and SFAS 123® stock option compensation expense in 2006.

On August 4, 2006, we issued $345 million of 2.50% convertible senior subordinated notes with a 40% conversion premium at the time of issuance. Upon conversion we are required to settle the principal amount of the convertible notes in cash and may elect to settle the remaining conversion obligation (stock price in excess of conversion price) in cash, shares or a combination. The notes are due August 2026 and contain put options at five-year intervals at the option of the holder. We expect to use the proceeds from the issuance for future investments in or acquisitions of companies or technologies that are complementary to our business. The net proceeds from the issuance of notes have been invested in short term securities and were mildly accretive to our results during the quarter because of the interest spread.

We generated $87.0 million of cash from operations during the first nine months of 2006 compared with $49.6 million in 2005. Capital expenditures were $25.9 million in the first nine months of 2006 compared with $10.3 million in the first nine months of 2005. The increase in 2006 is primarily related to an enterprise software upgrade and capital improvements associated with our new headquarters building.

Forward Looking Statements:
This release contains forward-looking statements concerning our expectations about our 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 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 2006, we expect:

Revenues between $638 and $642 million (previous guidance was $625 to $635 million).
GAAP net income between $32 and $34 million (previous guidance was $31 to $33 million).
Pro forma net income between $61 and $63 million (previous guidance was $59 to $61 million.
Pro forma EPS between $2.35 and $2.40 per diluted share (previous guidance was $2.25 to $2.30).
Our 2006 estimated pro forma tax rate as a percentage of pre-tax pro forma income is expected to be approximately 37%, which is higher than our previous estimated rate due to the expiration of the federal research credit which Congress has yet to renew for 2006. If the research credit is renewed for the entire year, we estimate it will reduce our pro forma tax rate as a percentage of pre-tax pro forma income to approximately 35%.
Adjusted EBITDA, which excludes $8 million of stock option compensation expenses, between $117 and $120 million.

Our preliminary expectations for the full year 2007 are:

Revenue growth of approximately 8% over 2006 with a range of 3% above and below that midpoint target.
Pro forma diluted EPS growth of almost twice the rate of revenue growth.

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, EBITDA and Adjusted EBITDA. Management believes these non-GAAP financial measures 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 and comparability in our financial reporting. 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. 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. Reconciliations between GAAP and non-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 November 1, 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. (PDT). 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 **# 3314107.**

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. tron 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.

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Statements of operations, reconciliations between GAAP and non-GAAP results, segment information, balance sheets, cash flow statements and reconciliations of adjusted EBITDA follow.

Related Documents
Itron Q3 2006 Earnings Statement