



Itron Announces Record Second Quarter Results

Record Quarter for Revenue and Non-GAAP EPS

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LIBERTY LAKE, WA. — July 30, 2008 — Itron, Inc. (NASDAQ:ITRI) today reported financial results for its second quarter and year-to-date period ended June 30, 2008. Financial results for 2008 include Actaris operations for a full quarter and six months while results for 2007 only include Actaris operations from April 18, 2007. Highlights of the quarter and six months ended June 30, 2008 include:

Quarterly and six-month revenues of \$514 million and \$992 million;
Quarterly and six-month non-GAAP diluted EPS of \$1.02 and \$1.85;
Quarterly and six-month Adjusted EBITDA of \$79 million and \$151 million; and
Quarterly Bookings of \$432 million.

"I am pleased to announce our financial results this quarter," said LeRoy Nosbaum, chairman and CEO. "We made great progress during the last three months on the customer front including the announcement of two major AMI agreements with DTE Energy and San Diego Gas & Electric and we continue to drive profitable financial results as well."

Operations Highlights – Second Quarter:

Revenues – Total revenues of \$514 million for the second quarter of 2008 were \$112 million, or 28%, higher than 2007 second quarter revenues of \$402 million. Itron North America (INA) revenues of \$165 million for the second quarter of 2008 were \$23 million, or 16%, higher than the second quarter of 2007. Actaris revenues were \$349 million for the second quarter of 2008 compared with \$260 million in the second quarter of 2007. Revenues for the electric, gas and water business units were approximately 39%, 32% and 29% of total Actaris revenue.

Gross Margin – Gross margin for the second quarter of 2008 was 34%. This compares with 31% in the second quarter of 2007. Second quarter 2008 INA gross margin of 40% was somewhat lower than 2007 gross margin of 42% in the second quarter of 2007 due to costs associated with the first version AMI meters and increased services costs. Actaris gross margin of 32% was significantly higher than the second quarter 2007 gross margin of 25%. 2008 Actaris gross margin benefited from a higher proportion of Commercial and Industrial (C&I) meter shipments in the quarter and lower indirect cost of sales. The Actaris acquisition was completed on April 18, 2007 and business combination accounting rules require inventory to be revalued at the sales price, less costs to complete and a reasonable profit allowance for selling effort. The value of the inventory acquired was increased by \$16 million in the second quarter of 2007 for this purchase accounting requirement, which resulted in a four percentage point decrease in total gross margin in the quarter ended June 30, 2007.

Operating Expenses – Total operating expenses for the second quarter of 2008 were \$140 million compared with \$148 million in the second quarter of 2007. Operating expenses in 2007 included \$36 million for in-process research and development (IPR&D) related to the Actaris acquisition. INA operating expenses were \$45 million, which was comparable with the second quarter of 2007. INA operating expenses as a percentage of revenue were 28%, which was lower than the 32% in 2007, due to the increased revenue and lower amortization of intangibles expense. Actaris operating expenses of \$85 million were 24% of revenue. Actaris' 2007 operating expenses included IPR&D expense. Corporate unallocated expenses of \$9.8 million for the second quarter of 2008 were \$1.9 million higher than the second quarter of 2007 due to increased compensation and financial integration expenses.

Interest and Other Income (Loss) – Net interest expense of \$21 million in the second quarter of 2008 was comparable to the second quarter of 2007. Debt fee amortization expense, which is included in net interest expense, was \$4.0 million in the second quarter of 2008 compared with \$2.0 million in the second quarter of 2007. The increased amortization in the second quarter was related to the pre-payment of \$304 million on our debt. The second quarter of 2008 included other expense of \$1.8 million compared with other income of \$5.4 million in 2007. The other loss in the second quarter of 2008 was primarily the result of foreign currency fluctuations. Other income in the second quarter of 2007 included a \$2.2 million acquisition-related exchange gain and unrealized foreign currency exchange gains.

Income Taxes – Our GAAP tax rate was less than 2% for the second quarter of 2008. The second quarter of 2007 included a

\$14.8 million GAAP income tax benefit due to a pre-tax loss. The 2008 rate reflects the benefit of certain interest expense deductions and the election under the Internal Revenue Code Section 338 with respect to the Actaris acquisition.

GAAP Net Income/Loss and EPS – Our GAAP net income and fully diluted EPS for the second quarter of 2008 was \$13.1 million, or 37 cents per share, compared with a net loss of \$23.9 million, or 79 cents per share, in the same period in 2007.

Non-GAAP Operating Income, Net Income and Diluted EPS – Non-GAAP operating income, which excludes amortization expense related to intangible assets, was \$68 million, or 13.2% of revenues, in the second quarter of 2008, compared with \$53 million, or 13.3% of revenues, in the second quarter of 2007. Non-GAAP operating income in 2007 excludes acquisition related charges for IPR&D and inventory of \$52 million in addition to amortization of intangible asset expense. Non-GAAP net income, which also excludes amortization of debt fees, was \$36 million in 2008, compared with \$28 million in the 2007 period. Non-GAAP diluted EPS was \$1.02 in the 2008 period compared with 89 cents in 2007. Fully diluted shares outstanding in the first quarter of 2008 were approximately 4 million higher than the same period in 2007 due to the equity offering of 3.4 million shares in the second quarter of 2008 and the dilutive effect of our convertible debt, of which our stock did not exceed the conversion price at the same time last year. Non-GAAP net income and diluted EPS in the second quarter of 2008 were benefited by including results for an entire quarter for Actaris rather than a partial quarter in 2007 due to the timing of closing the acquisition. Our non-GAAP tax rates were 26% and 31% for the second quarter of 2008 and 2007. The lower 2008 rate is due to lower tax rates for Actaris.

“This was the best quarter of performance we have had in the history of the company,” said Nosbaum. “We set records in many categories including revenue, gross profit, non-GAAP operating income, non-GAAP EPS and cash flow from operations. Our operating results combined with the contract announcements are helping to solidify our leadership position in the industry and the market at this exciting time.”

Operations Highlights – Six Months:

Revenues – Total revenues of \$992 million for the six months ended June 30, 2008 were \$443 million, or 81%, higher than 2007 six-month revenues of \$549 million. INA revenues of \$315 million for the first six months of 2008 were \$31 million, or 11%, higher than the comparable period in 2007. Actaris revenues were \$678 million for the first six months of 2008 compared with \$266 million in the same period of 2007. Actaris was acquired on April 18, 2007. Revenues for Actaris electric, gas and water business units in the six months were approximately 38%, 31% and 31% of total six-month revenue.

Gross Margin – Gross margin for the first six months of 2008 was 34%, which was the same as the first six months of 2007. INA gross margin of 40% in the first six months of 2008 was less than 2007 gross margin of 43% due to product mix and increased services costs. Actaris gross margin of 32% was much higher than the first six months of 2007 gross margin of 24%. In addition to the absence of acquisition related charges, 2008 Actaris gross margin benefitted from product mix and lower indirect cost of sales.

Operating Expenses – Total operating expenses for the first six months of 2008 were \$275 million compared with \$200 million in the same period of 2007. INA operating expenses were \$87 million, which was comparable with the same period of 2007. INA operating expenses as a percentage of revenue were 28%, which was lower than the 31% in 2007, due to the increased revenue and lower amortization of intangibles expense. Actaris operating expenses of \$169 million were 25% of revenue, as compared with \$97 million, or 37% of revenue, in the first six months of 2007. Actaris 2007 operating expenses included \$36 million of IPR&D expense. Corporate unallocated expenses of \$20 million for the first six months of 2008 were \$4.3 million higher than 2007 due to increased compensation and financial integration expenses.

Interest and Other Income (Loss) – Net interest expense was \$45 million in the first six months of 2008 compared to \$20 million in the same period of 2007. The increase in net interest expense was due to the placement of \$1.2 billion in debt for the Actaris acquisition in April of 2007. Debt fee amortization expense, which is included in net interest expense, was \$5.7 million in the first six months of 2008 compared with \$2.7 million in the first six months of 2007. The increased amortization was related to the increased debt payments during the 2008 quarter. The first six months of 2008 included a loss of \$1.7 million compared with other income of \$6.9 million in 2007. The other loss in the first half of 2008 was primarily the result of foreign currency fluctuations. Other income in 2007 included \$3.8 million of acquisition-related foreign exchange gains and unrealized foreign currency exchange gains.

Income Taxes – Our GAAP tax rate was 5.3% for the first six months of 2008. The first six months of 2007 included a \$10.5 million GAAP income tax benefit due to a pre-tax loss. The 2008 rate reflects the benefit of certain interest expense deductions and the election under the Internal Revenue Code Section 338 with respect to the Actaris acquisition.

GAAP Net Income/Loss and EPS – Our GAAP net income and fully diluted EPS for the first six months of 2008 was \$16.1 million, or 47 cents per share, compared with a net loss of \$16.7 million, or 58 cents per share, in the same period in 2007.

Non-GAAP Operating Income, Net Income and Diluted EPS – Non-GAAP operating income, which excludes amortization expense related to intangible assets, was \$126 million, or 12.7% of revenues, in the first six months of 2008, compared with

\$70 million, or 12.7% of revenues, in the first six months of 2007. Non-GAAP operating income in 2007 excludes acquisition related charges for IPR&D and inventory of \$52 million in addition to amortization of intangible asset expense. Non-GAAP net income, which also excludes amortization of debt fees, was \$62.9 million in 2008 compared with \$39.7 million in the 2007 period. Non-GAAP diluted EPS was \$1.85 in the 2008 period compared with \$1.34 in 2007. Fully diluted shares outstanding in the first six months of 2008 were more than 4 million higher than the same period in 2007 due to the equity offering of 3.4 million shares in the second quarter of 2007 and the dilutive effect of our convertible debt, of which our stock price did not exceed the conversion price at the same time last year. Non-GAAP net income and diluted EPS in the first six months of 2008 were benefitted by including results for the entire six months for Actaris rather than a partial quarter in 2007 due to the timing of closing the acquisition. Our non-GAAP tax rates were 26% and 33% for the first six months of 2008 and 2007. The lower 2008 rate is due to lower tax rates for Actaris.

Other Financial Highlights:

New Order Bookings and Backlog - New order bookings for the second quarter of 2008 were \$432 million, compared with \$413 million in the second quarter of 2007, reflecting book-to-bill ratios of .9 to 1 and 1.06 to 1 respectively. New order bookings for the first six months of 2008 were \$916 million compared with \$531 million in the same six months of 2007. Total backlog was \$609 million at June 30, 2008 compared with \$656 million at June 30, 2007. Twelve month backlog of \$493 million at June 30, 2008 compares with twelve month backlog at June 30, 2007 of \$491 million. Approximately \$470 million related to a contract that we signed with Southern California Edison in December 2007 is not included in our reported backlog. We will include new order bookings related to this contract and other large AMI contracts as firm purchase orders are received or other conditions are met.

Cash Flows from Operations – Net cash provided by operating activities during the first six months of 2008 was \$120 million, which is a new record. This compares with \$63 million in the same period in 2007. Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) in the second quarter of 2008 was \$79 million compared with \$69 million for the same period in 2007. Adjusted EBITDA for the first six months of 2008 was \$151 million compared with \$92 million in the first six months of 2007.

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 and bonus compensation, changes in foreign exchange rates, international business risks and other factors which are more fully described in our Annual Report on Form 10-K for the year ended December 31, 2007 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 \$1.91 billion and \$1.95 billion (previous guidance was \$1.88 to \$1.93 billion);
Diluted non-GAAP EPS of between \$3.35 and \$3.50 (previous guidance was \$3.25 to \$3.45); and
Adjusted EBITDA in excess of \$285 million (previous guidance was in excess of \$280 million).

Third quarter 2008 revenue is expected to be between \$465 million and \$480 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 July 30, 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 #5261462. 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 Q2 2008 Earnings Statement](#)