



Itron Announces Strong Third Quarter Results

Record Quarterly Booking of \$894 Million Quarterly Revenue \$485 Million Non-GAAP Diluted EPS 81 cents

LIBERTY LAKE, WA. — October 29, 2008 — Itron, Inc. (NASDAQ:ITRI) today reported financial results for its third quarter and year-to-date period ended September 30, 2008. Financial results for the year-to-date period ended September 30, 2008 include Actaris operations for a full nine months while results for the same period in 2007 only include Actaris operations from April 18, 2007. Highlights of the quarter and nine months ended September 30, 2008 include:

Quarterly and nine-month revenues of \$485 million and \$1.48 billion;
Quarterly and nine-month non-GAAP diluted EPS of 81 cents and \$2.65;
Nine-month cash flow from operations and free cash flow of \$156 million and \$115 million;
Quarterly and nine-month Adjusted EBITDA of \$69 million and \$220 million; and
Quarterly Bookings of \$894 million.

“Our financial results were right in line with our expectations for the quarter,” said LeRoy Nosbaum, chairman and CEO. “Both operating segments continue to execute according to plan, customers continue to place orders for meters and other products and to evaluate AMR and AMI projects. As well, Itron remains a very financially stable business with a strong balance sheet and positive free cash flow.”

Operations Highlights – Third Quarter:

Revenues – Total revenues of \$485 million for the third quarter of 2008 were \$51 million, or 12%, higher than 2007 third quarter revenues of \$434 million. Itron North America (INA) revenues of \$160 million for the third quarter of 2008 were \$17 million, or 12%, higher than the third quarter of 2007. Actaris revenues of \$325 million for the third quarter of 2008 were \$33 million, or 11%, higher than the third quarter of 2007. 2008 revenue benefitted from foreign exchange rates which accounted for more than half of the increase. Revenues for the electric, gas and water business units were approximately 38%, 34% and 28% of total Actaris revenue.

Gross Margin – Gross margin for the third quarter of 2008 was 34% which is comparable with the third quarter of 2007. Third quarter 2008 INA gross margin of 39% was lower than 2007 gross margin of 41% in the third quarter of 2007 due primarily to product mix. Actaris gross margin of 31% was higher than the third quarter 2007 gross margin of 30% due primarily to increased efficiencies and product mix.

Operating Expenses – Total operating expenses for the third quarter of 2008 were \$138 million compared with \$116 million in the third quarter of 2007. INA operating expenses were \$43 million, or 27% of revenue, compared with \$42 million, or 29% of revenue, in the third quarter of 2007. Actaris operating expenses of \$83 million were 26% of revenue compared with \$66 million or 23% of revenue in 2007. Actaris operating expenses were affected by foreign currency exchange rates which increased operating expenses approximately \$6 million in 2008 compared with 2007. In addition to the exchange rate fluctuations, Actaris operating expenses were higher in all areas due to: increased sales; more emphasis on product development; higher amortization of intangibles expense due to the specific lives of the assets; increased personnel costs; and expenses related to Sarbanes-Oxley compliance. Corporate unallocated expenses of \$11 million for the third quarter of 2008 were \$2.6 million higher than the third quarter of 2007 due primarily to increased compensation, financial integration and consulting expenses.

Interest and Other Income (Loss) – Net interest expense of \$15.7 million in the third quarter of 2008 was substantially lower than \$34.3 million net interest expense in the third quarter of 2007 due to lower average debt balances and lower average interest rates. Debt fee amortization expense, which is included in net interest expense, was \$1.8 million in the third quarter of 2008 compared with \$9.2 million in the third quarter of 2007. Debt fee amortization expense in 2007 included \$6.6 million of accelerated amortization as our convertible subordinated debt became subject to conversion for the first time in the third quarter of 2007. Our convertible debt is subject to conversion when our stock price exceeds the conversion parameters at the end of a quarter. The third quarter of 2008 included other expense of \$281,000 compared with \$873,000 in 2007. Other expense primarily consists of realized and unrealized foreign exchange losses.

Income Taxes – Our GAAP tax rate was 18% for the third quarter of 2008. The third quarter of 2007 included a \$2.7 million GAAP income tax benefit due to a pre-tax loss. The 2008 rate reflects 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 third quarter of 2008 was \$7.7 million, or 21 cents per share, compared with a net loss of \$3.4 million, or 11 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 \$56 million, or 11.5% of revenues, in the third quarter of 2008, compared with \$55 million, or 12.7% of revenues, in the third quarter of 2007. Non-GAAP net income, which also excludes amortization of debt fees, was \$29.9 million in 2008, compared with \$21.2 million in the 2007 period. Non-GAAP diluted EPS was 81 cents in the 2008 period compared with 65 cents in 2007. Fully diluted shares outstanding in the third quarter of 2008 were more than 4 million higher than the same period in 2007 due primarily to the equity offering of 3.4 million shares in the second quarter of 2008. Our non-GAAP tax rates were 28% and 27% for the third quarter of 2008 and 2007.

“With the backdrop of a slowing economy our results for the third quarter have remained strong,” said Nosbaum. “Those results are a validation that our customer base tends to be less affected by changes in the economy and that our business strategy of being a geographically and product diverse business has benefits in times like these.”

Operations Highlights – Nine Months:

Revenues – Total revenues of \$1.48 billion for the nine months ended September 30, 2008 were \$493 million, or 50%, higher than 2007 nine-month revenues of \$984 million. INA revenues of \$475 million for the first nine months of 2008 were \$49 million, or 11%, higher than the comparable period in 2007. Actaris revenues exceeded \$1 billion for the first nine months of 2008 compared with \$557 million in the same period of 2007. Actaris was acquired on April 18, 2007. Actaris revenues for 2008 benefitted from favorable foreign exchange rates. Revenues for the electric, gas and water business units in the nine months were approximately 38%, 32% and 30% of total Actaris revenue.

Gross Margin – Gross margin for the first nine months of 2008 was 34%, which was comparable with the first nine months of 2007. INA gross margin of 39% in the first nine months of 2008 was less than 2007 gross margin of 42% due to product mix and increased services costs. Actaris gross margin of 31% was much higher than the first nine months of 2007 gross margin of 27%. 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 nine months of 2008 were \$413 million compared with \$316 million in the same period of 2007. INA operating expenses were \$130 million, which was comparable with the same period of 2007. INA operating expenses as a percentage of revenue were 27%, which was lower than the 30% in 2007, due to increased revenue and lower amortization of intangibles expense. Actaris operating expenses of \$253 million were 25% of revenue, as compared with \$163 million, or 29% of revenue, in the first nine months of 2007. The increased Actaris 2008 operating expenses were affected by foreign currency exchange rates. Actaris operating expenses in 2007 only included expenses from the date of the acquisition. Corporate unallocated expenses of \$31 million for the first nine months of 2008 were \$6.8 million higher than 2007 primarily due to increased compensation, financial integration and consulting expenses.

Interest and Other Income (Loss) – Net interest expense was \$61 million in the first nine months of 2008 compared to \$54 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 \$7.7 million in the first nine months of 2008 compared with \$12.0 million in the first nine months of 2007. The higher amortization expense in 2007 was due to the accelerated expensing of debt fees for the convertible notes. The first nine months of 2008 included other losses of \$1.9 million compared with other income of \$6.1 million in 2007. The other loss in 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 10% for the first nine months of 2008. The first nine months of 2007 included a \$13.2 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 nine months of 2008 was \$23.8 million, or 68 cents per share, compared with a net loss of \$20.1 million, or 69 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 \$182 million, or 12.3% of revenues, in the first nine months of 2008, compared with \$125 million, or 12.7% of revenues, in the first nine months of 2007. Non-GAAP operating income in 2007 excludes acquisition related charges for In Process Research & Development 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 \$92.7 million in 2008 compared with \$60.8 million in the 2007 period. Non-GAAP diluted EPS was \$2.65 in the 2008 period compared with \$1.99 in 2007. Fully diluted shares outstanding in the first nine months of 2008 were more than 4 million higher than the same period in 2007 due primarily to the equity offering of 3.4 million shares in the second quarter of 2008. Non-GAAP net income and diluted EPS in

the first nine months of 2008 were benefitted by including results for the entire nine months for Actaris rather than a partial year in 2007 due to the timing of closing the acquisition. Our non-GAAP tax rates were 27% and 31% for the first nine 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 third quarter of 2008 were \$894 million, compared with \$440 million in the third quarter of 2007, reflecting book-to-bill ratios of 1.90 to 1 and 1.05 to 1 respectively. New order bookings for the 2008 quarter included \$470 million related to our Advanced Metering Infrastructure (AMI) contract with Southern California Edison (SCE). The California Public Utility Commission approved SCE's AMI project in September 2008, which allowed us to book the contract value in our backlog. New order bookings for the first nine months of 2008 were \$1.8 billion compared with \$971 million in the same nine months of 2007. Total backlog was \$1 billion at September 30, 2008 compared with \$668 million at September 30, 2007. Twelve month backlog of \$436 million at September 30, 2008 compares with twelve month backlog at September 30, 2007 of \$494 million.

Cash Flows from Operations and Financial Condition – Net cash provided by operating activities during the first nine months of 2008 was \$156 million. This compares with \$90 million in the same period in 2007. Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) in the third quarter of 2008 was \$69 million compared with \$67 million for the same period in 2007. Adjusted EBITDA for the first nine months of 2008 was \$220 million compared with \$158 million in the first nine months of 2007. Free cash flow for the first nine months ended September 30, 2008 was \$115 million compared with \$59 million for the same period in 2007. Cash and equivalents were \$147 million at September 30, 2008 compared with \$85 million at September 30, 2007. Our Debt/EBITDA ratio, as calculated for bank covenant purposes, was 3.9 times at September 30, 2008 compared with 5.7 times at September 30, 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. The Statements 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 \$1.93 billion (previous guidance was \$1.91 to \$1.95 billion);
Diluted non-GAAP EPS of between \$3.35 and \$3.45 (previous guidance was \$3.35 to \$3.50); and
Adjusted EBITDA in excess of \$280 million (previous guidance was in excess of \$285 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 October 29, 2008. The call will be webcast in a listen only mode and can be accessed online at www.itron.com, "Investors – 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 #3124368. 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 Q3 2008 Earnings Statement](#)