# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

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# FORM 8-K/A

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**CURRENT REPORT**
**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**September 2, 2004**
**(Date of Report)**

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# ITRON, INC.
**(Exact Name of Registrant as Specified in Charter)**

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| **Washington** | **000-22418** | **91-1011792** |
|---|---|---|
| **(State or Other Jurisdiction of Incorporation)** | **(Commission File No.)** | **(IRS Employer Identification No.)** |

**2818 N. Sullivan Road, Spokane, WA 99216**
**(Address of Principal Executive Offices, including Zip Code)**

**(509) 924-9900**
**(Registrant’s Telephone Number, Including Area Code)**

**None**
**(Former Name or Former Address, if Changed Since Last Report)**

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

The registrant hereby amends its Current Report on Form 8-K dated July 15, 2004 as follows:

**Item 9.01 Financial Statements and Exhibits**

(a) Financial statements of businesses acquired.

The combined financial statements of Schlumberger Ltd.'s Electricity Products Business (SEM) required to be filed pursuant to Item 9.01(a) of Form 8-K are included as Exhibit 99.1 and Exhibit 99.2 of this Current Report on Form 8-K/A.

(b) Pro forma financial information.

The pro forma financial information required to be filed pursuant to Item 9.01(b) of Form 8-K is included as Exhibit 99.3 of this Current Report on Form 8-K/A.

(c) Exhibits.

The following exhibits are filed as part of this report:

| Exhibit Number | Description |
|---|---|
| 23.1 | Consent of Independent Registered Public Accounting Firm. |
| 99.1 | Combined financial statements of the Electricity Products Business of Schlumberger Limited, including balance sheets as of December 31, 2003 and 2002, related combined statements of income, changes in owner's net investment and accumulated other comprehensive income and cash flows for each of the three years ended December 31, 2003 and Report of Independent Registered Public Accounting Firm. |
| 99.2 | Unaudited condensed combined interim financial statements of the Electricity Products Business of Schlumberger Ltd. as of June 30, 2004 and December 31, 2003 and for the six months ended June 30, 2004 and 2003. |
| 99.3 | Unaudited pro forma condensed combined balance sheet of Itron, Inc. and the Electricity Products Business of Schlumberger Ltd. (SEM) as of June 30, 2004 and the unaudited pro forma condensed combined statements of operations of Itron, Inc. and SEM for the year ended December 31, 2003 and the six months ended June 30, 2004. |

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

ITRON, INC.

| | | |
|---|---|---|
| Dated: September 2, 2004 | By: | /s/ DAVID G. REMINGTON |
| | | David G. Remington<br>Vice President and Chief Financial Officer |

## EXHIBIT INDEX

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**Exhibit 23.1**

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-04685, 333-28933, 333-63147, 333-81925, 333-86581, 333-40356, 333-89966, 333-97571, 333-110703 and 333-115987) of Itron, Inc. of our report dated February 27, 2004 relating to the financial statements of the Electricity Products Business of Schlumberger Limited, which contains an explanatory paragraph relating to certain assumptions and allocations to form the basis of presentation of the combined financial statements, which appears in the Current Report on Form 8-K/A of Itron, Inc. dated September 2, 2004.

/s/ PricewaterhouseCoopers LLP

New York, New York
September 2, 2004

Exhibit 99.1

**Electricity Products Business of Schlumberger Limited**

**Combined Financial Statements December 31, 2003 and 2002 and for the three years ended December 31, 2003**

## Report of Independent Registered Public Accounting Firm

To the Management of Schlumberger Limited

In our opinion, the accompanying combined balance sheets and the related combined statements of income, of changes in owner's net investment and accumulated other comprehensive income and of cash flows present fairly, in all material respects, the financial position of the Electricity Products Business of Schlumberger Limited (the "Electricity Products Business" or the "Company") at December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the management of Electricity Products Business; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Company is a fully integrated business of Schlumberger Limited. Consequently, as indicated in Note 1, these combined financial statements have been derived from the consolidated financial statements and accounting records of Schlumberger Limited and reflect significant assumptions and allocations. Moreover, as indicated in Note 1, the Company relies on Schlumberger Limited and its other businesses for certain administrative, management and other services. Accordingly, these combined financial statements do not necessarily reflect the combined financial position, results of operations, changes in owner's net investment and cash flows of the Company had it been a separate, stand-alone entity during the periods presented.

/s/ PricewaterhouseCoopers LLP

New York, NY
February 27, 2004

**COMBINED BALANCE SHEETS**

**(Electricity Products Business of Schlumberger Limited)**

| | December 31, | |
|---|---|---|
| | 2003 | 2002 |
| | (in thousands) | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 658 | $ 80 |
| Accounts receivable, net of allowance for doubtful accounts of $3,806 and $510, respectively | 18,073 | 19,926 |
| Receivables from affiliates | 4,550 | 4,268 |
| Inventories | 28,245 | 35,761 |
| Deferred tax assets | 4,239 | 5,441 |
| Other current assets | 2,509 | 531 |
| Total current assets | 58,274 | 66,007 |
| Property and equipment, net | 16,525 | 16,817 |
| Deferred tax assets | 23,960 | 19,060 |
| Prepaid pension asset | 10,029 | 9,671 |
| Other assets | 54 | 524 |
| Total assets | $ 108,842 | $ 112,079 |
| **Liabilities and Equity** | | |
| Current liabilities | | |
| Book overdraft | $ 7,885 | $ 6,049 |
| Accounts payable – trade | 7,817 | 11,711 |
| Payables to affiliates | 2,840 | 12,109 |
| Accrued liabilities | 17,378 | 15,775 |
| Current accrued environmental liability | 350 | — |
| Income taxes payable | 3,270 | 3,541 |
| Total current liabilities | 39,540 | 49,185 |
| Accrued environmental liabilities | 3,950 | 2,500 |
| Post retirement health care benefits | 61,212 | 57,426 |
| Total liabilities | 104,702 | 109,111 |
| Minority interest | 179 | 136 |
| Commitments and contingencies (Note 11) | | |
| Accumulated other comprehensive income/(loss) | 844 | 136 |
| Owner’s net investment | 3,117 | 2,696 |
| Total equity | 3,961 | 2,832 |
| Total liabilities and equity | $ 108,842 | $ 112,079 |

*The accompanying notes are an integral part of these combined financial statements.*

## COMBINED STATEMENTS OF INCOME

### (Electricity Products Business of Schlumberger Limited)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | (in thousands) | |
| **Revenues** | | | |
| Third parties | $ 227,464 | $ 159,076 | $ 140,209 |
| Affiliated Companies | 66,701 | 69,774 | 54,348 |
| Total revenue | 294,165 | 228,850 | 194,557 |
| **Cost of revenues** | | | |
| Third parties | 145,858 | 112,048 | 104,944 |
| Affiliated companies | 55,145 | 60,818 | 40,264 |
| Total cost of revenues | 201,003 | 172,866 | 145,208 |
| Gross profit | 93,162 | 55,984 | 49,349 |
| **Operating expenses** | | | |
| Sales and marketing | 14,093 | 12,806 | 14,006 |
| Research and engineering | 9,420 | 8,567 | 7,819 |
| General and administrative | 18,695 | 13,207 | 12,121 |
| Litigation settlement | 23,000 | — | — |
| Total operating expenses | 65,208 | 34,580 | 33,946 |
| Income from operations | 27,954 | 21,404 | 15,403 |
| Minority interest | (43) | 96 | 447 |
| Other expense | (17) | (113) | (986) |
| Income before income taxes | 27,894 | 21,387 | 14,864 |
| Provision for income taxes | (11,571) | (9,335) | (6,210) |
| Net income | $ 16,323 | $ 12,052 | $ 8,654 |

*The accompanying notes are an integral part of these combined financial statements.*

## COMBINED STATEMENTS OF CHANGES IN OWNER'S NET INVESTMENT AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

**(Electricity Products Business of Schlumberger Limited)**

| | Owner's Net Investment | Accumulated Other Comprehensive Income (Loss) | Owner's Net Investment and Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|
| | | (in thousands) | |
| **Balance, December 31, 2000** | $ 19,504 | $ (595) | $ 18,909 |
| Net income | 8,654 | — | 8,654 |
| Currency translation adjustment | — | 2 | 2 |
| Total comprehensive income | — | — | 8,656 |
| Transfers to Schlumberger Limited | (17,275) | — | (17,275) |
| **Balance, December 31, 2001** | 10,883 | (593) | 10,290 |
| Net income | 12,052 | — | 12,052 |
| Currency translation adjustment | — | 729 | 729 |
| Total comprehensive income | — | — | 12,781 |
| Transfers to Schlumberger Limited | (20,239) | — | (20,239) |
| **Balance, December 31, 2002** | 2,696 | 136 | 2,832 |
| Net income | 16,323 | — | 16,323 |
| Currency translation adjustment | — | 708 | 708 |
| Total comprehensive income | — | — | 17,031 |
| Transfers to Schlumberger Limited | (15,902) | — | (15,902) |
| **Balance, December 31, 2003** | $ 3,117 | $ 844 | $ 3,961 |

*The accompanying notes are an integral part of these combined financial statements.*

**COMBINED STATEMENTS OF CASH FLOWS**

**(Electricity Products Business of Schlumberger Limited)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2003** | **2002** | **2001** |
| | | (in thousands) | |
| **Cash flows from operating activities** | | | |
| Net income | $ 16,323 | $ 12,052 | $ 8,654 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation | 4,255 | 6,115 | 5,560 |
| Provision for allowance for doubtful accounts | 3,481 | 190 | 401 |
| Reserve for inventory obsolescence | 1,273 | 1,466 | 860 |
| Deferred income taxes | (3,698) | (190) | (3,069) |
| Gain (loss) on disposal of property, plant and equipment | (189) | 6 | 63 |
| Non-cash change in pension and post retirement obligations | 3,428 | (347) | (4,176) |
| Net changes in operating assets and liabilities: | | | |
| (Increase) decrease in accounts receivable | (1,628) | 2,917 | 7,213 |
| Decrease (increase) in inventories | 6,243 | (19,766) | 2,769 |
| (Increase) decrease in other current assets | (1,978) | 388 | 1,471 |
| Decrease (increase) in other long-term assets | 470 | 100 | (170) |
| (Decrease) increase in receivables/payables to affiliates, net | (9,551) | 10,065 | (1,452) |
| (Decrease) increase in accounts and income taxes payable | (4,165) | 3,560 | 3,420 |
| Increase in accrued environmental liabilities | 1,800 | — | — |
| Increase in accrued liabilities | 1,603 | 3,735 | 847 |
| Net cash provided by operating activities | 17,667 | 20,291 | 22,391 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | (3,774) | (2,966) | (3,767) |
| Net cash used in investing activities | (3,774) | (2,966) | (3,767) |
| **Cash flows from financing activities** | | | |
| Net transfers to Schlumberger Limited | (15,902) | (20,239) | (17,275) |
| Net increase (decrease) in book overdrafts | 1,836 | 2,329 | (917) |
| Contribution from (dividend to) minority interest | 43 | (100) | (444) |
| Net cash (used in) financing activities | (14,023) | (18,010) | (18,636) |
| Foreign currency effect on cash and cash equivalents | 708 | 729 | 2 |
| Net increase (decrease) in cash and cash equivalents | 578 | 44 | (10) |
| **Cash and cash equivalents** | | | |
| Beginning of year | 80 | 36 | 46 |
| End of year | $ 658 | $ 80 | $ 36 |

*The accompanying notes are an integral part of these combined financial statements.*

*(in thousands of dollars)*

**Note 1: Basis of Presentation**

Electricity Products, headquartered in South Carolina, is a leading manufacturer of electric meters and a wholly-owned subsidiary of Schlumberger Limited. Electricity Products has manufacturing facilities in South Carolina and in Quebec, Canada, and has a sales and distribution center in Mexico. Sales in Taiwan are made through a combined partially-owned subsidiary.

Sangamo Electric Company, its predecessor, was founded in 1899 and was acquired by Schlumberger Limited (Schlumberger) in 1975.

The accompanying Combined Financial Statements present, in conformity with accounting principles generally accepted in the United States of America, the combined assets, liabilities, revenues and expenses related to the historical operations of the Electricity Products Business of Schlumberger (the "Electricity Products Business" or the "Company").

The accompanying Combined Financial Statements are presented on a "carve-out basis" and include the historical operations of the defined Electricity Products Business. Accordingly, Schlumberger's net investment in the Electricity Products Business (Owner's net investment) is shown in lieu of stockholder's equity in the Combined Financial Statements. The Combined Financial Statements included herein have been prepared from the Electricity Products Business' historical accounting records.

The Combined Statements of Income include all revenues and costs attributable to the Electricity Products Business including costs for certain functions and services performed by centralized Schlumberger organizations and directly charged or allocated to the Electricity Products Business based on usage or other systematic methods.

All of the allocations and estimates in the Combined Financial Statements are based on assumptions that management believes are reasonable under the circumstances. However, these allocations and estimates are not necessarily indicative of the costs and expenses that would have resulted if the Electricity Products Business had been operated as a separate stand-alone entity.

**Note 2: Accounting Policies**

*Principles of Combination*

The accompanying Combined Financial Statements include the accounts of the Electric Meters Businesses in the U.S., Canada and Mexico, and the accounts of a majority-owned subsidiary in Taiwan, over which the Company exercises control. All significant intercompany accounts and transactions have been eliminated.

*Revenue Recognition*

The Electricity Products Business derives its revenue from the sale of electric meters to customers through their direct sales force, independent sales representatives and from sales to distributors. Revenue from the sale of electric meters is recognized upon shipment to customers or distributors under arrangement where title passes to the customer FOB Shipping Point or upon receipt by the customer when the arrangement is FOB destination, when there is persuasive evidence of an arrangement, the sales price is fixed or determinable and collection is reasonably assured. Distributors of the Company do not have the right of return.

The Company gives rebates to certain customers as incentive to replace old meters with newly purchased meters. The Company records the rebate upon the shipment of new meters to the customer as a reduction to revenue.

*Concentrations of Credit Risk*

Financial instruments that potentially expose the Electricity Products Business to concentrations of credit risk consist of cash, cash equivalents and accounts receivable. To minimize risk, cash and cash equivalents are held with highly rated financial institutions. In addition, risk related to accounts receivable is minimized through ongoing credit evaluations of customers' financial condition and in certain instances customers are required to pay deposits for a portion of the sales price. For sales to third parities for the years ended December 31, 2003 and 2001, one customer represented 14% and 13% of total revenue, respectively. There were no customers to which the Company made a significant amount of sales (in excess of 10%) for the year ended December 31, 2002. Customer deposits are considered liabilities until the Company satisfies revenue recognition criteria.

*(in thousands of dollars)*

*Cash and Cash Equivalents*

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents. Cash represents deposits of the Company's majority owned foreign subsidiary and amounts to be transferred to Schlumberger. Cash in the U.S. and Canada is managed centrally by Schlumberger. All cash receipts from customers are generally transferred to Schlumberger. In addition, as the Company requires funds for payments, amounts are generally transferred from Schlumberger. These net transfers are presented as a contribution/distribution in Owner's net investment. Book overdrafts represent outstanding checks that will be credited to Owner's net investment when funded from Schlumberger.

*Inventories*

Inventories are principally valued at the lower of cost or market and cost is determined using the last-in, first-out (LIFO) dollar value method. Inventories consist of components, sub-assemblies and finished goods held for sale.

Technological change and new product introductions and enhancements could result in excess or obsolete inventory. To minimize this risk, the Company evaluates inventory levels and expected usage on a periodic basis and records a charge as required.

*Property and Equipment*

Property and equipment are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Machinery and equipment | 3 – 7 years |
| Furniture and fixtures | 3 – 7 years |
| Buildings and improvements | 35 – 40 years |

Major improvements that extend the useful life of an asset are capitalized. Maintenance and repair costs are expensed as incurred. When properties and equipment are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are eliminated and the resulting gain or loss is recognized in the income statement.

*Long-Lived Assets*

Management reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss exists when estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. If an impairment loss exists, the resulting write-down would be the difference between fair market value of the long-lived asset and the related net book value. There were no impairments recorded for the years ended December 31, 2003, 2002 or 2001.

*Product Warranty*

Warranty provisions related to sales of meters are determined based upon an estimate of costs that are expected to be incurred under the Company's warranty program. Activity related to warranty provisions was as follows:

| | |
|---|---|
| **Balance at December 31, 2001** | $ 1,694 |
| Accruals for electric meter deliveries in 2002 | 1,142 |
| Warranty services provided in 2002 | (1,426) |
| **Balance at December 31, 2002** | 1,410 |
| Accruals for electric meter deliveries in 2003 | 2,880 |
| Warranty services provided in 2003 | (1,117) |
| **Balance at December 31, 2003** | $ 3,173 |

*(in thousands of dollars)*

*Income Taxes*

The Company's operating results historically have been included in Schlumberger's consolidated U.S. and state income tax returns and in tax returns of Schlumberger's foreign subsidiaries. The provision for income taxes reflected in the Combined Financial Statements has been determined on a separate return basis.

Taxes on income are computed in accordance with the tax rules and regulations of the taxing authorities where the income is earned. The income tax rates imposed by these taxing authorities vary substantially. Taxable income may differ from pre-tax income for financial accounting purposes. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax asset will not be realized.

*Stock-Based Compensation*

Schlumberger and the Company account for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and have adopted the disclosure only provisions of SFAS 123, "Accounting for Stock-Based Compensation." Stock-based awards issued to non-employee are accounted for under SFAS 123.

Had compensation cost for the stock-based Schlumberger plans been determined based on the fair value at the grant dates for awards to Electricity Product's employees under those plans, consistent with the method of SFAS 123, the Electricity Products Business's net income would have been adjusted as follows:

| | 2003* | 2002 | 2001 |
|---|---|---|---|
| Net income as reported | $16,323 | $12,052 | $8,654 |
| Pro forma compensation expense | — | (680) | (841) |
| Pro forma net income | $16,323 | $11,372 | $7,813 |

* There were no stock based awards to company employees in 2003.

As required by SFAS 123, the fair value of each grant is estimated for proforma disclosure purposes on the date of grant using the multiple option Black-Scholes option-pricing model with the following weighted-average assumptions used for 2002 and 2001: dividend of $0.75 for 2002 and 2001; expected volatility of 35—36% for 2002 grants and 32%—33% for 2001 grants; weighted risk-free interest rate of 4.73% for the 2002 grants; and weighted risk-free interest rates of 5.69% for the 2001 grants; and expected option lives of 5.07 years for 2002 grants and 5.02 years for 2001 grants.

*Foreign Currency*

The financial statements of the subsidiaries in Canada, Mexico and Taiwan are measured using their local currencies as the functional currency. Assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date. Income and expense items are translated at average monthly rates of exchange. The resulting gains and losses from the translation of accounts are included in accumulated other comprehensive income. All transaction gains and losses are included in income in the period in which they occur.

*Comprehensive Income (Loss)*

Components of comprehensive income (loss) are net income and all changes in equity during a period except those resulting from transactions with owners. Accumulated other comprehensive income (loss), consists of foreign currency translation adjustments. The Company has made no provision for income taxes on comprehensive income because there is no intention to remit the undistributed income/(losses) in foreign subsidiaries.

*(in thousands of dollars)*

*Fair Value of Financial Instruments*

Financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. The carrying amounts of these items approximate fair value because of their short-term maturities.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the related reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to the allowance for doubtful accounts, LIFO, environmental reserves, and inventory obsolescence reserves. Actual results could differ from those estimates.

*Recently Issued Accounting Pronouncements*

In July 2002, the Financial Accounting Standards Board issued SFAS 146 (*Accounting for Costs Associated with Exit or Disposal Activities*). The standard required companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. Previous accounting guidance was provided by EITF Issue No. 94-3, (*Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity [including Certain Costs Incurred in a Restructuring]*). SFAS 146 replaced Issue 94-3. The Company adopted SFAS 146 prospectively to exit or disposal activities initiated after December 31, 2002.

In November 2002, FASB Interpretation No. 45 (*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*) was issued. It requires certain accounting and disclosures of guarantees to third parties including indebtedness. The interpretation is effective on a prospective basis for guarantees issued or modified after December 31, 2002. The implementation of this interpretation did not have a material effect on the Company's financial position or results of operations.

In January 2003, the Emerging Issues Task Force (EITF) issued No. 00-21 (*Accounting for Revenue Arrangements with Multiple Deliverables*). This EITF establishes the criteria for recognizing revenue in arrangements when several items are bundled into one agreement. EITF 00-21 does not allow revenue recognition unless the fair value of the undelivered element(s) is available and the element has stand-alone value to the customer. EITF 00-21 also provides guidance on allocating the total contract revenue to the individual elements based upon the available fair value of each deliverable. The implementation of this pronouncement did not have a material impact on the Company's financial position or results of operations.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, (*Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*). The primary objective of the interpretation is to provide guidance on the identification of, and financial reporting for entities over which control is achieved through means other than voting rights; such entities are known as variable-interest entities (VIE's). FIN 46 provides guidance that determines (1) whether consolidation is required under the "controlling financial interest" model of Accounting Research Bulletin No. 51 (ARB 51), *Consolidated Financial Statements*, or other existing authoritative guidance, or, alternative, (2) whether the variable-interest model under FIN 46 should be used to account for existing and new entities. The Company does not believe that the adoption of this statement will have a material effect on the financial position or results of operations.

In April 2003, the Financial Accounting Standards Board issued SFAS No. 149 (*Amendment of Statement 133 on Derivative Instruments and Hedging Activities*) which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133 (*Accounting for Derivative Instruments and Hedging Activities*). SFAS 149, which is to be applied prospectively, is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of this new standard did not have a material impact on the Company's results of operations or financial position.

In May 2003, the Financial Accounting Standards Board, issued SFAS No. 150, (*Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*). The Standard specifies that instruments within its scope embody obligations of the issuer and therefore, the issuer must classify them as liabilities. The Standard was effective July 1, 2003, and had no material effect on the Company's financial position.

*(in thousands of dollars)*

In January 2004, the Financial Accounting Standards Board issued FSP No. FAS 106-1 (*Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003*). The statement permits the deferral of accounting related to the effects of the legislation until the earlier of issuance of final accounting guidance by the FASB or a significant plan amendment/curtailment event requiring remeasurement, occurring after January 31, 2004. The Company expects the new legislation will significantly reduce future postretirement medical costs.

**Note 3: Valuation and Qualifying Accounts**

Valuation and qualifying accounts are as follows for the years ended December 31, 2003 and 2002:

| | Beginning Balance | Charged to Costs and Expenses | Charged to Other Accounts | Deductions* | Ending Balance |
|---|---|---|---|---|---|
| **Allowance for doubtful accounts** | | | | | |
| For the year ended December 31, 2003 | $ 510 | $ 3,481 | — | $ (185) | $ 3,806 |
| For the year ended December 31, 2002 | 505 | 190 | — | (185) | 510 |
| For the year ended December 31, 2001 | 571 | 401 | — | (467) | 505 |

* Write-off of uncollectible accounts

During the year ended December 31, 2003, the Company reserved $3,337 related to one customer, whose outstanding balance was deemed uncollectible.

**Note 4: Inventories**

Inventories at December 31, 2003 and 2002 consist of the following:

| | 2003 | 2002 |
|---|---|---|
| Components | $18,948 | $17,862 |
| Work-in-process | 2,430 | 1,386 |
| Finished goods | 8,502 | 18,278 |
| | 29,880 | 37,526 |
| LIFO reserve | (1,635) | (1,765) |
| | $28,245 | $35,761 |

*(in thousands of dollars)*

**Note 5: Property and Equipment**

Property and equipment at and December 31, 2003 and 2002 consist of the following:

| | 2003 | 2002 |
|---|---|---|
| Machinery and equipment | $ 59,471 | $ 59,218 |
| Furniture and fixtures | 9,474 | 12,096 |
| Building and improvements | 15,200 | 14,215 |
| Land | 94 | 92 |
| Construction-in-progress | 3,427 | 4,382 |
| | 87,666 | 90,003 |
| Accumulated depreciation | (71,141) | (73,186) |
| Net property and equipment | $ 16,525 | $ 16,817 |

**Note 6: Accrued Liabilities**

Accrued liabilities at December 31, 2003 and 2002 consist of the following:

| | 2003 | 2002 |
|---|---|---|
| Accrued payroll | $ 1,535 | $ 3,370 |
| Accrued vacation | 1,926 | 1,509 |
| Accrued employee benefits | 4,658 | 3,940 |
| Accrued royalties | 1,752 | 1,353 |
| Accrued warranty | 3,173 | 1,410 |
| Accrued customer rebates | 434 | 1,461 |
| Accrued legal expenses | 175 | 586 |
| Other | 3,725 | 2,146 |
| | $ 17,378 | $ 15,775 |

**Note 7: Income Taxes**

The components of income before income taxes for the years ended December 31, 2003, 2002 and 2001 were as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Domestic | $ 25,281 | $ 20,872 | $ 14,323 |
| Foreign | 2,613 | 515 | 541 |
| | $ 27,894 | $ 21,387 | $ 14,864 |

*(in thousands of dollars)*

The provision for income taxes for the years ended December 31, 2003, 2002 and 2001 consisted of the following:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Current tax expense** | | | |
| Federal | $11,985 | $7,007 | $ 5,908 |
| State | 2,578 | 1,590 | 1,300 |
| Foreign | 706 | 928 | 383 |
| Total current | 15,269 | 9,525 | 7,591 |
| **Deferred tax expense** | | | |
| Federal | (2,978) | (190) | (1,179) |
| State | (655) | (42) | (254) |
| Foreign | (65) | 42 | 52 |
| Total deferred | (3,698) | (190) | (1,381) |
| Total provision | $11,571 | $9,335 | $ 6,210 |

The income tax expense (benefit) for the twelve months ended December 31, 2003, 2002 and 2001 resulted in effective tax rates of 41.5%, 43.6% and 41.8%, respectively. The reasons for the differences between these effective tax rates and the U.S. statutory rate of 35% for the twelve months ended December 31, 2003 and 2002 are as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Federal income tax at statutory rates | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal income tax benefit | 4.9 | 4.3 | 4.5 |
| Impact of foreign operations | (0.7) | 3.5 | 1.3 |
| Other | 2.3 | 0.8 | 1.0 |
| | 41.5% | 43.6% | 41.8% |

Deferred tax assets and liabilities at December 31, 2003 and 2002 are comprised of the following:

| | 2003 | 2002 |
|---|---|---|
| **Deferred tax assets** | | |
| Post retirement benefits | $ 20,242 | $ 18,688 |
| Inventory allowances | 716 | 332 |
| Employee benefits | 762 | 3,685 |
| Warranty | 1,255 | 665 |
| Reserves and other accruals | 3,207 | 759 |
| Property and other equipment | 2,017 | 372 |
| Total deferred tax assets | $ 28,199 | $ 24,501 |

The Electricity Products Business has not recorded a valuation allowance against deferred tax assets as they are expected to be fully realizable. The Electricity Products Business has not recorded a deferred income tax liability for additional income taxes that would result from the distribution of earnings of its foreign subsidiaries if they were actually repatriated. The Electricity Products Business intends to indefinitely reinvest the undistributed earnings of its foreign subsidiaries.

*(in thousands of dollars)*

Payments to Schlumberger for income taxes totaled $17,022, $3,040 and $4,116 for the years ended December 31, 2003, 2002 and 2001, respectively.

**Note 8: Pension and Other Benefit Plans**

Schlumberger and its subsidiaries sponsor several defined benefit and defined contribution pension plans that cover substantially all of the employees of the Electricity Products Business. The benefits are based on years of service and compensation on a career-average pay basis. These plans are funded with a trustee in respect to past and current service. Charges to expense are based upon costs computed by independent actuaries. The funding policy is to annually contribute amounts that are allowable for federal income tax purposes. These contributions are intended to provide for benefits earned to date and those expected to be earned in the future.

The pension and other post retirement benefit information contained in these Combined Financial Statements are based on allocations of the plan performance, plan assets and benefit obligations of the parent company plan. These pro-rata allocations were determined based on current participation of employees of the Electricity Products Business, which Electricity Products management believes is a reasonable method.

**U.S. Pension Plans**

The assumptions used in determining the net pension cost for the years ended December 31, 2003, 2002 and 2001 were as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Discount rate | 6.75% | 7.25% | 7.50% |
| Rate of compensation increases | 3.00% | 3.00% | 4.50% |
| Long-term rate of return on plan assets | 8.50% | 8.50% | 9.00% |

Net pension cost in the U.S. for 2003, 2002 and 2001 included the following components:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Service cost | $ 1,867 | $ 1,793 | $ 1,169 |
| Interest cost | 6,337 | 6,380 | 6,419 |
| Expected return on plan assets | (8,936) | (9,957) | (10,708) |
| Recognition of prior service cost | 374 | 374 | 374 |
| Amount of loss (gain) recognized | — | (806) | (2,103) |
| Net pension cost (benefit) | $ (358) | $(2,216) | $ (4,849) |

*(in thousands of dollars)*

The changes in the projected benefit obligation, plan assets and funded status of the plans on December 31, 2003 and 2002, were as follows:

| | 2003 | 2002 |
|---|---|---|
| Projected benefit obligation at beginning of the year | $ 98,334 | $ 91,276 |
| Service cost | 1,867 | 1,793 |
| Interest cost | 6,337 | 6,380 |
| Actuarial loss (gain) | 4,828 | 5,422 |
| Benefits paid | (6,756) | (6,537) |
| Projected benefit obligation at end of the year | $104,610 | $ 98,334 |
| Fair value of plan assets at beginning of the year | $ 98,134 | $116,793 |
| Actual return on plan assets | 18,311 | (12,122) |
| Benefits paid | (6,756) | (6,537) |
| Fair value of plan assets at end of the year | $109,689 | $ 98,134 |
| Funded status | $ 5,079 | $ (200) |
| Unrecognized net loss (gain) | 3,788 | 8,336 |
| Unrecognized prior service cost | 1,162 | 1,535 |
| Net prepaid benefit cost recognized | $ 10,029 | $ 9,671 |

*Postretirement Benefits other than Pension*

Schlumberger provides certain health care benefits to former employees who have retired under the U.S. pension plans. The plan is not funded.

The principle actuarial assumptions used to measure costs were a discount rate of 6.75% in 2003, 7.25% in 2002 and 7.50% in 2001. The health care trend rate for the 2002 valuation decreased gradually from 9.5% for 2002 to 5.0% by the year 2007.

Net periodic post-retirement benefit cost allocated to the Electricity Products Business in the U.S. for 2003, 2002 and 2001, included the following components:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Service cost | $1,144 | $ 885 | $ 357 |
| Interest cost | 5,273 | 3,917 | 3,835 |
| Recognition of prior service cost | (46) | (46) | (46) |
| Amount of loss recognized | 934 | — | — |
| | $7,305 | $4,756 | $4,146 |

*(in thousands of dollars)*

The change in accumulated postretirement benefit obligation, plan assets and funded status for the years ended December 31, 2003 and 2002 was as follows:

| | 2003 | 2002 |
|---|---|---|
| Accumulated postretirement benefit obligation at beginning of the year | $ 61,381 | $ 55,469 |
| Service cost | 1,144 | 885 |
| Interest cost | 5,273 | 3,917 |
| Actuarial loss (gain) | 24,439 | 3,998 |
| Benefits paid | (3,519) | (2,888) |
| Accumulated postretirement benefit obligation | $ 88,718 | $ 61,381 |
| Funded status | $(88,718) | $(61,381) |
| Unrecognized net loss (gain) | 27,903 | 4,397 |
| Unrecognized prior service cost | (397) | (442) |
| Postretirement benefit liability | $(61,212) | $(57,426) |

If the assumed medical cost trend rate was increased by one percentage point, service cost in 2003 would have been $1,508, interest cost in 2003 would have been $6,055 and the accumulated postretirement benefit obligation would have been $102,954 on December 31, 2003.

If the assumed medical cost trend rate was decreased by one percentage point, service cost in 2003 would have been $876, interest cost in 2003 would have been $4,639 and the accumulated postretirement benefit obligation would have been $77,272 on December 31, 2002.

**Note 9: Stock Compensation Plans**

As of December 31, 2003, Schlumberger had two types of stock-based compensation plans, which are described below. Employees of the Electricity Products Business participated in both types of plans. The Company applies APB Opinion 25 and related Interpretations in accounting for its plans. Accordingly, no compensation cost is recognized in the accompanying statement of income for awards granted to employees under its stock option plans and its stock purchase plan with exercise prices at least equal to the fair market value of the Company’s common stock on the date of grant.

*Stock Option Plans*

During 2003, 2002 and 2001 and in prior years, officers and key employees of the Electricity Products Business were granted stock options under Schlumberger stock option plans. For all of the stock options granted, the exercise price of each option equals the market price of Schlumberger stock on the date of grant; an option’s maximum term is ten years, and options generally vest in 20% increments over five years.

*(in thousands of dollars)*

A summary of the status of the Schlumberger stock option plans as they relate to options granted to employees of the Electricity Products Business for the years ended December 31, 2003, 2002 and 2001 is presented below (actual amounts):

| | 2003 | | 2002 | | 2001 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| **Fixed Options** | | | | | | |
| Outstanding at beginning of year | 158,270 | $ 65.43 | 133,198 | $ 66.16 | 135,027 | $ 66.31 |
| Granted | — | — | 31,000 | 55.75 | — | — |
| Exercised | (5,245) | 28.74 | (5,428) | 28.91 | (329) | 55.62 |
| Forfeited | (4,648) | 68.55 | (500) | 55.75 | (1,500) | 82.28 |
| Transfers in (out) | (600) | 73.83 | — | — | — | — |
| Outstanding at year-end | 147,777 | 66.60 | 158,270 | 65.43 | 133,198 | 66.16 |
| Options exercisable at year-end | 96,767 | | 81,090 | | 63,999 | |
| Weighted-average fair value of options granted during the year | $ N/A | | $ 20.12 | | $ N/A | |

The following table summarizes information concerning currently outstanding and exercisable options by five ranges of exercise prices on December 31, 2003 (actual amounts):

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding as of 12/31/03 | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable as of 12/31/03 | Weighted-Average Exercise Price |
| $24.14 – $30.71 | 6,773 | 1.44 | $ 27.86 | 6,773 | $ 27.86 |
| $30.80 – $44.84 | 7,290 | 3.72 | 42.36 | 6,522 | 42.07 |
| $46.08 – $65.33 | 61,710 | 6.62 | 55.39 | 32,468 | 55.10 |
| $71.32 – $82.35 | 72,004 | 5.99 | 82.30 | 51,004 | 82.31 |
| | 147,777 | 5.93 | $ 66.60 | 96,767 | $ 66.66 |

*Employee Stock Purchase Plan*

Under the Schlumberger Discounted Stock Purchase Plan, Schlumberger is authorized to issue up to 22,012,245 shares of common stock to its employees. Under the terms of the Plan, employees can choose each year to have up to 10% of their annual earnings withheld to purchase Schlumberger common stock. Effective July 1, 2003 the purchase price of the stock was 92.5% of the lower of its beginning or end of the Plan year market price at six month intervals. Prior to July 1, 2003, the purchase price was 85% at one year intervals. Under the Plan, Schlumberger sold 12,069, 15,597 and 12,428 shares to employees in 2003, 2002 and 2001, respectively. Pro forma compensation cost has been computed for the fair value of the employees' purchase rights, which was estimated using the Black-Scholes model with the following assumptions for 2003, 2002 and 2001: Dividend of $0.75; expected volatility of 28% for 2003, 34% for 2002 and 36% for 2001; and risk-free interest rates of 0.75% for 2003, 1.74% for 2002, 3.03% for 2001. The weighted-average fair value of those purchase rights granted in 2003, 2002 and 2001, was $7.91, $13.32 and $15.54, respectively.

*(in thousands of dollars)*

**Note 10: Owner's Net Investment**

Distributions in the form of dividends and other transfers have been made to/from Schlumberger for each of the periods presented in the Combined Financial Statements.

**Note 11: Related Party Transactions**

The Combined Financial Statements include allocations (See Note 1) of certain corporate expenses, including legal, accounting, employee benefits, payroll, real estate, insurance services, information technology services, treasury and other corporate and infrastructure costs. These allocations, which may be settled in either cash as a distribution to/from the parent or in the case of non-cash charges as an equity transaction, are from various corporate entities existing within Schlumberger. These allocations have been determined on bases that Schlumberger and the Electricity Products Business consider to be a reasonable reflection of the utilization of services provided or the benefit received by the Electricity Products Business. The allocation methods include relative sales, headcount, square footage, transaction processing costs, adjusted operating expenses and others.

These allocations resulted in the following charges for the years ending December 31, 2003, 2002 and 2001, respectively:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Research and development | $ — | $ 159 | $ — |
| Sales and marketing | — | — | 2,578 |
| General and administrative | 3,566 | 8,127 | 6,385 |
| | $3,566 | $8,286 | $8,963 |

Schlumberger did not allocate any expenses for management fees to the company for the year ended December 31, 2003.

The Electricity Products Business participates in Schlumberger's centralized treasury and cash processes. Cash is managed either through zero balance accounts or an interest-bearing offsetting mechanism.

The remaining balance of the payables and receivables to affiliates included in the combined balance sheet represent amounts arising from transactions entered into by the Electricity Products Business to settle outstanding receivables and payables with other Schlumberger entities.

Sales to Schlumberger affiliates were $66,701, $69,774 and $54,348 for the years ended December 31, 2003, 2002 and 2001, respectively. Terms of sales are based on the historical transaction terms between the parties, which may not be indicative of future arrangements.

In certain countries, there are formal tax sharing arrangements between the Electricity Products Business and the respective entity of Schlumberger. In certain countries, the Electricity Products Business is a division of the Schlumberger legal entity that is the ultimate tax payer in that jurisdiction.

**Note 12: Commitments and Contingencies**

The Company has various lease agreements for its office space, distribution facilities and certain office equipment under noncancelable operating leases that expire at various dates between 2003 and 2006.

Rent expense for the years ended December 31, 2003, 2002 and 2001 was approximately $289, $371 and $1,105, respectively.

*(in thousands of dollars)*

Future minimum lease payments under noncancelable operating leases for the years ended December 31 are as follows:

| | |
|---|---|
| 2004 | 153 |
| 2005 | 70 |
| 2006 | 50 |
| | $273 |

The Company settled a patent infringement case in 2003, under which the Company was required to pay approximately $23,000. The Company has recorded this settlement amount in its income statement as it directly related to its operations. The payment of the liability was funded through Schlumberger and recognized as an additional capital contribution.

In the ordinary course of business, the Electricity Products Business is involved in various pending or threatened legal actions. While management is unable to predict the ultimate outcome of these actions, it believes that any ultimate liability arising from these actions will not have a material adverse effect on its combined financial position, operating results or cash flows.

It is often difficult to estimate the future impact of environmental matters, including potential liabilities. The Company records an environmental reserve when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable. This practice is followed whether the claims are asserted or unassorted. Management expects that the amounts reserved will be paid out over the periods of remediation for the applicable sites. Reserves for estimated losses from environmental remediation are, depending on the site, based primarily on internal or third-party environmental studies and estimates as to the number, the extent of the contamination and the nature of required remedial actions. Accruals are adjusted as further information develops or circumstances change. The amounts provided for in the Company's combined financial statements for environmental reserves are discounted at a rate of 7% and 11% and amounted to $4,300 and $2,500 at December 31, 2003 and 2002, respectively. Although the Company believes that its reserves are adequate, there can be no assurance that the amount of expenses which will be required relating to remedial actions and compliance with applicable environmental laws will not exceed the amounts reflected in the Company's reserves or will not have a material adverse effect on the Company's financial condition, results of operations or cash flows. Any possible loss or range of possible loss that may be incurred in excess of the amounts provided for at December 31, 2003 cannot be estimated.

**Note 13: Operating Segments**

The Company operates in one business segment. Through that segment, the Company sells electric meters in the United States, Canada, Mexico and Taiwan. Following are the Company's revenues by geographic market for the years ended December 31, 2003, 2002 and 2001:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Revenues, including related parties, by geographic location:** | | | |
| Taiwan | $ 6,894 | $ 5,391 | $ 2,513 |
| Mexico | 1,823 | 7,558 | 6,711 |
| Canada | 17,562 | 18,771 | 16,083 |
| United States | 267,886 | 197,130 | 169,250 |
| | $ 294,165 | $ 228,850 | $ 194,557 |

The Company's revenue from affiliates, which amounted to $66,701, $69,774 and $54,348 for the years ended December 31, 2003, 2002 and 2001, respectively, were all within the United States.

*(in thousands of dollars)*

Manufacturing operations of the Company are located in the United States and Canada. Property, plant and equipment by geographic location are as follows at December 31, 2003 and 2002:

| | 2003 | 2002 |
|---|---|---|
| **Property, plant and equipment, net, by geographic location:** | | |
| Taiwan | $ 234 | $ 360 |
| Mexico | 67 | 63 |
| Canada | 3,121 | 2,860 |
| United States | 13,103 | 13,534 |
| | $ 16,525 | $ 16,817 |

**Electricity Products Business**
**of Schlumberger Ltd.**

**Unaudited Condensed Combined Interim Financial Statements**
**June 30, 2004 and December 31, 2003, and for the**
**six months ended June 30, 2004 and 2003**

**Electricity Products Business of Schlumberger Ltd.**
**Index**

**Electricity Products Business of Schlumberger Ltd.**
**Condensed Combined Interim Balance Sheets**
**(unaudited)**

| *(in thousands of dollars)* | June 30, 2004 | December 31, 2003 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 2,631 | $ 658 |
| Accounts receivable, net | 33,079 | 18,073 |
| Receivables from affiliates | 161 | 4,550 |
| Inventories | 20,184 | 28,245 |
| Deferred tax assets, net | 4,556 | 4,239 |
| Other current assets | 419 | 2,509 |
| Total current assets | 61,030 | 58,274 |
| Property, plant and equipment, net | 14,838 | 16,525 |
| Deferred tax assets, net | 25,557 | 23,960 |
| Prepaid pension asset | 9,234 | 10,029 |
| Other assets | 218 | 54 |
| Total assets | $ 110,877 | $ 108,842 |
| **Liabilities and Equity** | | |
| Current liabilities | | |
| Book overdraft | $ 1,956 | $ 7,885 |
| Accounts payable - trade | 8,233 | 7,817 |
| Payables to affiliates | 1,770 | 2,840 |
| Accrued liabilities | 17,013 | 17,378 |
| Current accrued environmental liability | 350 | 350 |
| Income taxes payable | 10,467 | 3,270 |
| Total current liabilities | 39,789 | 39,540 |
| Accrued environmental liabilities | 3,950 | 3,950 |
| Post retirement health care benefits | 65,418 | 61,212 |
| Total liabilities | 109,157 | 104,702 |
| Minority interest | 153 | 179 |
| Commitments and contingencies (Note 11) | | |
| Accumulated other comprehensive income | 1,396 | 844 |
| Owner’s net investment | 171 | 3,117 |
| Total equity | 1,567 | 3,961 |
| Total liabilities and equity | $ 110,877 | $ 108,842 |

The accompanying notes are an integral part of these condensed combined interim financial statements.

**Electricity Products Business of Schlumberger Ltd.**
**Condensed Combined Interim Statements of Operations**
**(unaudited)**

| *(in thousands of dollars)* | June 30, 2004 | June 30, 2003 |
|---|---|---|
| **Revenues** | | |
| Third parties | $ 150,692 | $ 109,351 |
| Affiliated companies | 3,827 | 35,088 |
| Total revenues | 154,519 | 144,439 |
| **Cost of revenues** | | |
| Third parties | 96,665 | 73,631 |
| Affiliated companies | 3,233 | 29,824 |
| Total cost of revenues | 99,898 | 103,455 |
| Gross profit | 54,621 | 40,984 |
| **Operating expenses** | | |
| Sales and marketing | 7,924 | 6,943 |
| Research and engineering | 4,921 | 4,581 |
| General and administrative | 3,749 | 7,276 |
| Litigation settlement | — | 23,000 |
| Total operating expenses | 16,594 | 41,800 |
| Income (loss) from operations | 38,027 | (816) |
| Minority interest | 43 | (44) |
| Other income (expense) | (112) | 15 |
| Income (loss) before income taxes | 37,958 | (845) |
| Provision (benefit) for income taxes | 14,968 | (470) |
| Net income (loss) | $ 22,990 | $ (375) |

The accompanying notes are an integral part of these condensed combined interim financial statements.

**Electricity Products Business of Schlumberger Ltd.**
**Condensed Combined Interim Statements of Changes in Owner's Net Investment and Accumulated Other Comprehensive Income (Loss)**
**(unaudited)**

| *(in thousands of dollars)* | Owner's Net Investment | Accumulated Other Comprehensive Income (Loss) | Owner's Net Investment and Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|
| **Balance, December 31, 2003** | $ 3,117 | $ 844 | $ 3,961 |
| Net income | 22,990 | | 22,990 |
| Currency translation adjustment | | 552 | 552 |
| Total comprehensive income | | | 23,542 |
| Transfers to Schlumberger Ltd. | (25,936) | | (25,936) |
| **Balance, June 30, 2004** | $ 171 | $ 1,396 | $ 1,567 |
| | | | |
| **Balance, December 31, 2002** | $ 2,696 | $ 136 | $ 2,832 |
| Net loss | (375) | | (375) |
| Currency translation adjustment | | (5,531) | (5,531) |
| Total comprehensive loss | | | (5,906) |
| Transfers from Schlumberger Ltd. | 11,372 | | 11,372 |
| **Balance, June 30, 2003** | $ 13,693 | $ (5,395) | $ 8,298 |

The accompanying notes are an integral part of these condensed combined interim financial statements.

**Electricity Products Business of Schlumberger Ltd.**
**Condensed Combined Interim Statements of Cash Flows**
**(unaudited)**

| *(in thousands of dollars)* | June 30, 2004 | June 30, 2003 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income (loss) | $ 22,990 | $ (375) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation | 1,711 | 2,247 |
| Provision for (recovery of) allowance for doubtful accounts, net | (2,120) | 74 |
| Reserve for inventory obsolescense | 300 | 2,083 |
| Deferred income tax | (1,914) | (2,835) |
| Loss on disposal of property, plant and equipment | 13 | 57 |
| Non-cash change in pension and post retirement obligations | 5,001 | 2,051 |
| Net changes in operating assets and liabilities: | | |
| Accounts receivable | (12,886) | (6,736) |
| Inventories | 7,761 | 10,491 |
| Other current assets | 2,090 | (80) |
| Other long-term assets | (164) | 472 |
| Receivables/payables to affiliates, net | 3,319 | (16,437) |
| Accounts and income taxes payable | 7,613 | 12,315 |
| Accrued liabilities | (365) | 1,427 |
| Net cash provided by operating activities | 33,349 | 4,754 |
| **Cash flows from investing activities** | | |
| Purchases of property, plant and equipment | (37) | (1,963) |
| Net cash used in investing activities | (37) | (1,963) |
| **Cash flows from financing activities** | | |
| Net transfers from (to) Schlumberger Ltd. | (25,936) | 11,372 |
| Net decrease in book overdrafts | (5,929) | (5,020) |
| Contribution from (dividend to) minority interest | (26) | 44 |
| Net cash provided by (used in) financing activities | (31,891) | 6,396 |
| Foreign currency effect on cash and cash equivalents | 552 | (5,937) |
| Net increase in cash and cash equivalents | 1,973 | 3,250 |
| **Cash and cash equivalents** | | |
| Beginning of year | 658 | 80 |
| End of period | $ 2,631 | $ 3,330 |

The accompanying notes are an integral part of these condensed combined interim financial statements.

*(in thousands of dollars)*

## 1. Basis of Presentation

Electricity Products Business of Schlumberger Ltd. (Company), headquartered in South Carolina, is a leading manufacturer of electric meters and a wholly-owned subsidiary of Schlumberger Ltd. (Schlumberger). The Company has manufacturing facilities in South Carolina and Quebec, Canada, and has a sales and distribution center in Mexico. Sales in Taiwan are made through a combined partially-owned subsidiary.

Sangamo Electric Company, its predecessor, was founded in 1899 and was acquired by Schlumberger in 1975.

The accompanying Condensed Combined Interim Financial Statements are unaudited and reflect, in the opinion of management, entries necessary for the fair presentation in conformity with accounting principles generally accepted in the United States of America (U.S.), the combined assets, liabilities, revenues and expenses related to the historical operations of the Company.

The accompanying Condensed Combined Interim Financial Statements are presented on a "carve-out basis" and include the historical operations of the defined Company. Accordingly, Schlumberger's net investment in the Company (Owner's net investment) is shown in lieu of stockholder's equity in the Condensed Combined Interim Financial Statements. The Condensed Combined Interim Financial Statements included herein have been prepared from the Company's historical accounting records.

The Condensed Combined Interim Statements of Operations include all revenues and costs attributable to the Company including costs for certain functions and services performed by centralized Schlumberger organizations and directly charged or allocated to the Company based on usage or other systematic methods. Interim results are not necessarily indicative of full year results.

All of the allocations and estimates in the Condensed Combined Interim Financial Statements are based on assumptions that management believes are reasonable under the circumstances. However, these allocations and estimates are not necessarily indicative of the costs and expenses that would have resulted if the Company had been operated as a separate stand-alone entity or the results expected for the full fiscal year or for any other fiscal period. These condensed combined interim financial statements should be read in conjunction with the audited combined financial statements and the notes for the year ended December 31, 2003 for the Company.

## 2. Accounting Policies

### Principles of Combination

The accompanying Condensed Combined Interim Financial Statements include the accounts of the Company in the U.S., Canada and Mexico, and the accounts of a majority-owned subsidiary in Taiwan, over which the Company exercises control. All significant intercompany accounts and transactions have been eliminated.

**Revenue Recognition**

The Company derives its revenues from the sale of electric meters to customers through their direct sales force, independent sales representatives and from sales to distributors. Revenues from the sale of electric meters are recognized upon shipment to customers or distributors under an arrangement where title passes to the customer FOB shipping point or upon receipt by the customer when the arrangement is FOB destination, when there is persuasive evidence of an arrangement, the sales price is fixed or determinable and collection is reasonably assured. Distributors of the Company do not have the right of return.

The Company gives rebates to certain customers as incentive to replace old meters with newly purchased meters. The Company records the rebate upon the shipment of new meters to the customer as a reduction to revenue.

**Concentrations of Credit Risk**

Financial instruments that potentially expose the Company to concentrations of credit risk consist of cash, cash equivalents and accounts receivable. To minimize risk, cash and cash equivalents are held with highly rated financial institutions. In addition, risk related to accounts receivable is minimized through ongoing credit evaluations of customers' financial condition and in certain instances customers are required to pay deposits for a portion of the sales price. Two customers represented 15% and 14% of total revenues for the six months ended June 30, 2004, respectively. For the six months ended June 30, 2003, one customer represented 17% of total revenues. Customer deposits are considered liabilities until the Company satisfies revenue recognition criteria.

**Cash and Cash Equivalents**

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents. Cash represents deposits of the Company's majority owned foreign subsidiary and amounts to be transferred to Schlumberger. Cash in the U.S. and Canada is managed centrally by Schlumberger. All cash receipts from customers are generally transferred to Schlumberger. In addition, as the Company requires funds for payments, amounts are generally transferred from Schlumberger. These net transfers are presented as a contribution/distribution in Owner's net investment. Book overdrafts represent outstanding checks that will be credited to Owner's net investment when funded from Schlumberger.

**Inventories**

Inventories are principally valued at the lower of cost or market and cost is determined using the last-in, first-out (LIFO) dollar value method. Inventories consist of components, sub-assemblies and finished goods held for sale.

Technological change and new product introductions and enhancements could result in excess or obsolete inventory. To minimize this risk, the Company evaluates inventory levels and expected usage on a periodic basis and records a charge as required.

*(in thousands of dollars)*

### Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Machinery and equipment | 3 – 7 years |
| Furniture and fixtures | 3 – 7 years |
| Buildings and improvements | 35 – 40 years |

Major improvements that extend the useful life of an asset are capitalized. Maintenance and repair costs are expensed as incurred. When property, plant and equipment are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are eliminated and the resulting gain or loss is recognized in the statement of operations.

### Long-Lived Assets

Management reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss exists when estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. If an impairment loss exists, the resulting write-down would be the difference between fair market value of the long-lived asset and the related net book value. During June 2004, the Company began plans to move the manufacturing operations located in Quebec, Canada to its South Carolina facility. The Company intends to sell the Quebec facility once the relocation of the manufacturing operations is completed. The Quebec facility was not held-for-sale at June 30, 2004. There were no impairments recorded for the six months ended June 30, 2004 or 2003. (See Note 11)

### Product Warranty

Warranty provisions related to sales of meters are determined based upon an estimate of costs that are expected to be incurred under the Company’s warranty program. Activity related to warranty provisions was as follows:

| | |
|---|---|
| **Balance at December 31, 2003** | $3,173 |
| Accruals for electric meter deliveries in 2004 | 3,396 |
| Warranty services provided in 2004 | (927) |
| **Balance at June 30, 2004** | $5,642 |
| **Balance at December 31, 2002** | $1,410 |
| Accruals for electric meter deliveries in 2003 | 1,744 |
| Warranty services provided in 2003 | (843) |
| **Balance at June 30, 2003** | $2,311 |

### Income Taxes

The Company's operating results historically have been included in Schlumberger's consolidated U.S. and state income tax returns and in tax returns of Schlumberger's foreign subsidiaries. The provision for income taxes reflected in the Combined Financial Statements has been determined on a separate return basis.

Taxes on income are computed in accordance with the tax rules and regulations of the taxing authorities where the income is earned. The income tax rates imposed by these taxing authorities vary substantially. Taxable income may differ from pre-tax income for financial accounting purposes. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax asset will not be realized.

### Stock-Based Compensation

Schlumberger and the Company account for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and have adopted the disclosure only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*. Stock-based awards issued to non-employees are accounted for under SFAS No. 123.

There were no stock based awards to Company employees during the six month periods ended June 30, 2004 and 2003. Therefore, had compensation costs for the stock-based Schlumberger plans been determined based on the fair value at the grant dates for awards to the Company's employees under those plans, consistent with the method of SFAS No. 123, the Company's net income would not have changed.

### Foreign Currency

The financial statements of the subsidiaries in Canada, Mexico and Taiwan are measured using their local currencies as the functional currency. Assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date. Income and expense items are translated at average monthly rates of exchange. The resulting gains and losses from the translation of accounts are included in accumulated other comprehensive income (loss). All transaction gains and losses are included in income in the period in which they occur.

### Comprehensive Income (Loss)

Components of comprehensive income (loss) are net income (loss) and all changes in equity during a period except those resulting from transactions with owners. Accumulated other comprehensive income (loss) consists of foreign currency translation adjustments. The Company has made no provision for income taxes on comprehensive income (loss) because there is no intention to remit the undistributed income (losses) in foreign subsidiaries.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amount of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the related reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to the allowance for doubtful accounts, LIFO, environmental reserves, inventory obsolescence reserves, accounting for income taxes and pension and post retirement obligations. Actual results could differ from those estimates.

### Recently Issued Accounting Pronouncements

In January 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. SFAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003*. The statement permits the deferral of accounting related to the effects of the legislation until the earlier of issuance of the final accounting guidance by the FASB or a significant amendment/curtailment event requiring remeasurement, occurring after January 31, 2004. The Company expects the new legislation will reduce future post retirement medical costs, although this amount has not yet been determined.

*(in thousands of dollars)*

## 3. Valuation and Qualifying Accounts

Valuation and qualifying accounts are as follows for the periods ended June 30, 2004 and 2003:

| | Beginning Balance | Charges (Recoveries) to Provision | Deductions* | Ending Balance |
|---|---|---|---|---|
| **Allowance for doubtful accounts** | | | | |
| For the six months ended June 30, 2004 | $ 3,806 | $ (2,120) | $ (135) | $1,551 |
| For the six months ended June 30, 2003 | 510 | 74 | (83) | 501 |

* Write-off of uncollectable accounts

## 4. Inventories

Inventories at June 30, 2004 and December 31, 2003 consist of the following:

| | June 30, 2004 | December 31, 2003 |
|---|---|---|
| Components | $ 13,604 | $ 18,948 |
| Work-in-process | 4,222 | 2,430 |
| Finished goods | 3,993 | 8,502 |
| | 21,819 | 29,880 |
| LIFO reserve | (1,635) | (1,635) |
| | $ 20,184 | $ 28,245 |

*(in thousands of dollars)*

## 5. Property, Plant and Equipment

Property, plant and equipment at June 30, 2004 and December 31, 2003 consist of the following:

| | June 30, 2004 | December 31, 2003 |
|---|---|---|
| Machinery and equipment | $ 45,497 | $ 59,471 |
| Furniture and fixtures | 6,305 | 9,474 |
| Buildings and improvements | 14,058 | 15,200 |
| Land | 94 | 94 |
| Construction-in-progress | 2,291 | 3,427 |
| | 68,245 | 87,666 |
| Accumulated depreciation | (53,407) | (71,141) |
| Net property, plant and equipment | $ 14,838 | $ 16,525 |

## 6. Accrued Liabilities

Accrued liabilities at June 30, 2004 and December 31, 2003 consist of the following:

| | June 30, 2004 | December 31, 2003 |
|---|---|---|
| Accrued payroll | $ 769 | $ 1,535 |
| Accrued vacation | 2,120 | 1,926 |
| Accrued employee benefits | 5,144 | 4,658 |
| Accrued royalties | 994 | 1,752 |
| Accrued warranty | 5,642 | 3,173 |
| Accrued customer rebates | 433 | 434 |
| Accrued legal expenses | 105 | 175 |
| Other | 1,806 | 3,725 |
| | $ 17,013 | $ 17,378 |

## 7. Income Taxes

The Company currently estimates its annual effective income tax rate to be approximately 39% for fiscal 2004. The expected income tax rate differs from the federal statutory rate of 35% due to state income taxes and extraterritorial income exclusion tax benefits. The Company’s effective income tax rate can vary from period to period due to fluctuations in operating results, new or revised tax legislation and changes in the level of business performed in domestic and international tax jurisdictions. The effective income tax rates for the six months ended June 30, 2004 and 2003 were 39% and (56%), respectively.

The Company has not recorded a valuation allowance against deferred tax assets as they are expected to be fully realizable. The Company has not recorded a deferred income tax liability for additional income taxes that would result from the distribution of earnings of its foreign subsidiaries if they were actually repatriated. The Company intends to indefinitely reinvest the undistributed earnings of its foreign subsidiaries.

*(in thousands of dollars)*

Payments to Schlumberger for income taxes totaled $10,112 and $1,000 for the six months ended June 30, 2004 and 2003, respectively.

**8. Pension and Other Benefit Plans**

Schlumberger and its subsidiaries sponsor several defined benefit and defined contribution pension plans that cover substantially all of the employees of the Company. The benefits are based on years of service and compensation on a career-average pay basis. These plans are funded with a trustee in respect to past and current service. Charges to expense are based upon costs computed by independent actuaries. The funding policy is to annually contribute amounts that are allowable for federal income tax purposes. These contributions are intended to provide for benefits earned to date and those expected to be earned in the future.

The pension and other post retirement benefit information contained in these Condensed Combined Interim Financial Statements are based on allocations of the plan performance, plan assets and benefit obligations of the parent company plan. These pro-rata allocations were determined based on current participation of employees of the Company, which Company management believes is a reasonable method. Allocated pension and other post retirement benefit costs are $3,339 and $3,810 for the six months ended June 30, 2004 and 2003. The Company does not believe the relationship of the individual components of the pension and post retirement costs to the total costs for the six months ended June 30, 2004 are significantly different from the year ended December 31, 2003.

**9. Owner's Net Investment**

Distributions in the form of dividends and other transfers have been made to/from Schlumberger for each of the periods presented in the Condensed Combined Interim Financial Statements.

**10. Related Party Transactions**

The Condensed Combined Interim Financial Statements include allocations (see Note 1) of certain corporate expenses, including legal, accounting, employee benefits, payroll, real estate, insurance services, information technology services, treasury and other corporate and infrastructure costs. These allocations, which may be settled in either cash as a distribution to/from the parent or in the case of non-cash charges as an equity transaction, are from various corporate entities existing within Schlumberger. These allocations have been determined on bases that Schlumberger and the Company consider to be a reasonable reflection of the utilization of services provided or the benefit received by the Company. The allocation methods include relative sales, headcount, square footage, transaction processing costs, adjusted operating expenses and others. These allocations resulted in charges to general and administrative expense of $1.8 million and $1.7 million for the six months ended June 30, 2004 and 2003, respectively.

Schlumberger did not allocate any expenses for management fees to the Company for the six months ended June 30, 2004 and 2003, respectively.

The Company participates in Schlumberger's centralized treasury and cash processes. Cash is managed either through zero balance accounts or an interest-bearing offsetting mechanism.

*(in thousands of dollars)*

The remaining balance of the payables and receivables to affiliates included in the condensed combined interim balance sheet represent amounts arising from transactions entered into by the Company to settle outstanding receivables and payables with other Schlumberger entities.

Sales to Schlumberger affiliates were $3,827 and $35,088 for the six months ended June 30, 2004 and 2003, respectively. Terms of sales are based on the historical transaction terms between the parties, which may not be indicative of future arrangements.

In certain countries, there are formal tax sharing arrangements between the Company and the respective entity of Schlumberger. In certain countries, the Company is a division of the Schlumberger legal entity that is the ultimate taxpayer in that jurisdiction.

**11. Commitments and Contingencies**

The Company has various lease agreements for its office space, distribution facilities and certain office equipment under noncancelable operating leases that expire at various dates between 2004 and 2006.

In the ordinary course of business, the Company is involved in various pending or threatened legal actions. While management is unable to predict the ultimate outcome of these actions, it believes that any ultimate liability arising from these actions will not have a material adverse effect on its condensed combined interim financial position, operating results or cash flows, therefore no accruals have been recorded.

The Company settled a patent infringement case in 2003, under which the Company was required to pay approximately $23,000.

It is often difficult to estimate the future impact of environmental matters, including potential liabilities. The Company records an environmental reserve when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable. This practice is followed whether the claims are asserted or unasserted. Management expects that the amounts reserved will be paid out over the periods of remediation for the applicable sites. Reserves for estimated losses from environmental remediation are, depending on the site, based primarily on internal or third-party environmental studies and estimates as to the number, the extent of the contamination and the nature of required remedial actions. Accruals are adjusted as further information develops or circumstances change. The amounts provided for in the Company's condensed combined financial statements for environmental reserves are discounted at a rate of 7% and amounted to $4,300 at June 30, 2004 and December 31, 2003. Although the Company believes that its reserves are adequate, there can be no assurance that the amount of expenses which will be required relating to remedial actions and compliance with applicable environmental laws will not exceed the amounts reflected in the Company's reserves or will not have a material adverse effect on the Company's financial condition, results of operations or cash flows. Any possible loss or range of possible loss that may be incurred in excess of the amounts provided for at June 30, 2004 cannot be estimated.

During the first quarter of 2004, the Company's South Carolina manufacturing facility received Canadian certification for the manufacturing and shipment of meters into Canada. As a result of this certification, the Company began plans to move the manufacturing operations located in Quebec, Canada to its South Carolina facility to increase manufacturing efficiencies. The Company expects to incur approximately $600 in termination benefits and relocation costs subsequent to June 30, 2004, with completion of the move expected in the fourth quarter of 2004.

*(in thousands of dollars)*

## 12. Operating Segments

The Company operates in one business segment. Through that segment, the Company sells electric meters in the United States, Canada, Mexico and Taiwan. Following are the Company's revenues by geographic market for the six months ended June 30, 2004 and 2003:

| | June 30, 2004 | June 30, 2003 |
|---|---|---|
| **Revenues, including related parties, by geographic location** | | |
| Taiwan | $ 2,211 | $ 3,447 |
| Mexico | 2,549 | 1,108 |
| Canada | 10,414 | 9,470 |
| United States | 139,345 | 130,414 |
| | $ 154,519 | $ 144,439 |

The Company's revenues from affiliates, which amounted to $3,827 and $35,088 for the six months ended June 30, 2004 and 2003, respectively, were all within the United States.

Manufacturing operations of the Company are located in the United States and Canada. Property, plant and equipment by geographic location are as follows at June 30, 2004 and December 31, 2003:

| | June 30, 2004 | December 31, 2003 |
|---|---|---|
| **Property, plant and equipment, net, by geographic location** | | |
| Taiwan | $ 216 | $ 234 |
| Mexico | 79 | 67 |
| Canada | 2,863 | 3,121 |
| United States | 11,680 | 13,103 |
| | $ 14,838 | $ 16,525 |

## 13. Subsequent Event

On July 1, 2004, Schlumberger completed the sale of its Electricity Products Business to Itron, Inc. for an all-cash amount of $248 million, which includes primarily all of the assets and certain of the liabilities of the Company.

**Exhibit 99.3**

# UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined balance sheet and statements of operations give effect to the acquisition of Schlumberger's Electricity Products Business (SEM), which was completed on July 1, 2004. The acquisition has been accounted for under the purchase method of accounting in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*. Under the purchase method of accounting, the purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair values. The estimated fair values contained herein are preliminary in nature and are likely to change as management completes its assessment and independent appraisers complete their valuation of intangible assets. Such preliminary estimates of fair values of the assets and liabilities of SEM have been combined with the recorded values of the assets and liabilities of Itron, Inc. and subsidiaries (Itron) in the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined balance sheet has been prepared to reflect the acquisition of SEM as if it had occurred on June 30, 2004. The two unaudited pro forma condensed statements of operations reflect the condensed combined results of operations of Itron and SEM for the year ended December 31, 2003 and the six months ended June 30, 2004, in both cases as if the acquisition had occurred on January 1, 2003.

The unaudited pro forma condensed combined balance sheet and unaudited pro forma condensed combined statements of operations are presented for illustrative purposes only and are not necessarily indicative of the financial position or results of operations in future periods or the results that actually would have been realized had Itron and SEM been a combined company during the specified periods. Certain of SEM's historical financial information has been reclassified to conform with Itron's financial statement presentation. The unaudited pro forma condensed combined balance sheet and unaudited pro forma condensed combined statements of operations should be read in conjunction with the historical financial statements and notes thereto of Itron and SEM.

On March 4, 2003, we purchased Silicon Energy Corp. (Silicon), for approximately $71.1 million in cash. We financed a portion of the purchase price of Silicon with our existing $50.0 million, three-year senior secured loan. The unaudited pro forma condensed combined financial data also gives effect to the acquisition of Silicon as if it occurred on January 1, 2003 with respect to the statement of operations for the year ended December 31, 2003.

**Itron, Inc.**

**Unaudited Pro Forma Condensed Combined Statement of Operations**
**For the year ended December 31, 2003**

| | Historical Itron | Historical Silicon | Historical SEM | Pro Forma Adjustments | Pro Forma Itron |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Revenues | $ 316,965 | $ 1,722 | $ 294,165 | $ (6,335)(1) | $ 606,517 |
| Cost of revenues | 173,411 | 2,082 | 201,003 | (12,100)(2) | 364,396 |
| Gross profit (loss) | 143,554 | (360) | 93,162 | 5,765 | 242,121 |
| Operating expenses | | | | | |
| Sales and marketing | 36,673 | 1,573 | 14,093 | (777)(3) | 51,562 |
| Product development | 43,017 | 2,213 | 9,420 | (1,190)(4) | 53,460 |
| General and administrative | 28,944 | 2,030 | 18,695 | (563)(5) | 49,106 |
| Amortization of intangibles | 9,618 | 85 | — | 19,548 (6) | 29,251 |
| Restructurings | 2,208 | — | — | — | 2,208 |
| In-process research and development | 900 | — | — | — | 900 |
| Litigation accrual | 500 | — | 23,000 | — | 23,500 |
| Total operating expenses | 121,860 | 5,901 | 65,208 | 17,018 | 209,987 |
| Operating income (loss) | 21,694 | (6,261) | 27,954 | (11,253) | 32,134 |
| Interest expense | 2,638 | 266 | 20 | 16,893 (7) | 19,817 |
| Other income (expense), net | (1,157) | 24 | (40) | (8)(8) | (1,181) |
| Income (loss) before income taxes | 17,899 | (6,503) | 27,894 | (28,154) | 11,136 |
| Income tax provision | (7,421) | — | (11,571) | 14,315 (9) | (4,677) |
| Net income (loss) | $ 10,478 | $ (6,503) | $ 16,323 | $ (13,839) | $ 6,459 |
| Earnings per share | | | | | |
| Basic net income per common share | $ 0.51 | | | | $ 0.32 |
| Diluted net income per common share | $ 0.48 | | | | $ 0.30 |
| Weighted average number of shares outstanding | | | | | |
| Basic | 20,413 | | | | 20,413 |
| Diluted | 21,740 | | | | 21,740 |

See accompanying notes to unaudited pro forma condensed combined financial information.

**Itron, Inc.**

**Unaudited Pro Forma Condensed Combined Statement of Operations**
**For the six months ended June 30, 2004**

| | Historical Itron | Historical SEM | Pro Forma Adjustments | Pro Forma Itron |
|---|---|---|---|---|
| | | (in thousands) | | |
| Revenues | $ 145,244 | $ 154,519 | $ (2,588)(10) | $ 297,175 |
| Cost of revenues | 79,114 | 99,898 | (5,549)(11) | 173,463 |
| Gross profit | 66,130 | 54,621 | 2,961 | 123,712 |
| Operating expenses | | | | |
| Sales and marketing | 19,926 | 7,924 | (277)(12) | 27,573 |
| Product development | 20,776 | 4,921 | (393)(13) | 25,304 |
| General and administrative | 15,278 | 3,749 | (229)(14) | 18,798 |
| Amortization of intangibles | 4,054 | — | 8,216 (15) | 12,270 |
| Restructurings | 2,434 | — | — | 2,434 |
| Total operating expenses | 62,468 | 16,594 | 7,317 | 86,379 |
| Operating income | 3,662 | 38,027 | (4,356) | 37,333 |
| Interest expense | 3,015 | 8 | 8,208 (16) | 11,231 |
| Other income (expense), net | (607) | (61) | — | (668) |
| Income before income taxes | 40 | 37,958 | (12,564) | 25,434 |
| Income tax (provision) benefit | 40 | (14,968) | 5,009 (17) | (9,919) |
| Net income | $ 80 | $ 22,990 | $ (7,555) | $ 15,515 |
| Earnings per share | | | | |
| Basic net income per common share | $ 0.00 | | | $ 0.75 |
| Diluted net income per common share | $ 0.00 | | | $ 0.71 |
| Weighted average number of shares outstanding | | | | |
| Basic | 20,750 | | | 20,750 |
| Diluted | 21,987 | | | 21,987 |

See accompanying notes to unaudited pro forma condensed combined financial information.

**Itron, Inc.**

**Unaudited Pro Forma Condensed Combined Balance Sheet**
**At June 30, 2004**

| | Historical Itron | Historical SEM | Pro Forma Adjustments | Pro Forma Itron |
|---|---|---|---|---|
| | | (in thousands) | | |
| **ASSETS** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ 2,227 | $ 2,631 | $ 196 (18) | $ 5,054 |
| Accounts receivable, net | 61,716 | 33,240 | 13,006 (19) | 107,962 |
| Inventories | 20,357 | 20,184 | 1,635 (20) | 42,176 |
| Other current assets | 9,120 | 4,975 | (8,410)(21) | 5,685 |
| Total current assets | 93,420 | 61,030 | 6,427 | 160,877 |
| Property, plant and equipment, net | 44,427 | 14,838 | 2,410 (22) | 61,675 |
| Intangible assets, net | 18,925 | 52 | 97,000 (23) | 115,977 |
| Goodwill | 90,440 | — | 105,209 (24) | 195,649 |
| Restricted cash | 128,310 | — | (128,310)(25) | — |
| Other | 49,333 | 34,957 | (22,431)(26) | 61,859 |
| Total assets | $ 424,855 | $ 110,877 | $ 60,305 | $ 596,037 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued expenses | $ 22,824 | $ 20,939 | $ (1,956)(27) | $ 41,807 |
| Wages and benefits payable | 10,920 | 8,033 | (1,287)(28) | 17,666 |
| Short-term borrowings | 21,000 | — | (21,000)(29) | — |
| Current portion of debt | 17,435 | — | (14,817)(29) | 2,618 |
| Current portion of warranty | 7,995 | — | — | 7,995 |
| Other current liabilities | 11,240 | 10,817 | (350)(30) | 21,707 |
| Total current liabilities | 91,414 | 39,789 | (39,410) | 91,793 |
| Long-term debt | 140,225 | — | 170,650 (29) | 310,875 |
| Warranty | 3,768 | — | — | 3,768 |
| Other long-term liabilities | 7,259 | 69,368 | (69,368)(31) | 7,259 |
| Total liabilities | 242,666 | 109,157 | 61,872 | 413,695 |
| Minority interest | — | 153 | — | 153 |
| Shareholders' equity | 182,189 | 1,567 | (1,567)(32) | 182,189 |
| Total liabilities and shareholders' equity | $ 424,855 | $ 110,877 | $ 60,305 | $ 596,037 |

See accompanying notes to unaudited pro forma condensed combined financial information.

**Itron, Inc.**
**Notes to Unaudited Pro Forma Condensed Combined Financial Information**
(in thousands)

**Note 1: Purchase Price**

On July 1, 2004, Itron, Inc. (Itron) completed the acquisition of Schlumberger's Electricity Products Business (SEM). The purchase price was $248 million, not including direct transaction costs, and is subject to post closing working capital adjustments. Itron used proceeds from a new $240 million senior secured credit facility and $125 million in Senior Subordinated Notes to finance the acquisition, pay related fees and expenses, and repay approximately $50.2 million of outstanding Itron debt under an existing credit facility.

The unaudited pro forma condensed combined financial information reflects a preliminary allocation of the purchase price and represents Itron's expectations of the significant tangible and intangible assets and liabilities that will be recognized in connection with the acquisition. The estimated fair values of the assets and liabilities are preliminary and are subject to future adjustments. The significant items which could change are intangible assets and goodwill. The valuations of certain tangible and intangible assets are dependent on the finalization of appraisals.

The preliminary purchase price, which includes estimated direct transaction costs and other consideration, is summarized as follows:

| | |
|---|---|
| Cash paid | $ 248,077 |
| Estimated direct transaction costs | 5,404 |
| Total acquisition costs | $ 253,481 |

For pro forma purposes only, assuming the transaction was consummated on June 30, 2004 and not on the actual closing date of July 1, 2004, the preliminary allocation of the purchase price would be as follows:

| | |
|---|---|
| Net current assets and liabilities | $ 34,125 |
| Property, plant and equipment | 17,248 |
| Intangible assets | 97,052 |
| Goodwill | 105,209 |
| Minority interest | (153) |
| Total net assets acquired | $253,481 |

The excess of the purchase price over the fair value of net assets acquired has been classified as goodwill.

Preliminary intangible assets are comprised of the following:

| | | Weighted Average Useful Life (in months) |
|---|---|---|
| Core development technology | $70,000 | 60 |
| Contract backlog | 3,000 | 12 |
| Customer relationships | 23,000 | 120 |
| Trademarks and tradenames | 1,000 | 96 |
| Other | 52 | 120 |
| Total intangible assets | $97,052 | |

The preliminary values assigned to the identifiable intangible assets were determined using the income approach by an independent appraiser. Under the income approach, the fair value reflects the present value of the projected cash flows that are expected to be generated by the products. The intangible assets will be amortized over the estimated useful lives of the estimated discounted cash flows assumed in the valuation models.

The pro forma condensed combined financial information is intended for information purposes only, and does not purport to represent what the combined companies' results of operations or financial position would actually have been had the transaction in fact occurred at an earlier date, or project the results for any future date or period.

**Note 2: Pro Forma Adjustments**

The following adjustments are reflected in the unaudited pro forma condensed combined balance sheet and unaudited pro forma condensed combined statements of operations to reflect the estimated impact of the merger on the historical combined results of Itron and SEM.

(1) Adjustment to eliminate intercompany sales activity, which consists primarily of royalty sales.

(2) Net adjustment to remove $(4,585) in pension and post retirement costs related to SEM retirement plans that Itron will not be assuming, to remove intercompany royalty cost of sales of $(6,024), to reflect a decrease in depreciation expense of $(1,621) based on estimated fair values of Silicon and SEM's property, plant and equipment depreciated in accordance with Itron's policy over the estimated useful lives and to remove the SEM LIFO inventory reserve impact of $130 to conform with Itron's FIFO inventory accounting policy.

(3) Net adjustment consists of a decrease of $(12) in depreciation expense calculated in accordance with Itron's policy over the estimated useful lives and $(765) to remove pension and post retirement costs related to SEM retirement plans that Itron will not be assuming.

(4) Net adjustment consists of a decrease of $(9) in depreciation expense calculated in accordance with Itron's policy over the estimated useful lives and $(1,181) to remove pension and post retirement costs related to SEM retirement plans that Itron will not be assuming.

(5) Net adjustment consists of a decrease of $(147) in depreciation expense calculated in accordance with Itron's policy over the estimated useful lives and $(416) to remove pension and post retirement costs related to SEM retirement plans that Itron will not be assuming.

(6) Net adjustment to eliminate historical amortization expense of $(85) for Silicon and to increase amortization expense by $19,633 for intangible assets associated with Silicon and SEM.

(7) Net adjustment consists of an increase in interest expense for new debt issued in connection with the acquisition along with amortization of deferred financing costs of $19,349 and a decrease in interest expense of $(2,456) for debt repaid upon the acquisition closing. A change in the interest rate of $^{1}/_{8}$% would result in a change in interest expense of $234.

(8) Adjustment to remove Silicon interest income related to note receivables from Silicon officers that were not assumed by Itron.

(9) Adjustment to revise income tax provision utilizing Itron's statutory rate of 42.0%.

(10) Adjustment to eliminate intercompany sales activity, which consists primarily of royalty sales.

(11) Net adjustment to remove $(2,504) in pension and post retirement costs related to SEM retirement plans that Itron will not be assuming, to remove intercompany royalty cost of sales of $(2,614), to reflect a decrease in depreciation expense of $(431) based on estimated fair values of SEM's property, plant and equipment depreciated in accordance with Itron's policy over the estimated useful lives. There was no SEM LIFO inventory reserve impact for the six months ended June 30, 2004.

(12) Net adjustment consists of a decrease of $(10) in depreciation expense calculated in accordance with Itron's policy over the estimated useful lives and $(267) to remove pension and post retirement costs related to SEM retirement plans that Itron will not be assuming.

(13) Net adjustment consists of a decrease of $(25) in depreciation expense calculated in accordance with Itron's policy over the estimated useful lives and $(368) to remove pension and post retirement costs related to SEM retirement plans that Itron will not be assuming.

(14) Net adjustment consists of a decrease of $(29) in depreciation expense calculated in accordance with Itron's policy over the estimated useful lives and $(200) to remove pension and post retirement costs related to SEM retirement plans that Itron will not be assuming.

(15) Adjustment to increase amortization expense for intangible assets associated with the acquisition.

(16) Net adjustment consists of an increase in interest expense for new debt issued in connection with the acquisition along with amortization of deferred financing costs of $9,660 and a decrease in interest expense of $(1,452) for debt repaid upon the acquisition closing. A change in the interest rate of $^{1}/_{8}$% would result in a change in interest expense of $119.

(17) Adjustment to revise income tax provision utilizing Itron's statutory rate of 39.0%.

(18) Adjustments represent $(960) in payments for professional services related to the acquisition and $1,156 in cash remaining from debt financing.

(19) Net adjustment to eliminate $(981) in intercompany accounts receivable and to add $13,987 for tax liabilities that are reflected on the opening balance sheet that will be reimbursed by Schlumberger, Ltd.

(20) Adjustment to remove SEM's LIFO inventory reserve in order to conform with Itron's FIFO inventory accounting policy.

(21) Net adjustment to remove the current portion of deferred income taxes of $(4,556) as the acquisition will involve a 338(h)10 tax election (deemed asset purchase for which certain deferred tax assets will not be acquired), $1,550 to capitalize the current portion of debt issuance costs that will be amortized over the related financing and $(5,404) to eliminate prepaid professional services related to the acquisition.

(22) Adjustment to reflect a net increase in property, plant and equipment based on estimated fair values. These fair value estimates are preliminary and are subject to future adjustment based on finalization of a valuation conducted by a third party.

(23) Adjustment to reflect intangible assets identified and the fair values assigned, which are preliminary and subject to future adjustment based upon an evaluation by a third party.

(24) Adjustment reflects goodwill from the acquisition after allocating the purchase price to the fair value of net assets acquired.

(25) Adjustment to reflect the use of restricted cash for the purchase of the acquisition.

(26) Net adjustment to remove $(25,557) in long-term deferred income taxes as the acquisition will involve a 338(h)10 tax election (deemed asset purchase for which certain deferred tax assets will not be acquired), to eliminate a $(9,234) prepaid pension asset Itron is not assuming, plus $12,360 to capitalize the long-term portion of debt issuance costs that will be amortized over the related financing.

(27) Net adjustment to remove SEM's accrued royalties payable to Itron of $(996) and $(960) of accrued professional services related to the acquisition.

(28) Net adjustment to remove the liabilities that Itron will not be assuming which include $(85) for vacation in excess of defined hours, $(652) related to a pension plan and $(550) for 401(k) contributions.

(29) Net adjustment to short-term borrowings and current and long-term debt is as follows:

| | Short-term borrowings | Current debt | Long-term debt |
|---|---|---|---|
| | | (in thousands) | |
| New term debt | $ — | $ 1,850 | $183,150 |
| Existing revolving line of credit | (21,000) | — | — |
| Existing term loan | — | (16,667) | (12,500) |
| | $ (21,000) | $ (14,817) | $170,650 |

(30) Adjustment to remove the current portion of an environmental accrual that Itron will not be assuming.

(31) Net adjustment to remove a post retirement liability of $(65,418) and the long-term portion of an environmental accrual of $(3,950) that Itron will not be assuming.

(32) Net adjustment to eliminate SEM's equity.