



## Itron Reports Third Quarter 2005 Financial Results

### **Third Quarter Revenues Increase 15% Third Quarter GAAP Net Income \$6.0 Million versus \$1.7 Million Last Year Third Quarter Pro Forma Net Income Increases 78% to \$12.6 Million Record New Order Bookings of \$212 Million**

SPOKANE, WA. — October 28, 2005 — Itron, Inc. (NASDAQ:ITRI), today reported its financial results for the quarter and year-to-date periods ended September 30, 2005. Third quarter results for both 2005 and 2004 include our Electricity Metering business acquired July 1, 2004. Year-to-date results in 2005 include nine months of Electricity Metering operations compared with three months in 2004.

Third quarter revenues were \$141.1 million, 15% higher than third quarter 2004 revenues of \$122.5 million. Year-to-date, revenues were \$392.7 million in 2005 compared with \$267.7 million in 2004. Revenue highlights by segment for the quarter and year-to-date periods are as follows:

#### Meter Data Collection (MDC)

MDC revenues were \$70.6 million in the quarter, an increase of \$13.8 million, or 24%, compared with the third quarter of 2004, due to increased shipments of gas AMR modules, increased handheld sales outside of North America and increased contract manufacturing services related to embedding our AMR technology into other electricity meter vendors' solid-state meters. Offsetting those increases were lower implementation revenues and sales of third-party hardware.

Year-to-date, MDC revenues were \$182.5 million compared with \$178.7 million in 2004. Unit shipments of standalone AMR modules increased 8.5% year-to-date in 2005 compared with the same period in 2004, while related revenues for the same periods increased by approximately 4% due to lower average selling prices for standalone AMR modules, in particular electric. On a year-to-date basis in 2005, increased handheld sales and contract manufacturing services were partially offset by lower implementation revenues and sales of third-party hardware.

Standalone AMR module shipments were approximately 1.2 million and 3.1 million during the quarter and year-to-date periods in 2005, compared with approximately 900,000 and 2.8 million for the same periods in 2004. In the third quarter and year-to-date periods in 2005, we produced approximately 250,000 and 550,000 Itron AMR products for other vendors' solid-state electricity meters compared with approximately 50,000 and 125,000 in the same periods in 2004.

#### Electricity Metering

Electricity Metering revenues in the quarter were \$58.6 million compared with \$54.2 million in 2004. Residential meter sales increased approximately \$9.2 million in 2005 compared with 2004, offset by slightly lower commercial and industrial meter sales in the 2005 quarter. Also offsetting the increase in residential meter sales was the phasing out during the last half of 2004 of contract manufacturing services for a former affiliate, which were approximately \$4.2 million in the third quarter of 2004. Year-to-date in 2005, Electricity Metering revenues were \$173.3 million.

We shipped approximately 1.2 million electricity meters in the quarter compared with approximately 850,000 in the third quarter of 2004. The growth in unit shipments of 39% is approximately twice the revenue growth due to the higher mix of residential meters as well as lower average selling prices in 2005. Year-to-date in 2005, electricity meter shipments were approximately 3.4 million.

Approximately 48% of meters shipped during the quarter, and 40% for the year-to-date period in 2005, were equipped with Itron AMR technology compared with 32% in the third quarter of 2004. In addition, 13% of shipments in the third quarter and 17% in the first nine months of 2005 were equipped with other vendors' AMR technology compared with 25% in the third quarter of 2004.

#### Software

Software revenues increased \$400,000 in the quarter and \$2.1 million year-to-date in 2005, compared with the same periods in 2004, due to higher licenses and maintenance offset by lower professional services revenues.

GAAP net income was \$6.0 million, or 23 cents per diluted share for the quarter, compared with \$1.7 million, or 8 cents per diluted share in the third quarter of 2004. GAAP net income in the first nine months of 2005 was \$16.1 million, or 66 cents per diluted share, compared with \$1.8 million, or 8 cents per diluted share, in 2004. Year-to-date GAAP net income in 2005 includes a \$5.9 million tax benefit for additional R&D tax credits for the years 1997 through 2004, which was recognized in the

second quarter of 2005.

Pro forma net income was \$12.6 million, or 49 cents per diluted share for the quarter, compared with \$7.1 million, or 32 cents per diluted share in the third quarter of 2004. Year-to-date pro forma net income was \$30.3 million, or \$1.24 per diluted share, compared with \$11.4 million, or 52 cents per diluted share in 2004. Pro forma net income excludes the amortization of intangible assets and debt placement fees, restructurings and the benefit of the prior year R&D tax credits.

“By virtually every financial measure, Itron is having a remarkable year,” commented LeRoy Nosbaum, chairman and CEO. “Our record revenue performance is the result of upward momentum across many fronts. Higher volumes and operating efficiencies are resulting in even stronger earnings growth. We are quite pleased with how this year is progressing and look forward to similar progress in 2006.”

Gross margins were 43% for the quarter and first nine months of 2005, compared with 40% and 43% in the same periods in 2004.

MDC gross margin improved to 45% in the quarter, compared with 42% in the third quarter of 2004 due primarily to the higher mix of gas AMR and higher handheld systems revenues. Year-to-date MDC gross margin was 44% compared with 46% in 2004, due to lower average selling prices for standalone AMR modules, in particular electric, and lower implementation margins offset by the higher mix of gas AMR.

Electricity Metering gross margin was 41% during the quarter compared with 39% during the third quarter of 2004. Gross margin in the third quarter of 2004 was lower than normal due to a \$2.2 million purchase accounting adjustment to write-up acquired finished goods inventory to the expected net sales price, and due to approximately \$4.2 million of contract manufacturing services during the quarter to a former affiliate, which were very low margin. For the first nine-months of 2005, Electricity Metering gross margin was 42%. The impact of lower average selling prices for residential meters in 2005 has been partially offset by lower manufacturing costs.

Software Solutions gross margins were 39% for the quarter and 41% year-to-date in 2005, compared with 36% and 35% for the same 2004 periods. The higher margins in 2005 reflect the higher mix of license and maintenance fees.

Intangible asset amortization expenses have increased in 2005 as a result of the Electricity Metering acquisition on July 1, 2004 and were \$9.7 million and \$29.1 million in the quarter and year-to-date periods in 2005, compared with \$7.2 million and \$11.3 million for the same 2004 periods.

Excluding intangible asset amortization expenses and restructurings, operating income was \$23.9 million, or 16.9% of revenues for the quarter, compared with \$16.3 million, or 13.3% in the third quarter of 2004, and \$59.8 million, or 15.2% of revenues year-to-date in 2005, compared with \$26.5 million, or 9.9% year-to-date in 2004. The improved operating margin in 2005 reflects the lower level of spending required for Electricity Metering marketing and product development, as well as operating efficiencies and cost savings from headcount reductions in 2004 and higher volumes of meters and AMR products in 2005.

We had another record quarter for new order bookings and backlog. Details for new order bookings and quarter-end backlog (neither of which includes maintenance revenues) are as follows:

New order bookings during the quarter were \$212 million, compared with \$98 million in the third quarter of last year. New order bookings in the first nine months of 2005 were \$506 million, compared with \$230 million in the first nine months of 2004. Significant orders during the quarter included:

An order from Progress Energy for approximately 2.7 million solid-state electricity meters with AMR, worth approximately \$120 million;

An order for approximately 500,000 gas AMR modules to be delivered over five years; and

An agreement to provide the U.S. Department of the Navy with enterprise energy management software and services.

Total backlog increased to \$325 million at September 30, 2005. By comparison, total backlog was \$243 million at June 30, 2005 and \$177 million at September 30, 2004. Twelve-month backlog, which represents the estimated portion of backlog that will be earned over the next twelve months, was \$198 million at September 30, 2005, compared with \$151 million at June 30, 2005 and \$104 million at September 30, 2004.

We generated \$13.0 million of cash from operations during the quarter compared with \$20.4 million during the third quarter of last year. We used cash during the quarter to begin building inventories for the Progress Energy order signed in July and expect to continue to build inventories for that order in the fourth quarter of this year as the installation rate increases throughout that quarter. Accounts receivable also increased during the quarter driven by higher revenues. Cash flow from operations was \$49.6 million for the nine months ended September 30, 2005 compared with \$27.5 million for the same period in 2004.

Net capital expenditures were approximately \$5.0 million and \$10.3 million for the quarter and year-to-date periods in 2005,

compared with approximately \$3.2 million and \$10.0 million for the same periods in 2004.

We made \$14.0 million in optional repayments on our term bank debt during the quarter, bringing the outstanding term-loan balance to \$28.0 million at September 30, 2005. We made another \$3.0 million in optional repayments subsequent to quarter-end, resulting in our having repaid \$160.0 million of the \$185 million term bank debt borrowed on July 1, 2004 in connection with the Electricity Metering acquisition.

On October 27, 2005, we signed an agreement with the owners of Telect, Inc., a privately-held telecommunications company, to purchase their 200,000 square foot headquarters building for approximately \$20 million, which we expect to partially finance with a loan. Our existing 141,000 square foot headquarters facility will be listed for sale. Closing is expected to occur by December 31, 2005. We expect to take possession of the building in April 2006 and to begin moving operations in the third quarter of 2006.

Itron's headquarters operations include marketing, research and development, customer service, information technology and financial and corporate functions. Itron has experienced strong growth over the last few years, partially as a result of acquisitions. Total staffing in Spokane has increased by approximately 25% over the last four years. Itron's existing Spokane facility was built more than twenty years ago and was initially designed for manufacturing operations. Manufacturing operations previously performed in Spokane have since been moved to our Waseca, Minnesota location or outsourced.

"Our existing facility requires significant investment in order to adapt to our current use of the building, accommodate our existing employee base and provide for future growth and expansion," said LeRoy Nosbaum, chairman and CEO. "Purchasing this building is a much better option than spending money to renovate our existing facility. We are very fortunate to have found a close-by facility in Liberty Lake that is in excellent condition and that meets our current and future space requirements."

### **Business Outlook**

Our outlook for 2005 and 2006 does not include any impact related to the expensing of stock options. We expect to implement FASB's Statement 123R, which requires the expensing of stock options and ESPP shares issued at a discount, in 2006. While we have not yet completed our analysis of the effects of the adoption of 123R, the expensing of stock options will decrease gross margin, increase operating expenses and influence our effective tax rate and could materially impact GAAP net income.

For the full year 2005, we expect:

Revenues to be between \$535 and \$540 million (previous guidance was \$535 to \$545 million).

Pro forma diluted earnings per share between \$1.70 and \$1.75 (previous guidance was \$1.65 to \$1.70).

While still preliminary, the Company issued an early outlook for 2006, based primarily on the strength of new order bookings so far in 2005. For the full year 2006, we expect revenue growth of approximately 10% over 2005, with pro forma earnings growth of almost twice that.

### **Use of Non-GAAP Financial Information**

To supplement our consolidated financial statements presented in accordance with GAAP, we use certain non-GAAP measures, including pro forma earnings and EPS and EBITDA. Pro forma earnings and EPS are adjusted from GAAP-based results to exclude certain expenses or gains that we believe are not indicative of our core operating results. Pro forma results are one of the primary indicators management uses for evaluating historical results and for planning and forecasting future periods. We believe pro forma results provide consistency in our financial reporting which enhances our investor's understanding of our current financial performance as well as our future prospects. Pro forma results along with EBITDA measures should be viewed in addition to, and not in lieu of, GAAP results.

### **Earnings Conference Call**

Itron will host a conference call to discuss the financial results contained in this release at 6:00 a.m. PST on October 28, 2005. The call will be webcast in a listen only mode and can be accessed online at Itron's [Investor Events](#) page. The live webcast will begin at 6:00 a.m. (PST). The webcast replay will begin shortly after the conclusion of the live call and will be available for two weeks. A telephone replay of the call will also be available approximately one hour after the conclusion of the live call, for 48 hours, and is accessible by dialing **(888) 203-1112 (Domestic)** or **(719) 457-0820 (International)**, entering passcode **#5349308**.

### **Forward Looking Statements**

This release contains forward-looking statements concerning Itron's operations, financial performance, sales, earnings and cash flow. These statements reflect our current plans and expectations and are based on information currently available. They rely on a number of assumptions and estimates, which could be inaccurate, and which are subject to risks and uncertainties that could cause our actual results to vary materially from those anticipated. Risks and uncertainties include the rate and timing of customer demand for the Company's products, rescheduling of current customer orders, changes in estimated liabilities for product warranties, changes in laws and regulations and other factors which are more fully described in our Annual Report on Form 10-K for the year ended December 31, 2004 and our Form 10-Qs for the quarters ended March 31, 2005 and June 30, 2005 on file with the Securities and Exchange Commission. Itron undertakes no obligation to update publicly or revise any

forward-looking statements.

**About Itron**

Itron is a leading technology provider and critical source of knowledge to the global energy and water industries. Nearly 3,000 utilities worldwide rely on Itron technology to deliver the knowledge they require to optimize the delivery and use of energy and water. Itron delivers value to its clients by providing industry-leading solutions for electricity metering, meter data collection, energy information management, demand side management and response, load forecasting, analysis and consulting services, transmission and distribution system design and optimization, Web-based workforce automation, commercial and industrial customer care and residential energy management.

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**Related Documents**

[Itron Q3 2005 Earnings Release Statement](#)