Itron Announces Record First Quarter Revenue and Earnings

GAAP EPS of 27 cents and Pro Forma EPS of 58 cents on Revenues of $155.6 Million $206 Million in New Orders Signed During the Quarter

SPOKANE, WA. — April 25, 2006 — Itron, Inc. (NASDAQ:ITRI), today reported financial results for its first quarter ended March 31, 2006. Revenues for the first quarter 2006 were $155.6 million, 34% higher than first quarter 2005 revenues of $116.5 million. The increased revenues were mainly due to higher shipments of Itron Automatic Meter Reading (AMR) technology.

Itron AMR technology includes standalone AMR modules for electricity, gas or water meters and electricity meters with embedded Itron AMR. We shipped 2.4 million units of Itron AMR technology during the quarter compared with 1.3 million during the same period in 2005, an 81% increase.
Meter Data Collection (MDC) segment revenues of $61.8 million in the quarter increased 24% from $49.7 million in the first quarter of 2005. The increased revenue was primarily due to higher shipments of gas AMR modules.
Electricity Metering segment revenues were $80.4 million in the quarter compared with $54.1 million in the first quarter of 2005. The 49% increase in revenues was primarily related to shipments of electricity meters with AMR to Progress Energy. The Progress Energy contract, which calls for delivery of 2.7 million electricity meters with embedded AMR over approximately 15 months, was signed in the third quarter of 2005. Progress Energy represented 22% of total company revenues, and 42% of Electricity Metering segment revenues during the quarter.
Software revenues were $13.4 million during the quarter, 6% higher than $12.7 million in the first quarter of 2005. Increased software revenues reflect increased software license sales for a number of products.

GAAP net income was $7.1 million, or 27 cents per diluted share, for the quarter, compared with net income of $817,000, or 4 cents per diluted share, for the first quarter of 2005. On January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123®, Share-Based Payment (SFAS 123 ®), which requires the expensing of share-based compensation. Total stock-based compensation in the quarter was $2.1 million, of which $1.9 million was due to the adoption of SFAS 123® and had a 4 cent effect on GAAP earnings per share during the quarter.

Pro forma net income was $15.1 million or 58 cents per diluted share for the quarter, compared with $7.3 million, or 32 cents per diluted share, in the first quarter of 2005. Pro forma net income excludes intangible asset and debt fee amortization expenses in 2005 and 2006, restructuring charges in 2005 and SFAS 123® stock option compensation expenses in 2006.

New order bookings for the three months ended March 31, 2006 were $206 million, compared with $117 million in the first quarter of 2005, and were the second highest level of quarterly new order bookings in the company's history. Twelve month backlog, which represents the portion of backlog that will be earned over the next twelve months, was $241 million at March 31, 2006, compared with $188 million at December 31, 2005 and $116 million one year ago. Total backlog was $387 million at March 31, 2006, up from $324 million at December 31, 2005, and $190 million at March 31, 2005.

"We are very pleased with our financial results for the first quarter," said LeRoy Nosbaum, chairman and CEO. "Revenue, earnings and cash flow are all up compared with the first quarter of last year. Our strength in new order bookings this quarter helps solidify our expectations for 2006 and, since a number of new orders signed this quarter represent multi-year contracts, it also begins to build a base of business beyond 2006."

Gross margins were 43% for the quarter compared with 44% in the first quarter of 2005 and 41% in the fourth quarter of 2005. Highlights of gross margin by segment are as follows:

MDC gross margin was 46% in the quarter compared to 42% in the first quarter of 2005. The higher margin in 2006 results from increased shipments of gas AMR modules in 2006.
Electricity Metering gross margin was 40% during the quarter compared with 45% during the first quarter of 2005. Most of the decrease from 2005 to 2006 was driven by lower margin meter installation revenue associated with the Progress Energy contract.
Software Solutions gross margin was 46% for the first quarter of 2006, comparable with the 45% gross margin in the same period last year.

Pro forma operating income, which excludes intangible asset amortization expenses in both 2006 and 2005, minor restructuring charges in 2005 and SFAS 123® stock option compensation expense in 2006, was $28.1 million, or 18.1 % of revenues for the quarter, compared with $15.9 million, or 13.6%, in the first quarter of 2005. The improved operating margin in 2006 reflects lower operating expenses as a percentage of revenues in all operating expense areas.

Total interest expense for the three months ended March 31, 2006 was $1.2 million higher than the same period in 2005. The increase was due to accelerated amortization expense of debt placement fees caused by prepaying the variable-rate term loan. Interest expense without amortization was $882,000 lower in 2006 than 2005.

We generated $37.4 million of cash from operations during the quarter compared with $23.7 million during the first quarter of 2005. Capital expenditures were $6.3 million in the quarter compared to $1.7 million in the first quarter of last year, with the increase this year related to our enterprise software upgrade.

EBITDA (earnings before interest, income taxes, depreciation and amortization) was $29.5 million in the first three months of 2006, compared with $18.9 million in the same period in 2005. Adjusted EBITDA, which excludes the effect of non-cash stock option compensation expense, was $31.3 million.

During the quarter we prepaid in full our variable-rate term loan, which had a remaining balance at December 31, 2005 of $24.7 million and also prepaid $10.0 million of our variable-rate real estate term loan. Subsequent to March 31, 2006 we prepaid the remaining $4.8 million in real estate term debt and also prepaid in full $3.0 million in project financing debt.

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

Business Outlook:
The outlook information provided below and elsewhere in this release is based on information available today and Itron assumes no obligation to update it. Our future performance involves risks and uncertainties.

For the full year 2006, we expect:

Revenues between $610 and $620 million.
GAAP net income between $29 and $31 million.
Pro forma net income between $57 and $59 million, excluding approximately $9 million of pre-tax stock option compensation expenses and approximately $33 million of pre-tax intangible asset and debt fee amortization expenses.
Pro forma EPS between $2.17 and $2.23 per diluted share, which is based on an estimated 26.4 million in diluted shares.
Adjusted EBITDA, which excludes $9 million of stock option compensation expenses, between $116 and $120 million.

We expect revenue for the second quarter to be between $150 and $155 million.

Use of Non-GAAP Financial Information:
To supplement our consolidated financial statements presented in accordance with GAAP, we use certain non-GAAP financial measures, including pro forma operating income, pro forma net income and EPS, and EBITDA and Adjusted EBITDA. Management believes these non-GAAP financial measures provide useful information to both management and investors by excluding certain expenses, gains and losses that may not be indicative of our core results and provides for consistency in our financial reporting. We provide these non-GAAP financial measures because we believe they provide greater transparency with respect to supplemental information used by management in its financial and operational decision making. Specifically, these non-GAAP financial measures are provided to enhance investors' overall understanding of our current financial performance and our future anticipated performance. Non-GAAP performance measures should be considered in addition to, and not as a substitute for, results prepared in accordance with GAAP. Finally, our non-GAAP financial measures may be different from those reported by other companies. Reconciliations between GAAP and non-GAAP financial measures are included in this press release.

Earnings Conference Call:
Itron will host a conference call to discuss the financial results contained in this release at 1:45 p.m. (PST) on April 25, 2006. 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 1:45 p.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 **# 9425890**.

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's award-winning technology to provide the knowledge they require to optimize the delivery and use of energy and water. Itron creates value for its clients by providing industry-leading solutions for electricity metering; meter data collection; energy information management; demand response; load forecasting, analysis and consulting services; distribution system design and optimization; web-based workforce automation; and enterprise and residential energy management.

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Statements of operations, reconciliations between GAAP and non-GAAP results, segment information, balance sheets and cash flows follow.

Related Documents
Itron Q1 2006 Earnings Statement