

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

FORM 8-K

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

February 5, 2004

(Date of Report)

ITRON, INC.

(Exact Name of Registrant as Specified in Charter)

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)

Item 7. Financial Statements and Exhibits. The following item is attached as an exhibit hereto:

(c) Exhibits.

Exhibit No. 99.1 Press Release dated February 5, 2004

Item 12. Results of Operations and Financial Condition.

On February 5, 2004, Itron, Inc. issued a press release announcing the financial results for the quarter and year ending December 31, 2003. A copy of this press release and accompanying financial statements are attached as Exhibit 99.1.

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: February 5, 2004

By: /s/ DAVID G. REMINGTON

David G. Remington
Vice President and Chief Financial Officer

Itron Reports Q4 2003 and Full Year 2003 Results

SPOKANE, Wash.--(BUSINESS WIRE)--Feb. 5, 2004--Itron, Inc. (Nasdaq:ITRI), today reported its financial results for the quarter and full year ended December 31, 2003.

Fourth quarter revenues were \$80 million, 3% higher than fourth quarter 2002 revenues. Full year 2003 revenues were \$317 million, up 11% over 2002.

- AMR unit shipments increased 10% to 4.1 million in 2003. Gas unit shipments increased 26% and water unit shipments increased 44%, offset by a 12% decrease in electric unit shipments. Several large electric customers delayed AMR orders in 2003 as a result of ice storms, the electrical power blackout in the eastern U.S., a hurricane and other utility-specific delays in capital spending.
- Most of the fourth quarter revenue growth and approximately half of the year-over-year revenue growth came from acquisitions.
- Remaining 2003 revenue growth was driven by higher automatic meter reading (AMR) hardware revenues offset by lower revenues for installations related to meter reading systems.

On a GAAP basis, the company reported a loss of \$1.6 million, or 8 cents per share for the fourth quarter, compared with a loss of \$640,000, or 3 cents per share in the fourth quarter of 2002. Full year GAAP net income was \$10.5 million, or 48 cents per diluted share in 2003, compared with \$8.7 million, or 41 cents per diluted share in 2002.

Fourth quarter and full year 2003 earnings were impacted by a number of unusual items that netted to approximately \$9.5 million in pre-tax expenses, or approximately 26 cents per share pro forma after-tax. The fourth quarter items include the following:

- \$8.6 million in increases to previous warranty estimates for higher than expected electric meter module product failures resulting from a defective component provided by a supplier.
- \$2.2 million of costs in excess of revenues on an AMR installation contract with one large utility, resulting from considerably lower than expected productivity of third-party contractors.
- \$2.4 million associated with the impairments of minority investments in two companies.
- The above charges were partially offset by a reversal of approximately \$3.7 million in previously accrued management bonus and employee profit sharing for 2003.

The net impact of these items exceeds the Company's previous guidance issued in January of \$5.5 million pre-tax, primarily due to increases in estimated field labor charges to replace the failed electric meter modules.

Pro forma net income for the fourth quarter of 2003 was \$138,000, or 1 cent per diluted share, compared with \$6.5 million, or 30 cents per diluted share, in the fourth quarter of 2002. Full year 2003 pro forma net income was \$18.9 million, compared with \$24.0 million in 2002. Pro forma diluted earnings per share for the full year were 87 cents in 2003 compared with \$1.12 in 2002. A schedule reconciling GAAP basis income to pro forma income is attached to this release.

"While we managed to produce double digit revenue growth in a difficult economic year for utilities, we are far from satisfied with our results," commented LeRoy Nosbaum, Itron's chairman and CEO. "The emergence of a major problem with a product component supplier late in the year caused us to fall significantly short of our earnings expectations. While very disappointing, the problem encountered is highly unusual."

Gross margin was 34.8% for the fourth quarter of 2003, while full year gross margin for 2003 was 45.3%. In comparison, gross margin was 47.6% in the fourth quarter of 2002, and 46.4% for the full year 2002. Gross margin benefited in 2003 from higher manufacturing volumes, lower component prices and changes in product mix. However, those benefits were offset by the higher warranty estimates and installation costs mentioned earlier in the release. The higher warranty and installation costs, net of the \$1.0 million in bonus reversal related to cost of sales, had the effect of decreasing gross margin by 12.3%

and 3.1% for the fourth quarter and full year 2003.

Sales and marketing, product development and general and administrative expenses were \$25.2 million in the fourth quarter of 2003 compared with \$26.5 million in 2002. Included in the fourth quarter 2003 amount is \$2.7 million of the \$3.7 million bonus and profit sharing reversal. For the full year in 2003 these expenses were \$108.6 million compared with \$94.0 million in 2002, with the higher spending in 2003 resulting primarily from acquisitions.

Operating cash flow was a negative \$6.0 million for the quarter compared with a positive cash generation of \$16.4 million in the fourth quarter of 2002. Operating cash flow in the fourth quarter of 2003 was negatively impacted by a \$7.9 million payment to settle a patent infringement suit the majority of which had been accrued in 2002. Full year operating cash flow was \$10.3 million compared to \$49.2 million in 2002. In addition to the patent litigation payment, full year 2003 operating cash flow was reduced by a \$4 million payment to a customer in connection with an amendment to a long-term warranty and maintenance agreement. Also driving lower operating cash flow in 2003 were payments of bonus and profit sharing accrued in 2002 and a large increase in accounts receivable at the end of 2003 as almost half of fourth quarter 2003 sales occurred in December.

New order bookings were \$45 million for the quarter and \$214 million for the full year 2003, compared with \$61 million and \$231 million for the fourth quarter and full year 2002. Total backlog at December 31, 2003 was \$145 million, compared with \$197 million at the end of last year. Twelve-month backlog at December 31, 2003 was \$62 million, down from \$100 million at the end of last year, but down only \$7 million from the end of the prior quarter.

Backlog at the end of 2003 is lower primarily as a result of fewer bookings in 2003 in our electric market due to large order push outs from several utilities. In early January 2004, we received a large order from one electric utility worth approximately \$21 million. New order bookings in our gas market were relatively flat in 2003. Water and public power market new order bookings increased 18%, and international market new order bookings were up almost 60%. Sales through meter manufacturers and business associates, which often book and ship within a quarter and are generally not included in quarter-end backlog, grew 45% in 2003 and were approximately 19% of 2003 revenues, compared with 15% of revenues in 2002.

SEM Acquisition Update:

In July 2003, we announced an agreement to acquire Schlumberger Electricity Metering, Inc. ("SEM") for a purchase price of \$255 million. Both Itron and Schlumberger have certified to the FTC that we are in substantial compliance with the FTC's second request for information in connection with our filing under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR"). We anticipate a transaction close around the end of the first quarter of 2004.

Business Outlook:

The following statements are based on management's current expectations. These statements are forward-looking and are made as of the date of this press release. Actual results may differ materially due to a number of risks and uncertainties. Itron undertakes no obligation to update publicly or revise any forward-looking statements.

For 2004, excluding the acquisition of SEM, the Company's outlook is for revenue growth of 8% to 10% and pro forma EPS in the range of \$1.25 to \$1.30. The SEM acquisition is expected to be accretive to 2004 revenues and earnings.

"The first quarter of 2004 will be challenging as the electric utility order delays from Q4 03 will affect us in Q1 04 as well," said Nosbaum. "We have recently taken some actions to eliminate unprofitable activities and reduce manpower in some areas. We expect order activity to begin to rebound in the second quarter."

Use of Pro Forma Financial Information:

To supplement our consolidated financial statements presented in accordance with GAAP, we use pro forma measures of operating results, net income and earnings per share. Pro forma results are adjusted from GAAP-based results to exclude certain costs, expenses and expense reversals 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 the pro forma results provide useful information to investors in terms of enhancing their overall understanding of our current financial performance as well as our

future prospects. We have historically provided pro forma results and believe the inclusion of them provides investors with consistency in our financial reporting. Pro forma results 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 for the quarter at 1:45 p.m. Pacific Time on February 5, 2004. The call will be webcast live in a listen only mode, and later archived. The call will be hosted by CCBN. The webcast will be accessible online at www.itron.com, "About Itron - Investor Events." Investors may also listen to the call through CCBN's investor centers at www.companyboardroom.com or www.streetevents.com. The live webcast will begin at 1:45 p.m. (PT) and webcast replays will begin shortly after the conclusion of the call and will be available for approximately 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 800-428-6051 (Domestic) or 973-709-2089 (International), and entering passcode #329306.

About Itron:

Itron is a leading technology provider and critical source of knowledge to the global energy and water industries. More than 2,800 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 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.

Forward Looking Statements:

This release contains forward-looking statements concerning Itron's operations, economic performance, sales, earnings growth and cost reduction programs. 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 1) FTC clearance and the timing of the SEM acquisition, including completion of, or satisfactory credit arrangements for, that acquisition, 2) the rate and timing of customer demand for the Company's products, 3) rescheduling of current customer orders, 4) changes in estimated liabilities for product warranties 5) changes in law and regulation (including FCC licensing actions), 6) and other factors which are more fully described in our Annual Report on Form 10-K for the year ended December 31, 2002 and 2003 Form 10-Qs on file with the Securities and Exchange Commission. Itron undertakes no obligation to update publicly or revise any forward-looking statements.

Statements of operations, reconciliation between reported and pro forma income and EPS, balance sheets and segment information follow.

ITRON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended		Twelve Months Ended	
	December 31, 2003	December 31, 2002	December 31, 2003	December 31, 2002
Revenues				
Sales	\$69,253	\$66,711	\$273,783	\$241,158
Service	10,724	10,560	43,182	43,684
Total revenues	79,977	77,271	316,965	284,842
Cost of revenues				
Sales	38,640	33,707	135,940	122,189
Service	13,527	6,782	37,471	30,384
Total cost of revenues	52,167	40,489	173,411	152,573
Gross profit	27,810	36,782	143,554	132,269

Operating expenses				
Sales and marketing	8,976	8,592	36,673	30,603
Product development	10,122	8,922	43,017	36,780
General and administrative	6,058	8,956	28,944	26,653
Amortization of intangibles	2,574	804	9,618	2,356
Restructurings	-	3,135	2,208	3,135
In-process research and development	-	-	900	7,200
Litigation accrual	-	7,400	500	7,400
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Total operating expenses	27,730	37,809	121,860	114,127
	-----	-----	-----	-----
Operating income (loss)	80	(1,027)	21,694	18,142
Other income (expense)				
Equity in affiliates	(82)	29	80	126
Interest income	(106)	183	159	1,187
Interest expense	(421)	191	(2,638)	(2,061)
Other income (expense), net	(1,818)	246	(1,396)	1,465
	-----	-----	-----	-----
Total other income (expense)	(2,427)	649	(3,795)	717
	-----	-----	-----	-----
Income (loss) before income taxes	(2,347)	(378)	17,899	18,859
Income tax benefit (provision)	708	(262)	(7,421)	(10,176)
	-----	-----	-----	-----
Net income (loss)	\$ (1,639)	\$ (640)	\$ 10,478	\$ 8,683
	-----	-----	-----	-----
Earnings per share				
Basic net income (loss) per share	\$ (0.08)	\$ (0.03)	\$ 0.51	\$ 0.45
	-----	-----	-----	-----
Diluted net income (loss) per share	\$ (0.08)	\$ (0.03)	\$ 0.48	\$ 0.41
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Weighted average number of shares outstanding				
Basic	20,556	20,177	20,413	19,262
Diluted	20,556	20,177	21,740	21,380

ITRON, INC.
RECONCILIATION BETWEEN GAAP AND PRO FORMA INCOME AND EPS

(Unaudited, in thousands, except per share data)	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
PRO FORMA NET INCOME	2003	2002	2003	2002
	-----	-----	-----	-----
GAAP basis income (loss) before income taxes	\$ (2,347)	\$ (378)	\$ 17,899	\$ 18,859
Adjustments to net income (loss)				
Amortization of intangibles	2,574	804	9,618	2,356
Restructurings	-	3,135	2,208	3,135
In-process research and development	-	-	900	7,200
Litigation accrual	-	7,400	500	7,400
	-----	-----	-----	-----
Total adjustments	2,574	11,339	13,226	20,091
Adjusted income before income taxes	227	10,961	31,125	38,950
Income tax provision	(89)	(4,461)	(12,213)	(14,957)
	-----	-----	-----	-----
Pro forma net income	\$ 138	\$ 6,500	\$ 18,912	\$ 23,993
	-----	-----	-----	-----
PRO FORMA EARNINGS PER SHARE				
Basic				
Weighted average number of basic shares outstanding	20,556	20,177	20,413	19,262
Basic pro forma net income per				

share	\$ 0.01	\$ 0.32	\$ 0.93	\$ 1.25
	-----	-----	-----	-----
Diluted				
Weighted average number of basic shares outstanding	20,556	20,177	20,413	19,262
Employee stock option shares	1,304	1,560	1,327	1,690
Convertible debt shares	-	-	-	1,042
	-----	-----	-----	-----
Weighted average number of diluted shares outstanding	21,860	21,737	21,740	21,994
Pro forma net income	\$ 138	\$ 6,500	\$ 18,912	\$ 23,993
Interest on convertible debt, net of taxes	-	-	-	641
	-----	-----	-----	-----
Adjusted pro forma net income	\$ 138	\$ 6,500	\$ 18,912	\$ 24,634
	-----	-----	-----	-----
Diluted pro forma net income per share	\$ 0.01	\$ 0.30	\$ 0.87	\$ 1.12
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ITRON, INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)	December 31, 2003	December 31, 2002
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ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,240	\$ 32,564
Accounts receivable, net	70,782	57,571
Inventories	16,037	15,660
Deferred income taxes	11,673	5,927
Other	4,557	2,770
	-----	-----
Total current assets	109,289	114,492
Property, plant and equipment, net	32,414	30,168
Equipment used in outsourcing, net	10,404	11,589
Intangible assets, net	22,979	18,305
Goodwill	90,385	44,187
Deferred income taxes, net	31,755	24,050
Other	6,263	4,455
	-----	-----
Total assets	\$ 303,489	\$ 247,246
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 40,175	\$ 25,526
Wages and benefits payable	10,711	18,259
Accrued litigation	-	7,400
Short-term borrowings	10,000	-
Current portion of debt	17,412	691
Unearned revenue	12,004	11,580
	-----	-----
Total current liabilities	90,302	63,456
Long-term debt	20,833	-
Project financing debt	4,024	4,762
Warranty and other obligations	11,086	17,427
	-----	-----
Total liabilities	126,245	85,645
Shareholders' equity		
Common stock	200,567	195,546
Preferred stock	-	-
Accumulated other comprehensive loss	(136)	(280)
Accumulated deficit	(23,187)	(33,665)
	-----	-----
Total shareholders' equity	177,244	161,601
	-----	-----
Total liabilities and shareholders' equity	\$ 303,489	\$ 247,246
	-----	-----

ITRON, INC.
SEGMENT INFORMATION

(Unaudited, in thousands)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2003	2002	2003	2002
Revenues				
Electric	\$ 35,615	\$ 36,496	\$150,557	\$136,782
Natural Gas	14,061	12,433	56,036	50,353
Water and Public Power	23,688	23,722	93,609	84,069
International	5,440	4,620	14,369	13,638
End User Solutions	1,173	-	2,394	-
Total revenues	\$ 79,977	\$ 77,271	\$316,965	\$284,842
Gross profit				
Electric	\$ 6,535	\$ 16,608	\$ 61,755	\$ 62,968
Natural Gas	8,855	7,165	34,029	28,818
Water and Public Power	7,885	10,481	37,659	35,771
International	1,946	1,403	3,854	5,094
End User Solutions	784	-	1,161	-
Corporate	1,805	1,125	5,096	(382)
Total gross profit	\$ 27,810	\$ 36,782	\$143,554	\$132,269
Operating income (loss)				
Electric	\$ 3,533	\$ 14,247	\$ 50,212	\$ 54,698
Natural Gas	8,115	6,422	30,952	26,283
Water and Public Power	6,375	9,075	31,816	31,228
International	266	(3,518)	(2,508)	(5,242)
End User Solutions	216	-	(752)	-
Corporate	(18,425)	(27,253)	(88,026)	(88,825)
Total operating income (loss)	\$ 80	\$ (1,027)	\$ 21,694	\$ 18,142

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