



Itron, Inc.

About Non-GAAP Financial Measures

The accompanying press release dated February 20, 2008 contains non-GAAP financial measures. To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we use certain non-GAAP financial measures, including non-GAAP operating income, non-GAAP net income and EPS and Adjusted EBITDA. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. For more information on these non-GAAP financial measures please see the table captioned "Reconciliations of Non-GAAP Financial Measures to Most Directly Comparable GAAP Financial Measures" information following.

We use these non-GAAP financial measures for financial and operational decision making and as a means for determining executive compensation. Management believes that these non-GAAP financial measures provide meaningful supplemental information regarding our performance and ability to service debt by excluding certain expenses that may not be indicative of our recurring core operating results. Our executive compensation plans exclude non-cash charges related to amortization of intangibles and non-recurring discrete cash and non-cash charges that are infrequent in nature such as in-process research and development or purchase accounting adjustments. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate management's internal comparisons to our historical performance and ability to service debt as well as comparisons to our competitor's operating results. We believe these non-GAAP financial measures are useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making and because they are used by our institutional investors and the analyst community to help them analyze the health of our business.

Non-GAAP operating income – We define non-GAAP operating income as operating income minus amortization of intangible expenses, business combination accounting for inventory revaluation and IPR&D. We consider this non-GAAP financial measure to be a useful metric for management and investors because it excludes the effects of expenses that are related to current and previous acquisitions. By excluding these expenses we believe that it is easier for management and investors to compare our financial results over multiple periods. We believe that excluding amortization of intangible assets enables management and investors to analyze trends in our operations. For example, expenses related to amortization of intangible assets were decreasing prior to the Actaris acquisition, which was improving GAAP operating margins, yet the improvement in GAAP operating margins due to this lower expense was not reflective of an improvement in our core business. Additionally we exclude the effects of inventory revaluation and IPR&D to provide investors gross and operating margins for the business that are not



impacted by purchase accounting adjustments. There are some limitations related to the use of non-GAAP operating income versus operating income calculated in accordance with GAAP. Non-GAAP operating income excludes some costs that are recurring. Additionally, the expenses that we exclude in our calculation of non-GAAP operating income may differ from the expenses that our peer companies exclude when they report the results of their operations. We compensate for these limitations by providing specific information about the GAAP amounts we have excluded from our non-GAAP operating income and evaluating non-GAAP operating income together with GAAP operating income.

Non-GAAP net income and non-GAAP EPS – We define non-GAAP net income as net income minus the expenses associated with amortization of intangible assets and amortization of debt fees, expenses related to business combination accounting for inventory revaluation and expenses for IPR&D as well as the tax effects of each item. We define non-GAAP EPS as non-GAAP net income divided by the weighted average shares, on a fully diluted basis, outstanding as of the end of each period. We consider these financial measures to be a useful metric for management and investors for the same reasons that we use non-GAAP operating income. The same limitations described above regarding our use of non-GAAP operating income apply to our use of non-GAAP net income and non-GAAP EPS. We compensate for these limitations by providing specific information regarding the GAAP amounts excluded from non-GAAP net income and non-GAAP EPS and evaluating non-GAAP net income and non-GAAP EPS together with GAAP net income and EPS.

Adjusted EBITDA – We define Adjusted EBITDA as net income minus interest income, plus interest expense, tax expense and depreciation and amortization expenses plus non-cash expenses for business combination accounting for inventory revaluation and IPR&D. We feel that providing this financial measure is important for management and investors to understand our ability to service our debt and is a measure of the cash generated by our core business. Management uses Adjusted EBITDA as a performance measure for executive compensation. A limitation to using Adjusted EBITDA is that it does not represent the total increase or decrease in the cash balance for the period and the measure includes some non-cash items and excludes other non-cash items. Additionally, the expenses that we exclude in our calculation of Adjusted EBITDA may differ from the expenses that our peer companies exclude when they report the results. Management compensates for this limitation by providing a reconciliation of this measure to GAAP net income.

The accompanying tables have more detail on the GAAP financial measures that are most directly comparable to the non-GAAP financial measures and the related reconciliations between these financial measures.

ITRON, INC.
RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES
TO MOST DIRECTLY COMPARABLE GAAP FINANCIAL MEASURES

(Unaudited, in thousands, except per share data)

	<u>Three Months Ended December 31,</u>		<u>Twelve Months Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Non-GAAP operating income:				
GAAP operating income	\$ 31,532	\$ 9,219	\$ 46,473	\$ 61,743
Amortization of intangible assets	25,873	7,916	84,000	31,125
In-process research and development	155	-	35,975	-
Purchase accounting adjustment - inventory	-	-	16,023	-
Non-GAAP operating income	<u>\$ 57,560</u>	<u>\$ 17,135</u>	<u>\$ 182,471</u>	<u>\$ 92,868</u>
Non-GAAP net income:				
GAAP net income (loss)	\$ 4,002	\$ 7,271	\$ (16,144)	\$ 33,759
Amortization of intangible assets	25,873	7,916	84,000	31,125
Amortization of debt placement fees	1,412	742	13,262	4,377
In-process research and development	155	-	35,975	-
Purchase accounting adjustment - inventory	-	-	16,023	-
Income tax effect of non-GAAP adjustments	<u>(4,952)</u>	<u>(3,394)</u>	<u>(45,804)</u>	<u>(13,653)</u>
Non-GAAP net income	<u>\$ 26,490</u>	<u>\$ 12,535</u>	<u>\$ 87,312</u>	<u>\$ 55,608</u>
Non-GAAP diluted EPS	<u>\$ 0.81</u>	<u>\$ 0.48</u>	<u>\$ 2.81</u>	<u>\$ 2.12</u>
Weighted average number of shares outstanding - Diluted	<u>32,725</u>	<u>26,378</u>	<u>31,093</u>	<u>26,283</u>
Adjusted EBITDA:				
GAAP net income (loss)	\$ 4,002	\$ 7,271	\$ (16,144)	\$ 33,759
Interest income	(1,587)	(5,308)	(10,477)	(9,497)
Interest expense	26,689	5,426	89,965	17,785
Income tax (benefit) provision	(3,205)	1,486	(16,436)	18,476
Depreciation and amortization	41,111	11,968	126,440	46,234
In-process research and development	155	-	35,975	-
Purchase accounting adjustment - inventory	-	-	16,023	-
Adjusted EBITDA	<u>\$ 67,165</u>	<u>\$ 20,843</u>	<u>\$ 225,346</u>	<u>\$ 106,757</u>