



ITRON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

| | <u>Three Months Ended December 31,</u> | | <u>Twelve Months Ended December 31,</u> | |
|--|--|------------------|---|-------------------|
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| Revenues | \$ 642,477 | \$ 620,658 | \$ 2,434,124 | \$ 2,259,271 |
| Cost of revenues | 450,870 | 435,302 | 1,691,146 | 1,561,032 |
| Gross profit | 191,607 | 185,356 | 742,978 | 698,239 |
| Operating expenses | | | | |
| Sales and marketing | 47,267 | 47,968 | 185,797 | 171,676 |
| Product development | 42,481 | 40,129 | 162,529 | 140,229 |
| General and administrative | 36,851 | 36,034 | 137,512 | 133,086 |
| Amortization of intangible assets | 15,587 | 17,592 | 63,394 | 69,051 |
| Restructuring expense | 65,079 | - | 68,082 | - |
| Goodwill impairment | 44,447 | - | 584,847 | - |
| Total operating expenses | <u>251,712</u> | <u>141,723</u> | <u>1,202,161</u> | <u>514,042</u> |
| Operating income (loss) | (60,105) | 43,633 | (459,183) | 184,197 |
| Other income (expense) | | | | |
| Interest income | 231 | 148 | 862 | 592 |
| Interest expense | (2,464) | (12,688) | (36,794) | (54,904) |
| Other income (expense), net | (3,392) | (3,701) | (10,612) | (9,141) |
| Total other income (expense) | <u>(5,625)</u> | <u>(16,241)</u> | <u>(46,544)</u> | <u>(63,453)</u> |
| Income (loss) before income taxes | (65,730) | 27,392 | (505,727) | 120,744 |
| Income tax (provision) benefit | 11,099 | (822) | (4,430) | (15,974) |
| Net income (loss) | <u>\$ (54,631)</u> | <u>\$ 26,570</u> | <u>\$ (510,157)</u> | <u>\$ 104,770</u> |
| Earnings (loss) per common share - Basic | <u>\$ (1.35)</u> | <u>\$ 0.66</u> | <u>\$ (12.56)</u> | <u>\$ 2.60</u> |
| Earnings (loss) per common share - Diluted | <u>\$ (1.35)</u> | <u>\$ 0.65</u> | <u>\$ (12.56)</u> | <u>\$ 2.56</u> |
| Weighted average common shares outstanding - Basic | 40,506 | 40,424 | 40,612 | 40,337 |
| Weighted average common shares outstanding - Diluted | 40,506 | 40,938 | 40,612 | 40,947 |

ITRON

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Liberty Lake, WA 99019

www.itron.com



**ITRON, INC.
SEGMENT INFORMATION**

(Unaudited, in thousands)

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|--------------------------------|--|-------------------|---|---------------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues | | | | |
| Itron North America | \$ 332,882 | \$ 321,534 | \$ 1,192,665 | \$ 1,177,391 |
| Itron International | 309,595 | 299,124 | 1,241,459 | 1,081,880 |
| Total Company | <u>\$ 642,477</u> | <u>\$ 620,658</u> | <u>\$ 2,434,124</u> | <u>\$ 2,259,271</u> |
| Gross profit | | | | |
| Itron North America | \$ 111,019 | \$ 105,565 | \$ 387,618 | \$ 394,247 |
| Itron International | 80,588 | 79,791 | 355,360 | 303,992 |
| Total Company | <u>\$ 191,607</u> | <u>\$ 185,356</u> | <u>\$ 742,978</u> | <u>\$ 698,239</u> |
| Operating income (loss) | | | | |
| Itron North America | \$ 44,033 | \$ 51,716 | \$ 168,583 | \$ 201,410 |
| Itron International | (92,489) | 3,394 | (585,189) | 26,363 |
| Corporate unallocated | (11,649) | (11,477) | (42,577) | (43,576) |
| Total Company | <u>\$ (60,105)</u> | <u>\$ 43,633</u> | <u>\$ (459,183)</u> | <u>\$ 184,197</u> |

METER AND MODULE SUMMARY

(Units in thousands)

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|--|--------------|---|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| Total meters (standard, advanced, and smart) | | | | |
| Itron North America | | | | |
| Electricity | 2,020 | 1,950 | 6,790 | 6,940 |
| Gas | 80 | 90 | 480 | 510 |
| Itron International | | | | |
| Electricity | 2,450 | 2,280 | 8,060 | 7,870 |
| Gas | 1,160 | 1,080 | 4,210 | 4,020 |
| Water | 2,020 | 2,150 | 9,350 | 9,110 |
| Total meters | <u>7,730</u> | <u>7,550</u> | <u>28,890</u> | <u>28,450</u> |
| Additional meter information (Total Company) | | | | |
| Advanced meters | 1,540 | 1,150 | 4,850 | 3,980 |
| Smart meters | 1,470 | 1,470 | 4,470 | 4,460 |
| Standalone advanced and smart communication modules | | | | |
| Advanced and smart meters and communication modules | <u>1,490</u> | <u>1,550</u> | <u>6,330</u> | <u>5,960</u> |
| Advanced and smart meters and communication modules | <u>4,500</u> | <u>4,170</u> | <u>15,650</u> | <u>14,400</u> |
| Meters with other vendors' advanced or smart communication modules | | | | |
| Meters with other vendors' advanced or smart communication modules | <u>60</u> | <u>120</u> | <u>390</u> | <u>510</u> |

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ITRON, INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)

| | <u>December 31, 2011</u> | <u>December 31, 2010</u> |
|---|--------------------------|--------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 133,086 | \$ 169,477 |
| Accounts receivable, net | 371,641 | 371,662 |
| Inventories | 195,837 | 208,157 |
| Deferred tax assets current, net | 58,172 | 55,351 |
| Other current assets | 81,618 | 77,570 |
| Total current assets | <u>840,354</u> | <u>882,217</u> |
| Property, plant, and equipment, net | 262,670 | 299,242 |
| Deferred tax assets noncurrent, net | 22,144 | 35,050 |
| Other long-term assets | 62,704 | 28,242 |
| Intangible assets, net | 239,500 | 291,670 |
| Goodwill | 636,910 | 1,209,376 |
| Total assets | <u>\$ 2,064,282</u> | <u>\$ 2,745,797</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 246,775 | \$ 241,949 |
| Other current liabilities | 53,734 | 49,690 |
| Wages and benefits payable | 93,730 | 110,479 |
| Taxes payable | 11,526 | 19,725 |
| Current portion of debt | 15,000 | 228,721 |
| Current portion of warranty | 52,588 | 24,912 |
| Unearned revenue | 37,369 | 28,258 |
| Total current liabilities | <u>510,722</u> | <u>703,734</u> |
| Long-term debt | 437,502 | 382,220 |
| Long-term warranty | 26,948 | 26,371 |
| Pension plan benefit liability | 62,449 | 61,450 |
| Deferred tax liabilities noncurrent, net | 31,699 | 54,412 |
| Other long-term obligations | 88,037 | 89,315 |
| Total liabilities | <u>1,157,357</u> | <u>1,317,502</u> |
| Commitments and contingencies | | |
| Shareholders' equity | | |
| Preferred stock | - | - |
| Common stock | 1,319,222 | 1,328,249 |
| Accumulated other comprehensive loss, net | (37,160) | (34,974) |
| (Accumulated deficit) retained earnings | (375,137) | 135,020 |
| Total shareholders' equity | <u>906,925</u> | <u>1,428,295</u> |
| Total liabilities and shareholders' equity | <u>\$ 2,064,282</u> | <u>\$ 2,745,797</u> |

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ITRON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

| | Twelve Months Ended December 31, | |
|--|---|-------------------|
| | 2011 | 2010 |
| Operating activities | | |
| Net income (loss) | \$ (510,157) | \$ 104,770 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 129,466 | 131,205 |
| Stock-based compensation | 16,411 | 19,107 |
| Amortization of prepaid debt fees | 5,715 | 5,492 |
| Amortization of convertible debt discount | 5,336 | 10,099 |
| Deferred taxes, net | (12,985) | (17,992) |
| Goodwill impairment | 584,847 | - |
| Restructuring expense, non-cash | 25,144 | - |
| Other adjustments, net | 3,917 | 5,565 |
| Changes in operating assets and liabilities, net of acquisition: | | |
| Accounts receivable | (22,770) | (45,612) |
| Inventories | 6,389 | (41,417) |
| Other current assets | (3,859) | (7,655) |
| Other long-term assets | (17,401) | (8,436) |
| Accounts payables, other current liabilities, and taxes payable | 22,715 | 40,884 |
| Wages and benefits payable | (19,813) | 42,245 |
| Unearned revenue | 19,070 | (2,356) |
| Warranty | 29,616 | 14,656 |
| Other operating, net | (9,283) | 4,036 |
| Net cash provided by operating activities | <u>252,358</u> | <u>254,591</u> |
| Investing activities | | |
| Acquisitions of property, plant, and equipment | (60,076) | (62,822) |
| Business acquisitions, net of cash equivalents acquired | (20,092) | - |
| Other investing, net | 1,427 | 6,548 |
| Net cash used in investing activities | <u>(78,741)</u> | <u>(56,274)</u> |
| Financing activities | | |
| Proceeds from borrowings | 670,000 | - |
| Payments on debt | (848,054) | (155,163) |
| Issuance of common stock | 4,625 | 8,776 |
| Repurchase of common stock | (29,428) | - |
| Other financing, net | (6,596) | (2,250) |
| Net cash used in financing activities | <u>(209,453)</u> | <u>(148,637)</u> |
| Effect of foreign exchange rate changes on cash and cash equivalents | (555) | (2,096) |
| Increase (decrease) in cash and cash equivalents | (36,391) | 47,584 |
| Cash and cash equivalents at beginning of period | 169,477 | 121,893 |
| Cash and cash equivalents at end of period | <u>\$ 133,086</u> | <u>\$ 169,477</u> |



Itron, Inc. **About Non-GAAP Financial Measures**

The accompanying press release 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 expense, non-GAAP operating income, non-GAAP net income, non-GAAP diluted EPS, adjusted EBITDA, and free cash flow. 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."

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. These non-GAAP financial measures facilitate management's internal comparisons to our historical performance as well as comparisons to our competitors' 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 purchase accounting adjustments, restructuring charges or goodwill impairment charges. 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. We believe these non-GAAP financial measures are useful to investors because they provide 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 expense and non-GAAP operating income – We define non-GAAP operating expense as operating expense excluding the expenses related to the amortization of intangible assets, restructuring and goodwill impairment. We define non-GAAP operating income as operating income excluding the expenses related to the amortization of intangible assets, restructuring and goodwill impairment. We consider these non-GAAP financial measures to be useful metrics for management and investors because they exclude the effect of expenses that are related to previous acquisitions and restructurings. By excluding these expenses we believe that it is easier for management and investors to compare our financial results over multiple periods and analyze trends in our operations. For example, expenses related to amortization of intangible assets are now decreasing, which is improving GAAP operating margins, yet the improvement in GAAP operating margins due to this lower expense is not necessarily reflective of an improvement in our core business. There are some limitations related to the use of non-GAAP operating expense and non-GAAP operating income versus operating expense and operating income calculated in accordance with GAAP. Non-GAAP operating expense and non-GAAP operating income exclude some costs that are recurring. Additionally, the expenses that we exclude in our calculation of non-GAAP operating expense and 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 expense and non-GAAP operating income and evaluating non-GAAP operating expense and non-GAAP operating income together with GAAP operating expense and GAAP operating income.

Non-GAAP net income and non-GAAP diluted EPS – We define non-GAAP net income as net income excluding the expenses associated with amortization of intangible assets, restructuring, goodwill impairment, amortization of debt placement fees and amortization of convertible debt discount. We define non-GAAP diluted EPS as non-GAAP net income divided by the weighted average shares, on a diluted basis, outstanding during each period. We consider these financial measures to be useful metrics 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 diluted EPS. We compensate for these limitations by providing specific information regarding the GAAP amounts excluded from these non-GAAP measures and evaluating non-GAAP net income and non-GAAP diluted EPS together with GAAP net income and GAAP diluted EPS.

Adjusted EBITDA – We define adjusted EBITDA as net income (a) minus interest income, (b) plus interest expense, depreciation and amortization of intangible asset expenses, restructuring expense and goodwill impairment and (c) exclude the tax expense or benefit. We believe that providing this financial measure is important for management and investors to understand our ability to service our debt as it 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 items that we exclude in our calculation of adjusted EBITDA may differ from the items that our peer companies exclude when they report their results. Management compensates for this limitation by providing a reconciliation of this measure to GAAP net income.

Free cash flow – We define free cash flow as net cash provided by operating activities less cash used for acquisitions of property, plant, and equipment. We believe free cash flow provides investors with a relevant measure of liquidity and a useful basis for assessing our ability to fund our operations and repay our debt. The same limitations described above regarding our use of non-GAAP operating income apply to our use of free cash flow. We compensate for these limitations by providing specific information regarding the GAAP amounts and reconciling to free cash flow.

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)

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|--|---------------------------------|------------|----------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Non-GAAP operating expense: | | | | |
| Itron North America - GAAP operating expense | \$ 66,986 | \$ 53,849 | \$ 219,035 | \$ 192,837 |
| Amortization of intangible assets | (3,471) | (4,085) | (14,008) | (16,339) |
| Restructuring expense | (15,230) | - | (15,650) | - |
| Itron North America - Non-GAAP operating expense | \$ 48,285 | \$ 49,764 | \$ 189,377 | \$ 176,498 |
| Itron International - GAAP operating expense | \$ 173,077 | \$ 76,397 | \$ 940,549 | \$ 277,629 |
| Amortization of intangible assets | (12,116) | (13,507) | (49,386) | (52,712) |
| Restructuring expense | (49,473) | - | (51,544) | - |
| Goodwill impairment | (44,447) | - | (584,847) | - |
| Itron International - Non-GAAP operating expense | \$ 67,041 | \$ 62,890 | \$ 254,772 | \$ 224,917 |
| Total Company - GAAP operating expense | \$ 251,712 | \$ 141,723 | \$ 1,202,161 | \$ 514,042 |
| Amortization of intangible assets | (15,587) | (17,592) | (63,394) | (69,051) |
| Restructuring expense | (65,079) | - | (68,082) | - |
| Goodwill impairment | (44,447) | - | (584,847) | - |
| Total Company - Non-GAAP operating expense | \$ 126,599 | \$ 124,131 | \$ 485,838 | \$ 444,991 |
| Non-GAAP operating income: | | | | |
| GAAP operating income (loss) | \$ (60,105) | \$ 43,633 | \$ (459,183) | \$ 184,197 |
| Amortization of intangible assets | 15,587 | 17,592 | 63,394 | 69,051 |
| Restructuring expense | 65,079 | - | 68,082 | - |
| Goodwill impairment | 44,447 | - | 584,847 | - |
| Non-GAAP operating income | \$ 65,008 | \$ 61,225 | \$ 257,140 | \$ 253,248 |
| Non-GAAP net income: | | | | |
| GAAP net income (loss) | \$ (54,631) | \$ 26,570 | \$ (510,157) | \$ 104,770 |
| Amortization of intangible assets | 15,587 | 17,592 | 63,394 | 69,051 |
| Amortization of debt placement fees | 349 | 1,222 | 5,435 | 5,285 |
| Amortization of convertible debt discount | - | 2,595 | 5,336 | 10,099 |
| Restructuring expense | 65,079 | - | 68,082 | - |
| Goodwill impairment | 44,447 | - | 584,847 | - |
| Income tax effect of non-GAAP adjustments | (22,319) | (9,232) | (40,986) | (29,752) |
| Non-GAAP net income | \$ 48,512 | \$ 38,747 | \$ 175,951 | \$ 159,453 |
| Non-GAAP diluted EPS | | | | |
| | \$ 1.19 | \$ 0.95 | \$ 4.29 | \$ 3.89 |
| Weighted average common shares outstanding - Diluted | | | | |
| | 40,805 | 40,938 | 40,985 | 40,947 |
| Adjusted EBITDA: | | | | |
| GAAP net income (loss) | \$ (54,631) | \$ 26,570 | \$ (510,157) | \$ 104,770 |
| Interest income | (231) | (148) | (862) | (592) |
| Interest expense | 2,464 | 12,688 | 36,794 | 54,904 |
| Income tax provision (benefit) | (11,099) | 822 | 4,430 | 15,974 |
| Depreciation and amortization | 32,547 | 34,021 | 129,466 | 131,205 |
| Restructuring expense | 65,079 | - | 68,082 | - |
| Goodwill impairment | 44,447 | - | 584,847 | - |
| Adjusted EBITDA | \$ 78,576 | \$ 73,953 | \$ 312,600 | \$ 306,261 |
| Free Cash Flow: | | | | |
| Net cash provided by operating activities | \$ 98,557 | \$ 87,475 | \$ 252,358 | \$ 254,591 |
| Acquisitions of property, plant, and equipment | (14,277) | (17,315) | (60,076) | (62,822) |
| Free Cash Flow | \$ 84,280 | \$ 70,160 | \$ 192,282 | \$ 191,769 |

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