



**ITRON, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited, in thousands, except per share data)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Revenues	\$ 579,140	\$ 612,401	\$ 1,150,780	\$ 1,176,092
Cost of revenues	382,395	420,450	770,930	799,163
Gross profit	196,745	191,951	379,850	376,929
Operating expenses				
Sales and marketing	50,847	48,671	100,703	93,149
Product development	46,640	40,628	90,996	80,770
General and administrative	33,450	36,463	70,020	71,135
Amortization of intangible assets	12,025	16,197	23,938	31,794
Restructuring expense	7,720	1,907	8,509	1,907
Total operating expenses	150,682	143,866	294,166	278,755
Operating income	46,063	48,085	85,684	98,174
Other income (expense)				
Interest income	177	168	370	476
Interest expense	(2,606)	(11,420)	(5,043)	(23,534)
Other income (expense), net	(779)	(1,350)	(2,955)	(2,940)
Total other income (expense)	(3,208)	(12,602)	(7,628)	(25,998)
Income before income taxes	42,855	35,483	78,056	72,176
Income tax (provision) benefit	(10,564)	80	(20,193)	(9,487)
Net income	32,291	35,563	57,863	62,689
Net income attributable to non-controlling interests	676	1,127	895	1,133
Net income attributable to Itron, Inc.	\$ 31,615	\$ 34,436	\$ 56,968	\$ 61,556
Earnings per common share - Basic	\$ 0.79	\$ 0.85	\$ 1.43	\$ 1.52
Earnings per common share - Diluted	\$ 0.79	\$ 0.84	\$ 1.42	\$ 1.50
Weighted average common shares outstanding - Basic	39,887	40,670	39,900	40,608
Weighted average common shares outstanding - Diluted	40,126	41,077	40,170	41,059



**ITRON, INC.  
SEGMENT INFORMATION**

(Unaudited, in thousands)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Revenues</b>				
Energy				
Electricity	\$ 283,484	\$ 291,230	\$ 567,944	\$ 566,801
Gas	161,114	183,185	314,401	339,430
Total Energy	\$ 444,598	\$ 474,415	\$ 882,345	\$ 906,231
Water	134,542	137,986	268,435	269,861
Total Company	<u>\$ 579,140</u>	<u>\$ 612,401</u>	<u>\$ 1,150,780</u>	<u>\$ 1,176,092</u>
<b>Gross profit</b>				
Energy	\$ 148,951	\$ 144,753	\$ 283,554	\$ 282,337
Water	47,794	47,198	96,296	94,592
Total Company	<u>\$ 196,745</u>	<u>\$ 191,951</u>	<u>\$ 379,850</u>	<u>\$ 376,929</u>
<b>Operating income (loss)</b>				
Energy	\$ 47,069	\$ 45,463	\$ 85,233	\$ 88,631
Water	11,666	13,755	27,603	30,609
Corporate unallocated	(12,672)	(11,133)	(27,152)	(21,066)
Total Company	<u>\$ 46,063</u>	<u>\$ 48,085</u>	<u>\$ 85,684</u>	<u>\$ 98,174</u>

**METER AND MODULE SUMMARY**

(Units in thousands)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Meters</b>				
Standard	4,620	5,070	9,500	9,940
Advanced and Smart	2,160	2,040	4,410	3,930
Total meters	<u>6,780</u>	<u>7,110</u>	<u>13,910</u>	<u>13,870</u>
<b>Stand-alone communication modules</b>				
Advanced and Smart	<u>1,960</u>	<u>1,850</u>	<u>3,550</u>	<u>3,280</u>

**ITRON**

2111 North Molter Road  
Liberty Lake, WA 99019

[www.itron.com](http://www.itron.com)



**ITRON, INC.**  
**CONSOLIDATED BALANCE SHEETS**

(Unaudited, in thousands)

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 102,800	\$ 133,086
Accounts receivable, net	394,065	371,641
Inventories	196,647	195,837
Deferred tax assets current, net	58,175	58,172
Other current assets	92,662	81,618
Total current assets	<u>844,349</u>	<u>840,354</u>
Property, plant, and equipment, net	252,085	262,670
Deferred tax assets noncurrent, net	16,502	22,144
Other long-term assets	29,520	62,704
Intangible assets, net	254,017	239,500
Goodwill	664,440	636,910
Total assets	<u>\$ 2,060,913</u>	<u>\$ 2,064,282</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 234,714	\$ 246,775
Other current liabilities	68,889	53,734
Wages and benefits payable	86,557	93,730
Taxes payable	11,928	11,526
Current portion of debt	15,000	15,000
Current portion of warranty	42,861	52,588
Unearned revenue	38,202	37,369
Total current liabilities	<u>498,151</u>	<u>510,722</u>
Long-term debt	440,000	437,502
Long-term warranty	23,507	26,948
Pension plan benefit liability	60,822	62,449
Deferred tax liabilities noncurrent, net	23,941	31,699
Other long-term obligations	74,811	73,417
Total liabilities	<u>1,121,232</u>	<u>1,142,737</u>
Commitments and contingencies		
Equity		
Preferred stock	-	-
Common stock	1,304,089	1,319,222
Accumulated other comprehensive loss, net	(61,794)	(37,160)
Accumulated deficit	(318,169)	(375,137)
Total Itron, Inc. shareholders' equity	<u>924,126</u>	<u>906,925</u>
Non-controlling interests	15,555	14,620
Total equity	<u>939,681</u>	<u>921,545</u>
Total liabilities and equity	<u>\$ 2,060,913</u>	<u>\$ 2,064,282</u>

**ITRON**

2111 North Molter Road  
Liberty Lake, WA 99019

[www.itron.com](http://www.itron.com)



**ITRON, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited, in thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating activities</b>		
Net income	\$ 57,863	\$ 62,689
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	54,271	64,299
Stock-based compensation	9,256	9,518
Amortization of prepaid debt fees	763	2,265
Amortization of convertible debt discount	-	5,336
Deferred taxes, net	628	6,081
Restructuring expense, non-cash	1,487	-
Other adjustments, net	(11)	(848)
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	8,046	(12,106)
Inventories	(2,786)	(36,668)
Other current assets	(13,663)	(21,268)
Other long-term assets	3,559	(22,993)
Accounts payables, other current liabilities, and taxes payable	(5,817)	16,523
Wages and benefits payable	(11,244)	(21,531)
Unearned revenue	5,627	24,159
Warranty	(11,991)	9,510
Other operating, net	(3,598)	2,726
Net cash provided by operating activities	<u>92,390</u>	<u>87,692</u>
<b>Investing activities</b>		
Acquisitions of property, plant, and equipment	(23,547)	(28,712)
Business acquisitions, net of cash equivalents acquired	(79,605)	(14,635)
Other investing, net	3,993	513
Net cash used in investing activities	<u>(99,159)</u>	<u>(42,834)</u>
<b>Financing activities</b>		
Proceeds from borrowings	70,000	-
Payments on debt	(67,502)	(55,630)
Issuance of common stock	2,407	2,553
Repurchase of common stock	(25,976)	-
Other financing, net	(271)	(319)
Net cash used in financing activities	<u>(21,342)</u>	<u>(53,396)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>(2,175)</u>	<u>7,345</u>
Increase (decrease) in cash and cash equivalents	(30,286)	(1,193)
Cash and cash equivalents at beginning of period	133,086	169,477
Cash and cash equivalents at end of period	<u>\$ 102,800</u>	<u>\$ 168,284</u>

**ITRON**

2111 North Molter Road  
Liberty Lake, WA 99019

[www.itron.com](http://www.itron.com)



## **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 certain expenses related to the amortization of intangible assets, restructuring, acquisitions and goodwill impairment. We define non-GAAP operating income as operating income excluding the expenses related to the amortization of intangible assets, restructuring, acquisitions 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 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, acquisitions, 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, acquisition related expenses 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 THE MOST DIRECTLY COMPARABLE GAAP FINANCIAL MEASURES

(Unaudited, in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>NON-GAAP OPERATING INCOME - ENERGY</b>				
Energy - GAAP operating income	\$ 47,069	\$ 45,463	\$ 85,233	\$ 88,631
Amortization of intangible assets	8,710	11,722	17,342	23,047
Restructuring expense	3,151	917	3,754	917
Acquisition related expenses	480	-	480	-
Energy - Non-GAAP operating income	<u>\$ 59,410</u>	<u>\$ 58,102</u>	<u>\$ 106,809</u>	<u>\$ 112,595</u>
<b>NON-GAAP OPERATING INCOME - WATER</b>				
Water - GAAP operating income	\$ 11,666	\$ 13,755	\$ 27,603	\$ 30,609
Amortization of intangible assets	3,315	4,475	6,596	8,747
Restructuring expense	4,102	489	4,120	489
Water - Non-GAAP operating income	<u>\$ 19,083</u>	<u>\$ 18,719</u>	<u>\$ 38,319</u>	<u>\$ 39,845</u>
<b>NON-GAAP OPERATING LOSS - CORPORATE UNALLOCATED</b>				
Corporate unallocated - GAAP operating loss	\$ (12,672)	\$ (11,133)	\$ (27,152)	\$ (21,066)
Restructuring expense	467	501	635	501
Acquisition related expenses	897	-	2,918	-
Corporate unallocated - Non-GAAP operating loss	<u>\$ (11,308)</u>	<u>\$ (10,632)</u>	<u>\$ (23,599)</u>	<u>\$ (20,565)</u>
<b>NON-GAAP OPERATING INCOME</b>				
GAAP operating income	\$ 46,063	\$ 48,085	\$ 85,684	\$ 98,174
Amortization of intangible assets	12,025	16,197	23,938	31,794
Restructuring expense	7,720	1,907	8,509	1,907
Acquisition related expenses	1,377	-	3,398	-
Non-GAAP operating income	<u>\$ 67,185</u>	<u>\$ 66,189</u>	<u>\$ 121,529</u>	<u>\$ 131,875</u>
<b>NON-GAAP OPERATING EXPENSE</b>				
Total Company - GAAP operating expense	\$ 150,682	\$ 143,866	\$ 294,166	\$ 278,755
Amortization of intangible assets	(12,025)	(16,197)	(23,938)	(31,794)
Restructuring expense	(7,720)	(1,907)	(8,509)	(1,907)
Acquisition related expenses	(1,377)	-	(3,398)	-
Total Company - Non-GAAP operating expense	<u>\$ 129,560</u>	<u>\$ 125,762</u>	<u>\$ 258,321</u>	<u>\$ 245,054</u>
<b>NON-GAAP NET INCOME &amp; DILUTED EPS</b>				
GAAP net income	\$ 31,615	\$ 34,436	\$ 56,968	\$ 61,556
Amortization of intangible assets	12,025	16,197	23,938	31,794
Amortization of debt placement fees	415	908	763	2,162
Amortization of convertible debt discount	-	2,693	-	5,336
Restructuring expense	7,720	1,907	8,509	1,907
Acquisition related expenses	1,377	-	3,398	-
Income tax effect of non-GAAP adjustments	(6,644)	(6,995)	(10,649)	(13,091)
Non-GAAP net income	<u>\$ 46,508</u>	<u>\$ 49,146</u>	<u>\$ 82,927</u>	<u>\$ 89,664</u>
Non-GAAP diluted EPS	<u>\$ 1.16</u>	<u>\$ 1.20</u>	<u>\$ 2.06</u>	<u>\$ 2.18</u>
Weighted average common shares outstanding - Diluted	40,126	41,077	40,170	41,059
<b>ADJUSTED EBITDA</b>				
GAAP net income	\$ 31,615	\$ 34,436	\$ 56,968	\$ 61,556
Interest income	(177)	(168)	(370)	(476)
Interest expense	2,606	11,420	5,043	23,534
Income tax provision (benefit)	10,564	(80)	20,193	9,487
Depreciation and amortization	27,044	32,768	54,271	64,299
Restructuring expense	7,720	1,907	8,509	1,907
Acquisition related expenses	1,377	-	3,398	-
Adjusted EBITDA	<u>\$ 80,749</u>	<u>\$ 80,283</u>	<u>\$ 148,012</u>	<u>\$ 160,307</u>
<b>FREE CASH FLOW</b>				
Net cash provided by operating activities	\$ 38,387	\$ 51,679	\$ 92,390	\$ 87,692
Acquisitions of property, plant, and equipment	(11,504)	(17,462)	(23,547)	(28,712)
Free Cash Flow	<u>\$ 26,883</u>	<u>\$ 34,217</u>	<u>\$ 68,843</u>	<u>\$ 58,980</u>

ITRON

2111 North Molter Road  
Liberty Lake, WA 99019

www.itron.com