



ITRON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues	\$ 504,063	\$ 615,555	\$ 1,654,843	\$ 1,791,647
Cost of revenues	332,266	438,559	1,103,196	1,237,722
Gross profit	171,797	176,996	551,647	553,925
Operating expenses				
Sales and marketing	44,913	44,870	145,616	138,019
Product development	43,299	38,377	134,295	119,147
General and administrative	30,743	33,492	100,763	104,627
Amortization of intangible assets	11,929	16,013	35,867	47,807
Restructuring expense	(5,054)	1,096	3,455	3,003
Goodwill impairment	-	540,400	-	540,400
Total operating expenses	<u>125,830</u>	<u>674,248</u>	<u>419,996</u>	<u>953,003</u>
Operating income (loss)	45,967	(497,252)	131,651	(399,078)
Other income (expense)				
Interest income	297	155	667	631
Interest expense	(2,551)	(10,796)	(7,594)	(34,330)
Other income (expense), net	(1,269)	(1,402)	(4,224)	(4,342)
Total other income (expense)	<u>(3,523)</u>	<u>(12,043)</u>	<u>(11,151)</u>	<u>(38,041)</u>
Income (loss) before income taxes	42,444	(509,295)	120,500	(437,119)
Income tax provision	<u>(6,547)</u>	<u>(6,042)</u>	<u>(26,740)</u>	<u>(15,529)</u>
Net income (loss)	35,897	(515,337)	93,760	(452,648)
Net income (loss) attributable to non-controlling interests	550	1,745	1,445	2,878
Net income (loss) attributable to Itron, Inc.	<u>\$ 35,347</u>	<u>\$ (517,082)</u>	<u>\$ 92,315</u>	<u>\$ (455,526)</u>
Earnings per common share - Basic	<u>\$ 0.90</u>	<u>\$ (12.70)</u>	<u>\$ 2.32</u>	<u>\$ (11.21)</u>
Earnings per common share - Diluted	<u>\$ 0.89</u>	<u>\$ (12.70)</u>	<u>\$ 2.31</u>	<u>\$ (11.21)</u>
Weighted average common shares outstanding - Basic	39,472	40,725	39,756	40,648
Weighted average common shares outstanding - Diluted	39,791	40,725	40,042	40,648

ITRON

2111 North Molter Road
Liberty Lake, WA 99019

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ITRON, INC.
SEGMENT INFORMATION

(Unaudited, in thousands)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues				
Energy				
Electricity	\$ 226,552	\$ 313,728	\$ 794,496	\$ 880,529
Gas	150,937	170,020	465,338	509,450
Total Energy	<u>\$ 377,489</u>	<u>\$ 483,748</u>	<u>\$ 1,259,834</u>	<u>\$ 1,389,979</u>
Water	126,574	131,807	395,009	401,668
Total Company	<u><u>\$ 504,063</u></u>	<u><u>\$ 615,555</u></u>	<u><u>\$ 1,654,843</u></u>	<u><u>\$ 1,791,647</u></u>
Gross profit				
Energy	\$ 125,503	\$ 144,120	\$ 409,057	\$ 426,457
Water	46,294	32,876	142,590	127,468
Total Company	<u><u>\$ 171,797</u></u>	<u><u>\$ 176,996</u></u>	<u><u>\$ 551,647</u></u>	<u><u>\$ 553,925</u></u>
Operating income (loss)				
Energy	\$ 30,978	\$ (166,197)	\$ 116,211	\$ (77,566)
Water	22,293	(321,191)	49,896	(290,582)
Corporate unallocated	(7,304)	(9,864)	(34,456)	(30,930)
Total Company	<u><u>\$ 45,967</u></u>	<u><u>\$ (497,252)</u></u>	<u><u>\$ 131,651</u></u>	<u><u>\$ (399,078)</u></u>

METER AND MODULE SUMMARY

(Units in thousands)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Meters				
Standard	4,110	4,910	13,610	14,850
Advanced and Smart	1,700	2,380	6,110	6,310
Total meters	<u><u>5,810</u></u>	<u><u>7,290</u></u>	<u><u>19,720</u></u>	<u><u>21,160</u></u>
Stand-alone communication modules				
Advanced and Smart	<u><u>1,500</u></u>	<u><u>1,560</u></u>	<u><u>5,050</u></u>	<u><u>4,840</u></u>



ITRON, INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 91,474	\$ 133,086
Accounts receivable, net	363,111	371,641
Inventories	201,775	195,837
Deferred tax assets current, net	58,866	58,172
Other current assets	102,195	81,618
Total current assets	<u>817,421</u>	<u>840,354</u>
Property, plant, and equipment, net	251,703	262,670
Deferred tax assets noncurrent, net	13,268	22,144
Other long-term assets	29,875	62,704
Intangible assets, net	247,636	239,500
Goodwill	687,432	636,910
Total assets	<u>\$ 2,047,335</u>	<u>\$ 2,064,282</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 219,945	\$ 246,775
Other current liabilities	62,250	53,734
Wages and benefits payable	82,405	93,730
Taxes payable	8,754	11,526
Current portion of debt	16,875	15,000
Current portion of warranty	32,834	52,588
Unearned revenue	41,255	37,369
Total current liabilities	<u>464,318</u>	<u>510,722</u>
Long-term debt	404,375	437,502
Long-term warranty	22,853	26,948
Pension plan benefit liability	63,041	62,449
Deferred tax liabilities noncurrent, net	21,307	31,699
Other long-term obligations	81,199	73,417
Total liabilities	<u>1,057,093</u>	<u>1,142,737</u>
Commitments and contingencies		
Equity		
Preferred stock	-	-
Common stock	1,294,990	1,319,222
Accumulated other comprehensive loss, net	(38,100)	(37,160)
Accumulated deficit	(282,822)	(375,137)
Total Itron, Inc. shareholders' equity	<u>974,068</u>	<u>906,925</u>
Non-controlling interests	16,174	14,620
Total equity	<u>990,242</u>	<u>921,545</u>
Total liabilities and equity	<u>\$ 2,047,335</u>	<u>\$ 2,064,282</u>

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ITRON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2012	2011
Operating activities		
Net income (loss)	\$ 93,760	\$ (452,648)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	81,856	96,919
Stock-based compensation	14,319	12,401
Amortization of prepaid debt fees	1,176	5,365
Amortization of convertible debt discount	-	5,336
Deferred taxes, net	1,505	(1,410)
Goodwill impairment	-	540,400
Restructuring expense, non-cash	(4,841)	-
Other adjustments, net	(119)	(917)
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	46,493	(21,940)
Inventories	(4,619)	(32,750)
Other current assets	(21,525)	(8,672)
Other long-term assets	1,624	(17,499)
Accounts payables, other current liabilities, and taxes payable	(39,368)	12,347
Wages and benefits payable	(16,869)	(28,018)
Unearned revenue	9,201	22,862
Warranty	(23,610)	28,028
Other operating, net	(1,980)	(6,003)
Net cash provided by operating activities	<u>137,003</u>	<u>153,801</u>
Investing activities		
Acquisitions of property, plant, and equipment	(34,278)	(45,799)
Business acquisitions, net of cash equivalents acquired	(79,874)	(14,635)
Other investing, net	4,005	634
Net cash used in investing activities	<u>(110,147)</u>	<u>(59,800)</u>
Financing activities		
Proceeds from borrowings	70,000	670,000
Payments on debt	(101,252)	(804,304)
Issuance of common stock	3,778	3,512
Repurchase of common stock	(40,700)	-
Other financing, net	(342)	(5,319)
Net cash used in financing activities	<u>(68,516)</u>	<u>(136,111)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	48	2,147
Increase (decrease) in cash and cash equivalents	<u>(41,612)</u>	<u>(39,963)</u>
Cash and cash equivalents at beginning of period	<u>133,086</u>	<u>169,477</u>
Cash and cash equivalents at end of period	<u>\$ 91,474</u>	<u>\$ 129,514</u>

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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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
NON-GAAP OPERATING INCOME - ENERGY				
Energy - GAAP operating income (loss)	\$ 30,978	\$ (166,197)	\$ 116,211	\$ (77,566)
Amortization of intangible assets	8,735	11,600	26,077	34,647
Restructuring expense	(218)	1,017	3,536	1,934
Acquisition related expenses	1,348	-	1,828	-
Goodwill impairment	-	216,085	-	216,085
Energy - Non-GAAP operating income	<u>\$ 40,843</u>	<u>\$ 62,505</u>	<u>\$ 147,652</u>	<u>\$ 175,100</u>
NON-GAAP OPERATING INCOME - WATER				
Water - GAAP operating income (loss)	\$ 22,293	\$ (321,191)	\$ 49,896	\$ (290,582)
Amortization of intangible assets	3,194	4,413	9,790	13,160
Restructuring expense	(4,991)	67	(871)	556
Goodwill impairment	-	324,315	-	324,315
Water - Non-GAAP operating income	<u>\$ 20,496</u>	<u>\$ 7,604</u>	<u>\$ 58,815</u>	<u>\$ 47,449</u>
NON-GAAP OPERATING LOSS - CORPORATE UNALLOCATED				
Corporate unallocated - GAAP operating loss	\$ (7,304)	\$ (9,864)	\$ (34,456)	\$ (30,930)
Restructuring expense	155	12	790	513
Acquisition related expenses	44	-	2,962	-
Corporate unallocated - Non-GAAP operating loss	<u>\$ (7,105)</u>	<u>\$ (9,852)</u>	<u>\$ (30,704)</u>	<u>\$ (30,417)</u>
NON-GAAP OPERATING INCOME				
GAAP operating income (loss)	\$ 45,967	\$ (497,252)	\$ 131,651	\$ (399,078)
Amortization of intangible assets	11,929	16,013	35,867	47,807
Restructuring expense	(5,054)	1,096	3,455	3,003
Acquisition related expenses	1,392	-	4,790	-
Goodwill impairment	-	540,400	-	540,400
Non-GAAP operating income	<u>\$ 54,234</u>	<u>\$ 60,257</u>	<u>\$ 175,763</u>	<u>\$ 192,132</u>
NON-GAAP OPERATING EXPENSE				
Total Company - GAAP operating expense	\$ 125,830	\$ 674,248	\$ 419,996	\$ 953,003
Amortization of intangible assets	(11,929)	(16,013)	(35,867)	(47,807)
Restructuring expense	5,054	(1,096)	(3,455)	(3,003)
Acquisition related expenses	(1,392)	-	(4,790)	-
Goodwill impairment	-	(540,400)	-	(540,400)
Total Company - Non-GAAP operating expense	<u>\$ 117,563</u>	<u>\$ 116,739</u>	<u>\$ 375,884</u>	<u>\$ 361,793</u>
NON-GAAP NET INCOME & DILUTED EPS				
GAAP net income (loss)	\$ 35,347	\$ (517,082)	\$ 92,315	\$ (455,526)
Amortization of intangible assets	11,929	16,013	35,867	47,807
Amortization of debt placement fees	398	2,924	1,161	5,086
Amortization of convertible debt discount	-	-	-	5,336
Restructuring expense	(5,054)	1,096	3,455	3,003
Acquisition related expenses	1,392	-	4,790	-
Goodwill impairment	-	540,400	-	540,400
Income tax effect of non-GAAP adjustments	(5,298)	(5,576)	(15,947)	(18,667)
Non-GAAP net income	<u>\$ 38,714</u>	<u>\$ 37,775</u>	<u>\$ 121,641</u>	<u>\$ 127,439</u>
Non-GAAP diluted EPS	<u>\$ 0.97</u>	<u>\$ 0.92</u>	<u>\$ 3.04</u>	<u>\$ 3.10</u>
Weighted average common shares outstanding - Diluted	<u>39,791</u>	<u>41,033</u>	<u>40,042</u>	<u>41,049</u>
ADJUSTED EBITDA				
GAAP net income (loss)	\$ 35,347	\$ (517,082)	\$ 92,315	\$ (455,526)
Interest income	(297)	(155)	(667)	(631)
Interest expense	2,551	10,796	7,594	34,330
Income tax provision (benefit)	6,547	6,042	26,740	15,529
Depreciation and amortization	27,585	32,620	81,856	96,919
Restructuring expense	(5,054)	1,096	3,455	3,003
Acquisition related expenses	1,392	-	4,790	-
Goodwill impairment	-	540,400	-	540,400
Adjusted EBITDA	<u>\$ 68,071</u>	<u>\$ 73,717</u>	<u>\$ 216,083</u>	<u>\$ 234,024</u>
FREE CASH FLOW				
Net cash provided by operating activities	\$ 44,613	\$ 66,109	\$ 137,003	\$ 153,801
Acquisitions of property, plant, and equipment	(10,731)	(17,087)	(34,278)	(45,799)
Free Cash Flow	<u>\$ 33,882</u>	<u>\$ 49,022</u>	<u>\$ 102,725</u>	<u>\$ 108,002</u>

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