



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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues	\$ 523,335	\$ 642,477	\$ 2,178,178	\$ 2,434,124
Cost of revenues	359,835	449,944	1,463,031	1,687,666
Gross profit	163,500	192,533	715,147	746,458
Operating expenses				
Sales and marketing	51,987	47,086	197,603	185,105
Product development	44,358	42,158	178,653	161,305
General and administrative	37,527	38,281	138,290	142,908
Amortization of intangible assets	11,943	15,587	47,810	63,394
Restructuring expense	(1,790)	65,079	1,665	68,082
Goodwill impairment	-	44,447	-	584,847
Total operating expenses	<u>144,025</u>	<u>252,638</u>	<u>564,021</u>	<u>1,205,641</u>
Operating income (loss)	19,475	(60,105)	151,126	(459,183)
Other income (expense)				
Interest income	285	231	952	862
Interest expense	(2,521)	(2,464)	(10,115)	(36,794)
Other income (expense), net	(1,520)	(2,309)	(5,744)	(6,651)
Total other income (expense)	<u>(3,756)</u>	<u>(4,542)</u>	<u>(14,907)</u>	<u>(42,583)</u>
Income (loss) before income taxes	15,719	(64,647)	136,219	(501,766)
Income tax benefit (provision)	745	11,099	(25,995)	(4,430)
Net income (loss)	16,464	(53,548)	110,224	(506,196)
Net income attributable to non-controlling interests	504	1,083	1,949	3,961
Net income (loss) attributable to Itron, Inc.	<u>\$ 15,960</u>	<u>\$ (54,631)</u>	<u>\$ 108,275</u>	<u>\$ (510,157)</u>
Earnings per common share - Basic	<u>\$ 0.41</u>	<u>\$ (1.35)</u>	<u>\$ 2.73</u>	<u>\$ (12.56)</u>
Earnings per common share - Diluted	<u>\$ 0.40</u>	<u>\$ (1.35)</u>	<u>\$ 2.71</u>	<u>\$ (12.56)</u>
Weighted average common shares outstanding - Basic	39,233	40,506	39,625	40,612
Weighted average common shares outstanding - Diluted	39,619	40,506	39,934	40,612

ITRON

2111 North Molter Road
Liberty Lake, WA 99019

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**ITRON, INC.
SEGMENT INFORMATION**

(Unaudited, in thousands)

	<u>Three Months Ended December 31,</u>		<u>Twelve Months Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues				
Energy				
Electricity	\$ 229,844	\$ 358,899	\$ 1,024,340	\$ 1,239,428
Gas	161,855	163,549	627,193	672,999
Total Energy	<u>\$ 391,699</u>	<u>\$ 522,448</u>	<u>\$ 1,651,533</u>	<u>\$ 1,912,427</u>
Water	131,636	120,029	526,645	521,697
Total Company	<u><u>\$ 523,335</u></u>	<u><u>\$ 642,477</u></u>	<u><u>\$ 2,178,178</u></u>	<u><u>\$ 2,434,124</u></u>
Gross profit				
Energy	\$ 121,339	\$ 152,118	\$ 530,396	\$ 578,575
Water	42,161	40,415	184,751	167,883
Total Company	<u><u>\$ 163,500</u></u>	<u><u>\$ 192,533</u></u>	<u><u>\$ 715,147</u></u>	<u><u>\$ 746,458</u></u>
Operating income (loss)				
Energy	\$ 19,158	\$ (35,265)	\$ 135,369	\$ (112,831)
Water	9,314	(13,190)	59,210	(303,772)
Corporate unallocated	(8,997)	(11,650)	(43,453)	(42,580)
Total Company	<u><u>\$ 19,475</u></u>	<u><u>\$ (60,105)</u></u>	<u><u>\$ 151,126</u></u>	<u><u>\$ (459,183)</u></u>

METER AND MODULE SUMMARY

(Units in thousands)

	<u>Three Months Ended December 31,</u>		<u>Twelve Months Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Meters				
Standard	4,310	4,720	17,920	19,570
Advanced and Smart	1,920	3,010	8,030	9,320
Total meters	<u>6,230</u>	<u>7,730</u>	<u>25,950</u>	<u>28,890</u>
Stand-alone communication modules				
Advanced and Smart	<u>1,410</u>	<u>1,490</u>	<u>6,460</u>	<u>6,330</u>

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ITRON, INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 136,411	\$ 133,086
Accounts receivable, net	375,326	371,641
Inventories	170,719	195,837
Deferred tax assets current, net	33,536	58,172
Other current assets	104,958	81,618
Total current assets	820,950	840,354
Property, plant, and equipment, net	255,212	262,670
Deferred tax assets noncurrent, net	44,584	22,144
Other long-term assets	28,908	62,704
Intangible assets, net	238,771	239,500
Goodwill	701,016	636,910
Total assets	\$ 2,089,441	\$ 2,064,282
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 227,739	\$ 246,775
Other current liabilities	49,950	53,734
Wages and benefits payable	91,802	93,730
Taxes payable	9,305	11,526
Current portion of debt	18,750	15,000
Current portion of warranty	27,115	52,588
Unearned revenue	42,712	37,369
Total current liabilities	467,373	510,722
Long-term debt	398,750	437,502
Long-term warranty	26,490	26,948
Pension plan benefit liability	90,533	62,449
Deferred tax liabilities noncurrent, net	16,682	31,699
Other long-term obligations	80,100	73,417
Total liabilities	1,079,928	1,142,737
Commitments and contingencies		
Equity		
Preferred stock	-	-
Common stock	1,294,213	1,319,222
Accumulated other comprehensive loss, net	(34,384)	(37,160)
Accumulated deficit	(266,862)	(375,137)
Total Itron, Inc. shareholders' equity	992,967	906,925
Non-controlling interests	16,546	14,620
Total equity	1,009,513	921,545
Total liabilities and equity	\$ 2,089,441	\$ 2,064,282

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ITRON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Twelve Months Ended December 31,	
	2012	2011
Operating activities		
Net income (loss)	\$ 110,224	\$ (506,196)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	109,471	129,466
Stock-based compensation	19,512	16,411
Amortization of prepaid debt fees	1,597	5,715
Amortization of convertible debt discount	-	5,336
Deferred taxes, net	(6,775)	(12,985)
Goodwill impairment	-	584,847
Restructuring expense, non-cash	(4,839)	25,144
Other adjustments, net	(189)	(44)
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	36,300	(22,770)
Inventories	28,253	6,389
Other current assets	(20,052)	(3,859)
Other long-term assets	10,578	(17,401)
Accounts payables, other current liabilities, and taxes payable	(47,367)	22,715
Wages and benefits payable	(8,967)	(19,813)
Unearned revenue	12,009	19,070
Warranty	(25,919)	29,616
Other operating, net	(8,746)	(9,283)
Net cash provided by operating activities	<u>205,090</u>	<u>252,358</u>
Investing activities		
Acquisitions of property, plant, and equipment	(50,543)	(60,076)
Business acquisitions, net of cash equivalents acquired	(79,017)	(20,092)
Other investing, net	4,115	1,427
Net cash used in investing activities	<u>(125,445)</u>	<u>(78,741)</u>
Financing activities		
Proceeds from borrowings	80,000	670,000
Payments on debt	(115,002)	(848,054)
Issuance of common stock	4,781	4,625
Repurchase of common stock	(47,441)	(29,428)
Other financing, net	134	(6,596)
Net cash used in financing activities	<u>(77,528)</u>	<u>(209,453)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>1,208</u>	<u>(555)</u>
Increase (decrease) in cash and cash equivalents	3,325	(36,391)
Cash and cash equivalents at beginning of period	133,086	169,477
Cash and cash equivalents at end of period	<u>\$ 136,411</u>	<u>\$ 133,086</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 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 December 31,		Twelve Months Ended December 31,	
	2012	2011	2012	2011
NON-GAAP OPERATING INCOME - ENERGY				
Energy - GAAP operating income (loss)	\$ 19,158	\$ (35,265)	\$ 135,369	\$ (112,831)
Amortization of intangible assets	8,688	11,304	34,765	45,951
Restructuring expense	(2,219)	49,939	1,317	51,873
Acquisition related expenses	667	-	2,495	-
Goodwill impairment	-	38,650	-	254,735
Energy - Non-GAAP operating income	<u>\$ 26,294</u>	<u>\$ 64,628</u>	<u>\$ 173,946</u>	<u>\$ 239,728</u>
NON-GAAP OPERATING INCOME - WATER				
Water - GAAP operating income (loss)	\$ 9,314	\$ (13,190)	\$ 59,210	\$ (303,772)
Amortization of intangible assets	3,255	4,283	13,045	17,443
Restructuring expense	106	14,765	(765)	15,321
Goodwill impairment	-	5,797	-	330,112
Water - Non-GAAP operating income	<u>\$ 12,675</u>	<u>\$ 11,655</u>	<u>\$ 71,490</u>	<u>\$ 59,104</u>
NON-GAAP OPERATING LOSS - CORPORATE UNALLOCATED				
Corporate unallocated - GAAP operating loss	\$ (8,997)	\$ (11,650)	\$ (43,453)	\$ (42,580)
Restructuring expense	323	375	1,113	888
Acquisition related expenses	-	-	2,962	-
Corporate unallocated - Non-GAAP operating loss	<u>\$ (8,674)</u>	<u>\$ (11,275)</u>	<u>\$ (39,378)</u>	<u>\$ (41,692)</u>
NON-GAAP OPERATING INCOME				
GAAP operating income (loss)	\$ 19,475	\$ (60,105)	\$ 151,126	\$ (459,183)
Amortization of intangible assets	11,943	15,587	47,810	63,394
Restructuring expense	(1,790)	65,079	1,665	68,082
Acquisition related expenses	667	-	5,457	-
Goodwill impairment	-	44,447	-	584,847
Non-GAAP operating income	<u>\$ 30,295</u>	<u>\$ 65,008</u>	<u>\$ 206,058</u>	<u>\$ 257,140</u>
NON-GAAP OPERATING EXPENSE				
Total Company - GAAP operating expense	\$ 144,025	\$ 252,638	\$ 564,021	\$ 1,205,641
Amortization of intangible assets	(11,943)	(15,587)	(47,810)	(63,394)
Restructuring expense	1,790	(65,079)	(1,665)	(68,082)
Acquisition related expenses	(667)	-	(5,457)	-
Goodwill impairment	-	(44,447)	-	(584,847)
Total Company - Non-GAAP operating expense	<u>\$ 133,205</u>	<u>\$ 127,525</u>	<u>\$ 509,089</u>	<u>\$ 489,318</u>
NON-GAAP NET INCOME & DILUTED EPS				
GAAP net income (loss)	\$ 15,960	\$ (54,631)	\$ 108,275	\$ (510,157)
Amortization of intangible assets	11,943	15,587	47,810	63,394
Amortization of debt placement fees	397	349	1,558	5,435
Amortization of convertible debt discount	-	-	-	5,336
Restructuring expense	(1,790)	65,079	1,665	68,082
Acquisition related expenses	667	-	5,457	-
Goodwill impairment	-	44,447	-	584,847
Income tax effect of non-GAAP adjustments	(4,238)	(22,319)	(20,185)	(40,986)
Non-GAAP net income	<u>\$ 22,939</u>	<u>\$ 48,512</u>	<u>\$ 144,580</u>	<u>\$ 175,951</u>
Non-GAAP diluted EPS	<u>\$ 0.58</u>	<u>\$ 1.19</u>	<u>\$ 3.62</u>	<u>\$ 4.29</u>
Weighted average common shares outstanding - Diluted	<u>39,619</u>	<u>40,805</u>	<u>39,934</u>	<u>40,985</u>
ADJUSTED EBITDA				
GAAP net income (loss)	\$ 15,960	\$ (54,631)	\$ 108,275	\$ (510,157)
Interest income	(285)	(231)	(952)	(862)
Interest expense	2,521	2,464	10,115	36,794
Income tax provision	(745)	(11,099)	25,995	4,430
Depreciation and amortization	27,615	32,547	109,471	129,466
Restructuring expense	(1,790)	65,079	1,665	68,082
Acquisition related expenses	667	-	5,457	-
Goodwill impairment	-	44,447	-	584,847
Adjusted EBITDA	<u>\$ 43,943</u>	<u>\$ 78,576</u>	<u>\$ 260,026</u>	<u>\$ 312,600</u>
FREE CASH FLOW				
Net cash provided by operating activities	\$ 68,087	\$ 98,557	\$ 205,090	\$ 252,358
Acquisitions of property, plant, and equipment	(16,265)	(14,277)	(50,543)	(60,076)
Free Cash Flow	<u>\$ 51,822</u>	<u>\$ 84,280</u>	<u>\$ 154,547</u>	<u>\$ 192,282</u>

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