



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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues	\$ 495,491	\$ 504,063	\$ 1,425,202	\$ 1,654,843
Cost of revenues	345,407	332,266	975,407	1,103,196
Gross profit	150,084	171,797	449,795	551,647
Operating expenses				
Sales and marketing	44,050	44,913	138,448	145,616
Product development	41,495	43,299	129,184	134,295
General and administrative	32,260	30,743	104,172	100,763
Amortization of intangible assets	10,388	11,929	31,379	35,867
Restructuring expense	28,379	(5,054)	32,777	3,455
Total operating expenses	156,572	125,830	435,960	419,996
Operating income (loss)	(6,488)	45,967	13,835	131,651
Other income (expense)				
Interest income	146	297	1,401	667
Interest expense	(2,847)	(2,551)	(7,521)	(7,594)
Other income (expense), net	(158)	(1,269)	(2,717)	(4,224)
Total other income (expense)	(2,859)	(3,523)	(8,837)	(11,151)
Income (loss) before income taxes	(9,347)	42,444	4,998	120,500
Income tax benefit (provision)	2,589	(6,547)	3,936	(26,740)
Net income (loss)	(6,758)	35,897	8,934	93,760
Net income attributable to non-controlling interests	590	550	1,313	1,445
Net income (loss) attributable to Itron, Inc.	\$ (7,348)	\$ 35,347	\$ 7,621	\$ 92,315
Earnings (loss) per common share - Basic	\$ (0.19)	\$ 0.90	\$ 0.19	\$ 2.32
Earnings (loss) per common share - Diluted	\$ (0.19)	\$ 0.89	\$ 0.19	\$ 2.31
Weighted average common shares outstanding - Basic	39,127	39,472	39,325	39,756
Weighted average common shares outstanding - Diluted	39,127	39,791	39,623	40,042

ITRON

2111 North Molter Road
Liberty Lake, WA 99019

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ITRON, INC.
SEGMENT INFORMATION

(Unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Energy				
Electricity	\$ 216,615	\$ 226,552	\$ 605,990	\$ 794,496
Gas	143,240	150,937	416,166	465,338
Total Energy	\$ 359,855	\$ 377,489	\$ 1,022,156	\$ 1,259,834
Water	135,636	126,574	403,046	395,009
Total Company	\$ 495,491	\$ 504,063	\$ 1,425,202	\$ 1,654,843
Gross profit				
Energy	\$ 102,940	\$ 125,503	\$ 311,167	\$ 409,057
Water	47,144	46,294	138,628	142,590
Total Company	\$ 150,084	\$ 171,797	\$ 449,795	\$ 551,647
Operating income (loss)				
Energy	\$ (9,284)	\$ 30,978	\$ 5,960	\$ 116,211
Water	17,225	22,293	45,189	49,896
Corporate unallocated	(14,429)	(7,304)	(37,314)	(34,456)
Total Company	\$ (6,488)	\$ 45,967	\$ 13,835	\$ 131,651

METER AND MODULE SUMMARY

(Units in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Meters				
Standard	3,480	4,110	12,650	13,610
Advanced and Smart	1,100	1,700	4,070	6,110
Total meters	4,580	5,810	16,720	19,720
Stand-alone communication modules				
Advanced and Smart	1,420	1,500	4,110	5,050

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ITRON, INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)

	September 30, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 122,047	\$ 136,411
Accounts receivable, net	349,292	375,326
Inventories	194,702	170,719
Deferred tax assets current, net	42,133	33,536
Other current assets	108,614	104,958
Total current assets	816,788	820,950
Property, plant, and equipment, net	249,072	255,212
Deferred tax assets noncurrent, net	53,339	44,584
Other long-term assets	28,556	28,908
Intangible assets, net	204,630	238,771
Goodwill	712,710	701,016
Total assets	\$ 2,065,095	\$ 2,089,441
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 202,650	\$ 227,739
Other current liabilities	77,449	49,950
Wages and benefits payable	84,571	91,802
Taxes payable	13,940	9,305
Current portion of debt	24,375	18,750
Current portion of warranty	20,102	27,115
Unearned revenue	43,953	42,712
Total current liabilities	467,040	467,373
Long-term debt	375,000	398,750
Long-term warranty	25,929	26,490
Pension plan benefit liability	92,607	90,533
Deferred tax liabilities noncurrent, net	11,415	16,682
Other long-term obligations	82,664	80,100
Total liabilities	1,054,655	1,079,928
Commitments and contingencies		
Equity		
Preferred stock	-	-
Common stock	1,288,221	1,294,213
Accumulated other comprehensive loss, net	(36,333)	(34,384)
Accumulated deficit	(259,241)	(266,862)
Total Itron, Inc. shareholders' equity	992,647	992,967
Non-controlling interests	17,793	16,546
Total equity	1,010,440	1,009,513
Total liabilities and equity	\$ 2,065,095	\$ 2,089,441

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ITRON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2013	2012
Operating activities		
Net income	\$ 8,934	\$ 93,760
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	73,749	81,856
Stock-based compensation	14,276	14,319
Amortization of prepaid debt fees	1,244	1,176
Deferred taxes, net	(17,490)	1,505
Restructuring expense, non-cash	27	(4,841)
Other adjustments, net	(462)	(119)
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	21,925	46,493
Inventories	(27,833)	(4,619)
Other current assets	(9,447)	(21,525)
Other long-term assets	4,719	1,624
Accounts payables, other current liabilities, and taxes payable	11,652	(39,368)
Wages and benefits payable	(7,844)	(16,869)
Unearned revenue	3,418	9,201
Warranty	(6,937)	(23,610)
Other operating, net	(4,054)	(1,980)
Net cash provided by operating activities	<u>65,877</u>	<u>137,003</u>
Investing activities		
Acquisitions of property, plant, and equipment	(44,548)	(34,278)
Business acquisitions, net of cash equivalents acquired	(860)	(79,874)
Other investing, net	3,705	4,005
Net cash used in investing activities	<u>(41,703)</u>	<u>(110,147)</u>
Financing activities		
Proceeds from borrowings	35,000	70,000
Payments on debt	(53,125)	(101,252)
Issuance of common stock	3,842	3,778
Repurchase of common stock	(23,566)	(40,700)
Other financing, net	1,765	(342)
Net cash used in financing activities	<u>(36,084)</u>	<u>(68,516)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>(2,454)</u>	<u>48</u>
Decrease in cash and cash equivalents	(14,364)	(41,612)
Cash and cash equivalents at beginning of period	136,411	133,086
Cash and cash equivalents at end of period	<u>\$ 122,047</u>	<u>\$ 91,474</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 and acquisitions. We define non-GAAP operating income as operating income excluding the expenses related to the amortization of intangible assets, restructuring and acquisitions. 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.

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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 and amortization of debt placement fees. 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 acquisition related expense, 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,	
	2013	2012	2013	2012
NON-GAAP OPERATING INCOME - ENERGY				
Energy - GAAP operating income (loss)	\$ (9,284)	\$ 30,978	\$ 5,960	\$ 116,211
Amortization of intangible assets	7,702	8,735	23,220	26,077
Restructuring expense	23,825	(218)	24,438	3,536
Acquisition related expenses	582	1,348	1,808	1,828
Energy - Non-GAAP operating income	<u>\$ 22,825</u>	<u>\$ 40,843</u>	<u>\$ 55,426</u>	<u>\$ 147,652</u>
NON-GAAP OPERATING INCOME - WATER				
Water - GAAP operating income	\$ 17,225	\$ 22,293	\$ 45,189	\$ 49,896
Amortization of intangible assets	2,686	3,194	8,159	9,790
Restructuring expense	2,337	(4,991)	3,456	(871)
Water - Non-GAAP operating income	<u>\$ 22,248</u>	<u>\$ 20,496</u>	<u>\$ 56,804</u>	<u>\$ 58,815</u>
NON-GAAP OPERATING LOSS - CORPORATE UNALLOCATED				
Corporate unallocated - GAAP operating loss	\$ (14,429)	\$ (7,304)	\$ (37,314)	\$ (34,456)
Restructuring expense	2,217	155	4,883	790
Acquisition related expenses	-	44	3	2,962
Corporate unallocated - Non-GAAP operating loss	<u>\$ (12,212)</u>	<u>\$ (7,105)</u>	<u>\$ (32,428)</u>	<u>\$ (30,704)</u>
NON-GAAP OPERATING INCOME				
GAAP operating income (loss)	\$ (6,488)	\$ 45,967	\$ 13,835	\$ 131,651
Amortization of intangible assets	10,388	11,929	31,379	35,867
Restructuring expense	28,379	(5,054)	32,777	3,455
Acquisition related expenses	582	1,392	1,811	4,790
Non-GAAP operating income	<u>\$ 32,861</u>	<u>\$ 54,234</u>	<u>\$ 79,802</u>	<u>\$ 175,763</u>
NON-GAAP OPERATING EXPENSE				
Total Company - GAAP operating expense	\$ 156,572	\$ 125,830	\$ 435,960	\$ 419,996
Amortization of intangible assets	(10,388)	(11,929)	(31,379)	(35,867)
Restructuring expense	(28,379)	5,054	(32,777)	(3,455)
Acquisition related expenses	(582)	(1,392)	(1,811)	(4,790)
Total Company - Non-GAAP operating expense	<u>\$ 117,223</u>	<u>\$ 117,563</u>	<u>\$ 369,993</u>	<u>\$ 375,884</u>
NON-GAAP NET INCOME & DILUTED EPS				
GAAP net income (loss)	\$ (7,348)	\$ 35,347	\$ 7,621	\$ 92,315
Amortization of intangible assets	10,388	11,929	31,379	35,867
Amortization of debt placement fees	391	398	1,169	1,161
Restructuring expense	28,379	(5,054)	32,777	3,455
Acquisition related expenses	582	1,392	1,811	4,790
Income tax effect of non-GAAP adjustments	(6,934)	(5,298)	(13,906)	(15,947)
Non-GAAP net income	<u>\$ 25,458</u>	<u>\$ 38,714</u>	<u>\$ 60,851</u>	<u>\$ 121,641</u>
Non-GAAP diluted EPS	<u>\$ 0.65</u>	<u>\$ 0.97</u>	<u>\$ 1.54</u>	<u>\$ 3.04</u>
Weighted average common shares outstanding - Diluted	<u>39,425</u>	<u>39,791</u>	<u>39,623</u>	<u>40,042</u>
ADJUSTED EBITDA				
GAAP net income (loss)	\$ (7,348)	\$ 35,347	\$ 7,621	\$ 92,315
Interest income	(146)	(297)	(1,401)	(667)
Interest expense	2,847	2,551	7,521	7,594
Income tax (benefit) provision	(2,589)	6,547	(3,936)	26,740
Depreciation and amortization	24,718	27,585	73,749	81,856
Restructuring expense	28,379	(5,054)	32,777	3,455
Acquisition related expenses	582	1,392	1,811	4,790
Adjusted EBITDA	<u>\$ 46,443</u>	<u>\$ 68,071</u>	<u>\$ 118,142</u>	<u>\$ 216,083</u>
FREE CASH FLOW				
Net cash provided by operating activities	\$ 46,903	\$ 44,613	\$ 65,877	\$ 137,003
Acquisitions of property, plant, and equipment	(15,653)	(10,731)	(44,548)	(34,278)
Free Cash Flow	<u>\$ 31,250</u>	<u>\$ 33,882</u>	<u>\$ 21,329</u>	<u>\$ 102,725</u>

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