



ITRON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues	\$ 470,103	\$ 489,353	\$ 918,350	\$ 964,148
Cost of revenues	351,532	326,312	661,580	646,572
Gross profit	118,571	163,041	256,770	317,576
Operating expenses				
Sales and marketing	43,058	46,119	84,085	93,728
Product development	43,318	43,999	84,840	88,408
General and administrative	32,492	37,680	72,077	78,087
Amortization of intangible assets	7,888	11,109	15,861	22,179
Restructuring expense	(4,234)	(7,793)	(9,681)	(2,269)
Goodwill impairment	-	-	-	977
Total operating expenses	122,522	131,114	247,182	281,110
Operating income (loss)	(3,951)	31,927	9,588	36,466
Other income (expense)				
Interest income	213	53	260	150
Interest expense	(3,855)	(2,913)	(6,537)	(5,822)
Other income (expense), net	(1,907)	(1,375)	(1,883)	(3,873)
Total other income (expense)	(5,549)	(4,235)	(8,160)	(9,545)
Income (loss) before income taxes	(9,500)	27,692	1,428	26,921
Income tax benefit (provision)	(3,966)	(7,848)	(9,529)	(7,195)
Net income (loss)	(13,466)	19,844	(8,101)	19,726
Net income attributable to non-controlling interests	732	585	1,187	721
Net income (loss) attributable to Itron, Inc.	\$ (14,198)	\$ 19,259	\$ (9,288)	\$ 19,005
Earnings (loss) per common share - Basic	\$ (0.37)	\$ 0.49	\$ (0.24)	\$ 0.48
Earnings (loss) per common share - Diluted	\$ (0.37)	\$ 0.49	\$ (0.24)	\$ 0.48
Weighted average common shares outstanding - Basic	38,434	39,356	38,438	39,296
Weighted average common shares outstanding - Diluted	38,434	39,544	38,438	39,528

ITRON

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ITRON, INC.
SEGMENT INFORMATION

(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues				
Electricity	\$ 203,410	\$ 183,755	\$ 397,262	\$ 363,973
Gas	139,386	154,322	264,475	300,431
Water	127,307	151,276	256,613	299,744
Total Company	\$ 470,103	\$ 489,353	\$ 918,350	\$ 964,148
Gross profit				
Electricity	\$ 52,622	\$ 52,976	\$ 107,742	\$ 95,716
Gas	44,109	56,711	87,625	115,117
Water	21,840	53,354	61,403	106,743
Total Company	\$ 118,571	\$ 163,041	\$ 256,770	\$ 317,576
Operating income (loss)				
Electricity	\$ 3,904	\$ (1,247)	\$ 6,300	\$ (24,216)
Gas	14,742	24,329	28,334	50,053
Water	(11,511)	20,519	(3,414)	41,162
Corporate unallocated	(11,086)	(11,674)	(21,632)	(30,533)
Total Company	\$ (3,951)	\$ 31,927	\$ 9,588	\$ 36,466

METER AND MODULE SUMMARY

(Units in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Meters				
Standard	4,700	4,480	9,440	9,330
Advanced and Smart	1,860	1,360	3,400	2,880
Total meters	6,560	5,840	12,840	12,210
Stand-alone communication modules				
Advanced and Smart	1,410	1,580	2,720	2,930



ITRON, INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 128,814	\$ 112,371
Accounts receivable, net	338,196	348,389
Inventories	195,394	154,504
Deferred tax assets current, net	38,121	39,115
Other current assets	111,248	104,307
Total current assets	<u>811,773</u>	<u>758,686</u>
Property, plant, and equipment, net	195,510	207,789
Deferred tax assets noncurrent, net	73,861	74,598
Other long-term assets	28,741	28,503
Intangible assets, net	117,136	139,909
Goodwill	471,648	500,820
Total assets	<u>\$ 1,698,669</u>	<u>\$ 1,710,305</u>
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 226,512	\$ 184,132
Other current liabilities	60,634	100,945
Wages and benefits payable	84,944	95,248
Taxes payable	16,435	21,951
Current portion of debt	11,250	30,000
Current portion of warranty	35,589	21,063
Unearned revenue	50,255	43,436
Total current liabilities	<u>485,619</u>	<u>496,775</u>
Long-term debt	361,708	293,969
Long-term warranty	22,550	15,403
Pension plan benefit liability	93,918	101,432
Deferred tax liabilities noncurrent, net	3,247	3,808
Other long-term obligations	86,366	84,437
Total liabilities	<u>1,053,408</u>	<u>995,824</u>
Commitments and contingencies		
Equity		
Preferred stock	-	-
Common stock	1,255,154	1,270,045
Accumulated other comprehensive loss, net	(182,742)	(136,514)
Accumulated deficit	(445,879)	(436,591)
Total Itron, Inc. shareholders' equity	<u>626,533</u>	<u>696,940</u>
Non-controlling interests	18,728	17,541
Total equity	<u>645,261</u>	<u>714,481</u>
Total liabilities and equity	<u>\$ 1,698,669</u>	<u>\$ 1,710,305</u>

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ITRON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Six Months Ended June 30,	
	2015	2014
Operating activities		
Net income (loss)	\$ (8,101)	\$ 19,726
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	38,760	50,606
Stock-based compensation	7,997	9,454
Amortization of prepaid debt fees	1,579	808
Deferred taxes, net	1,901	(8,046)
Goodwill impairment	-	977
Restructuring expense, non-cash	267	-
Other adjustments, net	919	85
Changes in operating assets and liabilities:		
Accounts receivable	(6,849)	(14,712)
Inventories	(49,677)	(16,801)
Other current assets	(9,043)	(9,103)
Other long-term assets	406	312
Accounts payable, other current liabilities, and taxes payable	23,990	12,360
Wages and benefits payable	(6,276)	4,473
Unearned revenue	7,807	16,560
Warranty	23,119	(2,864)
Other operating, net	(9,232)	3,356
Net cash provided by operating activities	17,567	67,191
Investing activities		
Acquisitions of property, plant, and equipment	(20,992)	(19,403)
Business acquisitions, net of cash equivalents acquired	-	-
Other investing, net	693	56
Net cash provided by (used in) investing activities	(20,299)	(19,347)
Financing activities		
Proceeds from borrowings	74,183	-
Payments on debt	(22,373)	(51,250)
Issuance of common stock	1,864	1,530
Repurchase of common stock	(23,185)	(7,164)
Other financing, net	(3,942)	1,204
Net cash provided by (used in) financing activities	26,547	(55,680)
Effect of foreign exchange rate changes on cash and cash equivalents	(7,372)	(2,189)
Increase (decrease) in cash and cash equivalents	16,443	(10,025)
Cash and cash equivalents at beginning of period	112,371	124,805
Cash and cash equivalents at end of period	\$ 128,814	\$ 114,780

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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 acquired through a business acquisition 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 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 acquired through a business acquisition, restructuring, acquisitions and goodwill impairment. We define non-GAAP operating income as operating income excluding the expenses related to the amortization of intangible assets acquired through a business acquisition, 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, in certain periods expenses related to amortization of intangible assets may decrease, which would improve 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

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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 acquired through a business acquisition, restructuring, acquisitions, goodwill impairment 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 business acquisition related intangible asset expenses, restructuring expense, acquisition related expense, 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. We compensate for these limitations 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 adjusted EBITDA 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)

TOTAL COMPANY RECONCILIATIONS	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
NON-GAAP NET INCOME & DILUTED EPS				
GAAP net income (loss)	\$ (14,198)	\$ 19,259	\$ (9,288)	\$ 19,005
Amortization of intangible assets	7,888	11,109	15,861	22,179
Amortization of debt placement fees	1,164	379	1,529	758
Restructuring expense	(4,234)	(7,793)	(9,681)	(2,269)
Acquisition related expenses	(4,607)	89	(2,283)	578
Goodwill impairment	-	-	-	977
Income tax effect of non-GAAP adjustments	(674)	(1,636)	(2,988)	(7,578)
Non-GAAP net income (loss)	<u>\$ (14,661)</u>	<u>\$ 21,407</u>	<u>\$ (6,850)</u>	<u>\$ 33,650</u>
Non-GAAP diluted EPS	<u>\$ (0.38)</u>	<u>\$ 0.54</u>	<u>\$ (0.18)</u>	<u>\$ 0.85</u>
Weighted average common shares outstanding - Diluted	<u>38,434</u>	<u>39,544</u>	<u>38,438</u>	<u>39,528</u>
ADJUSTED EBITDA				
GAAP net income (loss)	\$ (14,198)	\$ 19,259	\$ (9,288)	\$ 19,005
Interest income	(213)	(53)	(260)	(150)
Interest expense	3,855	2,913	6,537	5,822
Income tax (benefit) provision	3,966	7,848	9,529	7,195
Depreciation and amortization	19,421	25,014	38,760	50,606
Restructuring expense	(4,234)	(7,793)	(9,681)	(2,269)
Acquisition related expenses	(4,607)	89	(2,283)	578
Goodwill impairment	-	-	-	977
Adjusted EBITDA	<u>\$ 3,990</u>	<u>\$ 47,277</u>	<u>\$ 33,314</u>	<u>\$ 81,764</u>
FREE CASH FLOW				
Net cash provided by operating activities	\$ 21,522	\$ 430	\$ 17,567	\$ 67,191
Acquisitions of property, plant, and equipment	(11,520)	(10,839)	(20,992)	(19,403)
Free Cash Flow	<u>\$ 10,002</u>	<u>\$ (10,409)</u>	<u>\$ (3,425)</u>	<u>\$ 47,788</u>
NON-GAAP OPERATING INCOME				
GAAP operating income (loss)	\$ (3,951)	\$ 31,927	\$ 9,588	\$ 36,466
Amortization of intangible assets	7,888	11,109	15,861	22,179
Restructuring expense	(4,234)	(7,793)	(9,681)	(2,269)
Acquisition related expenses	(4,607)	89	(2,283)	578
Goodwill impairment	-	-	-	977
Non-GAAP operating income (loss)	<u>\$ (4,904)</u>	<u>\$ 35,332</u>	<u>\$ 13,485</u>	<u>\$ 57,931</u>
NON-GAAP OPERATING EXPENSE				
GAAP operating expense	\$ 122,522	\$ 131,114	\$ 247,182	\$ 281,110
Amortization of intangible assets	(7,888)	(11,109)	(15,861)	(22,179)
Restructuring expense	4,234	7,793	9,681	2,269
Acquisition related expenses	4,607	(89)	2,283	(578)
Goodwill impairment	-	-	-	(977)
Non-GAAP operating expense	<u>\$ 123,475</u>	<u>\$ 127,709</u>	<u>\$ 243,285</u>	<u>\$ 259,645</u>

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ITRON, INC.
RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES
TO THE MOST DIRECTLY COMPARABLE GAAP FINANCIAL MEASURES

(Unaudited, in thousands)

SEGMENT RECONCILIATIONS	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
NON-GAAP OPERATING INCOME - ELECTRICITY				
Electricity - GAAP operating income (loss)	\$ 3,904	\$ (1,247)	\$ 6,300	\$ (24,216)
Amortization of intangible assets	4,428	6,189	8,883	12,344
Restructuring expense	(2,703)	(7,925)	(5,830)	(8,455)
Acquisition related expenses	(4,607)	89	(2,283)	531
Goodwill impairment	-	-	-	977
Electricity - Non-GAAP operating income (loss)	<u>\$ 1,022</u>	<u>\$ (2,894)</u>	<u>\$ 7,070</u>	<u>\$ (18,819)</u>
NON-GAAP OPERATING INCOME - GAS				
Gas - GAAP operating income	\$ 14,742	\$ 24,329	\$ 28,334	\$ 50,053
Amortization of intangible assets	1,945	2,681	3,915	5,370
Restructuring expense	(1,186)	517	(684)	214
Gas - Non-GAAP operating income	<u>\$ 15,501</u>	<u>\$ 27,527</u>	<u>\$ 31,565</u>	<u>\$ 55,637</u>
NON-GAAP OPERATING INCOME - WATER				
Water - GAAP operating income (loss)	\$ (11,511)	\$ 20,519	\$ (3,414)	\$ 41,162
Amortization of intangible assets	1,515	2,239	3,063	4,465
Restructuring expense	156	453	273	1,010
Water - Non-GAAP operating income (loss)	<u>\$ (9,840)</u>	<u>\$ 23,211</u>	<u>\$ (78)</u>	<u>\$ 46,637</u>
NON-GAAP OPERATING INCOME - CORPORATE UNALLOCATED				
Corporate unallocated - GAAP operating loss	\$ (11,086)	\$ (11,674)	\$ (21,632)	\$ (30,533)
Restructuring expense	(501)	(838)	(3,440)	4,962
Acquisition related expenses	-	-	-	47
Corporate unallocated - Non-GAAP operating loss	<u>\$ (11,587)</u>	<u>\$ (12,512)</u>	<u>\$ (25,072)</u>	<u>\$ (25,524)</u>

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