



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

(Unaudited, in thousands, except per share data)

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Revenues	\$ 571,640	\$ 563,691
Cost of revenues	388,535	378,713
Gross profit	183,105	184,978
Operating expenses		
Sales and marketing	49,856	44,478
Product development	44,356	40,142
General and administrative	36,570	34,672
Amortization of intangible assets	11,913	15,597
Restructuring expense	789	-
Total operating expenses	143,484	134,889
Operating income	39,621	50,089
Other income (expense)		
Interest income	193	308
Interest expense	(2,437)	(12,114)
Other income (expense), net	(2,176)	(1,590)
Total other income (expense)	(4,420)	(13,396)
Income before income taxes	35,201	36,693
Income tax provision	(9,629)	(9,567)
Net income	25,572	27,126
Net income attributable to non-controlling interests	219	6
Net income attributable to Itron, Inc.	\$ 25,353	\$ 27,120
Earnings per common share - Basic	\$ 0.64	\$ 0.67
Earnings per common share - Diluted	\$ 0.63	\$ 0.66
Weighted average common shares outstanding - Basic	39,913	40,546
Weighted average common shares outstanding - Diluted	40,216	41,045

**ITRON**

2111 North Molter Road  
Liberty Lake, WA 99019

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



**ITRON, INC.**  
**SEGMENT INFORMATION**

(Unaudited, in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenues</b>		
Energy		
Electricity	\$ 284,460	\$ 275,571
Gas	153,287	156,245
Total Energy	\$ 437,747	\$ 431,816
Water	133,893	131,875
Total Company	<u>\$ 571,640</u>	<u>\$ 563,691</u>
<b>Gross profit</b>		
Energy	\$ 134,603	\$ 137,584
Water	48,502	47,394
Total Company	<u>\$ 183,105</u>	<u>\$ 184,978</u>
<b>Operating income (loss)</b>		
Energy	\$ 38,164	\$ 43,168
Water	15,937	16,854
Corporate unallocated	(14,480)	(9,933)
Total Company	<u>\$ 39,621</u>	<u>\$ 50,089</u>

**METER AND MODULE SUMMARY**

(Units in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Meters</b>		
Standard	4,880	4,870
Advanced and Smart	2,250	1,890
Total meters	<u>7,130</u>	<u>6,760</u>
<b>Stand-alone communication modules</b>		
Advanced and Smart	<u>1,590</u>	<u>1,430</u>



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

(Unaudited, in thousands)

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 154,438	\$ 133,086
Accounts receivable, net	389,178	371,641
Inventories	210,658	195,837
Deferred tax assets current, net	58,727	58,172
Other current assets	87,431	81,618
Total current assets	<u>900,432</u>	<u>840,354</u>
Property, plant, and equipment, net	263,803	262,670
Deferred tax assets noncurrent, net	18,679	22,144
Other long-term assets	30,256	62,704
Intangible assets, net	234,313	239,500
Goodwill	650,996	636,910
Total assets	<u>\$ 2,098,479</u>	<u>\$ 2,064,282</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 245,983	\$ 246,775
Other current liabilities	57,537	53,734
Wages and benefits payable	82,021	93,730
Taxes payable	14,971	11,526
Current portion of debt	15,000	15,000
Current portion of warranty	48,235	52,588
Unearned revenue	45,263	37,369
Total current liabilities	<u>509,010</u>	<u>510,722</u>
Long-term debt	423,752	437,502
Long-term warranty	29,016	26,948
Pension plan benefit liability	64,432	62,449
Deferred tax liabilities noncurrent, net	29,011	31,699
Other long-term obligations	73,483	73,417
Total liabilities	<u>1,128,704</u>	<u>1,142,737</u>
Commitments and contingencies		
Equity		
Preferred stock	-	-
Common stock	1,313,316	1,319,222
Accumulated other comprehensive loss, net	(8,596)	(37,160)
Accumulated deficit	(349,784)	(375,137)
Total Itron, Inc. shareholders' equity	<u>954,936</u>	<u>906,925</u>
Non-controlling interests	14,839	14,620
Total equity	<u>969,775</u>	<u>921,545</u>
Total liabilities and equity	<u>\$ 2,098,479</u>	<u>\$ 2,064,282</u>

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

(Unaudited, in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Operating activities		
Net income	\$ 25,572	\$ 27,126
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,227	31,531
Stock-based compensation	4,198	4,975
Amortization of prepaid debt fees	348	1,305
Amortization of convertible debt discount	-	2,643
Deferred taxes, net	(69)	7,569
Other adjustments, net	863	(2,000)
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	20,825	24,545
Inventories	(10,994)	(34,074)
Other current assets	(7,261)	(12,058)
Other long-term assets	1,308	(20,935)
Accounts payables, other current liabilities, and taxes payable	2,953	11,311
Wages and benefits payable	(13,358)	(29,383)
Unearned revenue	9,740	15,693
Warranty	(3,357)	6,445
Other operating, net	(3,992)	1,320
Net cash provided by operating activities	<u>54,003</u>	<u>36,013</u>
Investing activities		
Acquisitions of property, plant, and equipment	(12,043)	(11,250)
Business acquisitions, net of cash equivalents acquired	(860)	(14,829)
Other investing, net	283	305
Net cash used in investing activities	<u>(12,620)</u>	<u>(25,774)</u>
Financing activities		
Payments on debt	(13,750)	(52,919)
Issuance of common stock	978	1,142
Repurchase of common stock	(10,594)	-
Other financing, net	140	(589)
Net cash used in financing activities	<u>(23,226)</u>	<u>(52,366)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>3,195</u>	<u>6,062</u>
Increase (decrease) in cash and cash equivalents	21,352	(36,065)
Cash and cash equivalents at beginning of period	133,086	169,477
Cash and cash equivalents at end of period	<u>\$ 154,438</u>	<u>\$ 133,412</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 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.

**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 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)

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>NON-GAAP OPERATING EXPENSE - ENERGY</b>		
Energy - GAAP operating expense	\$ 96,438	\$ 94,415
Amortization of intangible assets	(8,632)	(11,325)
Restructuring expense	(603)	-
Energy - Non-GAAP operating expense	<u>\$ 87,203</u>	<u>\$ 83,090</u>
<b>NON-GAAP OPERATING EXPENSE - WATER</b>		
Water - GAAP operating expense	\$ 32,565	\$ 30,541
Amortization of intangible assets	(3,281)	(4,272)
Restructuring expense	(18)	-
Water - Non-GAAP operating expense	<u>\$ 29,266</u>	<u>\$ 26,269</u>
<b>NON-GAAP OPERATING EXPENSE - CORPORATE UNALLOCATED</b>		
Corporate unallocated - GAAP operating expense	\$ 14,481	\$ 9,933
Restructuring expense	(168)	-
Acquisition related expenses	(2,021)	-
Corporate unallocated - Non-GAAP operating expense	<u>\$ 12,292</u>	<u>\$ 9,933</u>
<b>NON-GAAP OPERATING EXPENSE</b>		
Total Company - GAAP operating expense	\$ 143,484	\$ 134,889
Amortization of intangible assets	(11,913)	(15,597)
Restructuring expense	(789)	-
Acquisition related expenses	(2,021)	-
Total Company - Non-GAAP operating expense	<u>\$ 128,761</u>	<u>\$ 119,292</u>
<b>NON-GAAP OPERATING INCOME</b>		
GAAP operating income	\$ 39,621	\$ 50,089
Amortization of intangible assets	11,913	15,597
Restructuring expense	789	-
Acquisition related expenses	2,021	-
Non-GAAP operating income	<u>\$ 54,344</u>	<u>\$ 65,686</u>
<b>NON-GAAP NET INCOME &amp; DILUTED EPS</b>		
GAAP net income	\$ 25,353	\$ 27,120
Amortization of intangible assets	11,913	15,597
Amortization of debt placement fees	348	1,254
Amortization of convertible debt discount	-	2,643
Restructuring expense	789	-
Acquisition related expenses	2,021	-
Income tax effect of non-GAAP adjustments	(4,005)	(6,096)
Non-GAAP net income	<u>\$ 36,419</u>	<u>\$ 40,518</u>
Non-GAAP diluted EPS	<u>\$ 0.91</u>	<u>\$ 0.99</u>
Weighted average common shares outstanding - Diluted	<u>40,216</u>	<u>41,045</u>
<b>ADJUSTED EBITDA</b>		
GAAP net income	\$ 25,353	\$ 27,120
Interest income	(193)	(308)
Interest expense	2,437	12,114
Income tax provision	9,629	9,567
Depreciation and amortization	27,227	31,531
Restructuring expense	789	-
Acquisition related expenses	2,021	-
Adjusted EBITDA	<u>\$ 67,263</u>	<u>\$ 80,024</u>
<b>FREE CASH FLOW</b>		
Net cash provided by operating activities	\$ 54,003	\$ 36,013
Acquisitions of property, plant, and equipment	(12,043)	(11,250)
Free Cash Flow	<u>\$ 41,960</u>	<u>\$ 24,763</u>

**ITRON**

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