



ITRON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Revenues	\$ 510,095	\$ 523,526	\$ 1,970,697	\$ 1,948,728
Cost of revenues	355,308	358,788	1,347,572	1,334,195
Gross profit	154,787	164,738	623,125	614,533
Operating expenses				
Sales and marketing	47,027	41,923	185,239	180,371
Product development	44,789	46,835	175,500	176,019
General and administrative	48,472	38,387	163,101	142,559
Amortization of business acquisition-related intangible assets	10,523	10,640	43,619	42,019
Restructuring expense	53,068	2,720	50,857	35,497
Goodwill impairment	-	173,249	977	173,249
Total operating expenses	203,879	313,754	619,293	749,714
Operating income (loss)	(49,092)	(149,016)	3,832	(135,181)
Other income (expense)				
Interest income	181	219	494	1,620
Interest expense	(2,765)	(3,165)	(11,602)	(10,686)
Other income (expense), net	(2,191)	(1,290)	(7,633)	(4,007)
Total other income (expense)	(4,775)	(4,236)	(18,741)	(13,073)
Income (loss) before income taxes	(53,867)	(153,252)	(14,909)	(148,254)
Income tax benefit (provision)	5,038	(272)	(6,641)	3,664
Net income (loss)	(48,829)	(153,524)	(21,550)	(144,590)
Net income attributable to non-controlling interests	404	906	1,370	2,219
Net income (loss) attributable to Itron, Inc.	\$ (49,233)	\$ (154,430)	\$ (22,920)	\$ (146,809)
Earnings (loss) per common share - Basic	\$ (1.25)	\$ (3.93)	\$ (0.58)	\$ (3.74)
Earnings (loss) per common share - Diluted	\$ (1.25)	\$ (3.93)	\$ (0.58)	\$ (3.74)
Weighted average common shares outstanding - Basic	38,937	39,148	39,184	39,281
Weighted average common shares outstanding - Diluted	38,937	39,148	39,184	39,281

ITRON

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**ITRON, INC.
SEGMENT INFORMATION**

(Unaudited, in thousands)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Revenues				
Electricity	\$ 226,730	\$ 230,563	\$ 794,144	\$ 836,553
Gas	149,374	154,131	599,081	570,297
Water	133,991	138,832	577,472	541,878
Total Company	\$ 510,095	\$ 523,526	\$ 1,970,697	\$ 1,948,728
Gross profit				
Electricity	\$ 66,801	\$ 63,818	\$ 208,476	\$ 218,913
Gas	43,206	51,843	211,815	207,915
Water	44,780	49,077	202,834	187,705
Total Company	\$ 154,787	\$ 164,738	\$ 623,125	\$ 614,533
Operating income (loss)				
Electricity	\$ (37,064)	\$ (178,987)	\$ (72,476)	\$ (235,908)
Gas	1,709	21,001	75,598	83,882
Water	10,687	18,063	71,006	63,252
Corporate unallocated	(24,424)	(9,093)	(70,296)	(46,407)
Total Company	\$ (49,092)	\$ (149,016)	\$ 3,832	\$ (135,181)

METER AND MODULE SUMMARY

(Units in thousands)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Meters				
Standard	4,610	4,150	18,740	17,850
Advanced and Smart	1,810	1,750	6,090	5,930
Total meters	6,420	5,900	24,830	23,780
Stand-alone communication modules				
Advanced and Smart	1,360	1,400	5,770	5,550



ITRON, INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 112,371	\$ 124,805
Accounts receivable, net	348,389	356,709
Inventories	154,504	177,467
Deferred tax assets current, net	39,115	37,110
Other current assets	104,307	103,275
Total current assets	<u>758,686</u>	<u>799,366</u>
Property, plant, and equipment, net	207,789	246,820
Deferred tax assets noncurrent, net	74,598	58,880
Other long-term assets	28,503	33,027
Intangible assets, net	139,909	195,840
Goodwill	500,820	548,578
Total assets	<u>\$ 1,710,305</u>	<u>\$ 1,882,511</u>
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 184,132	\$ 199,769
Other current liabilities	100,945	70,768
Wages and benefits payable	95,248	89,314
Taxes payable	21,951	10,700
Current portion of debt	30,000	26,250
Current portion of warranty	21,063	21,048
Unearned revenue	43,436	37,163
Total current liabilities	<u>496,775</u>	<u>455,012</u>
Long-term debt	293,969	352,500
Long-term warranty	15,403	24,098
Pension plan benefit liability	101,432	88,687
Deferred tax liabilities noncurrent, net	3,808	7,326
Other long-term obligations	84,437	81,917
Total liabilities	<u>995,824</u>	<u>1,009,540</u>
Commitments and contingencies		
Equity		
Preferred stock	-	-
Common stock	1,270,045	1,290,629
Accumulated other comprehensive loss, net	(136,514)	(21,722)
Accumulated deficit	(436,591)	(413,671)
Total Itron, Inc. shareholders' equity	<u>696,940</u>	<u>855,236</u>
Non-controlling interests	17,541	17,735
Total equity	<u>714,481</u>	<u>872,971</u>
Total liabilities and equity	<u>\$ 1,710,305</u>	<u>\$ 1,882,511</u>

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ITRON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Twelve Months Ended December 31,	
	2014	2013
Operating activities		
Net income (loss)	\$ (21,550)	\$ (144,590)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	98,463	98,845
Stock-based compensation	17,860	18,850
Amortization of prepaid debt fees	-	1,657
Deferred taxes, net	(31,542)	(26,757)
Goodwill impairment	977	173,249
Restructuring expense, non-cash	5,220	1,259
Other adjustments, net	2,526	551
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(16,789)	13,652
Inventories	6,021	(10,861)
Other current assets	(9,447)	(4,143)
Other long-term assets	1,582	1,093
Accounts payable, other current liabilities, and taxes payable	55,924	(7,702)
Wages and benefits payable	10,334	(1,995)
Unearned revenue	9,240	(3,274)
Warranty	(6,364)	(7,552)
Other operating, net	10,518	3,139
Net cash provided by operating activities	<u>132,973</u>	<u>105,421</u>
Investing activities		
Acquisitions of property, plant, and equipment	(44,495)	(60,020)
Business acquisitions, net of cash equivalents acquired	-	(860)
Other investing, net	2,999	4,109
Net cash used in investing activities	<u>(41,496)</u>	<u>(56,771)</u>
Financing activities		
Proceeds from borrowings	47,657	35,000
Payments on debt	(102,438)	(73,750)
Issuance of common stock	3,647	5,299
Repurchase of common stock	(39,665)	(26,977)
Other financing, net	(1,078)	2,990
Net cash used in financing activities	<u>(91,877)</u>	<u>(57,438)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>(12,034)</u>	<u>(2,818)</u>
Increase (decrease) in cash and cash equivalents	(12,434)	(11,606)
Cash and cash equivalents at beginning of period	124,805	136,411
Cash and cash equivalents at end of period	<u>\$ 112,371</u>	<u>\$ 124,805</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 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 December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
NON-GAAP NET INCOME & DILUTED EPS				
GAAP net income	\$ (49,233)	\$ (154,430)	\$ (22,920)	\$ (146,809)
Amortization of intangible assets	10,523	10,640	43,619	42,019
Amortization of debt placement fees	375	387	1,512	1,556
Restructuring expense	53,068	2,720	50,857	35,497
Acquisition related expenses	14,743	479	15,538	2,290
Goodwill impairment	-	173,249	977	173,249
Income tax effect of non-GAAP adjustments	(15,326)	(18,760)	(26,374)	(32,666)
Non-GAAP net income	<u>\$ 14,150</u>	<u>\$ 14,285</u>	<u>\$ 63,209</u>	<u>\$ 75,136</u>
Non-GAAP diluted EPS	<u>\$ 0.36</u>	<u>\$ 0.36</u>	<u>\$ 1.60</u>	<u>\$ 1.90</u>
Weighted average common shares outstanding - Diluted	<u>39,300</u>	<u>39,538</u>	<u>39,461</u>	<u>39,602</u>
ADJUSTED EBITDA				
GAAP net income	\$ (49,233)	\$ (154,430)	\$ (22,920)	\$ (146,809)
Interest income	(181)	(219)	(494)	(1,620)
Interest expense	2,765	3,165	11,602	10,686
Income tax (benefit) provision	(5,038)	272	6,641	(3,664)
Depreciation and amortization	23,164	25,096	98,378	98,845
Restructuring expense	53,068	2,720	50,857	35,497
Acquisition related expenses	14,743	479	15,538	2,290
Goodwill impairment	-	173,249	977	173,249
Adjusted EBITDA	<u>\$ 39,288</u>	<u>\$ 50,332</u>	<u>\$ 160,579</u>	<u>\$ 168,474</u>
FREE CASH FLOW				
Net cash provided by operating activities	\$ 16,435	\$ 39,544	\$ 132,973	\$ 105,421
Acquisitions of property, plant, and equipment	(12,435)	(15,472)	(44,495)	(60,020)
Free Cash Flow	<u>\$ 4,000</u>	<u>\$ 24,072</u>	<u>\$ 88,478</u>	<u>\$ 45,401</u>
NON-GAAP OPERATING INCOME				
GAAP operating income	\$ (49,092)	\$ (149,016)	\$ 3,832	\$ (135,181)
Amortization of intangible assets	10,523	10,640	43,619	42,019
Restructuring expense	53,068	2,720	50,857	35,497
Acquisition related expenses	14,743	479	15,538	2,290
Goodwill impairment	-	173,249	977	173,249
Non-GAAP operating income	<u>\$ 29,242</u>	<u>\$ 38,072</u>	<u>\$ 114,823</u>	<u>\$ 117,874</u>
NON-GAAP OPERATING EXPENSE				
GAAP operating expense	\$ 203,879	\$ 313,754	\$ 619,293	\$ 749,714
Amortization of intangible assets	(10,523)	(10,640)	(43,619)	(42,019)
Restructuring expense	(53,068)	(2,720)	(50,857)	(35,497)
Acquisition related expenses	(14,743)	(479)	(15,538)	(2,290)
Goodwill impairment	-	(173,249)	(977)	(173,249)
Non-GAAP operating expense	<u>\$ 125,545</u>	<u>\$ 126,666</u>	<u>\$ 508,302</u>	<u>\$ 496,659</u>
SEGMENT RECONCILIATIONS				
NON-GAAP OPERATING INCOME - ELECTRICITY				
Electricity - GAAP operating income	\$ (37,064)	\$ (178,987)	\$ (72,476)	\$ (235,908)
Amortization of intangible assets	5,979	4,764	24,452	18,835
Restructuring expense	29,659	1,779	21,115	25,149
Acquisition related expenses	14,743	479	15,491	2,287
Goodwill impairment	-	173,249	977	173,249
Electricity - Non-GAAP operating income	<u>\$ 13,317</u>	<u>\$ 1,284</u>	<u>\$ (10,441)</u>	<u>\$ (16,388)</u>
NON-GAAP OPERATING INCOME - GAS				
Gas - GAAP operating income	\$ 1,709	\$ 21,001	\$ 75,598	\$ 83,882
Amortization of intangible assets	2,489	3,115	10,471	12,264
Restructuring expense	9,454	2,403	9,192	3,471
Gas - Non-GAAP operating income	<u>\$ 13,652</u>	<u>\$ 26,519</u>	<u>\$ 95,261</u>	<u>\$ 99,617</u>
NON-GAAP OPERATING INCOME - WATER				
Water - GAAP operating income	\$ 10,687	\$ 18,063	\$ 71,006	\$ 63,252
Amortization of intangible assets	2,055	2,761	8,696	10,920
Restructuring expense	1,106	(380)	2,279	3,076
Water - Non-GAAP operating income	<u>\$ 13,848</u>	<u>\$ 20,444</u>	<u>\$ 81,981</u>	<u>\$ 77,248</u>
NON-GAAP OPERATING INCOME - CORPORATE UNALLOCATED				
Corporate unallocated - GAAP operating income	\$ (24,424)	\$ (9,093)	\$ (70,296)	\$ (46,407)
Restructuring expense	12,849	(1,082)	18,271	3,801
Acquisition related expenses	-	-	47	3
Corporate unallocated - Non-GAAP operating income	<u>\$ (11,575)</u>	<u>\$ (10,175)</u>	<u>\$ (51,978)</u>	<u>\$ (42,603)</u>

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