

ITRON INC /WA/  
Form 10-Q  
May 04, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2011

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from to

Commission file number 000-22418

**ITRON, INC.**

(Exact name of registrant as specified in its charter)

Washington  
(State of Incorporation) 2111 N Molter Road, Liberty Lake, Washington 99019  
91-1011792  
(I.R.S. Employer Identification Number)

(509) 924-9900

(Address and telephone number of registrant's principal executive offices)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of March 31, 2011 there were outstanding 40,597,157 shares of the registrant's common stock, no par value, which is the only class of common stock of the registrant.

**Table of Contents**

Itron, Inc.

**Table of Contents**

|                                                                                                      | <b>Page</b> |
|------------------------------------------------------------------------------------------------------|-------------|
| <b><u>PART I: FINANCIAL INFORMATION</u></b>                                                          |             |
| Item 1: <u>Financial Statements (Unaudited)</u>                                                      |             |
| <u>Consolidated Statements of Operations</u>                                                         | 1           |
| <u>Consolidated Balance Sheets</u>                                                                   | 2           |
| <u>Consolidated Statements of Cash Flows</u>                                                         | 3           |
| <u>Notes to Condensed Consolidated Financial Statements</u>                                          | 4           |
| Item 2: <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 36          |
| Item 3: <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 48          |
| Item 4: <u>Controls and Procedures</u>                                                               | 49          |
| <b><u>PART II: OTHER INFORMATION</u></b>                                                             |             |
| Item 1: <u>Legal Proceedings</u>                                                                     | 50          |
| Item 1A: <u>Risk Factors</u>                                                                         | 50          |
| Item 5: <u>Other Information</u>                                                                     | 50          |
| Item 6: <u>Exhibits</u>                                                                              | 50          |
| <b><u>SIGNATURE</u></b>                                                                              | 51          |

**Table of Contents****PART I: FINANCIAL INFORMATION****Item 1: Financial Statements (Unaudited)****ITRON, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)**

|                                                    | <b>Three Months Ended March 31,</b>      |                 |
|----------------------------------------------------|------------------------------------------|-----------------|
|                                                    | <b>2011</b>                              | <b>2010</b>     |
|                                                    | <b>(in</b>                               |                 |
|                                                    | <b>thousands, except per share data)</b> |                 |
|                                                    | <b>\$</b>                                | <b>\$</b>       |
|                                                    | <b>(restated)</b>                        |                 |
| Revenues                                           | \$ 563,691                               | \$ 497,623      |
| Cost of revenues                                   | 379,581                                  | 340,559         |
| <b>Gross profit</b>                                | <b>184,110</b>                           | <b>157,064</b>  |
| Operating expenses                                 |                                          |                 |
| Sales and marketing                                | 44,648                                   | 41,537          |
| Product development                                | 40,445                                   | 33,040          |
| General and administrative                         | 33,331                                   | 33,057          |
| Amortization of intangible assets                  | 15,597                                   | 17,811          |
| <b>Total operating expenses</b>                    | <b>134,021</b>                           | <b>125,445</b>  |
| Operating income                                   | 50,089                                   | 31,619          |
| Other income (expense)                             |                                          |                 |
| Interest income                                    | 308                                      | 167             |
| Interest expense                                   | (12,114)                                 | (14,923)        |
| Other income (expense), net                        | (1,596)                                  | (592)           |
| <b>Total other income (expense)</b>                | <b>(13,402)</b>                          | <b>(15,348)</b> |
| Income before income taxes                         | 36,687                                   | 16,271          |
| Income tax (provision) benefit                     | (9,567)                                  | 8,979           |
| Net income                                         | \$ 27,120                                | \$ 25,250       |
| <b>Earnings per common share-Basic</b>             | <b>\$ 0.67</b>                           | <b>\$ 0.63</b>  |
| <b>Earnings per common share-Diluted</b>           | <b>\$ 0.66</b>                           | <b>\$ 0.62</b>  |
| Weighted average common shares outstanding-Basic   | 40,546                                   | 40,191          |
| Weighted average common shares outstanding-Diluted | 41,045                                   | 40,862          |

*The accompanying notes are an integral part of these condensed consolidated financial statements.*



**Table of Contents****ITRON, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands)

|                                                    | March 31, 2011<br>(unaudited) | December 31, 2010 |
|----------------------------------------------------|-------------------------------|-------------------|
| <b>ASSETS</b>                                      |                               |                   |
| Current assets                                     |                               |                   |
| Cash and cash equivalents                          | \$ 133,412                    | \$ 169,477        |
| Accounts receivable, net                           | 361,991                       | 371,662           |
| Inventories                                        | 248,358                       | 208,157           |
| Deferred tax assets current, net                   | 55,233                        | 55,351            |
| Other current assets                               | 92,721                        | 77,570            |
| Total current assets                               | 891,715                       | 882,217           |
| Property, plant, and equipment, net                | 296,008                       | 299,242           |
| Prepaid debt fees                                  | 3,617                         | 4,483             |
| Deferred tax assets noncurrent, net                | 16,632                        | 35,050            |
| Other noncurrent assets                            | 42,516                        | 23,759            |
| Intangible assets, net                             | 304,776                       | 291,670           |
| Goodwill                                           | 1,294,452                     | 1,209,376         |
| Total assets                                       | \$ 2,849,716                  | \$ 2,745,797      |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>         |                               |                   |
| Current liabilities                                |                               |                   |
| Accounts payable                                   | \$ 252,592                    | \$ 241,949        |
| Other current liabilities                          | 44,848                        | 49,243            |
| Wages and benefits payable                         | 85,829                        | 110,479           |
| Taxes payable                                      | 29,222                        | 19,725            |
| Current portion of debt                            | 231,682                       | 228,721           |
| Current portion of warranty                        | 26,260                        | 24,912            |
| Unearned revenue                                   | 42,939                        | 28,258            |
| Deferred tax liabilities current, net              | 447                           | 447               |
| Total current liabilities                          | 713,819                       | 703,734           |
| Long-term debt                                     | 341,563                       | 382,220           |
| Long-term warranty                                 | 32,903                        | 26,371            |
| Pension plan benefit liability                     | 66,865                        | 61,450            |
| Deferred tax liabilities noncurrent, net           | 54,575                        | 54,412            |
| Other long-term obligations                        | 85,073                        | 89,315            |
| Total liabilities                                  | 1,294,798                     | 1,317,502         |
| Commitments and contingencies                      |                               |                   |
| Shareholders' equity                               |                               |                   |
| Preferred stock                                    | -                             | -                 |
| Common stock                                       | 1,334,165                     | 1,328,249         |
| Accumulated other comprehensive income (loss), net | 58,613                        | (34,974)          |
| Retained earnings                                  | 162,140                       | 135,020           |

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|                                            |              |              |
|--------------------------------------------|--------------|--------------|
| Total shareholders' equity                 | 1,554,918    | 1,428,295    |
| Total liabilities and shareholders' equity | \$ 2,849,716 | \$ 2,745,797 |

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**Table of Contents****ITRON, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

|                                                                                   | <b>Three Months Ended March 31,</b> |             |
|-----------------------------------------------------------------------------------|-------------------------------------|-------------|
|                                                                                   | <b>2011</b>                         | <b>2010</b> |
|                                                                                   | <b>(restated)</b>                   |             |
|                                                                                   | <b>(in thousands)</b>               |             |
| <b>Operating activities</b>                                                       |                                     |             |
| Net income                                                                        | \$ 27,120                           | \$ 25,250   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                     |             |
| Depreciation and amortization                                                     | 31,531                              | 33,277      |
| Stock-based compensation                                                          | 4,975                               | 4,576       |
| Amortization of prepaid debt fees                                                 | 1,305                               | 1,252       |
| Amortization of convertible debt discount                                         | 2,643                               | 2,456       |
| Deferred taxes, net                                                               | 7,569                               | (14,103)    |
| Other adjustments, net                                                            | (1,994)                             | 3,538       |
| Changes in operating assets and liabilities, net of acquisition:                  |                                     |             |
| Accounts receivable                                                               | 24,545                              | (6,167)     |
| Inventories                                                                       | (34,074)                            | (27,753)    |
| Accounts payables, other current liabilities, and taxes payable                   | 11,311                              | 30,775      |
| Wages and benefits payable                                                        | (29,383)                            | 10,261      |
| Unearned revenue                                                                  | 15,693                              | 12,615      |
| Warranty                                                                          | 6,445                               | 465         |
| Other operating, net                                                              | (31,673)                            | (10,663)    |
| Net cash provided by operating activities                                         | 36,013                              | 65,779      |
| <b>Investing activities</b>                                                       |                                     |             |
| Acquisitions of property, plant, and equipment                                    | (11,250)                            | (16,151)    |
| Business acquisition, net of cash equivalents acquired                            | (14,829)                            | -           |
| Other investing, net                                                              | 305                                 | 3,102       |
| Net cash used in investing activities                                             | (25,774)                            | (13,049)    |
| <b>Financing activities</b>                                                       |                                     |             |
| Payments on debt                                                                  | (52,919)                            | (52,837)    |
| Issuance of common stock                                                          | 1,142                               | 4,542       |
| Prepaid debt fees                                                                 | (388)                               | -           |
| Other financing, net                                                              | (201)                               | (96)        |
| Net cash used in financing activities                                             | (52,366)                            | (48,391)    |
| Effect of foreign exchange rate changes on cash and cash equivalents              | 6,062                               | (2,814)     |
| Increase (decrease) in cash and cash equivalents                                  | (36,065)                            | 1,525       |
| Cash and cash equivalents at beginning of period                                  | 169,477                             | 121,893     |
| Cash and cash equivalents at end of period                                        | \$ 133,412                          | \$ 123,418  |
| <i>Non-cash transactions:</i>                                                     |                                     |             |
| Property, plant, and equipment purchased but not yet paid, net                    | \$ (2,139)                          | \$ 3,471    |



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|                                                                                      |          |          |
|--------------------------------------------------------------------------------------|----------|----------|
| Fair value of contingent and deferred consideration payable for business acquisition | 5,108    | -        |
| <i>Supplemental disclosure of cash flow information:</i>                             |          |          |
| Cash paid during the period for:                                                     |          |          |
| Income taxes                                                                         | \$ 2,680 | \$ 2,996 |
| Interest, net of amounts capitalized                                                 | 9,495    | 12,626   |

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

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**Table of Contents**

**ITRON, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2011**

**(UNAUDITED)**

In this Quarterly Report on Form 10-Q, the terms we, us, our, Itron, and the Company refer to Itron, Inc.

**Note 1: Summary of Significant Accounting Policies**

We were incorporated in the state of Washington in 1977. We provide a portfolio of products and services to utilities for the energy and water markets throughout the world.

*Financial Statement Preparation*

The condensed consolidated financial statements presented in this Quarterly Report on Form 10-Q are unaudited and reflect entries necessary for the fair presentation of the Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010, the Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010, and the Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010 of Itron, Inc. and its subsidiaries. All entries required for the fair presentation of the financial statements are of a normal recurring nature, except as disclosed.

Certain information and notes normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) regarding interim results. These condensed consolidated financial statements should be read in conjunction with the 2010 audited financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC on February 25, 2011. The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period.

*Basis of Consolidation*

We consolidate all entities in which we have a greater than 50% ownership interest or in which we exercise control over the operations. We use the equity method of accounting for entities in which we have a 50% or less investment and exercise significant influence. Entities in which we have less than a 20% investment and where we do not exercise significant influence are accounted for under the cost method. Variable interest entities of which we are the primary beneficiary are consolidated. At March 31, 2011, our investments in variable interest entities and noncontrolling interests were not material. Intercompany transactions and balances have been eliminated upon consolidation.

*Business Acquisition*

On January 10, 2011, we completed the acquisition of Asais S.A.S. and Asais Conseil S.A.S. (collectively Asais), an energy information management software and consulting services provider, located in France. The acquisition consisted of cash consideration. The acquisition was immaterial to our financial position, results of operations, and cash flows. (See *Business Combinations* policy below.)

*Cash and Cash Equivalents*

We consider all highly liquid instruments with remaining maturities of three months or less at the date of acquisition to be cash equivalents.

*Accounts Receivable and Allowance for Doubtful Accounts*

Accounts receivable are recorded for invoices issued to customers in accordance with our contractual arrangements. Interest and late payment fees are minimal. Unbilled receivables are recorded when revenues are recognized upon product shipment or service delivery and invoicing occurs at a later date. We record an allowance for doubtful accounts representing our estimate of the probable losses in accounts receivables at the date of the balance sheet based on our historical experience of bad debts and our specific review of outstanding receivables. Accounts receivable are written-off against the allowance when we believe an account, or a portion thereof, is no longer collectible.

*Inventories*

Inventories are stated at the lower of cost or market using the first-in, first-out method. Cost includes raw materials and labor, plus applied direct and indirect costs.

*Derivative Instruments*

All derivative instruments, whether designated in hedging relationships or not, are recorded on the Consolidated Balance Sheets at fair value as either assets or liabilities. The components and fair values of our derivative instruments, which are

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**Table of Contents**

primarily interest rate swaps, are determined using the fair value measurements of significant other observable inputs (Level 2), as defined by generally accepted accounting principles (GAAP). The net fair value of our derivative instruments may switch between a net asset and a net liability depending on market circumstances at the end of the period. We include the effect of our counterparty credit risk based on current published credit default swap rates when the net fair value of our derivative instruments are in a net asset position and the effect of our own nonperformance risk when the net fair value of our derivative instruments are in a net liability position.

For any derivative designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. For any derivative designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded as a component of other comprehensive income (OCI) and are recognized in earnings when the hedged item affects earnings. For our hedge of a net investment, the effective portion of any unrealized gain or loss from the foreign currency revaluation of the hedging instrument is reported in OCI as a net unrealized gain or loss on derivative instruments. Ineffective portions of fair value changes or the changes in fair value of derivative instruments that do not qualify for hedging activities are recognized in other income (expense) in the Consolidated Statements of Operations. We classify cash flows from our derivative programs as cash flows from operating activities in the Consolidated Statements of Cash Flows.

Derivatives are not used for trading or speculative purposes. Our derivatives are with major international financial institutions, with whom we have master netting agreements; however, our derivative positions are not disclosed on a net basis. There are no credit-risk-related contingent features within our derivative instruments. Refer to Note 7 and Note 12 for further disclosures of our derivative instruments and their impact on OCI.

*Property, Plant, and Equipment*

Property, plant, and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally thirty years for buildings and improvements and three to five years for machinery and equipment, computers and purchased software, and furniture. Leasehold improvements are capitalized and amortized over the term of the applicable lease, including renewable periods if reasonably assured, or over the useful lives, whichever is shorter. Construction in process represents capital expenditures incurred for assets not yet placed in service. Costs related to internally developed software and software purchased for internal uses are capitalized and are amortized over the estimated useful lives of the assets. Repair and maintenance costs are expensed as incurred. We have no major planned maintenance activities.

We review long-lived assets for impairment whenever events or circumstances indicate the carrying amount of an asset or asset group may not be recoverable. We have had no significant impairments of long-lived assets. Assets held for sale are classified within other current assets in the Consolidated Balance Sheets, are reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. We had no assets held for sale at March 31, 2011 and December 31, 2010. Gains and losses from asset disposals and impairment losses are classified within the statement of operations according to the use of the asset.

*Prepaid Debt Fees*

Prepaid debt fees represent the capitalized direct costs incurred related to the issuance of debt and are recorded as noncurrent assets. These costs are amortized to interest expense over the lives of the respective borrowings, including contingent maturity or call features, using the effective interest method, or straight-line method when associated with a revolving credit facility. When debt is repaid early, the related portion of unamortized prepaid debt fees is written-off and included in interest expense.

*Business Combinations*

On the date of acquisition, the assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree are recorded at their fair values. The acquiree results of operations are also included as of the date of acquisition in the consolidated results. Intangible assets that arise from contractual/legal rights, or are capable of being separated, as well as in-process research and development, are measured and recorded at fair value, and amortized over the estimated useful life. If practicable, assets acquired and liabilities assumed arising from contingencies are measured and recorded at fair value. If not practicable, such assets and liabilities are measured and recorded when it is probable that a gain or loss has occurred and the amount can be reasonably estimated. The residual balance of the purchase price, after fair value allocations to all identified assets and liabilities, represents goodwill. Acquisition-related costs are expensed as incurred. Restructuring costs are generally expensed in periods subsequent to the acquisition date, and changes in deferred tax asset valuation allowances and acquired income tax uncertainties, including penalties and interest, after the measurement period are recognized as a component of provision for income taxes.



## **Table of Contents**

### *Goodwill and Intangible Assets*

Goodwill and intangible assets have resulted from our acquisitions. We use estimates in determining and assigning the fair value of goodwill and intangible assets at acquisition, including estimates of useful lives of intangible assets, the amount and timing of related future cash flows, and fair values of the related operations. Our intangible assets have finite lives, are amortized over their estimated useful lives based on estimated discounted cash flows, and are tested for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Goodwill is assigned to our reporting units based on the expected benefit from the synergies arising from each business combination, determined by using certain financial metrics, including the forecasted discounted cash flows associated with each reporting unit. Goodwill is tested for impairment as of October 1 of each year, or more frequently if a significant impairment indicator occurs. Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. We forecast discounted future cash flows at the reporting unit level using risk-adjusted discount rates and estimated future revenues and operating costs, which take into consideration factors such as existing backlog, expected future orders, supplier contracts, and expectations of competitive and economic environments. We also identify similar publicly traded companies and develop a correlation, referred to as a multiple, to apply to the operating results of our reporting units.

### *Contingencies*

A loss contingency is recorded if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. We evaluate, among other factors, the degree of probability of an unfavorable outcome and our ability to make a reasonable estimate of the amount of the ultimate loss. Loss contingencies that we determine to be reasonably possible, but not probable, are disclosed. Changes in these factors and related estimates could materially affect our financial position and results of operations.

### *Bonus and Profit Sharing*

We have various employee bonus and profit sharing plans, which provide award amounts for the achievement of annual financial and nonfinancial targets. If management determines it is probable that the targets will be achieved, and the amounts can be reasonably estimated, a compensation accrual is recorded based on the proportional achievement of the financial and nonfinancial targets. Although we monitor and accrue expenses quarterly based on our progress toward the achievement of the annual targets, the actual results at the end of the year may require awards that are significantly greater or less than the estimates made in earlier quarters.

### *Warranty*

We offer standard warranties on our hardware products and large application software products. We accrue the estimated cost of warranty claims based on historical and projected product performance trends and costs. Testing of new products in the development stage helps identify and correct potential warranty issues prior to manufacturing. Continuing quality control efforts during manufacturing reduce our exposure to warranty claims. If our quality control efforts fail to detect a fault in one of our products, we could experience an increase in warranty claims. We track warranty claims to identify potential warranty trends. If an unusual trend is noted, an additional warranty accrual may be assessed and recorded when a failure event is probable and the cost can be reasonably estimated. Management continually evaluates the sufficiency of the warranty provisions and makes adjustments when necessary. The warranty allowances may fluctuate due to changes in estimates for material, labor, and other costs we may incur to repair or replace projected product failures, and we may incur additional warranty and related expenses in the future with respect to new or established products, which could adversely affect our financial position and results of operations. The long-term warranty balance includes estimated warranty claims beyond one year. Warranty expense is classified within cost of revenues.

### *Defined Benefit Pension Plans*

We sponsor both funded and unfunded non-U.S. defined benefit pension plans. We recognize a liability for the projected benefit obligation in excess of plan assets or an asset for plan assets in excess of the projected benefit obligation. We also recognize the funded status of our defined benefit pension plans on our Consolidated Balance Sheets and recognize as a component of OCI, net of tax, the actuarial gains or losses and prior service costs or credits, if any, that arise during the period but that are not recognized as components of net periodic benefit cost.

### *Revenue Recognition*

Revenues consist primarily of hardware sales, software license fees, software implementation, project management services, installation, consulting, and post-sale maintenance support. Revenues are recognized when (1) persuasive evidence of an arrangement exists, (2) delivery has

occurred or services have been rendered, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured.

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## **Table of Contents**

The majority of our revenue arrangements involve multiple deliverables, which combine two or more of the following: hardware, meter reading system software, installation, and/or project management services. Revenue arrangements with multiple deliverables are divided into separate units of accounting if the delivered item(s) has value to the customer on a standalone basis and delivery/performance of the undelivered item(s) is probable. The total arrangement consideration is allocated among the separate units of accounting based on their relative fair values and the applicable revenue recognition criteria considered for each unit of accounting. The amount allocable to a delivered item is limited to the amount that we are entitled to collect and that is not contingent upon the delivery/performance of additional items. Revenues for each deliverable are then recognized based on the type of deliverable, such as 1) when the products are shipped, 2) services are delivered, 3) percentage-of-completion when implementation services are essential to other deliverables in the arrangements, 4) upon receipt of customer acceptance, or 5) transfer of title. The majority of our revenue is recognized when products are shipped to or received by a customer or when services are provided.

We primarily enter into two types of multiple deliverable arrangements, which include a combination of hardware and associated software and services:

Arrangements that do not include the deployment of our smart metering systems and technology are recognized as follows:

- i Hardware revenues are recognized at the time of shipment, receipt by customer, or, if applicable, upon completion of customer acceptance provisions.
- i If implementation services are essential to the functionality of the associated software, software and implementation revenues are recognized using either the percentage-of-completion methodology of contract accounting if project costs can be estimated, or the completed contract methodology if project costs cannot be reliably estimated.

Arrangements to deploy our smart metering systems and technology are recognized as follows:

- i Hardware revenues are recognized at the time of shipment, receipt by customer, or, if applicable, upon completion of customer acceptance provisions.
- i Revenue from associated software and services is recognized using the units-of-delivery method of contract accounting, as the software is essential to the functionality of the related hardware and the implementation services are essential to the functionality of the associated software. This methodology often results in the deferral of costs and revenues as professional services and software implementation typically commence prior to deployment of hardware.

We also enter into multiple deliverable software arrangements that do not include hardware. For this type of arrangement, revenue recognition is dependent upon the availability of vendor specific objective evidence (VSOE) for fair value for each of the deliverables. The lack of VSOE, or the existence of extended payment terms or other inherent risks, may affect the timing of revenue recognition for software arrangements.

Certain of our revenue arrangements include an extended or noncustomary warranty provision which covers all or a portion of a customer's replacement or repair costs beyond the standard or customary warranty period. Whether or not the extended warranty is separately priced in the arrangement, a portion of the arrangement's total consideration is allocated to this extended warranty deliverable. This revenue is deferred and recognized over the extended warranty coverage period. Extended/noncustomary warranties do not represent a significant portion of our revenue.

We allocate consideration to each deliverable in an arrangement based on its relative selling price. We determine selling price using VSOE, if it exists, otherwise we use third-party evidence (TPE). If neither VSOE nor TPE of selling price exists for a unit of accounting, we use estimated selling price (ESP).

VSOE is generally limited to the price charged when the same or similar product is sold separately or, if applicable, the stated renewal rate in the agreement. If a product or service is seldom sold separately, it is unlikely that we can determine VSOE for the product or service. We define



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VSOE as a median price of recent standalone transactions that are priced within a narrow range. TPE is determined based on the prices charged by our competitors for a similar deliverable when sold separately.

If we are unable to establish selling price using VSOE or TPE, we use ESP in the allocation of arrangement consideration. The objective of ESP is to determine the price at which we would transact if the product or service were sold by us on a standalone basis. Our determination of ESP involves a weighting of several factors based on the specific facts and circumstances of the arrangement. Specifically, we consider the cost to produce the deliverable, the anticipated margin on

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**Table of Contents**

that deliverable, the selling price and profit margin for similar parts, our ongoing pricing strategy and policies (as evident in the price list established and updated by management on a regular basis), the value of any enhancements that have been built into the deliverable, and the characteristics of the varying markets in which the deliverable is sold. We analyze the selling prices used in our allocation of arrangement consideration on an annual basis. Selling prices are analyzed on a more frequent basis if a significant change in our business necessitates a more timely analysis or if we experience significant variances in our selling prices.

Unearned revenue is recorded when a customer pays for products or services, but the criteria for revenue recognition have not been met as of the balance sheet date. Unearned revenues of \$60.0 million and \$42.8 million at March 31, 2011 and December 31, 2010 related primarily to professional services and software associated with our smart metering contracts, extended warranty, and prepaid post-contract support. Deferred cost is recorded for products or services for which ownership (typically defined as title and risk of loss) has transferred to the customer, but the criteria for revenue recognition have not been met as of the balance sheet date. Deferred costs were \$11.6 million and \$10.0 million at March 31, 2011 and December 31, 2010 and are recorded within other assets in the Consolidated Balance Sheets.

In all cases, hardware and software post-sale maintenance support fees are recognized ratably over the life of the related service contract. Shipping and handling costs and incidental expenses billed to customers are recorded as revenue, with the associated cost charged to cost of revenues. We record sales, use, and value added taxes billed to our customers on a net basis.

*Product and Software Development Costs*

Product and software development costs primarily include employee compensation and third party contracting fees. For software we develop to be marketed or sold, we capitalize development costs after technological feasibility is established. Due to the relatively short period of time between technological feasibility and the completion of product and software development, and the immaterial nature of these costs, we generally do not capitalize product and software development expenses.

*Stock-Based Compensation*

We measure and recognize compensation expense for all stock-based awards made to employees and directors, including stock options, stock sold pursuant to our Employee Stock Purchase Plan (ESPP), and the issuance of restricted stock units and unrestricted stock awards, based on estimated fair values. The fair values of stock options and ESPP awards are estimated at the date of grant using the Black-Scholes option-pricing model, which includes assumptions for the dividend yield, expected volatility, risk-free interest rate, and expected life. For restricted stock units and unrestricted stock awards, the fair value is the market close price of our common stock on the date of grant. We expense stock-based compensation at the date of grant for unrestricted stock awards. For awards with only a service condition, we expense stock-based compensation, adjusted for estimated forfeitures, using the straight-line method over the requisite service period for the entire award. For awards with both performance and service conditions, we expense the stock-based compensation, adjusted for estimated forfeitures, on a straight-line basis over the requisite service period for each separately vesting portion of the award. Excess tax benefits are credited to common stock when the deduction reduces cash taxes payable. When we have tax deductions in excess of the compensation cost, they are classified as financing cash inflows in the Consolidated Statements of Cash Flows.

*Loss on Extinguishment of Debt, Net*

Upon partial or full redemption of our borrowings, we recognize a gain or loss for the difference between the cash paid and the net carrying amount of the debt redeemed. Included in the net carrying amount is any unamortized premium or discount from the original issuance of the debt. Due to the particular characteristics of our convertible notes, we recognize a gain or loss upon conversion or derecognition for the difference between the net carrying amount of the liability component (including any unamortized discount and debt issuance costs) and the fair value of the consideration transferred to the holder that is allocated to the liability component, which is equal to the fair value of the liability component immediately prior to extinguishment. In the case of an induced conversion, a loss is recognized for the amount of the fair value of the securities or other consideration transferred to the holder in excess of fair value of the consideration issuable in accordance with the original conversion terms of the debt.

*Income Taxes*

We compute our interim income tax provision through the use of an estimated annual effective tax rate (ETR) applied to year-to-date operating results and specific events that are discretely recognized as they occur. In determining the estimated annual ETR, we analyze various factors, including projections of our annual earnings, taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, our ability to use tax credits and net operating loss carryforwards, and available tax planning alternatives. Discrete items, including the effect of changes in tax laws, tax rates, and certain circumstances with respect to valuation allowances or other unusual or non-recurring tax

adjustments, are

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**Table of Contents**

reflected in the period in which they occur as an addition to, or reduction from, the income tax provision, rather than included in the estimated annual ETR.

Deferred tax assets and liabilities are recognized based upon anticipated future tax consequences, in each of the jurisdictions in which we operate, attributable to: (1) the differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases; and (2) operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of our tax liabilities involves applying complex tax regulations in different tax jurisdictions to our tax positions. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is not more likely than not that such assets will be realized. We do not record tax liabilities on undistributed earnings of international subsidiaries that are permanently reinvested.

A tax position is first evaluated for recognition based on its technical merits. Tax positions that have a greater than fifty percent likelihood of being realized upon ultimate settlement are then measured to determine amounts to be recognized in the financial statements. This measurement incorporates information about potential settlements with taxing authorities. A previously recognized tax position is derecognized in the first period in which the position no longer meets the more-likely-than-not recognition threshold. We classify interest expense and penalties related to uncertain tax positions and interest income on tax overpayments as part of income tax expense.

*Foreign Exchange*

Our consolidated financial statements are reported in U.S. dollars. Assets and liabilities of international subsidiaries with a non-U.S. dollar functional currency are translated to U.S. dollars at the exchange rates in effect on the balance sheet date, or the last business day of the period, if applicable. Revenues and expenses for these subsidiaries are translated to U.S. dollars using a weighted average rate for the relevant reporting period. Translation adjustments resulting from this process are included, net of tax, in OCI. Gains and losses that arise from exchange rate fluctuations for monetary asset and liability balances that are not denominated in an entity's functional currency are included within other income (expense), net in the Consolidated Statements of Operations. Currency gains and losses of intercompany balances deemed to be long-term in nature or designated as a hedge of the net investment in international subsidiaries are included, net of tax, in OCI.

*Fair Value Measurements*

For assets and liabilities measured at fair value, the GAAP fair value hierarchy prioritizes the inputs used in different valuation methodologies, assigning the highest priority to unadjusted quoted prices for identical assets and liabilities in actively traded markets (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 2 inputs consist of quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in non-active markets; and model-derived valuations in which significant inputs are corroborated by observable market data either directly or indirectly through correlation or other means (inputs may include yield curves, volatility, credit risks, and default rates). We hold no assets or liabilities measured using Level 1 fair value inputs.

*Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Due to various factors affecting future costs and operations, actual results could differ materially from these estimates.

*Restatement*

The unaudited quarterly financial information for the first three quarters of 2010 was restated in the fourth quarter of 2010. The restatement was made primarily to defer revenue previously recognized on one contract due to a misinterpretation of an extended warranty provision. While the restatement was not deemed material to the first three quarters of 2010, we concluded that the aggregate correction of such amounts would be material to the fourth quarter of 2010. Accordingly, although not material to our financial statements for the first quarter of 2010, the results of operations and cash flows for the three months ended March 31, 2010 have been restated, as well as certain balance sheet components as of March 31, 2010. The consolidated statement of operations, consolidated balance sheet, and consolidated statement of cash flows have been restated, as follows:



**Table of Contents****Consolidated statement of operations restatement**

|                                   | <b>Three Months Ended March 31, 2010</b>     |                    |
|-----------------------------------|----------------------------------------------|--------------------|
|                                   | <b>As</b>                                    |                    |
|                                   | <b>previously<br/>reported</b>               | <b>As restated</b> |
|                                   | <b>(in thousands, except per share data)</b> |                    |
| Revenues                          | \$ 499,280                                   | \$ 497,623         |
| Cost of revenues                  | 340,385                                      | 340,559            |
| Gross profit                      | 158,895                                      | 157,064            |
| Operating income                  | 33,450                                       | 31,619             |
| Income before income taxes        | 18,102                                       | 16,271             |
| Income tax benefit                | 8,685                                        | 8,979              |
| Net income                        | 26,787                                       | 25,250             |
| Earnings per common share-Basic   | \$ 0.67                                      | \$ 0.63            |
| Earnings per common share-Diluted | \$ 0.66                                      | \$ 0.62            |

**Consolidated balance sheet restatement**

|                                           | <b>March 31, 2010</b>             |                    |
|-------------------------------------------|-----------------------------------|--------------------|
|                                           | <b>As previously<br/>reported</b> | <b>As restated</b> |
|                                           | <b>(in thousands)</b>             |                    |
| Accounts receivable, net                  | \$ 333,141                        | \$ 333,030         |
| Deferred tax assets noncurrent, net       | 86,728                            | 87,022             |
| Long-term warranty                        | 12,389                            | 12,563             |
| Other long-term obligations               | 71,904                            | 73,462             |
| Accumulated other comprehensive loss, net | (15,283)                          | (15,295)           |
| Retained earnings                         | 57,037                            | 55,500             |

**Consolidated statement of cash flow restatement**

|                                                                                   | <b>Three Months Ended March 31, 2010</b> |                    |
|-----------------------------------------------------------------------------------|------------------------------------------|--------------------|
|                                                                                   | <b>As previously<br/>reported</b>        | <b>As restated</b> |
|                                                                                   | <b>(in thousands)</b>                    |                    |
| Operating activities                                                              |                                          |                    |
| Net income                                                                        | \$ 26,787                                | \$ 25,250          |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                          |                    |
| Deferred taxes, net                                                               | (13,809)                                 | (14,103)           |
| Changes in operating assets and liabilities, net of acquisition:                  |                                          |                    |
| Accounts receivable                                                               | (6,266)                                  | (6,167)            |
| Unearned revenue                                                                  | 11,057                                   | 12,615             |
| Warranty                                                                          | 291                                      | 465                |

**Table of Contents****Note 2: Earnings Per Share and Capital Structure**

The following table sets forth the computation of basic and diluted earnings per share (EPS):

|                                                    | <b>Three Months Ended March 31,</b>      |             |
|----------------------------------------------------|------------------------------------------|-------------|
|                                                    | <b>2011</b>                              | <b>2010</b> |
|                                                    | <b>(in</b>                               |             |
|                                                    | <b>thousands, except per share data)</b> |             |
| Net income available to common shareholders        | \$ 27,120                                | \$ 25,250   |
| Weighted average common shares outstanding-Basic   | 40,546                                   | 40,191      |
| Dilutive effect of convertible notes               | -                                        | 130         |
| Dilutive effect of stock-based awards              | 499                                      | 541         |
| Weighted average common shares outstanding-Diluted | 41,045                                   | 40,862      |
| Earnings per common share-Basic                    | \$ 0.67                                  | \$ 0.63     |
| Earnings per common share-Diluted                  | \$ 0.66                                  | \$ 0.62     |

*Convertible Notes*

We are required, pursuant to the indenture for the convertible notes, to settle the principal amount of the convertible notes in cash and may elect to settle the remaining conversion obligation (stock price in excess of conversion price) in cash, shares, or a combination. We include in the EPS calculation the amount of shares it would take to satisfy the conversion obligation, assuming that all of the convertible notes are converted. The average quarterly closing prices of our common stock were used as the basis for determining the dilutive effect on EPS. The average price of our common stock for the three months ended March 31, 2011 did not exceed the conversion price of \$65.16 and, therefore, did not have an effect on diluted EPS. The average price of our common stock for the three months ended March 31, 2010 exceeded the conversion price of \$65.16 and, therefore, approximately 130,000 shares have been included in the diluted EPS calculation.

*Stock-based Awards*

For stock-based awards, the dilutive effect is calculated using the treasury stock method. Under this method, the dilutive effect is computed as if the awards were exercised at the beginning of the period (or at time of issuance, if later) and assumes the related proceeds were used to repurchase common stock at the average market price during the period. Related proceeds include the amount the employee must pay upon exercise, future compensation cost associated with the stock award, and the amount of excess tax benefits, if any. Approximately 657,000 and 463,000 stock-based awards were excluded from the calculation of diluted EPS for the three months ended March 31, 2011 and 2010, respectively, because they were anti-dilutive. These stock-based awards could be dilutive in future periods.

*Preferred Stock*

We have authorized the issuance of 10 million shares of preferred stock with no par value. In the event of a liquidation, dissolution, or winding up of the affairs of the corporation, whether voluntary or involuntary, the holders of any outstanding preferred stock will be entitled to be paid a preferential amount per share to be determined by the Board of Directors prior to any payment to holders of common stock. Shares of preferred stock may be converted into common stock based on terms, conditions, and rates as defined in the Rights Agreement, which may be adjusted by the Board of Directors. There was no preferred stock sold or outstanding at March 31, 2011 and December 31, 2010.

**Table of Contents****Note 3: Certain Balance Sheet Components***Accounts receivable, net*

|                                                             | At March 31,      | At December 31,   |
|-------------------------------------------------------------|-------------------|-------------------|
|                                                             | 2011              | 2010              |
|                                                             | (in thousands)    |                   |
| Trade receivables (net of allowance of \$9,031 and \$9,045) | \$ 323,575        | \$ 328,811        |
| Unbilled receivables                                        | 38,416            | 42,851            |
| <b>Total accounts receivable, net</b>                       | <b>\$ 361,991</b> | <b>\$ 371,662</b> |

At March 31, 2011 and December 31, 2010, \$7.8 million and \$12.5 million were billed but not yet paid by customers in accordance with long-term contract retainage provisions. These retainage amounts within trade receivables are expected to be collected within the next 12 months.

A summary of the allowance for doubtful accounts activity is as follows:

|                                     | Three Months Ended March 31, |                 |
|-------------------------------------|------------------------------|-----------------|
|                                     | 2011                         | 2010            |
|                                     | (in thousands)               |                 |
| Beginning balance                   | \$ 9,045                     | \$ 6,339        |
| Release of doubtful accounts, net   | (346)                        | (80)            |
| Accounts written-off                | (47)                         | (130)           |
| Effects of change in exchange rates | 379                          | (259)           |
| <b>Ending balance</b>               | <b>\$ 9,031</b>              | <b>\$ 5,870</b> |

*Inventories*

|                          | At March 31,      | At December 31,   |
|--------------------------|-------------------|-------------------|
|                          | 2011              | 2010              |
|                          | (in thousands)    |                   |
| Materials                | \$ 129,009        | \$ 106,021        |
| Work in process          | 22,595            | 18,389            |
| Finished goods           | 96,754            | 83,747            |
| <b>Total inventories</b> | <b>\$ 248,358</b> | <b>\$ 208,157</b> |

Our inventory levels may vary period to period as a result of our factory scheduling and the timing of contract fulfillments, which may include the buildup of finished goods for shipment.



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Consigned inventory is held at third-party locations; however, we retain title to the inventory until purchased by the third-party. Consigned inventory, consisting of raw materials and finished goods, was \$16.6 million and \$17.6 million at March 31, 2011 and December 31, 2010, respectively.

### *Property, plant, and equipment, net*

|                                                         | <b>At March 31,</b>   | <b>At December 31,</b> |
|---------------------------------------------------------|-----------------------|------------------------|
|                                                         | <b>2011</b>           | <b>2010</b>            |
|                                                         | <b>(in thousands)</b> |                        |
| Machinery and equipment                                 | \$ 278,003            | \$ 265,113             |
| Computers and purchased software                        | 67,234                | 63,077                 |
| Buildings, furniture, and improvements                  | 150,802               | 146,661                |
| Land                                                    | 32,845                | 35,968                 |
| Construction in progress, including purchased equipment | 16,935                | 20,531                 |
| <br>                                                    |                       |                        |
| Total cost                                              | 545,819               | 531,350                |
| Accumulated depreciation                                | (249,811)             | (232,108)              |
| <br>                                                    |                       |                        |
| Property, plant, and equipment, net                     | \$ 296,008            | \$ 299,242             |

**Table of Contents**

Depreciation expense was as follows:

|                      | <b>Three Months Ended March 31,</b> |             |
|----------------------|-------------------------------------|-------------|
|                      | <b>2011</b>                         | <b>2010</b> |
|                      | <b>(in thousands)</b>               |             |
| Depreciation expense | \$ 15,934                           | \$ 15,500   |

**Note 4: Intangible Assets**

The gross carrying amount and accumulated amortization of our intangible assets, other than goodwill, are as follows:

|                                      | <b>At March 31, 2011</b> |                                     |                   | <b>At December 31, 2010</b> |                                     |                   |
|--------------------------------------|--------------------------|-------------------------------------|-------------------|-----------------------------|-------------------------------------|-------------------|
|                                      | <b>Gross Assets</b>      | <b>Accumulated<br/>Amortization</b> | <b>Net</b>        | <b>Gross Assets</b>         | <b>Accumulated<br/>Amortization</b> | <b>Net</b>        |
|                                      | <b>(in thousands)</b>    |                                     |                   |                             |                                     |                   |
| Core-developed technology            | \$ 403,004               | \$ (291,317)                        | \$ 111,687        | \$ 378,705                  | \$ (274,198)                        | \$ 104,507        |
| Customer contracts and relationships | 302,572                  | (123,376)                           | 179,196           | 282,997                     | (110,539)                           | 172,458           |
| Trademarks and trade names           | 76,349                   | (62,614)                            | 13,735            | 73,194                      | (59,235)                            | 13,959            |
| Other                                | 24,610                   | (24,452)                            | 158               | 24,256                      | (23,510)                            | 746               |
| <b>Total intangible assets</b>       | <b>\$ 806,535</b>        | <b>\$ (501,759)</b>                 | <b>\$ 304,776</b> | <b>\$ 759,152</b>           | <b>\$ (467,482)</b>                 | <b>\$ 291,670</b> |

A summary of the intangible asset account activity is as follows:

|                                             | <b>Three Months Ended March 31,</b> |             |
|---------------------------------------------|-------------------------------------|-------------|
|                                             | <b>2011</b>                         | <b>2010</b> |
|                                             | <b>(in thousands)</b>               |             |
| Beginning balance, intangible assets, gross | \$ 759,152                          | \$ 806,256  |
| Intangible assets acquired                  | 10,297                              | -           |
| Effect of change in exchange rates          | 37,086                              | (35,404)    |
| Ending balance, intangible assets, gross    | \$ 806,535                          | \$ 770,852  |

Intangible assets of our international subsidiaries are recorded in their respective functional currency; therefore, the carrying amounts of intangible assets increase or decrease, with a corresponding change in accumulated OCI, due to changes in foreign currency exchange rates.

Estimated future annual amortization expense is as follows:

| <b>Years ending December 31,</b>          | <b>Estimated Annual<br/>Amortization<br/>(in thousands)</b> |
|-------------------------------------------|-------------------------------------------------------------|
| 2011 (amount remaining at March 31, 2011) | \$ 47,844                                                   |
| 2012                                      | 49,550                                                      |
| 2013                                      | 40,862                                                      |
| 2014                                      | 33,600                                                      |
| 2015                                      | 27,593                                                      |
| Beyond 2015                               | 105,327                                                     |

|                              |    |         |
|------------------------------|----|---------|
| Total intangible assets, net | \$ | 304,776 |
|------------------------------|----|---------|

**Table of Contents****Note 5: Goodwill**

The following table reflects goodwill allocated to each reporting segment at March 31, 2011 and 2010:

|                                     | <b>Itron North<br/>America</b> | <b>Itron<br/>International<br/>(in thousands)</b> | <b>Total Company</b> |
|-------------------------------------|--------------------------------|---------------------------------------------------|----------------------|
| Goodwill balance at January 1, 2010 | \$ 197,515                     | \$ 1,108,084                                      | \$ 1,305,599         |
| Effect of change in exchange rates  | 257                            | (71,727)                                          | (71,470)             |
| Goodwill balance at March 31, 2010  | \$ 197,772                     | \$ 1,036,357                                      | \$ 1,234,129         |
| Goodwill balance at January 1, 2011 | \$ 198,048                     | \$ 1,011,328                                      | \$ 1,209,376         |
| Goodwill acquired                   | -                              | 10,083                                            | 10,083               |
| Effect of change in exchange rates  | 329                            | 74,664                                            | 74,993               |
| Goodwill balance at March 31, 2011  | \$ 198,377                     | \$ 1,096,075                                      | \$ 1,294,452         |

**Note 6: Debt**

The components of our borrowings are as follows:

|                                       | <b>At March 31,<br/>2011</b> | <b>At December 31,<br/>2010</b> |
|---------------------------------------|------------------------------|---------------------------------|
|                                       | <b>(in thousands)</b>        |                                 |
| Term loans                            |                              |                                 |
| USD denominated term loan             | \$ 202,129                   | \$ 218,642                      |
| EUR denominated term loan             | 150,205                      | 174,031                         |
| Convertible senior subordinated notes | 220,911                      | 218,268                         |
| Total debt                            | 573,245                      | 610,941                         |
| Current portion of long-term debt     | (231,682)                    | (228,721)                       |
| Long-term debt                        | \$ 341,563                   | \$ 382,220                      |

*Credit Facility*

Our credit facility is dated April 18, 2007 and includes two amendments dated April 24, 2009 and February 10, 2010. The principal balance of our euro denominated term loan at March 31, 2011 and December 31, 2010 was 106.6 million and 132.4 million, respectively. Interest rates on the credit facility are based on the respective borrowing's denominated London Interbank Offered Rate (LIBOR) or the Wells Fargo Bank, National Association's prime rate, plus an additional margin subject to our consolidated leverage ratio. The additional interest rate margin was 3.50% at March 31, 2011. Our interest rates were 3.77% for the U.S. dollar denominated and 4.52% for the euro denominated term loans at March 31, 2011. Scheduled amortization of principal payments is 1% per year (0.25% quarterly) with an excess cash flow provision for additional annual principal repayment requirements. The amount of the excess cash flow provision payment varies according to our consolidated leverage ratio. Maturities of the term loans and the multicurrency revolving line of credit are in April 2014 and 2013, respectively. The credit facility is secured by substantially all of the assets of Itron, Inc. and our U.S. domestic operating subsidiaries and includes covenants, which contain certain financial ratios and place restrictions on the incurrence of debt, the payment of dividends, certain investments, incurrence of capital expenditures above a set limit, and mergers.

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The credit facility includes a multicurrency revolving line of credit, which was increased from \$240 million to \$315 million on January 20, 2011. The increase was completed under the terms of the February 10, 2010 amendment. Prepaid debt fees of \$388,000 were capitalized associated with the increase in the credit line. There were no other changes to the credit facility.

At March 31, 2011, there were no borrowings outstanding under the revolving line of credit, and \$59.7 million was utilized by outstanding standby letters of credit, resulting in \$255.3 million being available for additional borrowings.

We repaid \$52.9 million and \$52.8 million of the term loans during the three months ended March 31, 2011 and 2010, respectively. These term loan repayments were made with cash flows from operations and cash on hand. We were in compliance with the debt covenants under the credit facility at March 31, 2011.

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**Table of Contents**

*Convertible Senior Subordinated Notes*

On August 4, 2006, we issued \$345 million of 2.50% convertible notes due August 2026. Fixed interest payments are required every six months, in February and August of each year. For each six month period beginning August 2011, contingent interest payments of approximately 0.19% of the average trading price of the convertible notes will be made if certain thresholds are met or events occur, as outlined in the indenture. The convertible notes are registered with the SEC and are generally transferable. Our convertible notes are not considered conventional convertible debt as the number of shares, or cash, to be received by the holders was not fixed at the inception of the obligation. We have concluded that the conversion feature of our convertible notes does not need to be bifurcated from the host contract and accounted for as a freestanding derivative, as the conversion feature is indexed to our own stock and would be classified within stockholders' equity if it were a freestanding instrument.

The convertible notes may be converted at the option of the holder at a conversion rate of 15.3478 shares of our common stock for each \$1,000 principal amount of the convertible notes, under the following circumstances, as defined in the indenture:

- i if the closing sale price per share of our common stock exceeds \$78.19, which is 120% of the conversion price of \$65.16, for at least 20 trading days in the 30 consecutive trading day period ending on the last trading day of the preceding fiscal quarter;
- i between July 1, 2011 and August 1, 2011, and any time after August 1, 2024;
- i during the five business days after any five consecutive trading day period in which the trading price of the convertible notes for each day was less than 98% of the average conversion value of the convertible notes;
- i if the convertible notes are called for redemption;
- i if a fundamental change occurs; or
- i upon the occurrence of defined corporate events.

The amount payable upon conversion is the result of a formula based on the closing prices of our common stock for 20 consecutive trading days following the date of the conversion notice. Based on the conversion ratio of 15.3478 shares per \$1,000 principal amount of the convertible notes, if our stock price is lower than the conversion price of \$65.16, the amount payable will be less than the \$1,000 principal amount and will be settled in cash. Our closing stock price at March 31, 2011 was \$56.44 per share.

Upon conversion, the principal amount of the convertible notes will be settled in cash and, at our option, the remaining conversion obligation (stock price in excess of conversion price) may be settled in cash, shares, or a combination. The conversion rate for the convertible notes is subject to adjustment upon the occurrence of certain corporate events, as defined in the indenture, to ensure that the economic rights of the convertible note holders are preserved.

The convertible notes also contain purchase options, at the option of the holders, which if exercised would require us to repurchase all or a portion of the convertible notes on August 1, 2011, August 1, 2016, and August 1, 2021 at 100% of the principal amount, plus accrued and unpaid interest.

On or after August 1, 2011, we have the option to redeem all or a portion of the convertible notes at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

The convertible notes are unsecured, subordinated to our credit facility (senior secured borrowings), and are guaranteed by one U.S. subsidiary, which is 100% owned. The convertible notes contain covenants, which place restrictions on the incurrence of debt and certain mergers. We were in compliance with these debt covenants at March 31, 2011.

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The convertible notes are classified as current on the Consolidated Balance Sheet due to the combination of put, call, and conversion options occurring in 2011.

**Table of Contents**

Our convertible notes are separated between the liability and equity components using our estimated non-convertible debt borrowing rate at the time our convertible notes were issued, which was determined to be 7.38%. This rate also reflects the effective interest rate on the liability component. The carrying amounts of the debt and equity components are as follows:

|                                              | At March 31,<br>2011 | At December 31,<br>2010 |
|----------------------------------------------|----------------------|-------------------------|
|                                              | (in thousands)       |                         |
| Face value of convertible notes              | \$ 223,604           | \$ 223,604              |
| Unamortized discount                         | (2,693)              | (5,336)                 |
| <b>Net carrying amount of debt component</b> | <b>\$ 220,911</b>    | <b>\$ 218,268</b>       |
| Carrying amount of equity component          | \$ 31,831            | \$ 31,831               |

The interest expense relating to both the contractual interest coupon and amortization of the discount on the liability component are as follows:

|                                                         | Three Months Ended March 31, |                 |
|---------------------------------------------------------|------------------------------|-----------------|
|                                                         | 2011                         | 2010            |
|                                                         | (in thousands)               |                 |
| Contractual interest coupon                             | \$ 1,398                     | \$ 1,398        |
| Amortization of the discount on the liability component | 2,643                        | 2,456           |
| <b>Total interest expense on convertible notes</b>      | <b>\$ 4,041</b>              | <b>\$ 3,854</b> |

As of March 31, 2011, the remaining discount on the liability component will be amortized over the next three months due to the combination of put, call, and conversion options that are part of the terms of the convertible note agreement.

**Note 7: Derivative Financial Instruments**

As part of our risk management strategy, we use derivative instruments to hedge certain foreign currency and interest rate exposures. Refer to Note 1, Note 12, and Note 13 for additional disclosures on our derivative instruments.

The fair values of our derivative instruments are determined using the income approach and significant other observable inputs (also known as Level 2), as defined by FASB Accounting Standards Codification (ASC) 820-10-20, *Fair Value Measurements*. We have used observable market inputs based on the type of derivative and the nature of the underlying instrument. The key inputs used at March 31, 2011 included interest rate yield curves (swap rates and futures) and foreign exchange spot and forward rates, all of which are available in an active market. We have utilized the mid-market pricing convention for these inputs at March 31, 2011. We include the effect of our counterparty credit risk based on current published credit default swap rates when the net fair value of our derivative instruments is in a net asset position. We consider our own nonperformance risk when the net fair value of our derivative instruments is in a net liability position by discounting our derivative liabilities to reflect the potential credit risk to our counterparty through applying a current market indicative credit spread to all cash flows.



**Table of Contents**

The fair values of our derivative instruments determined using the fair value measurement of significant other observable inputs (Level 2) at March 31, 2011 and December 31, 2010 are as follows:

|                                                                             | Balance Sheet Location      | Fair Value              |                            |
|-----------------------------------------------------------------------------|-----------------------------|-------------------------|----------------------------|
|                                                                             |                             | At<br>March 31,<br>2011 | At<br>December 31,<br>2010 |
| <b>Asset Derivatives</b>                                                    |                             |                         |                            |
| <b>Derivatives not designated as hedging instruments under ASC 815-20</b>   |                             |                         |                            |
| Foreign exchange forward contracts                                          | Other current assets        | \$ 61                   | \$ 63                      |
| <b>Liability Derivatives</b>                                                |                             |                         |                            |
| <b>Derivatives designated as hedging instruments under ASC 815-20</b>       |                             |                         |                            |
| Interest rate swap contracts                                                | Other current liabilities   | \$ (4,082)              | \$ (5,845)                 |
| Interest rate swap contracts                                                | Other long-term obligations | (414)                   | (975)                      |
| Euro denominated term loan *                                                | Current portion of debt     | (4,720)                 | (4,402)                    |
| Euro denominated term loan *                                                | Long-term debt              | (145,485)               | (169,629)                  |
| <b>Total derivatives designated as hedging instruments under ASC 815-20</b> |                             | <b>\$ (154,701)</b>     | <b>\$ (180,851)</b>        |
| <b>Derivatives not designated as hedging instruments under ASC 815-20</b>   |                             |                         |                            |
| Foreign exchange forward contracts                                          | Other current liabilities   | \$ (120)                | \$ (457)                   |
| <b>Total liability derivatives</b>                                          |                             | <b>\$ (154,821)</b>     | <b>\$ (181,308)</b>        |

\* The euro denominated term loan is a nonderivative financial instrument designated as a hedge of our net investment in international operations. It is recorded at its carrying value in the Consolidated Balance Sheets and is not recorded at fair value.

OCI during the reporting period for our derivative and nonderivative instruments designated as hedging instruments (collectively, hedging instruments), net of tax, was as follows:

|                                                                             | 2011               | 2010               |
|-----------------------------------------------------------------------------|--------------------|--------------------|
|                                                                             | (in thousands)     |                    |
| Net unrealized loss on hedging instruments at January 1,                    | \$ (10,034)        | \$ (30,300)        |
| Unrealized gain (loss) on derivative instruments                            | 60                 | (2,025)            |
| Unrealized gain (loss) on a nonderivative net investment hedging instrument | (7,810)            | 11,444             |
| Realized (gains) losses reclassified into net income (loss)                 | 1,442              | 2,202              |
| <b>Net unrealized loss on hedging instruments at March 31,</b>              | <b>\$ (16,342)</b> | <b>\$ (18,679)</b> |

*Cash Flow Hedges*

We are exposed to interest rate risk through our credit facility. We enter into swaps to achieve a fixed rate of interest on the hedged portion of debt in order to increase our ability to forecast interest expense. The objective of these swaps is to protect us from increases in the LIBOR base borrowing rates on our floating rate credit facility. The swaps do not protect us from changes to the applicable margin under our credit facility.

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We have entered into one-year pay-fixed receive one-month LIBOR interest rate swaps to convert \$200 million of our U.S. dollar term loan from a floating LIBOR interest rate to a fixed interest rate. Our outstanding swaps are as follows:

| Transaction Date | Effective Date of Swap        | Notional amount<br>(in thousands) | Fixed Interest Rate |
|------------------|-------------------------------|-----------------------------------|---------------------|
| July 1, 2009     | June 30, 2010 - June 30, 2011 | \$ 100,000                        | 2.15%               |
| July 1, 2009     | June 30, 2010 - June 30, 2011 | \$ 100,000                        | 2.11%               |

At March 31, 2011 and December 31, 2010, our U.S. dollar term loan had a balance of \$202.1 million and \$218.6 million, respectively. The cash flow hedges have been and are expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk through the term of the hedge. Consequently, effective changes in the fair value of the interest rate swap are recorded as a component of OCI and are recognized in earnings when the hedged item affects earnings. The

**Table of Contents**

amounts paid or received on the hedge are recognized as adjustments to interest expense. The amount of net losses expected to be reclassified into earnings in the next 12 months is approximately \$945,000, which was based on the Reuters U.S. dollar swap yield curve as of March 31, 2011.

In 2007, we entered into a pay fixed 6.59% receive three-month Euro Interbank Offered Rate (EURIBOR), plus 2%, amortizing interest rate swap to convert a significant portion of our euro denominated variable-rate term loan to fixed-rate debt, plus or minus the variance in the applicable margin from 2%, through December 31, 2012. The cash flow hedge is currently, and is expected to be, highly effective in achieving offsetting cash flows attributable to the hedged risk through the term of the hedge. Consequently, effective changes in the fair value of the interest rate swap are recorded as a component of OCI and are recognized in earnings when the hedged item affects earnings. The amounts paid or received on the hedge are recognized as adjustments to interest expense. The notional amount of the swap is reduced each quarter and was \$136.1 million ( 96.6 million) and \$147.7 million ( 112.4 million) as of March 31, 2011 and December 31, 2010, respectively. The amount of net losses expected to be reclassified into earnings in the next 12 months is approximately \$2.9 million ( 2.1 million), which was based on the Reuters euro swap yield curve as of March 31, 2011.

We will continue to monitor and assess our interest rate risk and may institute additional interest rate swaps or other derivative instruments to manage such risk in the future.

The before tax effect of our cash flow derivative instruments on the Consolidated Balance Sheets and the Consolidated Statements of Operations for the three months ended March 31 are as follows:

| Derivatives in ASC 815-20 Cash<br><br>Flow Hedging Relationships | Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) |            | Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) |            |
|------------------------------------------------------------------|---------------------------------------------------------------------------|------------|-------------------------------------------------------------------------------|----------------------------------------------------------------------|------------|
|                                                                  |                                                                           |            | Location                                                                      |                                                                      |            |
|                                                                  | 2011                                                                      | 2010       |                                                                               | 2011                                                                 | 2010       |
|                                                                  | (in thousands)                                                            |            |                                                                               | (in thousands)                                                       |            |
| <b>Three months ended March 31,</b>                              |                                                                           |            |                                                                               |                                                                      |            |
| Interest rate swap contracts                                     | \$ (2,328)                                                                | \$ (3,283) | Interest expense                                                              | \$ (2,383)                                                           | \$ (3,572) |
| <i>Net Investment Hedge</i>                                      |                                                                           |            |                                                                               | Interest expense                                                     | \$ (49)    |
|                                                                  |                                                                           |            |                                                                               |                                                                      | \$ (60)    |

We are exposed to foreign exchange risk through our international subsidiaries. As a result of our acquisition of an international company in 2007, we entered into a euro denominated term loan, which exposes us to fluctuations in the euro foreign exchange rate. Therefore, we have designated this foreign currency denominated term loan as a hedge of our net investment in international operations. The non-functional currency term loan is revalued into U.S. dollars at each balance sheet date, and the changes in value associated with currency fluctuations are recorded as adjustments to long-term debt with offsetting gains and losses recorded in OCI. The notional amount of the term loan declines each quarter due to repayments and was \$150.2 million ( 106.6 million) and \$174.0 million ( 132.4 million) as of March 31, 2011 and December 31, 2010, respectively. We had no hedge ineffectiveness.

The before tax and net of tax effects of our net investment hedge nonderivative financial instrument on OCI for the three months ended March 31 are as follows:

| Nonderivative Financial Instruments in ASC 815-20 Net<br><br>Investment Hedging Relationships | Euro Denominated Term Loan Designated as a Hedge of Our<br>Net Investment in International Operations<br>Three Months Ended<br>March 31, |           |
|-----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|-----------|
|                                                                                               | 2011                                                                                                                                     | 2010      |
|                                                                                               | (in thousands)                                                                                                                           |           |
| Gain (loss) recognized in OCI on derivative (Effective Portion)                               |                                                                                                                                          |           |
| Before tax                                                                                    | \$ (12,580)                                                                                                                              | \$ 18,555 |
| Net of tax                                                                                    | \$ (7,810)                                                                                                                               | \$ 11,444 |

*Derivatives Not Designated as Hedging Relationships*

We are also exposed to foreign exchange risk when we enter into non-functional currency transactions, both intercompany and third-party. At each period-end, foreign currency monetary assets and liabilities are revalued with the change recorded to other income and expense. We enter into monthly foreign exchange forward contracts (a total of 113 contracts were entered into during the three months ended March 31, 2011), not designated for hedge accounting, with the intent to reduce earnings volatility associated with certain of these balances. The notional amounts of the contracts ranged from \$50,000 to \$72 million, offsetting our exposures from the euro, British pound, Canadian dollar, Czech koruna, Hungarian forint, and various other currencies.

**Table of Contents**

The effect of our foreign exchange option and forward derivative instruments on the Consolidated Statements of Operations for the three months ended March 31 is as follows:

| Derivatives Not Designated as Hedging         | Gain (Loss) Recognized on Derivatives in<br>Other Income (Expense) |          |
|-----------------------------------------------|--------------------------------------------------------------------|----------|
| Instrument under ASC 815-20                   | Three Months Ended March 31,<br>2011                               |          |
|                                               | (in thousands)                                                     |          |
| Foreign exchange option and forward contracts | \$ (2,082)                                                         | \$ (269) |

**Note 8: Defined Benefit Pension Plans**

We sponsor both funded and unfunded defined benefit pension plans for our employees in Germany, France, Spain, Italy, Belgium, Chile, Hungary, and Indonesia offering death and disability, retirement, and special termination benefits. The defined benefit obligation is calculated annually by using the projected unit credit method. The measurement date for the pension plans was December 31, 2010.

Our defined benefit pension plans are denominated in the functional currencies of the respective countries in which the plans are sponsored; therefore, the balances increase or decrease, with a corresponding change in OCI, due to changes in foreign currency exchange rates. Amounts recognized on the Consolidated Balance Sheets consist of:

|                                                                         | At March 31,<br>2011 | At December 31,<br>2010 |
|-------------------------------------------------------------------------|----------------------|-------------------------|
|                                                                         | (in thousands)       |                         |
| Plan assets in other long term assets                                   | \$ (458)             | \$ (412)                |
| Current portion of pension plan liability in wages and benefits payable | 2,835                | 2,656                   |
| Long-term portion of pension plan liability                             | 66,865               | 61,450                  |
| Net pension plan benefit liability                                      | \$ 69,242            | \$ 63,694               |

Our asset investment strategy focuses on maintaining a portfolio using primarily insurance funds, which are accounted for as investments and measured at fair value, in order to achieve our long-term investment objectives on a risk adjusted basis. Our general funding policy for these qualified pension plans is to contribute amounts sufficient to satisfy regulatory funding standards of the respective countries for each plan. We contributed \$354,000 and \$5,000 to the defined benefit pension plans for the three months ended March 31, 2011 and 2010, respectively. The timing of when contributions are made can vary by plan and from year to year. For 2011, assuming that actual plan asset returns are consistent with our expected rate of return, and that interest rates remain constant, we expect to contribute approximately \$500,000 to our defined benefit pension plans. We contributed \$519,000 to the defined benefit pension plans for the year ended December 31, 2010.

Net periodic pension benefit costs for our plans include the following components:

|                                                  | Three Months Ended March 31, |          |
|--------------------------------------------------|------------------------------|----------|
|                                                  | 2011                         | 2010     |
|                                                  | (in thousands)               |          |
| Service cost                                     | \$ 617                       | \$ 525   |
| Interest cost                                    | 917                          | 906      |
| Expected return on plan assets                   | (80)                         | (77)     |
| Amortization of actuarial net loss (gain)        | 14                           | (7)      |
| Amortization of unrecognized prior service costs | 18                           | -        |
| Net periodic benefit cost                        | \$ 1,486                     | \$ 1,347 |



**Table of Contents****Note 9: Stock-Based Compensation**

We record stock-based compensation expense for awards of stock options, stock sold pursuant to our ESPP, and the issuance of restricted stock units and unrestricted stock awards. We expense stock-based compensation primarily using the straight-line method over the vesting requirement period. For the three months ended March 31, stock-based compensation expense and the related tax benefit were as follows:

|                                       | <b>Three Months Ended March 31,</b> |                 |
|---------------------------------------|-------------------------------------|-----------------|
|                                       | <b>2011</b>                         | <b>2010</b>     |
|                                       | <b>(in thousands)</b>               |                 |
| Stock options                         | \$ 1,033                            | \$ 1,343        |
| Restricted stock units                | 3,551                               | 2,941           |
| Unrestricted stock awards             | 175                                 | 175             |
| ESPP                                  | 216                                 | 117             |
| <b>Total stock-based compensation</b> | <b>\$ 4,975</b>                     | <b>\$ 4,576</b> |
| <br>                                  |                                     |                 |
| Related tax benefit                   | \$ 1,402                            | \$ 1,408        |

We issue new shares of common stock upon the exercise of stock options or when vesting conditions on restricted stock units are fully satisfied.

The fair value of stock options and ESPP awards issued were estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

|                         | <b>Employee Stock Options</b>       |             |
|-------------------------|-------------------------------------|-------------|
|                         | <b>Three Months Ended March 31,</b> |             |
|                         | <b>2011</b>                         | <b>2010</b> |
| Dividend yield          | -                                   | -           |
| Expected volatility     | 46.6%                               | 48.7%       |
| Risk-free interest rate | 2.0%                                | 2.3%        |
| Expected life (years)   | 4.85                                | 4.61        |

|                         | <b>ESPP</b>                         |             |
|-------------------------|-------------------------------------|-------------|
|                         | <b>Three Months Ended March 31,</b> |             |
|                         | <b>2011</b>                         | <b>2010</b> |
| Dividend yield          | -                                   | -           |
| Expected volatility     | 35.5%                               | 29.2%       |
| Risk-free interest rate | 0.1%                                | 0.1%        |
| Expected life (years)   | 0.25                                | 0.25        |

Expected volatility is based on a combination of historical volatility of our common stock and the implied volatility of our traded options for the related expected life period. We believe this combined approach is reflective of current and historical market conditions and an appropriate indicator of expected volatility. The risk-free interest rate is the rate available as of the award date on zero-coupon U.S. government issues with a term equal to the expected life of the award. The expected life is the weighted average expected life of an award based on the period of time between the date the award is granted and the date an estimate of the award is fully exercised. Factors considered in estimating the expected life include historical experience of similar awards, contractual terms, vesting schedules, and expectations of future employee behavior. We have not paid dividends in the past and do not plan to pay dividends in the foreseeable future.

Subject to stock splits, dividends, and other similar events, 3,500,000 shares of common stock are reserved and authorized for issuance under our 2010 Stock Incentive Plan (Stock Incentive Plan). Awards consist of stock options, restricted stock units, and unrestricted stock awards. At March 31, 2011, 2,173,742 shares were available for issuance under the Stock Incentive Plan.





**Table of Contents***Stock Options*

Options to purchase our common stock are granted to employees and the Board of Directors with an exercise price equal to the market close price of the stock on the date the Board of Directors approves the grant. Options generally become exercisable in three equal annual installments beginning one year from the date of grant and generally expire 10 years from the date of grant. Compensation expense is recognized only for those options expected to vest, with forfeitures estimated based on our historical experience and future expectations.

A summary of our stock option activity for the three months ended March 31 is as follows:

|                                                     | Shares<br>(in thousands) | Weighted<br>Average Exercise<br>Price per<br>Share | Weighted Average<br>Remaining<br>Contractual Life<br>(years) | Aggregate<br>Intrinsic Value <sup>(1)</sup><br>(in<br>thousands) | Weighted<br>Average Grant<br>Date Fair Value |
|-----------------------------------------------------|--------------------------|----------------------------------------------------|--------------------------------------------------------------|------------------------------------------------------------------|----------------------------------------------|
| Outstanding, January 1,<br>2010                     | 1,179                    | \$ 52.93                                           | 5.90                                                         | \$ 22,863                                                        |                                              |
| Granted                                             | 71                       | 61.97                                              |                                                              |                                                                  | \$ 27.18                                     |
| Exercised                                           | (75)                     | 52.05                                              |                                                              | \$ 1,357                                                         |                                              |
| Forfeited                                           | -                        | -                                                  |                                                              |                                                                  |                                              |
| Expired                                             | -                        | -                                                  |                                                              |                                                                  |                                              |
| Outstanding, March 31,<br>2010                      | 1,175                    | \$ 53.55                                           | 6.16                                                         | \$ 29,112                                                        |                                              |
| Exercisable and expected to<br>vest, March 31, 2010 | 1,159                    | \$ 53.32                                           | 6.12                                                         | \$ 28,952                                                        |                                              |
| Exercisable, March 31, 2010                         | 930                      | \$ 47.52                                           | 5.56                                                         | \$ 27,404                                                        |                                              |
| Outstanding, January 1,<br>2011                     | 1,102                    | \$ 55.21                                           | 5.58                                                         | \$ 10,883                                                        |                                              |
| Granted                                             | 78                       | 56.64                                              |                                                              |                                                                  | \$ 23.93                                     |
| Exercised                                           | (18)                     | 19.46                                              |                                                              | \$ 737                                                           |                                              |
| Forfeited                                           | -                        | -                                                  |                                                              |                                                                  |                                              |
| Expired                                             | (1)                      | 7.00                                               |                                                              |                                                                  |                                              |
| Outstanding, March 31,<br>2011                      | 1,161                    | \$ 55.89                                           | 5.70                                                         | \$ 10,774                                                        |                                              |
| Exercisable and expected to<br>vest, March 31, 2011 | 1,151                    | \$ 55.86                                           | 5.67                                                         | \$ 10,774                                                        |                                              |
| Exercisable, March 31, 2011                         | 988                      | \$ 53.58                                           | 5.18                                                         | \$ 10,774                                                        |                                              |

<sup>(1)</sup> The aggregate intrinsic value of outstanding stock options represents amounts that would have been received by the optionees had all in-the-money options been exercised on that date. Specifically, it is the amount by which the market value of Itron's stock exceeded the exercise price of the outstanding in-the-money options before applicable income taxes, based on our closing stock price on the last business day of the

period. The aggregate intrinsic value of stock options exercised during the period is calculated based on our stock price at the date of exercise.

As of March 31, 2011, total unrecognized stock-based compensation expense related to nonvested stock options was approximately \$2.9 million, which is expected to be recognized over a weighted average period of approximately 13 months.

#### *Restricted Stock Units*

Certain employees and senior management receive restricted stock units as a component of their total compensation. The fair value of a restricted stock unit is the market close price of our common stock on the date of grant. Restricted stock units generally vest over a three year period. Compensation expense, net of forfeitures, is recognized over the vesting period.

Subsequent to vesting, the restricted stock units are converted into shares of our common stock on a one-for-one basis and issued to employees. We are entitled to an income tax deduction in an amount equal to the taxable income reported by the employees upon vesting of the restricted stock units.

The restricted stock units issued under the Long Term Performance Restricted Stock Unit Award Agreement (Performance Award Agreement) are determined based on the attainment of annual performance goals after the end of the calendar year performance period. During the year, if management determines that it is probable that the targets will be achieved, compensation expense, net of forfeitures, is recognized on a straight-line basis over the annual performance and subsequent vesting period for each separately vesting portion of the award. Performance awards typically vest and are released in three equal installments at the end of each year following attainment of the performance goals. For U.S. participants who retire during the performance period, a pro-rated number of restricted stock units (based on the number of days of employment during the performance period) immediately vest based on the attainment of the performance goals as assessed after the end of the performance period. During the vesting period, unvested restricted stock units immediately vest at the date of

**Table of Contents**

retirement for U.S. participants who retire during that period. For U.S. participants who are or will become retirement eligible during either the annual performance or vesting period, compensation expense is accelerated and recognized over the greater of the performance period (one year) or the participant's retirement eligible date. For performance awards granted in 2011, the maximum restricted stock units that may become eligible for vesting is 151,000 with a grant date fair value of \$56.75.

The following table summarizes restricted stock unit activity for the three months ended March 31:

|                                  | Number of<br>Restricted Stock Units<br>(in thousands) | Weighted<br>Average<br>Grant<br>Date Fair Value | Aggregate<br>Intrinsic Value <sup>(1)</sup><br>(in thousands) |
|----------------------------------|-------------------------------------------------------|-------------------------------------------------|---------------------------------------------------------------|
| Outstanding, January 1, 2010     | 326                                                   |                                                 |                                                               |
| Granted <sup>(2)</sup>           | 188                                                   | \$ 61.55                                        |                                                               |
| Released                         | (18)                                                  |                                                 | \$ 1,125                                                      |
| Forfeited                        | (7)                                                   |                                                 |                                                               |
| Outstanding, March 31, 2010      | 489                                                   |                                                 |                                                               |
| Outstanding, January 1, 2011     | 588                                                   |                                                 |                                                               |
| Granted <sup>(2)</sup>           | 253                                                   | \$ 56.67                                        |                                                               |
| Released                         | (127)                                                 |                                                 | \$ 8,857                                                      |
| Forfeited                        | (2)                                                   |                                                 |                                                               |
| Outstanding, March 31, 2011      | 712                                                   |                                                 |                                                               |
| Expected to vest, March 31, 2011 | 608                                                   |                                                 | \$ 34,293                                                     |

<sup>(1)</sup> The aggregate intrinsic value is the market value of the stock, before applicable income taxes, based on the closing price on the stock release dates or at the end of the period for restricted stock units expected to vest.

<sup>(2)</sup> These restricted stock units do not include the 2011 awards under the Performance Awards Agreement, which are not eligible for vesting as of March 31, 2011.

At March 31, 2011, unrecognized compensation expense was \$29.7 million, which is expected to be recognized over a weighted average period of approximately 29 months.

*Unrestricted Stock Awards*

We issue unrestricted stock awards to our Board of Directors as part of their compensation. Awards are fully vested and expensed when issued. The fair value of unrestricted stock awards is the market close price of our common stock on the date of grant.

The following table summarizes unrestricted stock award activity for the three months ended March 31:

|                                                                               | Three Months Ended March 31, |          |
|-------------------------------------------------------------------------------|------------------------------|----------|
|                                                                               | 2011                         | 2010     |
| Shares of unrestricted stock issued                                           | 3,177                        | 2,574    |
| Weighted average grant date fair value<br><i>Employee Stock Purchase Plan</i> | \$ 55.03                     | \$ 67.80 |

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Under the terms of the ESPP, employees can deduct up to 10% of their regular cash compensation to purchase our common stock at a 15% discount from the fair market value of the stock at the end of each fiscal quarter, subject to other limitations under the plan. The sale of the stock occurs at the beginning of the subsequent quarter.

**Table of Contents**

The following table summarizes ESPP activity for the three months ended March 31:

|                                                           | <b>Three Months Ended March 31,</b> |             |
|-----------------------------------------------------------|-------------------------------------|-------------|
|                                                           | <b>2011</b>                         | <b>2010</b> |
| Shares of stock sold to employees <sup>(1)</sup>          | 17,058                              | 12,350      |
| Weighted average fair value per ESPP award <sup>(2)</sup> | \$ 8.47                             | \$ 10.89    |

<sup>(1)</sup> Stock sold to employees during each fiscal quarter under the ESPP is associated with the offering period ending on the last day of the previous fiscal quarter.

<sup>(2)</sup> Relating to awards associated with the offering period during the three months ended March 31.

The fair value of ESPP awards is estimated using the Black-Scholes option-pricing model. At March 31, 2011, all compensation cost associated with the ESPP had been recognized. There were approximately 179,000 shares of common stock available for future issuance under the ESPP at March 31, 2011.

**Note 10: Income Taxes**

Our tax provisions (benefits) as a percentage of income (loss) before tax typically differs from the federal statutory rate of 35%, and may vary from period to period, due to fluctuations in the forecasted mix of earnings in domestic and international jurisdictions, new or revised tax legislation and accounting pronouncements, tax credits, state income taxes, adjustments to valuation allowances, and interest expense and penalties related to uncertain tax positions, among other items.

For the three months ended March 31, 2011, we had a tax provision of 26%, based on a percentage of income before tax, as compared with a tax benefit of 55% for the same period in 2010.

Our tax provision in 2011 is lower than the federal statutory rate due to projected earnings in tax jurisdictions with rates lower than 35%, the benefit of certain interest expense deductions, and an election under U.S. Internal Revenue Code Sections 338 with respect to a foreign acquisition in 2007.

Our tax benefit in 2010 was the result of certain interest expense deductions and the election under U.S. Internal Revenue Code Section 338 with respect to a foreign acquisition in 2007, as well as the estimated mix of earnings in different tax jurisdictions. The 2010 tax benefit also reflects the receipt of a clean energy manufacturing tax credit awarded as part of the American Recovery and Reinvestment Act and a benefit related to the reduction of tax reserves for certain foreign subsidiaries.

We classify interest expense and penalties related to unrecognized tax liabilities and interest income on tax overpayments as components of income tax expense. The net interest and penalties expense (benefit) recognized is as follows:

|                                              | <b>Three Months Ended March 31,</b> |             |
|----------------------------------------------|-------------------------------------|-------------|
|                                              | <b>2011</b>                         | <b>2010</b> |
|                                              | <b>(in thousands)</b>               |             |
| Net interest and penalties expense (benefit) | \$ (5)                              | \$ 798      |

Accrued interest and penalties recorded are as follows:

|                   | <b>At March</b>       | <b>At December</b> |
|-------------------|-----------------------|--------------------|
|                   | <b>31,</b>            | <b>31,</b>         |
|                   | <b>2011</b>           | <b>2010</b>        |
|                   | <b>(in thousands)</b> |                    |
| Accrued interest  | \$ 4,368              | \$ 4,403           |
| Accrued penalties | 3,696                 | 3,233              |



**Table of Contents**

Unrecognized tax benefits related to uncertain tax positions and the amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate are as follows:

|                                                                                                  | At March 31,<br>2011 | At December 31,<br>2010 |
|--------------------------------------------------------------------------------------------------|----------------------|-------------------------|
|                                                                                                  | (in thousands)       |                         |
| Unrecognized tax benefits related to uncertain tax positions                                     | \$ 30,473            | \$ 42,175               |
| The amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate | 30,400               | 30,832                  |

At March 31, 2011, we are not able to reasonably estimate the timing of future cash flows relating to our uncertain tax positions.

We believe it reasonably possible that our unrecognized tax benefits may decrease by approximately \$6.6 million within the next twelve months due to the expiration of statute of limitations, and a final ruling related to an audit.

**Note 11: Commitments and Contingencies***Guarantees and Indemnifications*

We are often required to obtain standby letters of credit (LOC s) or bonds in support of our obligations for customer contracts. These standby LOC s or bonds typically provide a guarantee to the customer for future performance, which usually covers the installation phase of a contract and may on occasion cover the operations and maintenance phase of outsourcing contracts.

Our available lines of credit, outstanding standby LOC s, and bonds are as follows:

|                                                                                       | At March 31,<br>2011 | At December 31,<br>2010 |
|---------------------------------------------------------------------------------------|----------------------|-------------------------|
|                                                                                       | (in thousands)       |                         |
| Credit facility <sup>(1)</sup>                                                        |                      |                         |
| Multicurrency revolving line of credit                                                | \$ 315,000           | \$ 240,000              |
| Standby LOC s issued and outstanding                                                  | (59,682)             | (43,540)                |
| Net available for additional borrowings and LOC s                                     | \$ 255,318           | \$ 196,460              |
| Unsecured multicurrency revolving lines of credit with various financial institutions |                      |                         |
| Total lines of credit                                                                 | \$ 58,442            | \$ 49,122               |
| Standby LOC s issued and outstanding                                                  | (27,027)             | (21,784)                |
| Short-term borrowings <sup>(2)</sup>                                                  | (255)                | (66)                    |
| Net available for additional borrowings and LOC s                                     | \$ 31,160            | \$ 27,272               |
| Unsecured surety bonds in force                                                       | \$ 117,803           | \$ 120,109              |

<sup>(1)</sup> See Note 6 for details regarding our credit facility, which is secured.

<sup>(2)</sup> Short-term borrowings are included in Other current liabilities on the Consolidated Balance Sheets.

In the event any such standby LOC or bond is called, we would be obligated to reimburse the issuer of the standby LOC or bond; however, we do not believe that any outstanding LOC or bond will be called.

We generally provide an indemnification related to the infringement of any patent, copyright, trademark, or other intellectual property right on software or equipment within our sales contracts, which indemnifies the customer from and pays the resulting costs, damages, and attorney s fees awarded against a customer with respect to such a claim provided that (a) the customer promptly notifies us in writing of the claim and (b) we

have the sole control of the defense and all related settlement negotiations. We also provide an indemnification to our customers for third party claims resulting from damages caused by the negligence or willful misconduct of our employees/agents in connection with the performance of certain contracts. The terms of our indemnifications generally do not limit the maximum potential payments. It is not possible to predict the maximum potential amount of future payments under these or similar agreements.



## **Table of Contents**

### *Legal Matters*

We are subject to various legal proceedings and claims of which the outcomes are subject to significant uncertainty. Our policy is to assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. A determination of the amount of the liability required, if any, for these contingencies is made after an analysis of each known issue. A liability is recorded and charged to operating expense when we determine that a loss is probable and the amount can be reasonably estimated. Additionally, we disclose contingencies for which a material loss is reasonably possible, but not probable. Liabilities recorded for legal contingencies at March 31, 2011 were not material to our financial condition or results of operations.

In April 2010, Acoustic Technologies Incorporated (Acoustic) filed a complaint in the U.S. District Court for the District of Massachusetts against Itron alleging infringement of two patents owned by Acoustic related to the use of concentrator meters to relay information between meters and a collection point. Itron filed a Motion to Dismiss the complaint, based on the argument that Acoustic lacked standing to bring the action, and the Motion to Dismiss was granted by the Court on March 18, 2011. Acoustic has appealed the Court's decision. The complaint seeks unspecified damages as well as injunctive relief. Itron has denied all of the allegations. We believe these claims are without merit and we intend to vigorously defend our interests. We do not believe this matter will have a material adverse effect on our business or financial condition, although an unfavorable outcome could have a material adverse effect on our results of operations for the period in which such a loss is recognized.

In October, 2010, Transdata Incorporated (Transdata) filed a complaint in the U.S. District Court for the Eastern District of Texas against CenterPoint Energy, one of our customers, and several other utilities alleging infringement of three patents owned by Transdata related to the use of an antenna in a meter. Pursuant to our contract with CenterPoint, we agreed to indemnify and defend CenterPoint in this lawsuit. The complaint seeks unspecified damages as well as injunctive relief. CenterPoint has denied all of the allegations. We believe these claims are without merit and we intend to vigorously defend our interests. We do not believe this matter will have a material adverse effect on our business or financial condition, although an unfavorable outcome could have a material adverse effect on our results of operations for the period in which such a loss is recognized.

In November, 2010, we received notice from Dialight BLP Limited (Dialight) that it had been awarded a patent by the U.S. Patent and Trademark Office and that a feature contained in one of our products could be infringing upon their patents rights. We are engaged in discussions with Dialight and believe that this issue will be resolved. We do not believe this matter will have a material adverse effect on our business or financial condition, although an unfavorable outcome could have a material adverse effect on our results of operations for the period in which the claim is resolved.

On February 23, 2011, a class action lawsuit was filed in U.S. Federal Court for the Eastern District of Washington alleging a violation of federal securities laws relating to a restatement of our financial results for the quarters ended March 31, June 30, and September 30, 2010. These revisions were made primarily to defer revenue that had been incorrectly recognized on one contract due to a misinterpretation of an extended warranty obligation. The effect was to reduce revenue and earnings in each of the first three quarters of the year. For the first nine months of 2010, total revenue was reduced by \$6.1 million and diluted EPS was reduced by 11 cents. We believe the facts and legal claims alleged are without merit and we intend to vigorously defend our interests.

In March 2011, a lawsuit was filed in the Superior Court of the State of Washington, in and for Spokane County against certain officers and directors seeking damages on behalf of Itron, Inc. The complaint alleges that the defendants breached their fiduciary obligations to Itron with respect to the restatement of Itron's financial results for the quarters ended March 31, June 30, and September 30, 2010. This lawsuit is a shareholder derivative action that purports to assert claims on behalf of Itron, Inc.

**Table of Contents***Warranty*

A summary of the warranty accrual account activity is as follows:

|                                         | <b>Three Months Ended March 31,</b> |             |
|-----------------------------------------|-------------------------------------|-------------|
|                                         | <b>2011</b>                         | <b>2010</b> |
|                                         | <b>(in thousands)</b>               |             |
| Beginning balance, January 1            | \$ 51,283                           | \$ 33,873   |
| New product warranties                  | 1,883                               | 3,104       |
| Other changes/adjustments to warranties | 9,012                               | 1,096       |
| Claims activity                         | (4,447)                             | (3,746)     |
| Effect of change in exchange rates      | 1,432                               | (800)       |
| Ending balance, March 31                | 59,163                              | 33,527      |
| Less: current portion of warranty       | 26,260                              | 20,964      |
| Long-term warranty                      | \$ 32,903                           | \$ 12,563   |

Total warranty expense is classified within cost of revenues and consists of new product warranties issued and other changes and adjustments to warranties.

Warranty expense associated with our segments for the three months ended March 31 is as follows:

|                        | <b>Three Months Ended March 31,</b> |             |
|------------------------|-------------------------------------|-------------|
|                        | <b>2011</b>                         | <b>2010</b> |
|                        | <b>(in thousands)</b>               |             |
| Itron North America    | \$ 2,889                            | \$ 2,845    |
| Itron International    | (552)                               | 1,355       |
| Total warranty expense | \$ 2,337                            | \$ 4,200    |

Warranty expense for Itron International reflects an \$8.6 million recovery from a third party, associated with the settlement of product claims in Sweden in 2010, and a warranty charge of \$7.7 million related to certain products in Brazil.

*Extended Warranty*

A summary of changes to unearned revenue for extended warranty contracts is as follows:

|                                                                 | <b>Three Months Ended March 31,</b> |             |
|-----------------------------------------------------------------|-------------------------------------|-------------|
|                                                                 | <b>2011</b>                         | <b>2010</b> |
|                                                                 | <b>(in thousands)</b>               |             |
| Beginning balance, January 1                                    | \$ 14,637                           | \$ 5,870    |
| Unearned revenue for new extended warranties                    | 2,933                               | 1,959       |
| Unearned revenue recognized                                     | (377)                               | (370)       |
| Ending balance, March 31                                        | 17,193                              | 7,459       |
| Less: current portion of unearned revenue for extended warranty | 1,126                               | 1,438       |

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|                                                                                     |           |          |
|-------------------------------------------------------------------------------------|-----------|----------|
| Long-term unearned revenue for extended warranty within Other long-term obligations | \$ 16,067 | \$ 6,021 |
|-------------------------------------------------------------------------------------|-----------|----------|

**Table of Contents***Health Benefits*

We are self insured for a substantial portion of the cost of our U.S. employee group health insurance. We purchase insurance from a third party, which provides individual and aggregate stop loss protection for these costs. Each reporting period, we expense the costs of our health insurance plan including paid claims, the change in the estimate of incurred but not reported (IBNR) claims, taxes, and administrative fees (collectively, the plan costs). Plan costs and the IBNR accrual, which is included in wages and benefits payable, are as follows:

|            | <b>Three Months Ended March 31,</b> |             |
|------------|-------------------------------------|-------------|
|            | <b>2011</b>                         | <b>2010</b> |
|            | <b>(in thousands)</b>               |             |
| Plan costs | \$ 6,744                            | \$ 5,086    |

  

|              | <b>At March 31,</b>   | <b>At December 31,</b> |
|--------------|-----------------------|------------------------|
|              | <b>2011</b>           | <b>2010</b>            |
|              | <b>(in thousands)</b> |                        |
| IBNR accrual | \$ 2,267              | \$ 2,056               |

Our IBNR accrual and expenses may fluctuate due to the number of plan participants, claims activity, and deductible limits. For our employees located outside of the United States, health benefits are provided primarily through governmental social plans, which are funded through employee and employer tax withholdings.

**Note 12: Other Comprehensive Income (Loss)**

OCI is reflected as a net increase (decrease) to shareholders' equity and is not reflected in our results of operations. Total comprehensive income (loss) during the reporting periods, net of tax, was as follows:

|                                                                                           | <b>Three Months Ended March 31,</b> |                    |
|-------------------------------------------------------------------------------------------|-------------------------------------|--------------------|
|                                                                                           | <b>2011</b>                         | <b>2010</b>        |
|                                                                                           | <b>(in thousands)</b>               |                    |
| Net income (loss)                                                                         | \$ 27,120                           | \$ 25,250          |
| Foreign currency translation adjustment, net                                              | 100,447                             | (97,478)           |
| Net unrealized gain (loss) on derivative instruments, designated as cash flow hedges, net | 60                                  | (2,025)            |
| Net unrealized gain (loss) on a nonderivative net investment hedging instrument, net      | (7,810)                             | 11,444             |
| Net hedging (gain) loss reclassified into net income (loss), net                          | 1,442                               | 2,202              |
| Pension plan benefits liability adjustment, net                                           | (552)                               | (568)              |
| <b>Total comprehensive income (loss)</b>                                                  | <b>\$ 120,707</b>                   | <b>\$ (61,175)</b> |

Income tax (provision) benefit related to OCI during the reporting periods was as follows:

|                                                                                  | <b>Three Months Ended March 31,</b> |                   |
|----------------------------------------------------------------------------------|-------------------------------------|-------------------|
|                                                                                  | <b>2011</b>                         | <b>2010</b>       |
|                                                                                  | <b>(in thousands)</b>               |                   |
| Foreign currency translation adjustment                                          | \$ (345)                            | \$ (513)          |
| Net unrealized gain (loss) on derivative instruments <sup>(1)</sup>              | 5                                   | 1,258             |
| Net unrealized gain (loss) on a nonderivative net investment hedging instrument  | 4,770                               | (7,111)           |
| Net hedging (gain) loss reclassified into net income (loss)                      | (886)                               | (1,370)           |
| Pension plan benefits liability adjustment                                       | 226                                 | 183               |
| <b>Total income tax (provision) benefit on other comprehensive income (loss)</b> | <b>\$ 3,770</b>                     | <b>\$ (7,553)</b> |

<sup>(1)</sup> Designated as cash flow hedges

Accumulated other comprehensive income (loss), net of tax, was \$58.6 million at March 31, 2011 and (\$35.0) million at December 31, 2010. These amounts include adjustments for foreign currency translation, the unrealized gain (loss) on our hedging instruments, the hedging gain (loss), and the pension liability adjustment as indicated above.

**Table of Contents****Note 13: Fair Values of Financial Instruments**

The fair values at March 31, 2011 and December 31, 2010 do not reflect subsequent changes in the economy, interest rates, tax rates, and other variables that may affect the determination of fair value.

|                                       | At March 31, 2011 |            | At December 31, 2010 |            |
|---------------------------------------|-------------------|------------|----------------------|------------|
|                                       | Carrying Amount   | Fair Value | Carrying Amount      | Fair Value |
| (in thousands)                        |                   |            |                      |            |
| <b>Assets</b>                         |                   |            |                      |            |
| Cash and cash equivalents             | \$ 133,412        | \$ 133,412 | \$ 169,477           | \$ 169,477 |
| Foreign exchange forwards             | 61                | 61         | 63                   | 63         |
| <b>Liabilities</b>                    |                   |            |                      |            |
| <b>Term loans</b>                     |                   |            |                      |            |
| USD denominated term loan             | \$ 202,129        | \$ 202,382 | \$ 218,642           | \$ 219,462 |
| EUR denominated term loan             | 150,205           | 150,393    | 174,031              | 174,684    |
| Convertible senior subordinated notes | 220,911           | 229,614    | 218,268              | 236,461    |
| Interest rate swaps                   | 4,496             | 4,496      | 6,820                | 6,820      |
| Foreign exchange forwards             | 120               | 120        | 457                  | 457        |

The following methods and assumptions were used in estimating fair values:

*Cash and cash equivalents:* Due to the liquid nature of these instruments, the carrying value approximates fair value.

*Term loans:* The term loans are not registered with the SEC but are generally transferable through banks that hold the debt and make a market. The fair value is based on quoted prices from recent trades of the term loans.

*Convertible senior subordinated notes:* The convertible notes are registered with the SEC and are generally transferable. The fair value is based on quoted prices from recent broker trades of the convertible notes. The carrying value is lower than the face value of the convertible notes as a result of separating the liability and equity components. The face value of the convertible notes was \$223.6 million at March 31, 2011 and December 31, 2010. See Note 6 for further discussion.

*Derivatives:* See Note 7 for a description of our methods and assumptions in determining the fair value of our derivatives, which were determined using fair value measurements of significant other observable inputs (Level 2).

**Note 14: Segment Information**

We have two operating segments: Itron North America and Itron International. Itron North America generates the majority of its revenues in the United States and Canada, while Itron International generates the majority of its revenues in Europe, and the balance primarily in Africa, South America, and Asia/Pacific.

On March 14, 2011, we announced a global reorganization in which the Company will be managed under two operating segments, Energy and Water. Management of the Company's two new operating segments is effective immediately. Further changes to the organizational structure, operations, and financial and operational management systems will continue through the remainder of 2011. During 2011, management and external financial reporting will be based on the previous geographic operating segments, Itron North America and Itron International, until new systems and processes are deployed. Financial reporting of the Energy and Water operating segments is expected in the first quarter of 2012.

We have three measures of segment performance: revenue, gross profit (margin), and operating income (margin). Intersegment revenues were minimal. Corporate operating expenses, interest income, interest expense, gain (loss) on extinguishment of debt, other income (expense), and income tax provision (benefit) are not allocated to the segments, nor included in the measure of segment profit or loss.

**Table of Contents****Segment Products**

*Itron North America* Standard electricity (electronic), gas, and water meters; advanced and smart electricity and water meters and communication modules; advanced and smart gas communication modules; advanced systems including handheld, mobile, and fixed network collection technologies; smart network technologies; meter data management software; knowledge application solutions; and professional services including implementation, installation, consulting, and analysis.

*Itron International* Standard electricity (electromechanical and electronic), gas, and water meters; advanced electricity, gas, and water meters; advanced water communication modules; smart electricity meters and communication modules; prepayment systems, including smart key, keypad, and smart card communication technologies; advanced systems including handheld, mobile, and fixed network collection technologies; smart network technologies; meter data management software; knowledge application solutions; and professional services including implementation, installation, consulting/analysis, and system management.

Revenues, gross profit, and operating income associated with our segments were as follows:

|                                | <b>Three Months Ended March 31,</b> |             |
|--------------------------------|-------------------------------------|-------------|
|                                | <b>2011</b>                         | <b>2010</b> |
|                                | <b>(in thousands)</b>               |             |
| <b>Revenues</b>                |                                     |             |
| Itron North America            | \$ 276,982                          | \$ 241,559  |
| Itron International            | 286,709                             | 256,064     |
| Total Company                  | \$ 563,691                          | \$ 497,623  |
| <b>Gross profit</b>            |                                     |             |
| Itron North America            | \$ 94,722                           | \$ 78,159   |
| Itron International            | 89,388                              | 78,905      |
| Total Company                  | \$ 184,110                          | \$ 157,064  |
| <b>Operating income (loss)</b> |                                     |             |
| Itron North America            | \$ 43,793                           | \$ 32,036   |
| Itron International            | 16,228                              | 10,437      |
| Corporate unallocated          | (9,932)                             | (10,854)    |
| Total Company                  | 50,089                              | 31,619      |
| Total other income (expense)   | (13,402)                            | (15,348)    |
| Income before income taxes     | \$ 36,687                           | \$ 16,271   |

No single customer represented more than 10% of total Company or Itron International revenues for the three months ended March 31, 2011 and 2010. Three customers each accounted for more than 10% of Itron North America revenues for the three months ended March 31, 2011 and 2010.

Revenues by region were as follows:

**Three Months Ended March 31,**  
**2011**                      **2010**

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|                          | (in thousands) |            |
|--------------------------|----------------|------------|
| United States and Canada | \$ 274,462     | \$ 239,000 |
| Europe                   | 202,832        | 195,485    |
| Other                    | 86,397         | 63,138     |
| Total revenues           | \$ 563,691     | \$ 497,623 |



**Table of Contents**

Depreciation and amortization expense associated with our segments was as follows:

|                       | <b>Three Months Ended March 31,</b> |             |
|-----------------------|-------------------------------------|-------------|
|                       | <b>2011</b>                         | <b>2010</b> |
|                       | <b>(in thousands)</b>               |             |
| Itron North America   | \$ 11,171                           | \$ 11,287   |
| Itron International   | 20,359                              | 21,989      |
| Corporate Unallocated | 1                                   | 1           |
| Total Company         | \$ 31,531                           | \$ 33,277   |

**Note 15: Consolidating Financial Information**

Our convertible notes, issued by Itron, Inc., are guaranteed by one U.S. subsidiary, which is 100% owned. The guaranty by our U.S. subsidiary is joint and several, full, complete, and unconditional. There are currently no restrictions on the ability of the subsidiary guarantor to transfer funds to the parent company.

**Consolidating Statement of Operations****Three Months Ended March 31, 2011**

|                                                                     | <b>Parent</b> | <b>Guarantor<br/>Subsidiary</b> | <b>Combined<br/>Non-guarantor<br/>Subsidiaries<br/>(in thousands)</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------------------------------------------------------|---------------|---------------------------------|-----------------------------------------------------------------------|---------------------|---------------------|
| Revenues                                                            | \$ 273,565    | \$ -                            | \$ 308,290                                                            | \$ (18,164)         | \$ 563,691          |
| Cost of revenues                                                    | 182,277       | -                               | 215,468                                                               | (18,164)            | 379,581             |
| Gross profit                                                        | 91,288        | -                               | 92,822                                                                | -                   | 184,110             |
| Operating expenses                                                  |               |                                 |                                                                       |                     |                     |
| Sales and marketing                                                 | 17,015        | -                               | 27,633                                                                | -                   | 44,648              |
| Product development                                                 | 25,191        | -                               | 15,254                                                                | -                   | 40,445              |
| General and administrative                                          | 12,945        | -                               | 20,386                                                                | -                   | 33,331              |
| Amortization of intangible assets                                   | 3,512         | -                               | 12,085                                                                | -                   | 15,597              |
| Total operating expenses                                            | 58,663        | -                               | 75,358                                                                | -                   | 134,021             |
| Operating income                                                    | 32,625        | -                               | 17,464                                                                | -                   | 50,089              |
| Other income (expense)                                              |               |                                 |                                                                       |                     |                     |
| Interest income                                                     | 14,845        | 826                             | 276                                                                   | (15,639)            | 308                 |
| Interest expense                                                    | (12,819)      | -                               | (14,934)                                                              | 15,639              | (12,114)            |
| Other income (expense), net                                         | (1,167)       | -                               | (429)                                                                 | -                   | (1,596)             |
| Total other income (expense)                                        | 859           | 826                             | (15,087)                                                              | -                   | (13,402)            |
| Income before income taxes                                          | 33,484        | 826                             | 2,377                                                                 | -                   | 36,687              |
| Income tax (provision) benefit                                      | (11,367)      | -                               | 1,800                                                                 | -                   | (9,567)             |
| Equity in earnings of guarantor and non-guarantor subsidiaries, net | 5,003         | -                               | -                                                                     | (5,003)             | -                   |

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|            |           |        |          |            |           |
|------------|-----------|--------|----------|------------|-----------|
| Net income | \$ 27,120 | \$ 826 | \$ 4,177 | \$ (5,003) | \$ 27,120 |
|------------|-----------|--------|----------|------------|-----------|

**Table of Contents****Consolidating Statement of Operations****Three Months Ended March 31, 2010****(restated)**

|                                                                     | <b>Parent</b> | <b>Guarantor<br/>Subsidiary</b> | <b>Combined<br/>Non-guarantor<br/>Subsidiaries<br/>(in thousands)</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------------------------------------------------------|---------------|---------------------------------|-----------------------------------------------------------------------|---------------------|---------------------|
| Revenues                                                            | \$ 240,874    | \$ -                            | \$ 268,829                                                            | \$ (12,080)         | \$ 497,623          |
| Cost of revenues                                                    | 164,891       | -                               | 187,748                                                               | (12,080)            | 340,559             |
| Gross profit                                                        | 75,983        | -                               | 81,081                                                                | -                   | 157,064             |
| Operating expenses                                                  |               |                                 |                                                                       |                     |                     |
| Sales and marketing                                                 | 15,567        | -                               | 25,970                                                                | -                   | 41,537              |
| Product development                                                 | 21,178        | -                               | 11,862                                                                | -                   | 33,040              |
| General and administrative                                          | 13,783        | -                               | 19,274                                                                | -                   | 33,057              |
| Amortization of intangible assets                                   | 4,086         | -                               | 13,725                                                                | -                   | 17,811              |
| Total operating expenses                                            | 54,614        | -                               | 70,831                                                                | -                   | 125,445             |
| Operating income                                                    | 21,369        | -                               | 10,250                                                                | -                   | 31,619              |
| Other income (expense)                                              |               |                                 |                                                                       |                     |                     |
| Interest income                                                     | 361           | 758                             | 139                                                                   | (1,091)             | 167                 |
| Interest expense                                                    | (15,582)      | -                               | (432)                                                                 | 1,091               | (14,923)            |
| Other income (expense), net                                         | (1,029)       | -                               | 437                                                                   | -                   | (592)               |
| Total other income (expense)                                        | (16,250)      | 758                             | 144                                                                   | -                   | (15,348)            |
| Income before income taxes                                          | 5,119         | 758                             | 10,394                                                                | -                   | 16,271              |
| Income tax benefit (provision)                                      | 9,747         | -                               | (768)                                                                 | -                   | 8,979               |
| Equity in earnings of guarantor and non-guarantor subsidiaries, net | 10,384        | -                               | -                                                                     | (10,384)            | -                   |
| Net income                                                          | \$ 25,250     | \$ 758                          | \$ 9,626                                                              | \$ (10,384)         | \$ 25,250           |

**Table of Contents****Consolidating Balance Sheet****March 31, 2011**

|                                            | <b>Parent</b>       | <b>Guarantor<br/>Subsidiary</b> | <b>Combined<br/>Non-guarantor<br/>Subsidiaries<br/>(in thousands)</b> | <b>Eliminations</b>   | <b>Consolidated</b> |
|--------------------------------------------|---------------------|---------------------------------|-----------------------------------------------------------------------|-----------------------|---------------------|
| <b>ASSETS</b>                              |                     |                                 |                                                                       |                       |                     |
| Current assets                             |                     |                                 |                                                                       |                       |                     |
| Cash and cash equivalents                  | \$ 44,722           | \$ -                            | \$ 88,690                                                             | \$ -                  | \$ 133,412          |
| Accounts receivable, net                   | 121,149             | -                               | 240,842                                                               | -                     | 361,991             |
| Intercompany accounts receivable           | 12,448              | -                               | 3,635                                                                 | (16,083)              | -                   |
| Inventories                                | 117,916             | -                               | 131,281                                                               | (839)                 | 248,358             |
| Deferred tax assets current, net           | 37,992              | -                               | 17,241                                                                | -                     | 55,233              |
| Other current assets                       | 21,978              | -                               | 70,743                                                                | -                     | 92,721              |
| Intercompany other                         | 2,036               | -                               | -                                                                     | (2,036)               | -                   |
| <b>Total current assets</b>                | <b>358,241</b>      | <b>-</b>                        | <b>552,432</b>                                                        | <b>(18,958)</b>       | <b>891,715</b>      |
| Property, plant, and equipment, net        | 111,981             | -                               | 184,027                                                               | -                     | 296,008             |
| Prepaid debt fees                          | 3,617               | -                               | -                                                                     | -                     | 3,617               |
| Deferred tax assets noncurrent, net        | (17,037)            | -                               | 33,669                                                                | -                     | 16,632              |
| Other noncurrent assets                    | 22,216              | -                               | 20,300                                                                | -                     | 42,516              |
| Intangible assets, net                     | 38,316              | -                               | 266,460                                                               | -                     | 304,776             |
| Goodwill                                   | 184,750             | -                               | 1,109,702                                                             | -                     | 1,294,452           |
| Investment in subsidiaries                 | 300,338             | -                               | -                                                                     | (300,338)             | -                   |
| Intercompany notes receivable              | 1,375,817           | 102,243                         | -                                                                     | (1,478,060)           | -                   |
| <b>Total assets</b>                        | <b>\$ 2,378,239</b> | <b>\$ 102,243</b>               | <b>\$ 2,166,590</b>                                                   | <b>\$ (1,797,356)</b> | <b>\$ 2,849,716</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b> |                     |                                 |                                                                       |                       |                     |
| Current liabilities                        |                     |                                 |                                                                       |                       |                     |
| Accounts payable                           | \$ 75,559           | \$ -                            | \$ 177,033                                                            | \$ -                  | \$ 252,592          |
| Other current liabilities                  | 9,253               | -                               | 35,595                                                                | -                     | 44,848              |
| Intercompany accounts payable              | 4,104               | -                               | 11,979                                                                | (16,083)              | -                   |
| Wages and benefits payable                 | 27,125              | -                               | 58,704                                                                | -                     | 85,829              |
| Taxes payable                              | 3,758               | -                               | 25,464                                                                | -                     | 29,222              |
| Current portion of debt                    | 231,682             | -                               | -                                                                     | -                     | 231,682             |
| Current portion of warranty                | 8,778               | -                               | 17,482                                                                | -                     | 26,260              |
| Unearned revenue                           | 28,082              | -                               | 14,857                                                                | -                     | 42,939              |
| Deferred tax liabilities current, net      | (2,080)             | -                               | 2,527                                                                 | -                     | 447                 |
| Short-term intercompany advances           | -                   | -                               | 2,036                                                                 | (2,036)               | -                   |
| <b>Total current liabilities</b>           | <b>386,261</b>      | <b>-</b>                        | <b>345,677</b>                                                        | <b>(18,119)</b>       | <b>713,819</b>      |
| Long-term debt                             | 341,563             | -                               | -                                                                     | -                     | 341,563             |
| Long-term warranty                         | 13,282              | -                               | 19,621                                                                | -                     | 32,903              |
| Pension plan benefits                      | -                   | -                               | 66,865                                                                | -                     | 66,865              |
| Intercompany notes payable                 | 102,243             | -                               | 1,375,817                                                             | (1,478,060)           | -                   |
| Deferred tax liabilities noncurrent, net   | (45,778)            | -                               | 100,353                                                               | -                     | 54,575              |
| Other long-term obligations                | 25,750              | -                               | 59,323                                                                | -                     | 85,073              |
| <b>Total liabilities</b>                   | <b>823,321</b>      | <b>-</b>                        | <b>1,967,656</b>                                                      | <b>(1,496,179)</b>    | <b>1,294,798</b>    |
| Shareholders' equity                       |                     |                                 |                                                                       |                       |                     |
| Preferred stock                            | -                   | -                               | -                                                                     | -                     | -                   |

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|                                                    |                     |                   |                     |                       |                     |
|----------------------------------------------------|---------------------|-------------------|---------------------|-----------------------|---------------------|
| Common stock                                       | 1,334,165           | 97,377            | 100,227             | (197,604)             | 1,334,165           |
| Accumulated other comprehensive income (loss), net | 58,613              | (7,787)           | 49,166              | (41,379)              | 58,613              |
| Retained earnings                                  | 162,140             | 12,653            | 49,541              | (62,194)              | 162,140             |
| <b>Total shareholders equity</b>                   | <b>1,554,918</b>    | <b>102,243</b>    | <b>198,934</b>      | <b>(301,177)</b>      | <b>1,554,918</b>    |
| <b>Total liabilities and shareholders equity</b>   | <b>\$ 2,378,239</b> | <b>\$ 102,243</b> | <b>\$ 2,166,590</b> | <b>\$ (1,797,356)</b> | <b>\$ 2,849,716</b> |

**Table of Contents****Consolidating Balance Sheet****December 31, 2010**

|                                             | <b>Parent</b> | <b>Guarantor<br/>Subsidiary</b> | <b>Combined<br/>Non-guarantor<br/>Subsidiaries<br/>(in thousands)</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------------------------------|---------------|---------------------------------|-----------------------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                               |               |                                 |                                                                       |                     |                     |
| Current assets                              |               |                                 |                                                                       |                     |                     |
| Cash and cash equivalents                   | \$ 19,146     | \$ -                            | \$ 150,331                                                            | \$ -                | \$ 169,477          |
| Accounts receivable, net                    | 163,758       | -                               | 207,904                                                               | -                   | 371,662             |
| Intercompany accounts receivable            | 10,106        | -                               | 3,675                                                                 | (13,781)            | -                   |
| Inventories                                 | 99,846        | -                               | 109,208                                                               | (897)               | 208,157             |
| Deferred tax assets current, net            | 40,344        | -                               | 15,007                                                                | -                   | 55,351              |
| Other current assets                        | 23,962        | -                               | 53,608                                                                | -                   | 77,570              |
| Intercompany other                          | 1,997         | -                               | -                                                                     | (1,997)             | -                   |
| Total current assets                        | 359,159       | -                               | 539,733                                                               | (16,675)            | 882,217             |
| Property, plant, and equipment, net         | 115,499       | -                               | 183,743                                                               | -                   | 299,242             |
| Prepaid debt fees                           | 4,483         | -                               | -                                                                     | -                   | 4,483               |
| Deferred tax assets noncurrent, net         | 7,684         | -                               | 27,366                                                                | -                   | 35,050              |
| Other noncurrent assets                     | 9,651         | -                               | 14,108                                                                | -                   | 23,759              |
| Intangible assets, net                      | 41,828        | -                               | 249,842                                                               | -                   | 291,670             |
| Goodwill                                    | 184,750       | -                               | 1,024,626                                                             | -                   | 1,209,376           |
| Investment in subsidiaries                  | 324,104       | -                               | -                                                                     | (324,104)           | -                   |
| Intercompany notes receivable               | 1,283,139     | 101,418                         | -                                                                     | (1,384,557)         | -                   |
| Total assets                                | \$ 2,330,297  | \$ 101,418                      | \$ 2,039,418                                                          | \$ (1,725,336)      | \$ 2,745,797        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |               |                                 |                                                                       |                     |                     |
| Current liabilities                         |               |                                 |                                                                       |                     |                     |
| Accounts payable                            | \$ 75,027     | \$ -                            | \$ 166,922                                                            | \$ -                | \$ 241,949          |
| Other current liabilities                   | 12,644        | -                               | 36,599                                                                | -                   | 49,243              |
| Intercompany accounts payable               | 3,675         | -                               | 10,106                                                                | (13,781)            | -                   |
| Wages and benefits payable                  | 54,804        | -                               | 55,675                                                                | -                   | 110,479             |
| Taxes payable                               | 3,368         | -                               | 16,357                                                                | -                   | 19,725              |
| Current portion of debt                     | 228,721       | -                               | -                                                                     | -                   | 228,721             |
| Current portion of warranty                 | 8,813         | -                               | 16,099                                                                | -                   | 24,912              |
| Unearned revenue                            | 21,926        | -                               | 6,332                                                                 | -                   | 28,258              |
| Deferred tax liabilities current, net       | (421)         | -                               | 868                                                                   | -                   | 447                 |
| Short-term intercompany advances            | -             | -                               | 1,997                                                                 | (1,997)             | -                   |
| Total current liabilities                   | 408,557       | -                               | 310,955                                                               | (15,778)            | 703,734             |
| Long-term debt                              | 382,220       | -                               | -                                                                     | -                   | 382,220             |
| Long-term warranty                          | 13,721        | -                               | 12,650                                                                | -                   | 26,371              |
| Pension plan benefit liability              | -             | -                               | 61,450                                                                | -                   | 61,450              |
| Intercompany notes payable                  | 101,418       | -                               | 1,283,139                                                             | (1,384,557)         | -                   |
| Deferred tax liabilities noncurrent, net    | (38,400)      | -                               | 92,812                                                                | -                   | 54,412              |
| Other long-term obligations                 | 34,486        | -                               | 54,829                                                                | -                   | 89,315              |
| Total liabilities                           | 902,002       | -                               | 1,815,835                                                             | (1,400,335)         | 1,317,502           |

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|                                                    |              |            |              |                |              |
|----------------------------------------------------|--------------|------------|--------------|----------------|--------------|
| Shareholders' equity                               |              |            |              |                |              |
| Preferred stock                                    | -            | -          | -            | -              | -            |
| Common stock                                       | 1,328,249    | 97,377     | 136,441      | (233,818)      | 1,328,249    |
| Accumulated other comprehensive income (loss), net | (34,974)     | (7,786)    | 41,778       | (33,992)       | (34,974)     |
| Retained earnings                                  | 135,020      | 11,827     | 45,364       | (57,191)       | 135,020      |
| Total shareholders' equity                         | 1,428,295    | 101,418    | 223,583      | (325,001)      | 1,428,295    |
| Total liabilities and shareholders' equity         | \$ 2,330,297 | \$ 101,418 | \$ 2,039,418 | \$ (1,725,336) | \$ 2,745,797 |

**Table of Contents****Consolidating Statement of Cash Flows****Three Months Ended March 31, 2011**

|                                                                                             | <b>Parent</b> | <b>Guarantor<br/>Subsidiary</b> | <b>Combined<br/>Non-guarantor<br/>Subsidiaries<br/>(in thousands)</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------------------------------------------------------------------------------|---------------|---------------------------------|-----------------------------------------------------------------------|---------------------|---------------------|
| <b>Operating activities</b>                                                                 |               |                                 |                                                                       |                     |                     |
| Net income                                                                                  | \$ 27,120     | \$ 826                          | \$ 4,177                                                              | \$ (5,003)          | \$ 27,120           |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |               |                                 |                                                                       |                     |                     |
| Depreciation and amortization                                                               | 11,147        | -                               | 20,384                                                                | -                   | 31,531              |
| Stock-based compensation                                                                    | 4,975         | -                               | -                                                                     | -                   | 4,975               |
| Amortization of prepaid debt fees                                                           | 1,305         | -                               | -                                                                     | -                   | 1,305               |
| Amortization of convertible debt discount                                                   | 2,643         | -                               | -                                                                     | -                   | 2,643               |
| Deferred taxes, net                                                                         | 12,048        | -                               | (4,479)                                                               | -                   | 7,569               |
| Equity in earnings of guarantor and non-guarantor subsidiaries, net                         | (5,003)       | -                               | -                                                                     | 5,003               | -                   |
| Other adjustments, net                                                                      | (212)         | -                               | (1,782)                                                               | -                   | (1,994)             |
| Changes in operating assets and liabilities, net of acquisitions:                           |               |                                 |                                                                       |                     |                     |
| Accounts receivable                                                                         | 42,609        | -                               | (18,064)                                                              | -                   | 24,545              |
| Inventories                                                                                 | (18,128)      | -                               | (15,946)                                                              | -                   | (34,074)            |
| Accounts payables, other current liabilities, and taxes payable                             | 510           | -                               | 10,801                                                                | -                   | 11,311              |
| Wages and benefits payable                                                                  | (27,679)      | -                               | (1,704)                                                               | -                   | (29,383)            |
| Unearned revenue                                                                            | 8,464         | -                               | 7,229                                                                 | -                   | 15,693              |
| Warranty                                                                                    | (474)         | -                               | 6,919                                                                 | -                   | 6,445               |
| Intercompany transactions, net                                                              | (1,913)       | -                               | 1,913                                                                 | -                   | -                   |
| Other operating, net                                                                        | (11,121)      | -                               | (20,552)                                                              | -                   | (31,673)            |
| Net cash provided by (used in) operating activities                                         | 46,291        | 826                             | (11,104)                                                              | -                   | 36,013              |
| <b>Investing activities</b>                                                                 |               |                                 |                                                                       |                     |                     |
| Acquisitions of property, plant, and equipment                                              | (5,070)       | -                               | (6,180)                                                               | -                   | (11,250)            |
| Business acquisition, net of cash equivalents acquired                                      | -             | -                               | (14,829)                                                              | -                   | (14,829)            |
| Current intercompany notes, net                                                             | 90            | (825)                           | -                                                                     | 735                 | -                   |
| Other investing, net                                                                        | 35,806        | (1)                             | (35,500)                                                              | -                   | 305                 |
| Net cash provided by (used in) investing activities                                         | 30,826        | (826)                           | (56,509)                                                              | 735                 | (25,774)            |
| <b>Financing activities</b>                                                                 |               |                                 |                                                                       |                     |                     |
| Payments on debt                                                                            | (52,919)      | -                               | -                                                                     | -                   | (52,919)            |
| Issuance of common stock                                                                    | 1,142         | -                               | -                                                                     | -                   | 1,142               |
| Current intercompany notes, net                                                             | 825           | -                               | (90)                                                                  | (735)               | -                   |
| Prepaid debt fees                                                                           | (388)         | -                               | -                                                                     | -                   | (388)               |
| Other financing, net                                                                        | (201)         | -                               | -                                                                     | -                   | (201)               |
| Net cash used in financing activities                                                       | (51,541)      | -                               | (90)                                                                  | (735)               | (52,366)            |
| Effect of foreign exchange rate changes on cash and cash equivalents                        | -             | -                               | 6,062                                                                 | -                   | 6,062               |



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|                                                  |           |      |           |      |            |
|--------------------------------------------------|-----------|------|-----------|------|------------|
| Increase (decrease) in cash and cash equivalents | 25,576    | -    | (61,641)  | -    | (36,065)   |
| Cash and cash equivalents at beginning of period | 19,146    | -    | 150,331   | -    | 169,477    |
| Cash and cash equivalents at end of period       | \$ 44,722 | \$ - | \$ 88,690 | \$ - | \$ 133,412 |

*Non-cash transactions:*

|                                                                                      |          |      |            |      |            |
|--------------------------------------------------------------------------------------|----------|------|------------|------|------------|
| Property, plant, and equipment purchased but not yet paid, net                       | \$ (836) | \$ - | \$ (1,303) | \$ - | \$ (2,139) |
| Fair value of contingent and deferred consideration payable for business acquisition | -        | -    | 5,108      | -    | 5,108      |

*Supplemental disclosure of cash flow information:*

Cash paid during the period for:

|                                      |            |      |          |      |          |
|--------------------------------------|------------|------|----------|------|----------|
| Income taxes                         | \$ (1,893) | \$ - | \$ 4,573 | \$ - | \$ 2,680 |
| Interest, net of amounts capitalized | 9,443      | -    | 52       | -    | 9,495    |

**Table of Contents****Consolidating Statement of Cash Flows****Three Months Ended March 31, 2010****(restated)**

|                                                                                 | <b>Parent</b>   | <b>Guarantor<br/>Subsidiary</b> | <b>Combined<br/>Non-guarantor<br/>Subsidiaries<br/>(in thousands)</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------------------------------------------------------------------|-----------------|---------------------------------|-----------------------------------------------------------------------|---------------------|---------------------|
| <b>Operating activities</b>                                                     |                 |                                 |                                                                       |                     |                     |
| Net income                                                                      | \$ 25,250       | \$ 758                          | \$ 9,626                                                              | \$ (10,384)         | \$ 25,250           |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                 |                                 |                                                                       |                     |                     |
| Depreciation and amortization                                                   | 11,251          | -                               | 22,026                                                                | -                   | 33,277              |
| Stock-based compensation                                                        | 4,576           | -                               | -                                                                     | -                   | 4,576               |
| Amortization of prepaid debt fees                                               | 1,252           | -                               | -                                                                     | -                   | 1,252               |
| Amortization of convertible debt discount                                       | 2,456           | -                               | -                                                                     | -                   | 2,456               |
| Deferred income taxes, net                                                      | (9,763)         | -                               | (4,340)                                                               | -                   | (14,103)            |
| Equity in losses of guarantor and non-guarantor subsidiaries, net               | (10,384)        | -                               | -                                                                     | 10,384              | -                   |
| Other adjustments, net                                                          | 2,710           | -                               | 828                                                                   | -                   | 3,538               |
| Changes in operating assets and liabilities, net of acquisitions:               |                 |                                 |                                                                       |                     |                     |
| Accounts receivable                                                             | (1,095)         | -                               | (5,072)                                                               | -                   | (6,167)             |
| Inventories                                                                     | (21,346)        | -                               | (6,407)                                                               | -                   | (27,753)            |
| Accounts payables, other current liabilities, and taxes payable                 | 16,110          | -                               | 14,665                                                                | -                   | 30,775              |
| Wages and benefits payable                                                      | 8,343           | -                               | 1,918                                                                 | -                   | 10,261              |
| Unearned revenue                                                                | 8,857           | -                               | 3,758                                                                 | -                   | 12,615              |
| Warranty                                                                        | 298             | -                               | 167                                                                   | -                   | 465                 |
| Intercompany transactions, net                                                  | 1,502           | -                               | (1,502)                                                               | -                   | -                   |
| Other operating, net                                                            | (1,758)         | -                               | (8,905)                                                               | -                   | (10,663)            |
| <b>Net cash provided by operating activities</b>                                | <b>38,259</b>   | <b>758</b>                      | <b>26,762</b>                                                         | <b>-</b>            | <b>65,779</b>       |
| <b>Investing activities</b>                                                     |                 |                                 |                                                                       |                     |                     |
| Acquisitions of property, plant, and equipment                                  | (8,714)         | -                               | (7,437)                                                               | -                   | (16,151)            |
| Current intercompany notes, net                                                 | 27,096          | (758)                           | 5,000                                                                 | (31,338)            | -                   |
| Other investing, net                                                            | 4,573           | -                               | (1,471)                                                               | -                   | 3,102               |
| <b>Net cash provided by (used in) investing activities</b>                      | <b>22,955</b>   | <b>(758)</b>                    | <b>(3,908)</b>                                                        | <b>(31,338)</b>     | <b>(13,049)</b>     |
| <b>Financing activities</b>                                                     |                 |                                 |                                                                       |                     |                     |
| Payments on debt                                                                | (52,837)        | -                               | -                                                                     | -                   | (52,837)            |
| Issuance of common stock                                                        | 4,542           | -                               | -                                                                     | -                   | 4,542               |
| Current intercompany notes, net                                                 | (4,242)         | -                               | (27,096)                                                              | 31,338              | -                   |
| Other financing, net                                                            | -               | -                               | (96)                                                                  | -                   | (96)                |
| <b>Net cash used in financing activities</b>                                    | <b>(52,537)</b> | <b>-</b>                        | <b>(27,192)</b>                                                       | <b>31,338</b>       | <b>(48,391)</b>     |
| Effect of foreign exchange rate changes on cash and cash equivalents            | -               | -                               | (2,814)                                                               | -                   | (2,814)             |
| <b>Increase (decrease) in cash and cash equivalents</b>                         | <b>8,677</b>    | <b>-</b>                        | <b>(7,152)</b>                                                        | <b>-</b>            | <b>1,525</b>        |
| Cash and cash equivalents at beginning of period                                | 16,385          | -                               | 105,508                                                               | -                   | 121,893             |

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|                                            |           |      |           |      |            |
|--------------------------------------------|-----------|------|-----------|------|------------|
| Cash and cash equivalents at end of period | \$ 25,062 | \$ - | \$ 98,356 | \$ - | \$ 123,418 |
|--------------------------------------------|-----------|------|-----------|------|------------|

*Non-cash transactions:*

|                                         |        |      |          |      |          |
|-----------------------------------------|--------|------|----------|------|----------|
| Fixed assets purchased but not yet paid | \$ 263 | \$ - | \$ 3,208 | \$ - | \$ 3,471 |
|-----------------------------------------|--------|------|----------|------|----------|

*Supplemental disclosure of cash flow information:*

|                                      |        |      |          |      |          |
|--------------------------------------|--------|------|----------|------|----------|
| Cash paid during the period for:     |        |      |          |      |          |
| Income taxes                         | \$ 6   | \$ - | \$ 2,990 | \$ - | \$ 2,996 |
| Interest, net of amounts capitalized | 12,527 | -    | 99       | -    | 12,626   |

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## **Table of Contents**

### **ITEM 2: Management's Discussion and Analysis of Financial Condition and Results of Operations**

In this Quarterly Report on Form 10-Q, the terms we, us, our, Itron, and the Company refer to Itron, Inc.

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes included in this report and with our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission (SEC) on February 25, 2011.

Documents we provide to the SEC are available free of charge under the Investors section of our website at [www.itron.com](http://www.itron.com) as soon as practicable after they are filed with or furnished to the SEC. In addition, these documents are available at the SEC's website (<http://www.sec.gov>) and at the SEC's Headquarters at 100 F Street, NE, Washington, DC 20549, or by calling 1-800-SEC-0330.

### **Certain Forward-Looking Statements**

*This document contains forward-looking statements concerning our operations, financial performance, revenues, earnings growth, liquidity, and other items. This document reflects our current plans and expectations and is based on information currently available as of the date of this Quarterly Report on Form 10-Q. When we use the words expect, intend, anticipate, believe, plan, project, estimate, future, objective, may, will, will continue, and similar expressions, they are intended to identify forward-looking statements. Forward-looking statements rely on a number of assumptions and estimates. These assumptions and estimates could be inaccurate and cause our actual results to vary materially from expected results. Risks and uncertainties include 1) the rate and timing of customer demand for our products, 2) rescheduling or cancellations of current customer orders and commitments, 3) reliance on certain key vendors and components, 4) competition, 5) changes in estimated liabilities for product warranties and/or litigation, 6) our dependence on customers' acceptance of new products and their performance, 7) changes in domestic and international laws and regulations, 8) future business combinations, 9) changes in estimates for stock-based compensation and pension costs, 10) changes in foreign currency exchange rates and interest rates, 11) international business risks, 12) our own and our customers' or suppliers' access to and cost of capital, and 13) other factors. You should not solely rely on these forward-looking statements as they are only valid as of the date of this Quarterly Report on Form 10-Q. We do not have any obligation to publicly update or revise any forward-looking statement in this document. For a more complete description of these and other risks, refer to Item 1A: Risk Factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which was filed with the SEC on February 25, 2011.*

### **Results of Operations**

We derive the majority of our revenues from sales of products and services to utilities. Our products and services include hardware, software, managed services, and consulting. Cost of revenues includes materials, labor, overhead, warranty expense, and distribution and documentation costs for software.

On March 14, 2011, we announced a global reorganization in which the Company will be managed under two operating segments, Energy and Water. Management of the Company's two new operating segments is effective immediately. Further changes to the organizational structure, operations, and financial and operational management systems will continue through the remainder of 2011. During 2011, management and external financial reporting will be based on the previous geographic operating segments, Itron North America and Itron International, until new systems and processes are deployed. Financial reporting of the Energy and Water operating segments is expected in the first quarter of 2012.

### **Overview**

Revenues for the three months ended March 31, 2011 increased 13% to \$564 million, compared with the same period last year, due to increases in both Itron North America and Itron International results. Meter and communication module volumes increased 7% and gross margin was 110 basis points higher in the first quarter of 2011, compared with the same period last year. Diluted earnings per share were \$0.66 for the three months ended March 31, 2011, compared with \$0.62 for the same period last year. Total backlog was \$1.7 billion and twelve-month backlog was \$989 million at March 31, 2011.

The first quarter of 2011 included minimal discrete tax benefits, compared with the same period last year, which included approximately \$11 million of discrete tax benefits related to the receipt of a clean energy manufacturing tax credit and reductions of tax reserves for certain international subsidiaries.

**Table of Contents**

Term debt repayments during the three months ended March 31, 2011 were \$52.9 million, bringing the total debt outstanding to \$573.2 million at March 31, 2011.

**Total Company Revenues, Gross Profit and Margin, and Unit Shipments**

|              | <b>Three Months Ended March 31,</b> |                           |                 |
|--------------|-------------------------------------|---------------------------|-----------------|
|              | <b>2011</b>                         | <b>2010</b><br>(restated) | <b>% Change</b> |
|              | <b>(in thousands)</b>               |                           |                 |
| Revenues     | \$ 563,691                          | \$ 497,623                | 13%             |
| Gross Profit | \$ 184,110                          | \$ 157,064                | 17%             |
| Gross Margin | 32.7%                               | 31.6%                     |                 |

|                          | <b>Three Months Ended</b> |                           |
|--------------------------|---------------------------|---------------------------|
|                          | <b>March 31,</b>          |                           |
|                          | <b>2011</b>               | <b>2010</b><br>(restated) |
|                          | <b>(in thousands)</b>     |                           |
| Revenues by region       |                           |                           |
| United States and Canada | \$ 274,462                | \$ 239,000                |
| Europe                   | 202,832                   | 195,485                   |
| Other                    | 86,397                    | 63,138                    |
| Total revenues           | \$ 563,691                | \$ 497,623                |

*Revenues*

Revenues increased \$66.1 million, or 13% for the three months ended March 31, 2011, compared with the same period last year. The net translation effect of our operations denominated in foreign currencies to the U.S. dollar accounted for \$4.2 million of the increase in revenues. A more detailed analysis of these fluctuations is provided in *Operating Segment Results*.

No single customer represented more than 10% of total revenues for the first quarter of 2011 and 2010. Our 10 largest customers accounted for 32% of total revenues for the first quarters of both 2011 and 2010.

*Gross Margins*

Gross margin was 32.7% for the three months ended March 31, 2011, compared with 31.6% for the same period last year due to improved Itron North America margins. A more detailed analysis of these fluctuations is provided in *Operating Segment Results*.

*Meter and Module Summary*

Meters can be broken down into three categories:

Standard metering    no built-in remote reading communication capability

Advanced metering    one-way communication of meter data

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Smart metering two-way communication including remote meter configuration and upgrade (consisting primarily of our OpenWay® technology)

In addition, advanced and smart meter communication modules can be sold separately from the meter. Depending on customers preferences, we also incorporate other vendors technology in our meters. A summary of our meter and communication module shipments is as follows:

**Table of Contents**

|                                                                    | <b>Three Months Ended March 31,</b> |              |
|--------------------------------------------------------------------|-------------------------------------|--------------|
|                                                                    | <b>2011</b>                         | <b>2010</b>  |
|                                                                    | <b>(units in thousands)</b>         |              |
| <b>Total meters (standard, advanced, and smart)</b>                |                                     |              |
| <b>Itron North America</b>                                         |                                     |              |
| Electricity                                                        | 1,520                               | 1,450        |
| Gas                                                                | 140                                 | 100          |
| <b>Itron International</b>                                         |                                     |              |
| Electricity                                                        | 1,620                               | 1,640        |
| Gas                                                                | 940                                 | 980          |
| Water                                                              | 2,540                               | 2,290        |
| <b>Total meters</b>                                                | <b>6,760</b>                        | <b>6,460</b> |
| <b>Additional meter information (Total Company)</b>                |                                     |              |
| Advanced meters                                                    | 900                                 | 670          |
| Smart meters                                                       | 990                                 | 810          |
| Standalone advanced and smart communication modules                | 1,430                               | 1,190        |
| Advanced and smart meters and communication modules                | 3,320                               | 2,670        |
| Meters with other vendors' advanced or smart communication modules | 110                                 | 190          |

**Operating Segment Results**

For a description of our operating segments, refer to Item 1: Financial Statements Note 14: Segment Information .

|                         | <b>Three Months Ended March 31,</b> |                   |                 |
|-------------------------|-------------------------------------|-------------------|-----------------|
|                         | <b>2011</b>                         | <b>2010</b>       | <b>% Change</b> |
|                         | <b>(in thousands)</b>               |                   |                 |
| <b>Segment Revenues</b> |                                     |                   |                 |
| Itron North America     | \$ 276,982                          | \$ 241,559        | 15%             |
| Itron International     | 286,709                             | 256,064           | 12%             |
| <b>Total revenues</b>   | <b>\$ 563,691</b>                   | <b>\$ 497,623</b> | <b>13%</b>      |

|                                        | <b>Three Months Ended March 31,</b> |                     |                       |                     |
|----------------------------------------|-------------------------------------|---------------------|-----------------------|---------------------|
|                                        | <b>2011</b>                         |                     | <b>2010</b>           |                     |
|                                        | <b>Gross Profit</b>                 | <b>Gross Margin</b> | <b>Gross Profit</b>   | <b>Gross Margin</b> |
|                                        | <b>(in thousands)</b>               |                     | <b>(in thousands)</b> |                     |
|                                        |                                     |                     | <b>(restated)</b>     |                     |
| <b>Segment Gross Profit and Margin</b> |                                     |                     |                       |                     |
| Itron North America                    | \$ 94,722                           | 34.2%               | \$ 78,159             | 32.4%               |
| Itron International                    | 89,388                              | 31.2%               | 78,905                | 30.8%               |
| <b>Total gross profit and margin</b>   | <b>\$ 184,110</b>                   | <b>32.7%</b>        | <b>\$ 157,064</b>     | <b>31.6%</b>        |

|  | <b>Three Months Ended March 31,</b> |                         |                                |                         |
|--|-------------------------------------|-------------------------|--------------------------------|-------------------------|
|  | <b>2011</b>                         |                         | <b>2010</b>                    |                         |
|  | <b>Operating Income (Loss)</b>      | <b>Operating Margin</b> | <b>Operating Income (Loss)</b> | <b>Operating Margin</b> |
|  |                                     |                         | <b>(restated)</b>              |                         |

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| <i>Segment Operating Income (Loss) and Operating Margin</i> | <i>(in thousands)</i> |     | <i>(in thousands)</i> |     |
|-------------------------------------------------------------|-----------------------|-----|-----------------------|-----|
| Itron North America                                         | \$ 43,793             | 16% | \$ 32,036             | 13% |
| Itron International                                         | 16,228                | 6%  | 10,437                | 4%  |
| Corporate unallocated                                       | (9,932)               |     | (10,854)              |     |
| Total Company                                               | \$ 50,089             | 9%  | \$ 31,619             | 6%  |



**Table of Contents**

*Itron North America:* Revenues increased \$35.4 million, or 15%, for the three months ended March 31, 2011, compared with the same period last year. The increase in revenues was primarily due to our OpenWay products and services with OpenWay meter and communication module volumes increasing 17%, compared with the same period last year. OpenWay products and services accounted for 48% of operating segment revenues for the three months ended March 31, 2011, compared with 44% for the same period last year. Non-OpenWay product and service revenues increased 8% for the three months ended March 31, 2011, compared with the same period last year.

Gross margin increased to 34.2% for the three months ended March 31, 2011, compared with gross margin of 32.4% for the same period last year, due primarily to OpenWay margins. Improved OpenWay margins were the result of manufacturing efficiencies.

Three customers each represented more than 10% of Itron North America revenues in the three months ended March 31, 2011 and 2010, respectively.

Itron North America operating expenses increased \$4.8 million, or 10%, for the three months ended March 31, 2011, compared with the same period last year, primarily due to increased research and development costs for new and enhanced products, as well as higher marketing expense associated with the pursuit of smart grid opportunities. These higher costs were partially offset by a scheduled decrease in amortization of intangible assets and lower general and administrative expenses. As a result of higher revenues, operating expenses as a percentage of revenues were 18% for the three months ended March 31, 2011, compared with 19% for the same period last year.

*Itron International:* Revenues increased \$30.6 million, or 12%, for the three months ended March 31, 2011, compared with the same period last year. The net translation effect of our operations denominated in foreign currencies to the U.S. dollar accounted for \$3.0 million of the increase in revenues. Meter and communication module volumes increased 6% for the three months ended March 31, 2011, compared with the same period last year primarily due to increased gas and water advanced metering projects. Electricity product revenues for the first quarter of 2011 were consistent with the same time last year. Itron International experiences variability in revenues as a result of the diverse economies in which it operates and sells its products.

Itron International gross margin increased to 31.2% for the three months ended March 31, 2011, compared with gross margin of 30.8% for the same period last year. The primary driver was increased gas revenues.

Gas margins increased due to a favorable product mix of higher margin C&I products.

Water margins decreased due to higher material costs including brass.

Electricity margins were stable. Electricity margins were impacted favorably by an \$8.6 million recovery in warranty expense from a third party in the first quarter of 2011, associated with the settlement of product claims in Sweden in 2010, and were impacted unfavorably by a warranty charge of \$7.7 million related to certain products in Brazil.

Itron International business line revenues were as follows:

|                              | <b>Three Months Ended March 31,</b> |                   |
|------------------------------|-------------------------------------|-------------------|
|                              | <b>2011</b>                         | <b>2010</b>       |
|                              |                                     | <b>(restated)</b> |
|                              | <b>(in thousands)</b>               |                   |
| Electricity                  | \$ 97,686                           | \$ 95,661         |
| Water                        | 106,487                             | 92,317            |
| Gas                          | 82,536                              | 68,086            |
| Itron International revenues | \$ 286,709                          | \$ 256,064        |

No single customer represented more than 10% of Itron International operating segment revenues in the three months ended March 31, 2011 and 2010.

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Operating expenses for Itron International were \$73.2 million and \$68.5 million for the three months ended March 31, 2011 and 2010, or 26% and 27% of revenues for the respective periods. The \$4.7 million increase was primarily due to increased

**Table of Contents**

research and development related to smart metering. Increases in sales, marketing, and general administrative expenses were the result of continued growth of the operating segment, which were primarily offset by a \$1.6 million scheduled reduction in amortization of intangible assets.

*Corporate unallocated:* Operating expenses not directly associated with an operating segment are classified as Corporate unallocated. These expenses decreased 8% to \$9.9 million in the three months ended March 31, 2011, compared with the same period last year, primarily due to expectations of lower bonus and stock compensation expense in 2011.

**Bookings and Backlog of Orders**

Bookings for a reported period represent customer contracts and purchase orders received during the period that have met certain conditions, such as regulatory and/or contractual approval. Total backlog represents committed but undelivered contracts and purchase orders at period-end. Twelve-month backlog represents the portion of total backlog that we estimate will be recognized as revenue over the next 12 months. Backlog is not a complete measure of our future business as we have significant book-and-ship orders. Bookings and backlog may fluctuate significantly due to the timing of large project awards. In addition, annual or multi-year contracts are subject to rescheduling and cancellation by customers due to the long-term nature of the contracts. Beginning total backlog, plus bookings, minus revenues, will not equal ending total backlog due to miscellaneous contract adjustments, foreign currency fluctuations, and other factors.

Information on bookings and backlog is summarized as follows:

| Quarter Ended      | Quarterly Bookings | Ending Total Backlog<br>(in millions) | Ending 12-Month Backlog |
|--------------------|--------------------|---------------------------------------|-------------------------|
| March 31, 2011     | \$ 681             | \$ 1,747                              | \$ 989                  |
| December 31, 2010  | 581                | 1,620                                 | 913                     |
| September 30, 2010 | 528                | 1,657                                 | 958                     |
| June 30, 2010      | 806                | 1,686                                 | 1,017                   |
| March 31, 2010     | 481                | 1,459                                 | 981                     |

Information on bookings by our operating segments is as follows:

| Quarter Ended      | Total Bookings | Itron North America<br>(in millions) | Itron International |
|--------------------|----------------|--------------------------------------|---------------------|
| March 31, 2011     | \$ 681         | \$ 379                               | \$ 302              |
| December 31, 2010  | 581            | 301                                  | 280                 |
| September 30, 2010 | 528            | 272                                  | 256                 |
| June 30, 2010      | 806            | 517                                  | 289                 |
| March 31, 2010     | 481            | 162                                  | 319                 |

When we sign project agreements to deploy our meter and communication systems, we include these contracts in bookings and backlog when regulatory approvals are received and/or contractual conditions are satisfied. For the quarter ended March 31, 2011, bookings and backlog included an OpenWay contract for \$268 million with BC Hydro. For the quarter ended June 30, 2010, bookings and backlog included an OpenWay contract for \$339 million with Detroit Edison.

**Table of Contents****Operating Expenses**

The following table details our total operating expenses in dollars and as a percentage of revenues:

|                                   | 2011<br>(in thousands) | Three Months Ended March 31,<br>% of |          | 2010<br>(in thousands) | % of<br>Revenues |
|-----------------------------------|------------------------|--------------------------------------|----------|------------------------|------------------|
|                                   |                        | Revenues                             | Revenues |                        |                  |
| Sales and marketing               | \$ 44,648              | 8%                                   |          | \$ 41,537              | 8%               |
| Product development               | 40,445                 | 7%                                   |          | 33,040                 | 7%               |
| General and administrative        | 33,331                 | 6%                                   |          | 33,057                 | 7%               |
| Amortization of intangible assets | 15,597                 | 3%                                   |          | 17,811                 | 3%               |
| <b>Total operating expenses</b>   | <b>\$ 134,021</b>      | <b>24%</b>                           |          | <b>\$ 125,445</b>      | <b>25%</b>       |

Operating expenses increased \$8.6 million, or 7%, for the three months ended March 31, 2011, compared with the same period last year. The net increase in operating expenses was primarily due to research and development costs for new and enhanced products, as well as higher marketing expense associated with the pursuit of smart grid opportunities. The impact on operating expenses from translation of foreign currencies was minimal.

**Other Income (Expense)**

The following table shows the components of other income (expense):

|                                     | Three Months Ended March 31,<br>2011 |                 | 2010           |                 |
|-------------------------------------|--------------------------------------|-----------------|----------------|-----------------|
|                                     | (in thousands)                       |                 | (in thousands) |                 |
| Interest income                     | \$                                   | 308             | \$             | 167             |
| Interest expense                    |                                      | (10,809)        |                | (13,671)        |
| Amortization of prepaid debt fees   |                                      | (1,305)         |                | (1,252)         |
| Other income (expense), net         |                                      | (1,596)         |                | (592)           |
| <b>Total other income (expense)</b> | <b>\$</b>                            | <b>(13,402)</b> | <b>\$</b>      | <b>(15,348)</b> |

*Interest income:* Interest income is generated from our cash and cash equivalents. Interest rates have continued to remain low.

*Interest expense:* Interest expense continues to decline each period as a result of our declining principal balance of debt outstanding. Total debt was \$573.2 million and \$610.9 million at March 31, 2011 and December 31, 2010, respectively. At March 31, 2011, inclusive of our interest rate swaps, 97% of our borrowings were at fixed rates. Refer to Item 1: Financial Statements Note 6: Debt for additional details related to our long-term borrowings.

*Amortization of prepaid debt fees:* Amortization of prepaid debt fees for the three months ended March 31, 2011 was similar to the same period last year, due to comparable repayments on our borrowings of \$52.9 million and \$52.8 million for the respective periods. When debt is repaid early, the related portion of unamortized prepaid debt fees is written off and included in interest expense.

*Other income (expense), net:* Other expenses, net, consist primarily of unrealized and realized foreign currency gains and losses due to balances denominated in a currency other than the reporting entity's functional currency and other non-operating income (expenses). Foreign currency losses, net, were \$1.2 million for the first quarter of 2011, compared with a net \$200,000 gain in the first quarter of 2010.



**Table of Contents****Financial Condition*****Cash Flow Information:***

|                                                         | <b>Three Months Ended March 31,</b> |                 |
|---------------------------------------------------------|-------------------------------------|-----------------|
|                                                         | <b>2011</b>                         | <b>2010</b>     |
|                                                         | <b>(in thousands)</b>               |                 |
| Operating activities                                    | \$ 36,013                           | \$ 65,779       |
| Investing activities                                    | (25,774)                            | (13,049)        |
| Financing activities                                    | (52,366)                            | (48,391)        |
| Effect of exchange rates on cash and cash equivalents   | 6,062                               | (2,814)         |
| <b>Increase (decrease) in cash and cash equivalents</b> | <b>\$ (36,065)</b>                  | <b>\$ 1,525</b> |

Cash and cash equivalents was \$133.4 million at March 31, 2011, compared with \$169.5 million at December 31, 2010. The decrease was primarily due to the payment of accrued bonus and profit sharing awards of approximately \$41 million and an increase in raw materials and finished goods inventory.

***Operating activities***

Cash provided by operating activities during the first quarter of 2011 was \$29.8 million lower, compared with the same period in 2010, primarily due to the payment of accrued bonus and profit sharing expenses during the quarter and an increase in raw materials and finished goods inventory.

***Investing activities***

Cash used in investing activities during the first quarter of 2011 was \$12.7 million higher, compared with the same period in 2010, primarily due to the Asais acquisition on January 10, 2011.

***Financing activities***

During the first quarter of 2011, we repaid \$52.9 million in borrowings, compared with \$52.8 million during the same period in 2010. Cash generated from the exercise of stock-based awards was \$1.1 million for the first quarter of 2011, compared with \$4.5 million during the same period in 2010.

***Effect of exchange rates on cash and cash equivalents***

The effect of exchange rates on the cash balances of currencies held in foreign denominations for the first quarter of 2011 was an increase of \$6.1 million, compared with a decrease of \$2.8 million for the same period in 2010.

***Non-cash transactions***

A substantial portion of the \$5.1 million payable for the Asais acquisition is expected to be paid within the next twelve months.

***Off-balance sheet arrangements***

We have no off-balance sheet financing agreements or guarantees as defined by Item 303 of Regulation S-K at March 31, 2011 and December 31, 2010 that we believe are reasonably likely to have a current or future effect on our financial condition, results of operations, or cash flows.

***Liquidity, Sources and Uses of Capital:***

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Our principal sources of liquidity are cash flows from operations, borrowings, and sales of common stock. Cash flows may fluctuate and are sensitive to many factors including changes in working capital and the timing and magnitude of capital expenditures and payments on debt.

On January 20, 2011, we increased our multicurrency revolving line of credit to \$315 million as approved by the participating lenders, the issuing agents, the swingline lender, and the administrative agent and as permitted by section 2.19 of Amendment No. 1 of our Credit Facility dated April 24, 2009. There were no other changes to the credit facility. The expanded multicurrency revolving line of credit will provide us with increased flexibility and liquidity for general corporate purposes. At March 31, 2011, there were no borrowings outstanding under the revolver, and \$59.7 million was utilized by outstanding standby letters of credit.

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**Table of Contents**

Between July 1, 2011 and August 1, 2011, our convertible notes may be converted at the option of the holder at a conversion rate of 15.3478 shares of our common stock for each \$1,000 principal amount of the convertible notes, regardless if the closing sale price per share of our common stock exceeds \$78.19. In addition, the convertible notes contain purchase options, at the option of the holders, which if exercised would require us to repurchase all or a portion of the convertible notes on August 1, 2011 at 100% of the principal amount, plus accrued and unpaid interest. If the closing sale price per share of our common stock is below the conversion price of \$65.16, we anticipate some or all of the investors will exercise this option, requiring us to purchase the \$223.6 million convertible notes. With the expansion of our revolving line of credit from \$240 million to \$315 million on January 20, 2011, we believe we will have sufficient liquidity to purchase the convertible notes if required.

If we are required to purchase all of the outstanding \$223.6 million convertible notes as detailed above, we expect our tax payments to increase by \$5 million to \$10 million in 2011.

For a description of the term loans under our credit facility and convertible senior subordinated notes, refer to Item 1: Financial Statements Note 6: Debt .

For a description of our letters of credit and performance bonds, and the amounts available for additional borrowings or letters of credit under our lines of credit, including the multicurrency revolving line of credit that is part of our credit facility, refer to Item 1: Financial Statements Note 11: Commitments and Contingencies .

For a description of our funded and unfunded non-U.S. defined benefit pension plans and our expected 2011 contributions, refer to Item 1: Financial Statements Note 8: Defined Benefit Pension Plans .

For a description of our bonus and profit sharing plans, including the amounts accrued at March 31, 2011 and the expected timing of payment, refer to *Bonus and Profit Sharing* within Critical Accounting Estimates below.

Our net deferred tax assets consist primarily of tax credits and net operating loss carryforwards. The utilization of some of the net operating loss carryforwards are limited by Internal Revenue Code Section 382.

Based on current projections, which does not include the purchase of the outstanding \$223.6 million convertible notes as detailed above, we expect to pay approximately \$1.2 million in U.S. federal and state taxes and \$19.8 million in local and foreign taxes in 2011. See Item 1: Financial Statements Note 10: Income Taxes for a discussion of our tax provision (benefit) and unrecognized tax benefits.

Working capital, which represents current assets less current liabilities, was \$177.9 million at March 31, 2011, compared with \$178.5 million at December 31, 2010.

We expect to continue to expand our operations and grow our business through a combination of internal new product development, licensing technology from and to others, distribution agreements, partnership arrangements, and acquisitions of technology or other companies. We expect these activities to be funded with existing cash, cash flow from operations, borrowings, and the sale of common stock or other securities. We believe existing sources of liquidity will be sufficient to fund our existing operations and obligations for the next 12 months and into the foreseeable future, but offer no assurances. Our liquidity could be affected by the stability of the energy and water industries, competitive pressures, international risks, intellectual property claims, capital market fluctuations, and other factors described under Risk Factors within Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which was filed with the SEC on February 25, 2011, as well as in our Quantitative and Qualitative Disclosures About Market Risk within Item 3 of Part 1, included in this Quarterly Report on Form 10-Q.

**Contingencies**

Refer to Item 1: Financial Statements Note 11: Commitments and Contingencies .



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## **Table of Contents**

### **Critical Accounting Estimates**

#### *Revenue Recognition*

The majority of our revenue arrangements involve multiple deliverables, which require us to determine the fair value of each deliverable and then allocate the total arrangement consideration among the separate deliverables based on the relative fair value percentages. Revenues for each deliverable are then recognized based on the type of deliverable, such as 1) when the products are shipped, 2) services are delivered, 3) percentage-of-completion when implementation services are essential to other deliverables in the arrangements, 4) upon receipt of customer acceptance, or 5) transfer of title. A majority of our revenue is recognized when products are shipped to or received by a customer or when services are provided.

Fair value represents the estimated price charged if an item were sold separately. If the fair value of any undelivered deliverable included in a multiple deliverable arrangement cannot be objectively determined, revenue is deferred until all deliverables are delivered and services have been performed, or until the fair value can be objectively determined for any remaining undelivered deliverables. We review our fair values on an annual basis or more frequently if a significant trend is noted.

If implementation services are essential to a software arrangement, revenue is recognized using either the percentage-of-completion methodology if project costs can be estimated or the completed contract methodology if project costs cannot be reliably estimated. The estimation of costs through completion of a project is subject to many variables such as the length of time to complete, changes in wages, subcontractor performance, supplier information, and business volume assumptions. Changes in underlying assumptions/estimates may adversely or positively affect financial performance.

Certain of our revenue arrangements include an extended or noncustomary warranty provision which covers all or a portion of a customer's replacement or repair costs beyond the standard or customary warranty period. Whether or not the extended warranty is separately priced in the arrangement, a portion of the arrangement's total consideration is allocated to this extended warranty deliverable. This revenue is deferred and recognized over the extended warranty coverage period. Extended/noncustomary warranties do not represent a significant portion of our revenue.

We allocate consideration to each deliverable in an arrangement based on its relative selling price. We determine selling price using vendor specific objective evidence (VSOE), if it exists, otherwise third-party evidence (TPE). If neither VSOE nor TPE of selling price exists for a unit of accounting, we use estimated selling price (ESP).

VSOE is generally limited to the price charged when the same or similar product is sold separately or, if applicable, the stated renewal rate in the agreement. If a product or service is seldom sold separately, it is unlikely that we can determine VSOE for the product or service. We define VSOE as a median price of recent standalone transactions that are priced within a narrow range. TPE is determined based on the prices charged by our competitors for a similar deliverable when sold separately.

If we are unable to establish selling price using VSOE or TPE, we use ESP in the allocation of arrangement consideration. The objective of ESP is to determine the price at which we would transact if the product or service were sold by us on a standalone basis. Our determination of ESP involves a weighting of several factors based on the specific facts and circumstances of the arrangement. Specifically, we consider the cost to produce the deliverable, the anticipated margin on that deliverable, the selling price and profit margin for similar parts, our ongoing pricing strategy and policies (as evident in the price list established and updated by management on a regular basis), the value of any enhancements that have been built into the deliverable, and the characteristics of the varying markets in which the deliverable is sold. We analyze the selling prices used in our allocation of arrangement consideration on an annual basis. Selling prices are analyzed on a more frequent basis if a significant change in our business necessitates a more timely analysis or if we experience significant variances in our selling prices.

#### *Warranty*

We offer standard warranties on our hardware products and large application software products. We accrue the estimated cost of warranty claims based on historical and projected product performance trends and costs. Testing of new products in the development stage helps identify and correct potential warranty issues prior to manufacturing. Continuing quality control efforts during manufacturing reduce our exposure to warranty claims. If our quality control efforts fail to detect a fault in one of our products, we could experience an increase in warranty claims. We track warranty claims to identify potential warranty trends. If an unusual trend is noted, an additional warranty accrual may be assessed and recorded when a failure event is probable and the cost can be reasonably estimated. When new products are introduced, our process relies on historical averages until sufficient data are available. As actual experience becomes available, it is used to modify the historical averages to ensure the expected warranty costs are within a range of likely outcomes. Management continually evaluates the sufficiency of the warranty

provisions and makes adjustments when necessary. The warranty allowances may fluctuate due to

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## **Table of Contents**

changes in estimates for material, labor, and other costs we may incur to repair or replace projected product failures, and we may incur additional warranty and related expenses in the future with respect to new or established products, which could adversely affect our gross margin. The long-term warranty balance includes estimated warranty claims beyond one year.

### *Income Taxes*

Our annual estimated effective tax rate requires significant judgment and is subject to several factors, including fluctuations in the forecasted mix of earnings in domestic and international jurisdictions, new or revised tax legislation and accounting pronouncements, tax credits, state income taxes, adjustments to valuation allowances, and interest expense and penalties related to uncertain tax positions, among other items. Changes in tax laws and unanticipated tax liabilities could significantly impact our tax rate.

We record valuation allowances to reduce deferred tax assets to the extent we believe it is more likely than not that a portion of such assets will not be realized. In making such determinations, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and our ability to carry back losses to prior years. We are required to make assumptions and judgments about potential outcomes that lie outside management's control. Our most sensitive and critical factors are the projection, source, and character of future taxable income. Although realization is not assured, management believes it is more likely than not that deferred tax assets will be realized. The amount of deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward periods are reduced or current tax planning strategies are not implemented.

We are subject to audit in multiple taxing jurisdictions in which we operate. These audits may involve complex issues, which may require an extended period of time to resolve. We believe we have recorded adequate income tax provisions and reserves for uncertain tax positions.

In evaluating uncertain tax positions, we consider the relative risks and merits of positions taken in tax returns filed and to be filed, considering statutory, judicial, and regulatory guidance applicable to those positions. We make assumptions and judgments about potential outcomes that lie outside management's control. To the extent the tax authorities disagree with our conclusions and depending on the final resolution of those disagreements, our actual tax rate may be materially affected in the period of final settlement with the tax authorities.

### *Inventories*

Items are removed from inventory using the first-in, first-out method. Inventories include raw materials, sub-assemblies, and finished goods. Inventory amounts include the cost to manufacture the item, such as the cost of raw materials, labor, and other applied direct and indirect costs. We also review idle facility expense, freight, handling costs, and wasted materials to determine if abnormal amounts should be recognized as current-period charges. We review our inventory for obsolescence and marketability. If the estimated market value, which is based upon assumptions about future demand and market conditions, falls below the original cost, the inventory value is reduced to the market value. If technology rapidly changes or actual market conditions are less favorable than those projected by management, inventory write-downs may be required. Our inventory levels may vary period to period as a result of our factory scheduling and timing of contract fulfillments.

### *Goodwill and Intangible Assets*

Goodwill and intangible assets result from our acquisitions. We use estimates, including estimates of useful lives of intangible assets, the amount and timing of related future cash flows, and fair values of the related operations, in determining the value assigned to goodwill and intangible assets. Our intangible assets have a finite life and are amortized over their estimated useful lives based on estimated discounted cash flows. Intangible assets are tested for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

We test goodwill for impairment each year as of October 1, or more frequently should a significant impairment indicator occur. Our Itron North America operating segment represents one reporting unit, while our Itron International operating segment has three reporting units.

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. We forecast discounted future cash flows at the reporting unit level using risk-adjusted discount rates and estimated future revenues and operating costs, which take into consideration factors such as existing backlog, expected future orders, supplier contracts, and expectations of competitive and economic environments. We also identify similar publicly traded companies and develop a correlation, referred to as a multiple, to apply to the operating results of the reporting units. Our 2010 annual goodwill impairment analysis did not result in an impairment charge as the fair value of each reporting unit



**Table of Contents**

exceeded its carrying value. The percentage by which the fair value of each reporting unit exceeded its carrying value and the amount of goodwill allocated to each reporting unit at October 1, 2010 was as follows:

|                                      | <b>Goodwill<br/>(in thousands)</b> | <b>October 1, 2010<br/>Fair Value Exceeded<br/>Carrying Value</b> |
|--------------------------------------|------------------------------------|-------------------------------------------------------------------|
| Itron North America                  | \$ 197,645                         | 229%                                                              |
| Itron International -<br>Electricity | 347,299                            | 14%                                                               |
| Itron International - Water          | 383,194                            | 29%                                                               |
| Itron International - Gas            | 308,445                            | 55%                                                               |
|                                      | <b>\$ 1,236,583</b>                |                                                                   |

Changes in market demand and the economies in which we operate across local markets, the volatility and decline in the worldwide equity markets, and the decline in our market capitalization could negatively impact our annual goodwill impairment test, which could have a significant effect on our current and future results of operations and financial condition.

*Derivative Instruments*

All derivative instruments, whether designated in hedging relationships or not, are recorded on the Consolidated Balance Sheets at fair value as either assets or liabilities. The components and fair values of our derivative instruments, which are primarily interest rate swaps, are determined using the fair value measurements of significant other observable inputs (also known as Level 2), as defined by FASB Accounting Standards Codification (ASC) 820-10-20, Fair Value Measurements. We include the effect of our counterparty credit risk based on current published credit default swap rates when the net fair value of our derivative instruments is in a net asset position and the effect of our own nonperformance risk when the net fair value of our derivative instruments is in a net liability position. Level 2 inputs consist of quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in non-active markets; and model-derived valuations in which significant inputs are corroborated by observable market data either directly or indirectly through correlation or other means (inputs may include yield curves, volatility, credit risks, and default rates). Derivatives are not used for trading or speculative purposes. Our derivatives are with major international financial institutions, with whom we have master netting agreements; however, our derivative positions are not disclosed on a net basis. There are no credit-risk-related contingent features within our derivative instruments.

*Convertible Debt*

Our convertible notes are separated into their liability and equity components in a manner that reflects our non-convertible debt borrowing rate, which we determined to be 7.38% at the time of the convertible notes issuance in August 2006. Upon derecognition of the convertible notes, we are required to remeasure the fair value of the liability and equity components using a borrowing rate for similar non-convertible debt that would be applicable to Itron at the date of the derecognition. Any increase or decrease in borrowing rates from the inception of the debt to the date of derecognition could result in a gain or loss, respectively, on extinguishment. Based on market conditions and our credit rating at the date of derecognition, the borrowing rate could be materially different from the rate determined at the inception of the convertible debt. At December 31, 2010, we classified the convertible notes as current due to the combination of put, call, and conversion options commencing on July 1, 2011.

*Defined Benefit Pension Plans*

We sponsor both funded and unfunded non-U.S. defined benefit pension plans. We recognize a liability for the projected benefit obligation in excess of plan assets or an asset for plan assets in excess of the projected benefit obligation. We also recognize the funded status of our defined benefit pension plans on our Consolidated Balance Sheets and recognize as a component of other comprehensive income (OCI), net of tax, the actuarial gains or losses and prior service costs or credits, if any, that arise during the period but are not recognized as components of net periodic benefit cost.

Several economic assumptions and actuarial data are used in calculating the expense and obligations related to these plans. The assumptions are updated annually at December 31 and include the discount rate, the expected remaining service life, the expected rate of return on plan assets,

and rate of future compensation increase. The discount rate is a significant assumption used to value our pension benefit obligation. We determine a discount rate for our plans based on the estimated duration of each plan's liabilities. For our euro denominated defined benefit pension plans, which represent 94% of our benefit obligation, we use two discount rates, (separated between shorter and longer duration plans), using a hypothetical yield curve

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**Table of Contents**

developed from euro-denominated AA-rated corporate bond issues, partially weighted for market value, with minimum amounts outstanding of 250 million for bonds with less than 10 years to maturity and 50 million for bonds with 10 or more years to maturity, and excluding 10% of the highest and lowest yielding bonds within each maturity group. The discount rates derived for our shorter duration euro denominated plans (less than 10 years) and longer duration plans (greater than 10 years) were 4.50% and 5.25%, respectively. The weighted average discount rate used to measure the projected benefit obligation for all of the plans at December 31, 2010 was 5.35%. A change of 25 basis points in the discount rate would change our pension benefit obligation by approximately \$2.5 million. The financial and actuarial assumptions used at December 31, 2010 may differ materially from actual results due to changing market and economic conditions and other factors. These differences could result in a significant change in the amount of pension expense recorded in future periods. Gains and losses resulting from changes in actuarial assumptions, including the discount rate, are recognized in OCI in the period in which they occur.

Our general funding policy for these qualified pension plans is to contribute amounts at least sufficient to satisfy funding standards of the respective countries for each plan. Refer to Item 1: Financial Statements, Note 8: Defined Benefit Pension Plans for our expected contributions for 2011.

*Bonus and Profit Sharing*

We have various employee bonus and profit sharing plans, which provide award amounts for the achievement of annual financial and nonfinancial targets. If management determines it probable that the targets will be achieved and the amounts can be reasonably estimated, a compensation accrual is recorded based on the proportional achievement of the financial and nonfinancial targets. Although we monitor and accrue expenses quarterly based on our estimated progress toward the achievement of the annual targets, the actual results at the end of the year may require awards that are significantly greater or less than the estimates made in earlier quarters. For the three months ended March 31, 2011, we accrued \$7.3 million for such awards, compared with \$12.6 million in the same period in 2010. Awards are typically distributed in the first quarter of the following year.

*Stock-Based Compensation*

We measure and recognize compensation expense for all stock-based awards made to employees and directors, including awards of stock options, stock sold pursuant to our Employee Stock Purchase Plan (ESPP), and the issuance of restricted stock units and unrestricted stock awards, based on estimated fair values. The fair values of stock options and ESPP awards are estimated at the date of grant using the Black-Scholes option-pricing model, which includes assumptions for the dividend yield, expected volatility, risk-free interest rate, and expected life. In valuing our stock-based awards, significant judgment is required in determining the expected volatility of our common stock and the expected life that individuals will hold their stock-based awards prior to exercising. Expected volatility is based on the historical and implied volatility of our own common stock. The expected life of stock option grants is derived from the historical actual term of option grants and an estimate of future exercises during the remaining contractual period of the option. While volatility and estimated life are assumptions that do not bear the risk of change subsequent to the grant date of stock-based awards, these assumptions may be difficult to measure as they represent future expectations based on historical experience. Further, our expected volatility and expected life may change in the future, which could substantially change the grant-date fair value of future awards of stock options and ultimately the expense we record. For restricted stock units and unrestricted stock awards, the fair value is the market close price of our common stock on the date of grant. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results and future estimates may differ substantially from our current estimates. We expense stock-based compensation at the date of grant for unrestricted stock awards. For awards with only a service condition, we expense stock-based compensation, adjusted for estimated forfeitures, using the straight-line method over the requisite service period for the entire award. For awards with both performance and service conditions, we expense the stock-based compensation, adjusted for estimated forfeitures, on a straight-line basis over the requisite service period for each separately vesting portion of the award. Excess tax benefits are credited to common stock when the deduction reduces cash taxes payable. When we have tax deductions in excess of the compensation cost, they are classified as financing cash inflows in the Consolidated Statements of Cash Flows.

**Table of Contents****Item 3: Quantitative and Qualitative Disclosures about Market Risk**

In the normal course of business, we are exposed to interest rate and foreign currency exchange rate risks that could impact our financial position and results of operations. As part of our risk management strategy, we use derivative financial instruments to hedge certain foreign currency and interest rate exposures. Our objective is to offset gains and losses resulting from these exposures with losses and gains on the derivative contracts used to hedge them, therefore reducing the impact of volatility on earnings or protecting the fair values of assets and liabilities. We use derivative contracts only to manage existing underlying exposures. Accordingly, we do not use derivative contracts for trading or speculative purposes.

*Interest Rate Risk*

The table below provides information about our financial instruments that are sensitive to changes in interest rates and the scheduled minimum repayment of principal and estimated cash interest payments over the remaining lives of our debt at March 31, 2011. Including the effect of our interest rate swaps at March 31, 2011, 97% of our borrowings are at fixed rates. Weighted average variable rates in the table are based on implied forward rates in the Reuters U.S. dollar yield curve as of March 31, 2011, our estimated leverage ratio, which determines our additional interest rate margin, and a static foreign exchange rate at March 31, 2011.

|                                                                    | 2011           | 2012     | 2013     | 2014       | Total      |
|--------------------------------------------------------------------|----------------|----------|----------|------------|------------|
|                                                                    | (in thousands) |          |          |            |            |
| <i>Fixed Rate Debt</i>                                             |                |          |          |            |            |
| Principal: Convertible notes <sup>(1)</sup>                        | \$ 223,604     | \$       | \$       | \$         | \$ 223,604 |
| Interest rate                                                      | 2.50%          |          |          |            |            |
| <i>Variable Rate Debt</i>                                          |                |          |          |            |            |
| Principal: U.S. dollar term loan                                   | \$ 4,538       | \$ 6,051 | \$ 6,051 | \$ 185,489 | \$ 202,129 |
| Average interest rate                                              | 3.78%          | 4.30%    | 5.54%    | 6.35%      |            |
| Principal: Euro term loan                                          | \$ 3,540       | \$ 4,720 | \$ 4,720 | \$ 137,225 | \$ 150,205 |
| Average interest rate                                              | 4.91%          | 5.76%    | 6.46%    | 7.03%      |            |
| <i>Interest rate swaps on U.S. dollar term loan <sup>(2)</sup></i> |                |          |          |            |            |
| Average interest rate (Pay)                                        | 2.13%          |          |          |            |            |
| Average interest rate (Receive)                                    | 0.24%          |          |          |            |            |
| Net/Spread                                                         | (1.89%)        |          |          |            |            |
| <i>Interest rate swap on euro term loan <sup>(3)</sup></i>         |                |          |          |            |            |
| Average interest rate (Pay)                                        | 6.59%          | 6.59%    |          |            |            |
| Average interest rate (Receive)                                    | 3.35%          | 4.14%    |          |            |            |
| Net/Spread                                                         | (3.24%)        | (2.45%)  |          |            |            |

<sup>(1)</sup> The face value of our convertible notes is \$223.6 million, while the carrying value is \$220.9 million. (Refer to Item 1: Financial Statements, Note 6: Debt for a summary of our convertible note terms and a reconciliation between the face and carrying values). Our convertible notes mature in August 2026. Due to the combination of put, call, and conversion options in the third quarter of 2011, we are amortizing the remaining \$2.7 million discount on the liability component of the convertible notes to interest expense over the next three months and have reflected the principal repayment in 2011.

<sup>(2)</sup> The interest rate swaps, expiring on June 30, 2011, are used to convert \$200 million of our \$202.1 million U.S. dollar denominated variable rate term loan from a floating London Interbank Offered Rate interest rate, plus the applicable margin, to a fixed interest rate, plus the applicable margin (refer to Item 1: Financial Statements, Note 7: Derivative Financial Instruments and Hedging Activities).



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- <sup>(3)</sup> The amortizing euro denominated interest rate swap is used to convert \$136.1 million ( 96.6 million) of our \$150.2 million ( 106.6 million) euro denominated variable rate term loan from a floating Euro Interbank Offered Rate (EURIBOR), plus the applicable margin, to a fixed interest rate of 6.59%, through December 31, 2012, plus or minus the variance in the applicable margin from 2%. As a result of the amortization schedule, the interest rate swap will terminate before the stated maturity of the term loan (Refer to Item 1: Financial Statements, Note 7: Derivative Financial Instruments and Hedging Activities ).

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## **Table of Contents**

Based on a sensitivity analysis as of March 31, 2011, we estimate that if market interest rates average one percentage point higher in 2011 than in the table above, our earnings in 2011 would not be materially impacted due to our interest rate swaps in place at March 31, 2011.

We continually monitor and assess our interest rate risk and may institute additional interest rate swaps or other derivative instruments to manage such risk in the future.

### *Foreign Currency Exchange Rate Risk*

We conduct business in a number of countries. As a result, over half of our revenues and operating expenses are denominated in foreign currencies, which expose our account balances to movements in foreign currency exchange rates that could have a material effect on our financial results. Our primary foreign currency exposure relates to non-U.S. dollar denominated transactions in our international subsidiary operations, the most significant of which is the euro. Revenues denominated in functional currencies other than the U.S. dollar were 55% of total revenues for the three months ended March 31, 2011, compared with 54% for the same period in 2010.

In conjunction with our acquisition of Actaris Metering Systems SA, we entered into a euro denominated term loan in 2007 that exposes us to fluctuations in the euro foreign exchange rate. We have designated this foreign currency denominated term loan as a hedge of our net investment in international operations. The non-functional currency term loan is revalued into U.S. dollar at each balance sheet date, and the changes in value associated with currency fluctuations are recorded as adjustments to long-term debt with offsetting gains and losses recorded in other comprehensive income. We had no hedge ineffectiveness (refer to Item 1: Financial Statements, Note 7: Derivative Financial Instruments and Hedging Activities ).

We are also exposed to foreign exchange risk when we enter into non-functional currency transactions, both intercompany and third-party. At each period-end, foreign currency monetary assets and liabilities are revalued with the change recorded to other income and expense. We enter into monthly foreign exchange forward contracts (a total of 113 contracts were entered into during the three months ended March 31, 2011), not designated for hedge accounting, with the intent to reduce earnings volatility associated with certain of these balances. The notional amounts of the contracts ranged from \$50,000 to \$72 million, offsetting our exposures from the euro, British pound, Canadian dollar, Czech koruna, Hungarian forint, and various other currencies.

In future periods, we may use additional derivative contracts to protect against foreign currency exchange rate risks.

## **Item 4: Controls and Procedures**

- (a) *Evaluation of disclosure controls and procedures.* At March 31, 2011, an evaluation was performed under the supervision and with the participation of our Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e)) under the Securities Exchange Act of 1934, as amended. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that as of March 31, 2011, the Company's disclosure controls and procedures were effective to ensure the information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.
- (b) *Changes in internal controls over financial reporting.* There have been no changes in internal control over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**Table of Contents****PART II: OTHER INFORMATION****Item 1: Legal Proceedings**

There were no material changes, as defined by Item 103 of Regulation S-K, during the first quarter of 2011.

**Item 1A: Risk Factors**

There were no material changes to risk factors during the first quarter of 2011 from those previously disclosed in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which was filed with the SEC on February 25, 2011.

**Item 5: Other Information**

(a) No information was required to be disclosed in a report on Form 8-K during the first quarter of 2011 that was not reported.

(b) Not applicable.

**Item 6: Exhibits**

| <b>Exhibit Number</b> | <b>Description of Exhibits</b>                                          |
|-----------------------|-------------------------------------------------------------------------|
| 12.1                  | Statement re Computation of Ratios                                      |
| 31.1                  | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2                  | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1                  | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS*              | XBRL Instance Document                                                  |
| 101.SCH*              | XBRL Taxonomy Extension Schema                                          |
| 101.CAL*              | XBRL Taxonomy Extension Calculation Linkbase                            |
| 101.LAB*              | XBRL Taxonomy Extension Label Linkbase                                  |
| 101.PRE*              | XBRL Taxonomy Extension Presentation Linkbase                           |

\* Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.



**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

May 3, 2011  
**Date**

By:

ITRON, INC.  
  
/s/ STEVEN M. HELMBRECHT  
**Steven M. Helmbrecht**  
**Sr. Vice President and Chief Financial Officer**