ITRON INC /WA/
Form 10-Q
August 06, 2015

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 June 30, 2015

OR

o 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	91-1011792
(State of Incorporation)	(I.R.S. Employer Identification Number)

2111 N Molter Road, Liberty Lake, Washington 99019
(509) 924-9900
(Address and telephone number of registrant's principal executive offices)

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 x 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 x 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	x	Accelerated filer	¨
Non-accelerated filer	o (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 x
As of July 31, 2015 there were outstanding 38,138,896 shares of the registrant's common stock, no par value, which is the only class of common stock of the registrant.

Itron, Inc.
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PART I: FINANCIAL INFORMATION
Item 1: Financial Statements (Unaudited)
ITRON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

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

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

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ITRON, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Net income (loss)	$(13,466)	$19,844	$(8,101)	$19,726
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	13,856	(7,995)	(47,234)	(11,369)
Net unrealized gain (loss) on derivative instruments, designated as cash flow hedges	(130)	(383)	(499)	(478)
Net hedging loss (gain) reclassified into net income	253	264	508	522
Pension plan benefit liability adjustment	493	118	997	215
Total other comprehensive income (loss), net of tax	14,472	(7,996)	(46,228)	(11,110)
Total comprehensive income (loss), net of tax	1,006	11,848	(54,329)	8,616
Comprehensive income (loss) attributable to noncontrolling interests, net of tax	732	585	1,187	721
Comprehensive income (loss) attributable to Itron, Inc.	$274	$11,263	$(55,516)	$7,895

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

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ITRON, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

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

Total liabilities and equity	$1,698,669	$1,710,305

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

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ITRON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

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

Non-cash transactions:		
Property, plant, and equipment purchased but not yet paid	$1,447	$2,445
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes, net	$21,233	$3,502
Interest, net of amounts capitalized	4,998	4,911

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

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ITRON, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2015
(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 are a technology company, offering end-to-end smart metering solutions to electric, natural gas, and water utilities around 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 and the Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2015 and 2014, the Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014, and the Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014 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 2014 audited financial statements and notes included in our Annual Report on Form 10-K filed with the SEC on February 20, 2015. The results of operations for the three and six months ended June 30, 2015 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 ownership interest and exercise significant influence. Entities in which we have less than a 20% ownership interest and where we do not exercise significant influence are accounted for under the cost method. Intercompany transactions and balances are eliminated upon consolidation.

Noncontrolling Interests

In several of our consolidated international subsidiaries, we have joint venture partners, who are minority shareholders. Although these entities are not wholly-owned by Itron, we consolidate them because we have a greater than 50% ownership interest or because we exercise control over the operations. The noncontrolling interest balance is adjusted each period to reflect the allocation of net income (loss) and other comprehensive income (loss) attributable to the noncontrolling interests, as shown in our Consolidated Statements of Operations and our Consolidated Statements of Comprehensive Income (Loss) as well as contributions from and distributions to the owners. The noncontrolling interest balance in our Consolidated Balance Sheets represents the proportional share of the equity of the joint venture entities, which is attributable to the minority shareholders.

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 receivable 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.

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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 are determined using the fair value measurements of significant other observable inputs (Level 2), as defined by 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 (loss) (OCI) and are recognized in earnings when the hedged item affects earnings. Ineffective portions of cash flow hedges are recognized in other income (expense), net in the Consolidated Statements of Operations. For a 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. Upon termination of a net investment hedge, the net derivative gain/loss will remain in accumulated OCI until such time when earnings are impacted by a sale or liquidation of the associated operations. 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), net 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 derivative contract counterparties are credit-worthy multinational commercial banks, with whom we have master netting agreements; however, our derivative positions are not recorded on a net basis in the Consolidated Balance Sheets. There are no credit-risk-related contingent features within our derivative instruments. Refer to Note 7 and Note 13 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 30 years for buildings and improvements and three to ten years for machinery and equipment, computers and software, and furniture. Leasehold improvements are capitalized and depreciated 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 group may not be recoverable. 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. Gains and losses from asset disposals and impairment losses are classified within the Consolidated Statements of Operations according to the use of the asset, except those gains and losses recognized in conjunction with our restructuring activities, which are classified within restructuring expense.

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 terms 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's results of operations are also included as of the date of acquisition in our consolidated results. Intangible assets that arise from contractual/legal rights, or are capable of being separated, as well as in-process research and development (IPR&D), are measured and recorded at fair value, and amortized over the estimated useful life. IPR&D is not amortized until such time as the associated development projects are completed or terminated. If a development project is completed, the IPR&D is reclassified as a core technology intangible asset and amortized over its estimated useful life. If the development project is terminated, the recorded value of the associated IPR&D is immediately expensed. 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.

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Acquisition-related costs are expensed as incurred. Restructuring costs associated with an acquisition 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 the provision for income taxes. Our acquisitions may include contingent consideration, which require us to recognize the fair value of the estimated liability at the time of the acquisition. Subsequent changes in the estimate of the amount to be paid under the contingent consideration arrangement are recognized in the Consolidated Statements of Operations. Cash payments for contingent or deferred consideration are classified within cash flows from investing activities within the Consolidated Statements of Cash Flows.

Goodwill and Intangible Assets

Goodwill and intangible assets may result from our business acquisitions. Intangible assets may also result from the purchase of assets and intellectual property in a transaction that does not qualify as a business combination. 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 finite-lived intangible assets are amortized over their estimated useful lives based on estimated discounted cash flows. IPR&D is considered an indefinite-lived intangible asset and is not subject to amortization until the associated projects are completed or terminated. Finite-lived intangible assets are tested for impairment at the asset group level when events or changes in circumstances indicate the carrying value may not be recoverable. Indefinite-lived intangible assets are tested for impairment annually, when events or changes in circumstances indicate the asset may be impaired, or at the time when their useful lives are determined to be no longer indefinite.

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. Each reporting unit corresponds with its respective operating segment, effective in the fourth quarter of 2013.

We test goodwill for impairment each year as of October 1, or more frequently should a significant impairment indicator occur. As part of the impairment test, we may elect to perform an assessment of qualitative factors. If this qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit, including goodwill, is less than its carrying amount, or if we elect to bypass the qualitative assessment, we would then proceed with the two-step impairment test. The impairment test involves comparing the fair values of the reporting units to their carrying amounts. If the carrying amount of a reporting unit exceeds its fair value, a second step is required to measure the goodwill impairment loss amount. This second step determines the current fair values of all assets and liabilities of the reporting unit and then compares the implied fair value of the reporting unit's goodwill to the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

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. These combined fair values are then reconciled to the aggregate market value of our common stock on the date of valuation, while considering a reasonable control premium.

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 but not recorded. Changes in these factors and related estimates could materially affect our financial position and results of operations. Legal costs to defend against contingent liabilities are expensed as incurred.

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 result in 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 new product warranties based on historical and projected product performance trends and costs during the warranty period. Testing

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of new products in the development stage helps identify and correct potential warranty issues prior to manufacturing. Quality control efforts during manufacturing reduce our exposure to warranty claims. When testing or quality control efforts fail to detect a fault in one of our products, we may 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 would be recorded if a failure event is probable and the cost can be reasonably estimated. When new products are introduced, our process relies on historical averages of similar products until sufficient data are available. As actual experience on new products becomes available, it is used to modify the historical averages to ensure the expected warranty costs are within a range of likely outcomes. Management regularly 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.

Restructuring

We record a liability for costs associated with an exit or disposal activity under a restructuring project at its fair value in the period in which the liability is incurred. Employee termination benefits considered postemployment benefits are accrued when the obligation is probable and estimable, such as benefits stipulated by human resource policies and practices or statutory requirements. One-time termination benefits are expensed at the date the employee is notified. If the employee must provide future service greater than 60 days, such benefits are expensed ratably over the future service period. For contract termination costs, we record a liability upon the termination of a contract in accordance with the contract terms or the cessation of the use of the rights conveyed by the contract, whichever occurs later.

Asset impairments associated with a restructuring project are determined at the asset group level. An impairment may be recorded for assets that are to be abandoned, are to be sold for less than net book value, or are held for sale in which the estimated proceeds less costs to sell are less than the net book value. We may also recognize impairment on an asset group, which is held and used, when the carrying value is not recoverable and exceeds the asset group's fair value. If an asset group is considered a business, a portion of our goodwill balance is allocated to it based on relative fair value. If the sale of an asset group under a restructuring project results in proceeds that exceed the net book value of the asset group, the resulting gain is recorded within restructuring expense in the Consolidated Statements of Operations.

Defined Benefit Pension Plans

We sponsor both funded and unfunded defined benefit pension plans for certain international employees. 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.

Share Repurchase Plan

From time to time, we may repurchase shares of common stock under programs authorized by our Board of Directors. Share repurchases are made in the open market or in privately negotiated transactions and in accordance with applicable securities laws. Under applicable Washington State law, shares repurchased are retired and not reported separately as treasury stock on the financial statements; the value of the repurchased shares is deducted from common stock.

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.

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 selling prices 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 arrangement, 4) upon receipt of customer acceptance, or 5) transfer of title and

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risk of loss. The majority of our revenue is recognized when products are shipped to or received by a customer or when services are provided.

Hardware revenues are recognized at the time of shipment, receipt by the customer, or, if applicable, upon completion of customer acceptance provisions.

Generally, network software revenue is recognized when shipped if all other revenue recognition criteria are met and services are not essential to the functionality of the software. If implementation services are essential to the functionality of the network software, software and implementation revenues are recognized using the percentage-of-completion methodology of contract accounting when project costs are reliably estimated.

If the data collection system does not use standard Internet protocols and network design services are deemed complex and extensive, revenue from network software and services is recognized using the units-of-delivery method of contract accounting, as network design services and network software are essential to the functionality of the related hardware (network). This methodology results in the deferral of costs and revenues as professional services and software implementation commence prior to deployment of hardware.

In the unusual instances when we are unable to reliably estimate the cost to complete a contract at its inception, we use the completed contract method of contract accounting. Revenues and costs are recognized upon substantial completion when remaining costs are insignificant and potential risks are minimal.

Under contract accounting, if we estimate that the completion of a contract component (unit of accounting) will result in a loss, the loss is recognized in the period in which the loss becomes evident. We reevaluate the estimated loss through the completion of the contract component and adjust the estimated loss for changes in facts and circumstances.

Many of our customer arrangements contain clauses for liquidated damages, related to the timing of delivery or milestone accomplishments, that could become material in an event of failure to meet the contractual deadlines. At the inception of the arrangement and on an ongoing basis, we evaluate if the liquidating damages represent contingent revenue and, if so, we reduce the amount of consideration allocated to the delivered products and services and record it as a reduction in revenue in the period of default. If the arrangement is subject to contract accounting, liquidated damages resulting from anticipated events of default are estimated and are accounted for as job costs in the period in which the potential default is identified and the damages can be reasonably estimated.

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) of 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 multiple deliverable software arrangements.

Certain of our revenue arrangements include an extended or noncustomary warranty provision that 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 or 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). 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 neither VSOE nor TPE of selling price

exists for a unit of accounting, we use estimated selling price (ESP) to determine the price at which we would transact if the product or service were regularly 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. The factors considered include the cost to produce the deliverable, the anticipated margin on that deliverable, our ongoing pricing strategy and policies, 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 $82.8 million and $76.6 million at June 30, 2015 and December 31,

2014 related primarily to professional services and software associated with our smart metering contracts, extended or noncustomary warranty, and prepaid post-contract support. Deferred costs are 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 $15.0 million and $24.9 million at June 30, 2015 and December 31, 2014 and are recorded within other assets in the Consolidated Balance Sheets.

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. We do not capitalize product development costs, and we do not generally capitalize software development expenses as the costs incurred are immaterial for the relatively short period of time between technological feasibility and the completion of software development.

Stock-Based Compensation

We measure and recognize compensation expense for all stock-based awards made to employees and directors, including stock options and the issuance of restricted stock units and unrestricted stock awards, based on estimated fair values. The fair value of stock options is 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 term. For performance-based restricted stock units and unrestricted stock awards with no market conditions, the fair value is the market close price of our common stock on the date of grant. For restricted stock units with market conditions, the fair value is estimated at the date of award using a Monte Carlo simulation model, which includes assumptions for dividend yield and expected volatility for our common stock and the common stock for companies within the Russell 3000 index, as well as the risk-free interest rate and expected term of the awards. 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 performance and service conditions, if vesting is probable, 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. For awards with a market condition, we expense the fair value over the requisite service period. 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.

Certain of our employees are eligible to participate in our Employee Stock Purchase Plan (ESPP). The discount provided for ESPP purchases is 5% from the fair market value of the stock at the end of each fiscal quarter and is not considered compensatory.

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 calculating the estimated annual ETR, we analyze various factors, including the forecast 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 uncertain tax positions, among other items. 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 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 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 amount of deferred tax assets if it is more likely than not that such assets will not be realized. We do not record tax liabilities on undistributed earnings of international subsidiaries that are permanently reinvested.

We utilize a two step approach to account for uncertain tax positions. A tax position is first evaluated for recognition based on its technical merits. Tax positions that have a greater than 50% 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 recognition threshold or upon expiration of the statute of limitations. 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 non-U.S. dollar functional currencies 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 each subsidiary 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.

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.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers: Topic 606 (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 is effective for us on January 1, 2018 using either the retrospective or modified-retrospective transition method. We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements.

On April 7, 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03), which will require debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. ASU 2015-03 is effective for us on January 1, 2016 using the retrospective or transition method, and we plan to adopt on that date. We do not anticipate that ASU 2015-03 will have a material impact to our balance sheet.

In April 2015, the FASB issued ASU 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40), Customer's Accounting for Fees Paid in a Cloud Computing Arrangement (ASU 2015-05), which provides guidance about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the

arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 is effective for us on January 1, 2016. We are currently evaluating the impact of adopting this guidance.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330) - Simplifying the Measurement of Inventory (ASU 2015-11). The amendments in ASU 2015-11 apply to inventory measured using first-in, first-out (FIFO) or average cost and will require entities to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the normal coarse of business, minus the cost of completion, disposal and transportation. Replacement cost and net realizable value less a normal profit margin will no longer be considered. ASU 2015-11 is effective for us on January 1, 2017. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

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Note 2: Earnings Per Share and Capital Structure

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands, except per share data)			
Net income (loss) available to common shareholders	$(14,198)	$19,259	$(9,288)	$19,005
Weighted average common shares outstanding - Basic	38,434	39,356	38,438	39,296
Dilutive effect of stock-based awards	—	188	—	232
Weighted average common shares outstanding - Diluted	38,434	39,544	38,438	39,528
Earnings (loss) per common share - Basic	$(0.37)	$0.49	$(0.24)	$0.48
Earnings (loss) per common share - Diluted	$(0.37)	$0.49	$(0.24)	$0.48

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 1.2 million stock-based awards were excluded from the calculation of diluted EPS for the three and six months ended June 30, 2015, and approximately 1.2 million and 1.3 million stock-based awards were excluded from the calculation of diluted EPS for the three and six months ended June 30, 2014, respectively, because they were anti-dilutive. These stock-based awards could be dilutive in future periods.

Note 3: Certain Balance Sheet Components

Accounts receivable, net	June 30, 2015	December 31, 2014
	(in thousands)	
Trade receivables (net of allowance of $5,422 and $6,195)	$286,093	$312,302
Unbilled receivables	52,103	36,087
Total accounts receivable, net	$338,196	$348,389

At June 30, 2015 and December 31, 2014, $3.4 million and $4.7 million, respectively, were recorded within trade receivables as billed but not yet paid by customers, in accordance with contract retainage provisions. At June 30, 2015 and December 31, 2014, contract retainage amounts that were unbilled and classified as unbilled receivables were $3.5 million and $4.0 million, respectively. These contract retainage amounts within trade receivables and unbilled receivables are expected to be collected within the following 12 months.

At June 30, 2015 and December 31, 2014, long-term unbilled receivables totaled $4.0 million and $4.3 million, respectively. These long-term unbilled receivables are classified within other long-term assets, as collection is not anticipated within the following 12 months. We had no long-term billed contract retainage receivables at June 30, 2015 and December 31, 2014.

Allowance for doubtful accounts activity	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Beginning balance	$5,939	$8,758	$6,195	$8,368
Provision (release) for doubtful accounts, net	(239)	(795)	30	(189)
Accounts written-off	(325)	(558)	(341)	(790)
Effect of change in exchange rates	47	(50)	(462)	(34)
Ending balance	$5,422	$7,355	$5,422	$7,355

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Inventories	June 30, 2015	December 31, 2014
	(in thousands)	
Materials	$113,521	$90,557
Work in process	7,551	8,991
Finished goods	74,322	54,956
Total inventories	$195,394	$154,504

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

Consigned inventory is held at third party locations; however, we retain title to the inventory until it is purchased by the third party. Consigned inventory, consisting of raw materials and finished goods, was $4.7 million and $2.5 million at June 30, 2015 and December 31, 2014, respectively.

Property, plant, and equipment, net	June 30, 2015	December 31, 2014
	(in thousands)	
Machinery and equipment	$281,496	$287,448
Computers and software	106,399	100,212
Buildings, furniture, and improvements	131,057	134,461
Land	21,238	21,186
Construction in progress, including purchased equipment	23,332	21,007
Total cost	563,522	564,314
Accumulated depreciation	(368,012)	(356,525)
Property, plant, and equipment, net	$195,510	$207,789

Assets of our international subsidiaries are recorded in their respective functional currency; therefore, the carrying amounts of these assets increase or decrease, with a corresponding change in accumulated OCI, due to changes in foreign currency exchange rates. In addition, depreciation expense is impacted by the fluctuations in foreign exchange rates.

Depreciation expense	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Depreciation expense	$11,533	$13,905	$22,899	$28,427

Note 4: Intangible Assets

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

	June 30, 2015			December 31, 2014		
	Gross Assets	Accumulated Amortization	Net	Gross Assets	Accumulated Amortization	Net
	(in thousands)					
Core-developed technology	$392,427	$(356,567)	$35,860	$405,434	$(359,500)	$45,934
Customer contracts and relationships	249,188	(170,270)	78,918	262,930	(172,755)	90,175
Trademarks and trade names	65,709	(63,406)	2,303	68,205	(64,905)	3,300
Other	11,080	(11,025)	55	11,579	(11,079)	500

Total intangible assets	$718,404	$(601,268)	$117,136	$748,148	$(608,239)	$139,909

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A summary of intangible asset activity is as follows:

	Six Months Ended June 30,	
	2015	2014
	(in thousands)	
Beginning balance, intangible assets, gross	$748,148	$804,281
Intangible assets acquired	—	497
Intangible assets impaired	(497)	—
Effect of change in exchange rates	(29,247)	(4,075)
Ending balance, intangible assets, gross	$718,404	$800,703

Intangible assets impaired includes purchased software licenses to be sold to others. This amount was expensed as part of cost of revenues in the Consolidated Statement of Operations.

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

Estimated future annual amortization expense is as follows:

Years ending December 31,	Estimated Annual Amortization
	(in thousands)
2015 (amount remaining at June 30, 2015)	$16,263
2016	25,256
2017	18,607
2018	12,844
2019	9,996
Beyond 2019	34,170
Total intangible assets subject to amortization	$117,136

Note 5: Goodwill

The following table reflects goodwill allocated to each reporting segment as of June 30, 2015:

	Electricity	Gas	Water	Total Company
	(in thousands)			
Balance at January 1, 2015				
Goodwill before impairment	$449,668	$359,485	$382,655	$1,191,808
Accumulated impairment losses	(393,981)	—	(297,007)	(690,988)
Goodwill, net	55,687	359,485	85,648	500,820
Effect of change in exchange rates	(2,241)	(22,057)	(4,874)	(29,172)
Balance at June 30, 2015				
Goodwill before impairment	422,269	337,428	353,301	1,112,998
Accumulated impairment losses	(368,823)	—	(272,527)	(641,350)

Goodwill, net	$53,446	$337,428	$80,774	$471,648

Refer to Note 1 for a description of our reporting units and the methods used to determine the fair values of our reporting units and to determine the amount of any goodwill impairment.

Goodwill and accumulated impairment losses associated with our international subsidiaries are recorded in their respective functional currencies; therefore, the carrying amounts of these balances increase or decrease, with a corresponding change in accumulated OCI, due to changes in foreign currency exchange rates.

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Note 6: Debt

The components of our borrowings were as follows:

	June 30, 2015	December 31, 2014
	(in thousands)	
Credit facility:		
USD denominated term loan	$225,000	$232,500
Multicurrency revolving line of credit	147,958	91,469
Total debt	372,958	323,969
Less: current portion of debt	11,250	30,000
Long-term debt	$361,708	$293,969

Credit Facility
On June 23, 2015, we entered into a $725 million senior secured credit facility (the 2015 credit facility), which amended and restated the senior secured credit facility we entered into in 2011 (the 2011 credit facility). The 2015 credit facility consists of a $225 million U.S. dollar term loan (the term loan) and a multicurrency revolving line of credit (the revolver) with a principal amount of up to $500 million. The revolver also contains a $300 million standby letter of credit sub-facility and a $50 million swingline sub-facility (available for immediate cash needs at a higher interest rate). Both the term loan and the revolver mature on June 23, 2020, and amounts borrowed under the revolver are classified as long-term and, during the credit facility term, may be repaid and reborrowed until the revolver's maturity, at which time the revolver will terminate, and all outstanding loans, together with all accrued and unpaid interest, must be repaid. Amounts not borrowed under the revolver are subject to a commitment fee, which is paid in arrears on the last day of each fiscal quarter, ranging from 0.175% to 0.30% per annum depending on our total leverage ratio as of the most recently ended fiscal quarter. Amounts repaid on the term loan may not be reborrowed. The 2015 credit facility permits us and certain of our foreign subsidiaries to borrow in U.S. dollars, euros, British pounds, or, with lender approval, other currencies readily convertible into U.S. dollars. All obligations under the 2015 credit facility are guaranteed by Itron, Inc. and material U.S. domestic subsidiaries and are secured by a pledge of substantially all of the assets of Itron, Inc. and material U.S. domestic subsidiaries, including a pledge of 100% of the capital stock of material U.S. domestic subsidiaries and up to 66% of the voting stock (100% of the non-voting stock) of their first-tier foreign subsidiaries. In addition, the obligations of any foreign subsidiary who is a foreign borrower, as defined by the 2015 credit facility, are guaranteed by the foreign subsidiary and by its direct and indirect foreign parents. The 2015 credit facility includes debt covenants, which contain certain financial ratio thresholds and place certain restrictions on the incurrence of debt, investments, and the issuance of dividends. We were in compliance with the debt covenants under the 2015 credit facility at June 30, 2015.

Scheduled principal repayments for the term loan are due quarterly in the amount of $2.8 million from September 2015 through June 2017, $4.2 million from September 2017 through June 2018, $5.6 million from September 2018 through March 2020, and the remainder due at maturity on June 23, 2020. The term loan may be repaid early in whole or in part, subject to certain minimum thresholds, without penalty.

Under the 2015 credit facility, we elect applicable market interest rates for both the term loan and any outstanding revolving loans. We also pay an applicable margin, which is based on our total leverage ratio (as defined in the credit agreement). The applicable rates per annum may be based on either: (1) the LIBOR rate or EURIBOR rate (floor of 0%), plus an applicable margin, or (2) the Alternate Base Rate, plus an applicable margin. The Alternate Base Rate election is equal to the greatest of three rates: (i) the prime rate, (ii) the Federal Reserve effective rate plus 1/2 of 1%, or (iii) one month LIBOR plus 1%. At June 30, 2015, the interest rate for both the term loan and the USD revolver was 1.69% (the LIBOR rate plus a margin of 1.50%), and the interest rate for the EUR revolver was 1.50% (the EURIBOR floor rate plus a margin of 1.50%).

Total credit facility repayments were as follows:

	Six Months Ended June 30,	
	2015	2014
	(in thousands)	
Term loan	$7,500	$11,250
Multicurrency revolving line of credit	14,873	40,000
Total credit facility repayments	$22,373	$51,250

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At June 30, 2015, $148.0 million was outstanding under the credit facility revolver, and $244.5 million was available for additional borrowings due to the most recent total leverage ratio. At June 30, 2015, $49.8 million was utilized by outstanding standby letters of credit, resulting in $250.2 million available for additional borrowings. No amounts were outstanding under the swingline sub-facility.

Upon entering into the 2015 credit facility, a portion of our unamortized prepaid debt fees, totaling $821,000, were written-off to interest expense. Prepaid debt fees of approximately $3.8 million were capitalized associated with the 2015 credit facility. Unamortized prepaid debt fees were as follows:

	June 30, 2015	December 31, 2014
	(in thousands)	
Unamortized prepaid debt fees	$4,581	$2,298

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 13, and Note 14 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). We have used observable market inputs based on the type of derivative and the nature of the underlying instrument. The key inputs include 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. We include, as a discount to the derivative asset, 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.

The fair values of our derivative instruments were as follows:

	Balance Sheet Location	Fair Value June 30, 2015 (in thousands)	December 31, 2014
Asset Derivatives			
Derivatives designated as hedging instruments under ASC 815-20			
Interest rate swap contracts	Other long-term assets	$—	$75
Derivatives not designated as hedging instruments under ASC 815-20			
Foreign exchange forward contracts	Other current assets	103	107
Total asset derivatives		$103	$182
Liability Derivatives			
Derivatives designated as hedging instruments under ASC 815-20			
Interest rate swap contracts	Other current liabilities	$1,161	$1,317
Interest rate swap contracts	Other long-term obligations	66	—
Derivatives not designated as hedging instruments under ASC 815-20			
Foreign exchange forward contracts	Other current liabilities	138	236
Total liability derivatives		$1,365	$1,553

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OCI during the reporting periods for our derivative and nonderivative hedging instruments, net of tax, was as follows:

	2015	2014
	(in thousands)	
Net unrealized loss on hedging instruments at January 1,	$(15,148)	$(15,636)
Unrealized gain (loss) on hedging instruments	(499)	(478)
Realized losses reclassified into net income (loss)	508	522
Net unrealized loss on hedging instruments at June 30,	$(15,139)	$(15,592)

Included in the net unrealized loss on hedging instruments at June 30, 2015 and 2014 is a loss of $14.4 million, net of tax, related to our nonderivative net investment hedge, which terminated in 2011. This loss on our net investment hedge will remain in accumulated OCI until such time when earnings are impacted by a sale or liquidation of the associated foreign operation.

A summary of the potential effect of netting arrangements on our financial position related to the offsetting of our recognized derivative assets and liabilities under master netting arrangements or similar agreements is as follows:
Offsetting of Derivative Assets

		Gross Amounts Not Offset in the Consolidated Balance Sheets		
	Gross Amounts of Recognized Assets Presented in the Consolidated Balance Sheets	Derivative Financial Instruments	Cash Collateral Received	Net Amount
	(in thousands)			
June 30, 2015	$103	$(97)	$—	$6
December 31, 2014	$182	$(182)	$—	$—

Offsetting of Derivative Liabilities

		Gross Amounts Not Offset in the Consolidated Balance Sheets		
	Gross Amounts of Recognized Liabilities Presented in the Consolidated Balance Sheets	Derivative Financial Instruments	Cash Collateral Pledged	Net Amount
	(in thousands)			
June 30, 2015	$1,365	$(97)	$—	$1,268
December 31, 2014	$1,553	$(182)	$—	$1,371

Our derivative assets and liabilities consist of foreign exchange forward and interest rate swap contracts with eight counterparties at June 30, 2015 and December 31, 2014. No derivative asset or liability balance with any of our counterparties was individually significant at June 30, 2015 or December 31, 2014. Our derivative contracts with each

of these counterparties exist under agreements that provide for the net settlement of all contracts through a single payment in a single currency in the event of default. We have no pledges of cash collateral against our obligations nor have we received pledges of cash collateral from our counterparties under the associated derivative contracts.

Cash Flow Hedges

As a result of our floating rate debt, we are exposed to variability in our cash flows from changes in the applicable interest rate index. 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 reduce the variability of cash flows from increases in the LIBOR-based borrowing rates on our floating rate credit facility. The swaps do not protect us from changes to the applicable margin under our credit facility.

In May 2012, we entered into six forward starting pay-fixed, receive one-month LIBOR interest rate swaps. The interest rate swaps convert $200 million of our LIBOR-based debt from a floating LIBOR interest rate to a fixed interest rate of 1.00% (excluding the applicable margin on the debt) and are effective from July 31, 2013 to August 8, 2016. These cash flow hedges are expected

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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 swaps 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 hedges are recognized as adjustments to interest expense. The amount of net losses expected to be reclassified into earnings in the next 12 months is $1.2 million. At June 30, 2015, our LIBOR-based debt balance was $345.0 million.

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 and six months ended June 30 were as follows:

Derivatives in ASC 815-20 Cash 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	Amount		Location	Amount	
	2015	2014		2015	2014		2015	2014
	(in thousands)			(in thousands)			(in thousands)	
Three Months Ended June 30,								
Interest rate swap contracts	$ (211)	$ (616)	Interest expense	$ (411)	$ (426)	Interest expense	$—	$—
Six Months Ended June 30,								
Interest rate swap contracts	$ (808)	$ (771)	Interest expense	$ (823)	$ (845)	Interest expense	$—	$—

Derivatives Not Designated as Hedging Relationships

We are exposed to foreign exchange risk when we enter into non-functional currency transactions, both intercompany and third party. At each period-end, non-functional currency monetary assets and liabilities are revalued with the change recorded to other income (expense), net. We enter into monthly foreign exchange forward contracts (a total of 276 contracts were entered into during the six months ended June 30, 2015), which are not designated for hedge accounting, but rather with the intent to reduce earnings volatility associated with certain of these non-functional currency assets and liabilities. The notional amounts of the contracts ranged from $150,000 to $22.0 million, offsetting our exposures to the euro, British pound, Canadian dollar, Australian dollar, Mexican peso, and various other currencies.

The effect of our foreign exchange forward derivative instruments on the Consolidated Statements of Operations for the three and six months ended June 30 was as follows:

Derivatives Not Designated as Hedging Instrument under ASC 815-20	Gain (Loss) Recognized on Derivatives in Other Income (Expense)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Foreign exchange forward contracts	$1,070	$(1,083)	$(1,726)	$(1,931)

Note 8: Defined Benefit Pension Plans

We sponsor both funded and unfunded defined benefit pension plans for our international employees, primarily in Germany, France, Italy, Indonesia, Brazil, and Spain, 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, 2014.

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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:

	June 30, 2015	December 31, 2014
	(in thousands)	
Assets		
Plan assets in other long-term assets	$505	$567
Liabilities		
Current portion of pension plan liability in wages and benefits payable	3,649	4,552
Long-term portion of pension plan liability	93,918	101,432
Net pension plan benefit liability	$97,062	$105,417

Our net pension plan benefit liability decreased primarily due to the strengthening of the U.S. dollar compared with most foreign currencies at June 30, 2015 as compared with December 31, 2014.

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 $57,000 and $361,000 to the defined benefit pension plans for the six months ended June 30, 2015 and 2014, respectively. The timing of contributions can vary by plan and from year to year. For 2015, 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 $393,000 to our defined benefit pension plans. We contributed $375,000 to the defined benefit pension plans for the year ended December 31, 2014.
Net periodic pension benefit costs for our plans include the following components:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Service cost	$1,169	$1,079	$2,258	$2,027
Interest cost	605	897	1,225	1,790
Expected return on plan assets	(129)	(163)	(265)	(320)
Settlements and other	—	29	(1)	27
Amortization of actuarial net loss	485	122	982	245
Amortization of unrecognized prior service costs	14	18	29	36
Net periodic benefit cost	$2,144	$1,982	$4,228	$3,805

Note 9: Stock-Based Compensation

We record stock-based compensation expense for awards of stock options and the issuance of restricted stock units and unrestricted stock awards. We expense stock-based compensation primarily using the straight-line method over the requisite service period. For the three and six months ended June 30, stock-based compensation expense and the related tax benefit were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	

	2015	2014	2015	2014
	(in thousands)			
Stock options	$643	$546	$1,292	$1,100
Restricted stock units	3,079	4,094	6,405	7,894
Unrestricted stock awards	167	230	300	460
Total stock-based compensation	$3,889	$4,870	$7,997	$9,454
Related tax benefit	$1,225	$1,388	$2,374	$2,676

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

Subject to stock splits, dividends, and other similar events, 7,473,956 shares of common stock are reserved and authorized for issuance under our Amended and Restated 2010 Stock Incentive Plan (Stock Incentive Plan). Awards consist of stock options, restricted stock units, and unrestricted stock awards. At June 30, 2015, 2,810,194 shares were available for grant under the Stock Incentive Plan. The Stock Incentive Plan shares are subject to a fungible share provision such that the authorized share reserve is reduced by (i) one share for every one share subject to a stock option or share appreciation right granted under the Plan and (ii) 1.7 shares for every one share of common stock that was subject to an award other than an option or share appreciation right.

Stock Options

Options to purchase our common stock are granted to certain employees, senior management, and members of 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.

The fair values of stock options granted were estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
Dividend yield	—	%	—	%	—	%	—	%
Expected volatility	33.9	%	—	%	34.5	%	39.8	%
Risk-free interest rate	1.6	%	—	%	1.7	%	1.7	%
Expected term (years)	5.5		—		5.5		5.5	

Expected volatility is based on a combination of the historical volatility of our common stock and the implied volatility of our traded options for the related expected term. We believe this combined approach is reflective of current and historical market conditions and is 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 estimated date the award will be 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.

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A summary of our stock option activity for the six months ended June 30 is as follows:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value(1)	Weighted Average Grant Date Fair Value
	(in thousands)		(years)	(in thousands)	
Outstanding, January 1, 2014	1,180	$ 54.79	4.6	$ 1,300	
Granted	147	35.19			$ 13.64
Exercised	(33)	23.70		510	
Expired	(10)	43.82			
Outstanding, June 30, 2014	1,284	$ 53.43	4.7	$ 1,364	
Outstanding, January 1, 2015	1,123	$ 51.90	4.4	$ 1,676	
Granted	207	35.30			$ 12.15
Exercised	(23)	36.05		26	
Forfeited	(17)	37.47			
Expired	(158)	54.25			
Outstanding, June 30, 2015	1,132	$ 49.12	5.7	$ —	
Exercisable June 30, 2015	743	$ 55.53	3.9	$ —	
Expected to vest, June 30, 2015	376	$ 36.90	9.0	$ —	

(1) 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 our 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 June 30, 2015, total unrecognized stock-based compensation expense related to nonvested stock options was approximately $3.8 million, which is expected to be recognized over a weighted average period of approximately 2.0 years.

Restricted Stock Units

Certain employees, senior management, and members of the Board of Directors 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.

Beginning in 2013, the performance-based restricted stock units to be issued under the Long-Term Performance Restricted Stock Unit Award Agreement (Performance Award Agreement) were determined based on (1) our achievement of specified non-GAAP EPS targets, as established by the Board at the beginning of each year for each of the calendar years contained in the performance periods (2-year and 3-year awards in 2013 and 3-year awards in subsequent years) (the performance condition) and (2) our total shareholder return (TSR) relative to the TSR attained by companies that are included in the Russell 3000 Index during the performance periods (the market condition).

Compensation expense, net of forfeitures, is recognized on a straight-line basis, and the restricted stock units vest upon achievement of the performance condition, provided participants are employed by Itron at the end of the respective performance periods. 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.

Depending on the level of achievement of the performance condition, the actual number of shares to be earned ranges between 0% and 160% of the awards originally granted. At the end of the performance periods, if the performance conditions are achieved at or above threshold, the number of shares earned is further adjusted by a TSR multiplier payout percentage, which ranges between 75% and 125%, based on the market condition. Therefore, based on the attainment of the performance and market conditions, the actual number of shares that vest may range from 0% to 200% of the awards originally granted. Due to the presence of the TSR multiplier market condition, we utilize a Monte Carlo valuation model to determine the fair value of the awards at the grant date.

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This pricing model uses multiple simulations to evaluate the probability of our achievement of various stock price levels to determine our expected TSR performance ranking. The weighted-average assumptions used to estimate the fair value of performance-based restricted stock units granted and the resulting weighted average fair-value are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Dividend yield	— %	— %	— %	— %
Expected volatility	28.4 %	34.0 %	30.1 %	32.4 %
Risk-free interest rate	0.9 %	0.6 %	0.7 %	0.4 %
Expected term (years)	2.7	2.6	2.1	2.0
Weighted-average fair value	$36.65	$41.47	$33.48	$34.87

Expected volatility is based on the historical volatility of our common stock for the related expected term. We believe this approach is reflective of current and historical market conditions and is 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 term of the award. The expected term is the term of an award based on the period of time between the date of the award and the date the award is expected to vest. The expected term assumption is based upon the plan's performance period as of the date of the award. We have not paid dividends in the past and do not plan to pay dividends in the foreseeable future.

The following table summarizes restricted stock unit activity for the six months ended June 30:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value[1]
	(in thousands)		(in thousands)
Outstanding, January 1, 2014	658		
Granted [2]	320	$35.49	
Released	(261)		$12,818
Forfeited	(21)		
Outstanding, June 30, 2014	696		
Outstanding, January 1, 2015	682		
Granted [2]	319	$35.30	
Released	(282)		$11,593
Forfeited	(36)		
Outstanding, June 30, 2015	683		
Vested but not released, June 30, 2015	5		$171
Expected to vest, June 30, 2015	551		$18,965

(1) 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.

(2) Restricted stock units granted in 2014 and 2015 do not include awards under the Performance Award Agreement for the respective years, as these awards are not granted until attainment of annual performance goals has been determined at the conclusion of the performance period, which had not occurred as of June 30, 2014 and 2015,

respectively.

At June 30, 2015, unrecognized compensation expense on restricted stock units was $26.3 million, which is expected to be recognized over a weighted average period of approximately 2.0 years.

Unrestricted Stock Awards

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

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The following table summarizes unrestricted stock award activity for the three and six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands, except per share data)			
Shares of unrestricted stock granted	5	6	8	13
Weighted average grant date fair value per share	$36.31	$35.82	$38.47	$38.23

Employee Stock Purchase Plan

Under the terms of the ESPP, employees can deduct up to 10% of their regular cash compensation to purchase our common stock at a 5% 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 to the employees occurs at the beginning of the subsequent quarter. The ESPP is not considered compensatory, and no compensation expense is recognized for sales of our common stock to employees.

The following table summarizes ESPP activity for the three and six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Shares of stock sold to employees[(1)]	18	20	28	34

(1) 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.

There were approximately 417,000 shares of common stock available for future issuance under the ESPP at June 30, 2015.

Note 10: Income Taxes

Our tax provision (benefit) 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 forecast 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 uncertain tax positions, among other items.

Our tax expense for the three and six months ended June 30, 2015 differed from the federal statutory rate of 35% due to the forecasted mix of earnings in domestic and international jurisdictions and losses experienced in jurisdictions with valuation allowances on deferred tax assets.

Our tax expense for the three and six months ended June 30, 2014 differed from the federal statutory rate of 35% due to the forecasted mix of earnings in domestic and international jurisdictions, estimated benefits of foreign tax credits, the benefit of certain interest expense deductions, and an election under U.S. Internal Revenue Code Section 338 with respect to a foreign acquisition in 2007.

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 recognized were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Net interest and penalties expense	$174	$1,782	$475	$1,239

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Accrued interest and penalties recorded were as follows:

	June 30, 2015	December 31, 2014
	(in thousands)	
Accrued interest	$1,860	$1,755
Accrued penalties	2,682	2,671

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

	June 30, 2015	December 31, 2014
	(in thousands)	
Unrecognized tax benefits related to uncertain tax positions	$28,097	$28,146
The amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate	26,864	26,980

At June 30, 2015, we are under examination by certain tax authorities for the 2000 to 2013 tax years. The material jurisdictions where we are subject to examination include, among others, the United States, France, Germany, Italy, Brazil, and the United Kingdom. No material changes have occurred to previously disclosed assessments. We believe we have appropriately accrued for the expected outcome of all tax matters and do not currently anticipate that the ultimate resolution of these examinations will have a material adverse effect on our financial condition, future results of operations, or liquidity.

Based upon the timing and outcome of examinations, litigation, the impact of legislative, regulatory, and judicial developments, and the impact of these items on the statute of limitations, it is reasonably possible that the related unrecognized tax benefits could change from those recorded within the next twelve months. However, at this time, an estimate of the range of reasonably possible adjustments to the balance of unrecognized tax benefits cannot be made.

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Note 11: Commitments and Contingencies

Guarantees and Indemnifications
We are often required to obtain standby letters of credit (LOCs) or bonds in support of our obligations for customer contracts. These standby LOCs 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 LOCs, and bonds were as follows:

	June 30, 2015	December 31, 2014
	(in thousands)	
Credit facilities[1]		
Multicurrency revolving line of credit	$500,000	$660,000
Long-term borrowings	(147,958)	(91,469)
Standby LOCs issued and outstanding	(49,832)	(50,399)
Net available for additional borrowings under the multi-currency revolving line of credit	$244,472	$518,132
Net available for additional standby LOCs under sub-facility	250,168	449,601
Unsecured multicurrency revolving lines of credit with various financial institutions		
Multicurrency revolving lines of credit	$101,023	$106,855
Standby LOCs issued and outstanding	(31,743)	(28,636)
Short-term borrowings[2]	(3,597)	(4,282)
Net available for additional borrowings and LOCs	$65,683	$73,937
Unsecured surety bonds in force	$72,951	$116,306

(1) Refer to Note 6 for details regarding our secured credit facilities.
(2) 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: 1) the customer promptly notifies us in writing of the claim and 2) we have the sole control of the defense and all related settlement negotiations. We may 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.

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.

In 2010 and 2011, Transdata Incorporated (Transdata) filed lawsuits against four of our customers, CenterPoint Energy (CenterPoint), Tri-County Electric Cooperative, Inc. (Tri-County), San Diego Gas & Electric Company (San Diego), and Texas-New Mexico Power Company (TNMP), as well as several other utilities, alleging infringement of three patents owned by Transdata related to the use of an antenna in a meter. Pursuant to our contractual obligations with our customers, we agreed, subject to certain exceptions, to indemnify and defend them in these lawsuits. The complaints seek unspecified damages as well as injunctive relief. CenterPoint, Tri-County, San Diego, and TNMP have denied all of the substantive allegations and filed counterclaims seeking a declaratory judgment that the patents are invalid and not infringed. In December 2011, the Judicial Panel on Multi-District Litigation

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consolidated all of these cases in the Western District of Oklahoma for pretrial proceedings. On April 17, 2011, the Oklahoma court stayed the litigation pending the resolution of re-examination proceedings in the United States Patent and Trademark Office (U.S. PTO). The U.S. PTO issued re-examination certificates confirming the patentability of the original claims and allowing certain new claims added by Transdata. The parties conducted a claim construction hearing on February 5, 2013 on one claim term -- "electric meter circuitry." After initially adopting the defendants' proposed construction of the term, the Court granted Transdata's motion for reconsideration by order of June 25, 2013 and has adopted Transdata's proposed construction. On October 1, 2013, the Court issued an order construing other claim terms. Fact discovery closed on June 29, 2014. Opening and rebuttal expert reports have been served, and expert depositions have been taken. Both sides have also filed summary judgment motions. The U.S. PTO also instituted additional re-examinations in May 2014 on all three patents but has recently issued Notices of Intent to Issue Re-examination Certificates confirming the patentability of the challenged claims. Petitions for inter partes review (IPR), which is a procedure conducted by the Patent Trial and Appeal Board (the PTAB) of the U.S. PTO in which a party can challenge the validity of a patent, were also filed by General Electric (GE), but the PTAB found the petitions were untimely because, under the PTAB's analysis, GE was in privity with a defendant in the pending litigation (and thus was required to file within one year of the beginning of the litigation). No trials are scheduled. 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.

Itron and its subsidiaries are parties to various employment-related proceedings in jurisdictions where they do business. None of the proceedings are individually material to Itron, and we believe that we have made adequate provision such that the ultimate disposition of the proceedings will not materially affect Itron's business or financial condition.

Warranty

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Beginning balance	$37,065	$46,024	$36,466	$45,146
New product warranties	1,207	1,483	3,007	2,714
Other changes/adjustments to warranties	23,716	(1,039)	27,725	1,054
Claims activity	(4,283)	(3,877)	(7,564)	(6,508)
Effect of change in exchange rates	434	(42)	(1,495)	143
Ending balance	58,139	42,549	58,139	42,549
Less: current portion of warranty	35,589	23,689	35,589	23,689
Long-term warranty	$22,550	$18,860	$22,550	$18,860

Total warranty expense is classified within cost of revenues and consists of new product warranties issued, costs related to extended warranty contracts, and other changes and adjustments to warranties. Warranty expense for the three and six months ended June 30 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Total warranty expense (income)	$24,923	$(644)	$30,732	$2,680

Warranty expense increased during the three and six months ended June 30, 2015 compared with the same periods in 2014 primarily due to special warranty provisions. On May 22, 2015, we issued a product replacement notification to customers of the Water business line who had purchased certain communication modules manufactured between July 2013 and December 2014 due to a component of the modules failing prematurely. As a result, we recognized a warranty charge of $23.6 million during the second quarter of 2015. A charge of $3.1 million was recorded for the same matter in the first quarter of 2015.

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Unearned Revenue Related to Extended Warranty

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Beginning balance	$33,900	$33,590	$34,138	$33,528
Unearned revenue for new extended warranties	820	1,002	1,425	1,850
Unearned revenue recognized	(664)	(735)	(1,313)	(1,404)
Effect of change in exchange rates	28	101	(166)	(16)
Ending balance	34,084	33,958	34,084	33,958
Less: current portion of unearned revenue for extended warranty	3,216	2,475	3,216	2,475
Long-term unearned revenue for extended warranty within other long-term obligations	$30,868	$31,483	$30,868	$31,483

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 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Plan costs	$6,388	$4,713	$12,901	$10,976

The IBNR accrual, which is included in wages and benefits payable, was as follows:

	June 30, 2015	December 31, 2014
	(in thousands)	
IBNR accrual	$2,131	$1,924

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: Restructuring

2014 Projects

In November 2014, our management approved restructuring projects (2014 Projects) to restructure our Electricity business and related general and administrative activities, along with certain Gas and Water activities, to improve operational efficiencies and reduce expenses. The 2014 Projects include consolidation of certain facilities and reduction of our global workforce. The improved structure will position us to meet our long-term profitability goals by better aligning global operations with markets where we can serve our customers profitably.

We began implementing these projects in the fourth quarter of 2014, and we expect to substantially complete these projects by the end of 2016. During the six months ended June 30, 2015, the total expected restructuring costs decreased by approximately $11.3 million. This includes $9.7 million in restructuring expense release, recognized in the six months ended June 30, 2015, resulting from employees, originally identified to be terminated, voluntarily resigning or filling vacant positions in different departments or locations, as well as the results of employee negotiations and the need to keep additional employees to meet revised forecasted demand on certain projects. The remainder of the change in expected costs results from the translation impact of foreign exchange rates. Certain aspects of the projects are subject to a variety of labor and employment laws, rules, and regulations, which could result in a delay in completing the projects at some locations.

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The total expected restructuring costs, the restructuring costs recognized during the six months ended June 30, 2015, and the remaining expected restructuring costs as of June 30, 2015 were as follows:

	Total Expected Costs at June 30, 2015	Costs Recognized in Prior Periods	Costs Recognized During the Six Months Ended June 30, 2015	Remaining Costs to be Recognized at June 30, 2015
	(in thousands)			
Employee severance costs	$35,788	$47,447	$(11,659)	$—
Asset impairments	8,219	7,952	267	—
Other restructuring costs	11,343	401	1,711	9,231
Total	$55,350	$55,800	$(9,681)	$9,231
Segments:				
Electricity	$32,440	$29,660	$(5,830)	$8,610
Gas	11,727	12,185	(684)	226
Water	1,405	1,106	273	26
Corporate unallocated	9,778	12,849	(3,440)	369
Total	$55,350	$55,800	$(9,681)	$9,231

The following table summarizes the activity within the restructuring related balance sheet accounts during the six months ended June 30, 2015:

	Accrued Employee Severance	Asset Impairments & Net Loss on Sale or Disposal	Other Accrued Costs	Total
	(in thousands)			
Beginning balance, January 1, 2015	$59,333	$—	$3,526	$62,859
Costs charged to (released from) expense	(11,659)	267	1,711	(9,681)
Cash payments	(6,188)	—	(1,617)	(7,805)
Non-cash items	—	(267)	—	(267)
Effect of change in exchange rates	(4,448)	—	(227)	(4,675)
Ending balance, June 30, 2015	$37,038	$—	$3,393	$40,431

Other restructuring costs include expenses for employee relocation, professional fees associated with employee severance, and costs to exit the facilities once the operations in those facilities have ceased. Costs associated with restructuring activities are generally presented in the Consolidated Statements of Operations as restructuring, except for certain costs associated with inventory write-downs, which are classified within cost of revenues, and accelerated depreciation expense, which is recognized according to the use of the asset. In addition, our restructuring activities related to the closure of certain facilities resulted in approximately $1.1 million of inventory impairment in 2015. This inventory impairment was recorded in cost of revenues in the Consolidated Statement of Operations.

The current portions of the restructuring related liability balances were $20.6 million and $49.1 million as of June 30, 2015 and December 31, 2014. The current portion of the liability is classified within "Other current liabilities" on the Consolidated Balance Sheets. The long-term portions of the restructuring related liability balances were $19.8 million and $13.8 million as of June 30, 2015 and December 31, 2014. The long-term portion of the restructuring liability is classified within "Other long-term obligations" on the Consolidated Balance Sheets, and includes facility exit costs

and severance accruals. The increase in the long-term portions of the restructuring liability is a result of the timing of headcount reductions resulting from negotiations with various works councils. The majority of the long-term liability is expected to be paid in the third quarter of 2016.

Asset impairments are determined at the asset group level. Revenues and net operating income from the activities we have exited or will exit under the restructuring plan are not material to our operating segments or consolidated results.

2013 Projects

In September 2013, our management approved projects (the 2013 Projects) to restructure our operations to improve profitability and increase efficiencies. We began implementing these projects in the third quarter of 2013, and we expect to substantially

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complete project activities by the third quarter of 2016 and begin recognizing full savings in 2017. While project activities are expected to continue through September 2016, no further costs are expected to be recognized.

The 2013 Projects resulted in approximately $26.2 million of restructuring expense, which was recognized from the third quarter of 2013 through the fourth quarter of 2014.

Note 13: Shareholder's Equity

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 would 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. There was no preferred stock issued or outstanding at June 30, 2015 and December 31, 2014.

Stock Repurchase Plan

On February 7, 2014, Itron's Board of Directors (the Board) authorized a 12-month repurchase program of up to $50 million in shares of our common stock, to begin on March 8, 2014, upon the expiration of the previous stock repurchase program. From March 8, 2014 through December 31, 2014, we repurchased 910,990 shares of our common stock, totaling $36.7 million. From January 1, 2015 through February 2015, we repurchased 335,251 shares of our common stock which fully utilized the remaining $13.3 million authorized under the program.

On February 19, 2015, the Board authorized a new repurchase program of up to $50 million of our common stock over a 12-month period, beginning February 19, 2015. From February 19, 2015 through June 30, 2015, we repurchased 272,775 shares of our common stock, totaling $9.9 million, and $40.1 million remained under the current program for future purchases.

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Other Comprehensive Income (Loss)

OCI is reflected as a net increase (decrease) to Itron, Inc. shareholders' equity and is not reflected in our results of operations. The before-tax amount, income tax (provision) benefit, and net-of-tax amount related to each component of other comprehensive income (loss) during the reporting periods are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Before-tax amount				
Foreign currency translation adjustment	$13,939	$(7,865)	$(47,605)	$(11,388)
Net unrealized gain (loss) on derivative instruments designated as cash flow hedges	(211)	(618)	(808)	(773)
Net hedging loss (gain) reclassified into net income	411	427	823	845
Pension plan benefits liability adjustment	499	169	1,010	308
Total other comprehensive income (loss), before tax	14,638	(7,887)	(46,580)	(11,008)
Tax (provision) benefit				
Foreign currency translation adjustment	(83)	(130)	371	19
Net unrealized gain (loss) on derivative instruments designated as cash flow hedges	81	235	309	295
Net hedging loss (gain) reclassified into net income	(158)	(163)	(315)	(323)
Pension plan benefits liability adjustment	(6)	(51)	(13)	(93)
Total other comprehensive income (loss) tax (provision) benefit	(166)	(109)	352	(102)
Net-of-tax amount				
Foreign currency translation adjustment	13,856	(7,995)	(47,234)	(11,369)
Net unrealized gain (loss) on derivative instruments designated as cash flow hedges	(130)	(383)	(499)	(478)
Net hedging loss (gain) reclassified into net income	253	264	508	522
Pension plan benefits liability adjustment	493	118	997	215
Total other comprehensive income (loss), net of tax	$14,472	$(7,996)	$(46,228)	$(11,110)

The changes in the components of accumulated other comprehensive income (loss) (AOCI), net of tax, were as follows:

	Foreign Currency Translation Adjustments	Net Unrealized Gain (Loss) on Derivative Instruments	Net Unrealized Gain (Loss) on Nonderivative Instruments	Pension Plan Benefit Liability Adjustments	Total
	(in thousands)				
Balances at January 1, 2014	$3,799	$(1,256)	$(14,380)	$(9,885)	$(21,722)
OCI before reclassifications	(11,369)	(478)	—	432	(11,415)

Amounts reclassified from AOCI	—	522	—	(217)	305
Total other comprehensive income (loss)	(11,369)	44	—	215	(11,110)
Balances at June 30, 2014	$(7,570)	$(1,212)	$(14,380)	$(9,670)	$(32,832)
Balances at January 1, 2015	$(86,534)	$(768)	$(14,380)	$(34,832)	$(136,514)
OCI before reclassifications	(47,234)	(499)	—	(1)	(47,734)
Amounts reclassified from AOCI	—	508	—	998	1,506
Total other comprehensive income (loss)	(47,234)	9	—	997	(46,228)
Balances at June 30, 2015	$(133,768)	$(759)	$(14,380)	$(33,835)	$(182,742)

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Details about the AOCI components reclassified to the Consolidated Statements of Operations during the reporting periods are as follows:

	Amount Reclassified from AOCI[1]				Affected Line Item in the Consolidated Statements of Operations
	Three Months Ended June 30,		Six Months Ended June 30,		
	2015	2014	2015	2014	
	(in thousands)				
Amortization of defined benefit pension items					
Prior-service costs	$(14)	$(18)	$(29)	$(36)	[2]
Actuarial losses	(485)	(122)	(982)	(245)	[2]
Other	—	(29)	—	(29)	[2]
Total, before tax	(499)	(169)	(1,011)	(310)	Income (loss) before income taxes
Tax benefit (provision)	6	51	13	93	Income tax provision
Total, net of tax	(493)	(118)	(998)	(217)	Net income (loss)
Total reclassifications for the period, net of tax	$(493)	$(118)	$(998)	$(217)	Net income (loss)

(1) Amounts in parenthesis indicate debits to the Consolidated Statements of Operations.
(2) These AOCI components are included in the computation of net periodic pension cost. Refer to Note 8 for additional details.

Refer to Note 7 for additional details related to derivative activities that resulted in reclassification of AOCI to the Consolidated Statements of Operations.

Note 14: Fair Values of Financial Instruments

The fair values at June 30, 2015 and December 31, 2014 do not reflect subsequent changes in the economy, interest rates, and other variables that may affect the determination of fair value. The following table presents the fair values of our financial instruments as of the balance sheet dates:

	June 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(in thousands)		
Assets				
Cash and cash equivalents	$128,814	$128,814	$112,371	$112,371
Foreign exchange forwards	103	103	107	107
Interest rate swaps				