

ITRON INC /WA/  
Form 10-Q  
November 05, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 000-22418

ITRON, INC.

(Exact name of registrant as specified in its charter)

Washington

(State of Incorporation)

2111 N Molter Road, Liberty Lake, Washington 99019

(509) 924-9900

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

91-1011792

(I.R.S. Employer Identification Number)

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

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

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

Large accelerated filer

Accelerated filer

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

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

As of October 31, 2015 there were outstanding 37,897,742 shares of the registrant's common stock, no par value, which is the only class of common stock of the registrant.



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## PART I: FINANCIAL INFORMATION

## Item 1: Financial Statements (Unaudited)

## ITRON, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

## (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands, except per share data)			
Revenues	\$469,092	\$496,454	\$1,387,442	\$1,460,602
Cost of revenues	322,126	345,692	983,706	992,264
Gross profit	146,966	150,762	403,736	468,338
Operating expenses				
Sales and marketing	39,217	44,484	123,302	138,212
Product development	41,559	42,303	126,399	130,711
General and administrative	31,118	36,542	103,195	114,629
Amortization of intangible assets	7,869	10,917	23,730	33,096
Restructuring	(5	) 58	(9,686	) (2,211
Goodwill impairment	—	—	—	977
Total operating expenses	119,758	134,304	366,940	415,414
Operating income	27,208	16,458	36,796	52,924
Other income (expense)				
Interest income	180	163	440	313
Interest expense	(2,799	) (3,015	) (9,336	) (8,837
Other income (expense), net	(1,120	) (1,569	) (3,003	) (5,442
Total other income (expense)	(3,739	) (4,421	) (11,899	) (13,966
Income before income taxes	23,469	12,037	24,897	38,958
Income tax provision	(10,144	) (4,484	) (19,673	) (11,679
Net income	13,325	7,553	5,224	27,279
Net income attributable to noncontrolling interests	630	245	1,817	966
Net income attributable to Itron, Inc.	\$12,695	\$7,308	\$3,407	\$26,313
Earnings per common share - Basic	\$0.33	\$0.19	\$0.09	\$0.67
Earnings per common share - Diluted	\$0.33	\$0.19	\$0.09	\$0.67
Weighted average common shares outstanding - Basic	38,114	39,213	38,329	39,268
Weighted average common shares outstanding - Diluted	38,358	39,493	38,591	39,516

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Net income	\$13,325	\$7,553	\$5,224	\$27,279
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(16,700	) (49,391	) (63,934	) (60,760
Foreign currency translation adjustment reclassified into net income on disposal	962	—	962	—
Net unrealized gain (loss) on derivative instruments, designated as cash flow hedges	(182	) 134	(681	) (344
Net hedging loss reclassified into net income	253	266	761	788
Pension plan benefit liability adjustment	866	98	1,863	313
Total other comprehensive income (loss), net of tax	(14,801	) (48,893	) (61,029	) (60,003
Total comprehensive income (loss), net of tax	(1,476	) (41,340	) (55,805	) (32,724
Comprehensive income attributable to noncontrolling interests, net of tax	630	245	1,817	966
Comprehensive income (loss) attributable to Itron, Inc.	\$(2,106	) \$(41,585	) \$(57,622	) \$(33,690

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

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## ITRON, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands)

	September 30, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 109,458	\$ 112,371
Accounts receivable, net	340,423	348,389
Inventories	214,237	154,504
Deferred tax assets current, net	35,975	39,115
Other current assets	106,059	104,307
Total current assets	806,152	758,686
Property, plant, and equipment, net		
Deferred tax assets noncurrent, net	190,295	207,789
Other long-term assets	59,830	74,598
Intangible assets, net	27,192	28,503
Goodwill	111,767	139,909
Total assets	474,965	500,820
	\$ 1,670,201	\$ 1,710,305
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Accounts payable	\$ 201,450	\$ 184,132
Other current liabilities	68,140	100,945
Wages and benefits payable	93,206	95,248
Taxes payable	13,210	21,951
Current portion of debt	11,250	30,000
Current portion of warranty	40,060	21,063
Unearned revenue	44,639	43,436
Total current liabilities	471,955	496,775
Long-term debt		
Long-term warranty	369,457	293,969
Pension plan benefit liability	14,684	15,403
Deferred tax liabilities noncurrent, net	94,100	101,432
Other long-term obligations	3,569	3,808
Total liabilities	81,628	84,437
	1,035,393	995,824
Commitments and contingencies		
Equity		
Preferred stock	—	—
Common stock	1,246,177	1,270,045
Accumulated other comprehensive loss, net	(197,543)	) (136,514
Accumulated deficit	(433,184)	) (436,591
Total Itron, Inc. shareholders' equity	615,450	696,940
Noncontrolling interests	19,358	17,541
Total equity	634,808	714,481

Total liabilities and equity	\$ 1,670,201	\$ 1,710,305
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Nine Months Ended September 30,	
	2015	2014
	(in thousands)	
Operating activities		
Net income	\$5,224	\$27,279
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	58,514	75,233
Stock-based compensation	10,879	12,703
Amortization of prepaid debt fees	1,851	1,212
Deferred taxes, net	14,926	(9,787)
Goodwill impairment	—	977
Restructuring, non-cash	1,395	—
Other adjustments, net	1,877	120
Changes in operating assets and liabilities:		
Accounts receivable	(12,401)	(1,576)
Inventories	(73,212)	(23,986)
Other current assets	(4,696)	(5,298)
Other long-term assets	605	(1,396)
Accounts payable, other current liabilities, and taxes payable	(11,666)	19,669
Wages and benefits payable	4,110	6,717
Unearned revenue	4,128	11,800
Warranty	20,280	(3,544)
Other operating, net	(1,660)	6,415
Net cash provided by operating activities	20,154	116,538
Investing activities		
Acquisitions of property, plant, and equipment	(33,324)	(32,060)
Business acquisitions, net of cash and cash equivalents acquired	(5,754)	—
Other investing, net	545	(193)
Net cash used in investing activities	(38,533)	(32,253)
Financing activities		
Proceeds from borrowings	89,709	—
Payments on debt	(30,186)	(68,750)
Issuance of common stock	2,229	2,324
Repurchase of common stock	(35,278)	(15,324)
Other financing, net	1,881	2,395
Net cash provided by (used in) financing activities	28,355	(79,355)
Effect of foreign exchange rate changes on cash and cash equivalents	(12,889)	(7,260)
Decrease in cash and cash equivalents	(2,913)	(2,330)
Cash and cash equivalents at beginning of period	112,371	124,805
Cash and cash equivalents at end of period	\$109,458	\$122,475



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Non-cash transactions:

Property, plant, and equipment purchased but not yet paid	\$690	\$832
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Supplemental disclosure of cash flow information:

Cash paid during the period for:

Income taxes, net	\$22,578	\$8,528
Interest, net of amounts capitalized	7,549	7,536

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

September 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 nine months ended September 30, 2015 and 2014, the Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014, and the Consolidated Statements of Cash Flows for the nine months ended September 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 nine months ended September 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 and other comprehensive income 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.

Business Acquisition

On August 26, 2015, we completed our acquisition of 100% of Temetra Limited (Temetra) in a stock purchase. Temetra is a technology company focused on meter data management and meter data collection in the water industry with a software-as-a-service business model. The acquisition strengthens Itron's data analytics capabilities and provides water utility customers with additional cloud-based technology options. The acquisition consisted of cash

and contingent consideration. This acquisition is not considered significant to our financial position, results of operations, and cash flows. See Business Combinations policy below.

#### Cash and Cash Equivalents

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

#### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded for invoices issued to customers in accordance with our contractual arrangements. Interest and late payment fees are minimal. Unbilled receivables are recorded when revenues are recognized upon product shipment or service delivery and invoicing occurs at a later date. We record an allowance for doubtful accounts representing our estimate of the probable losses in accounts receivable at the date of the balance sheet based on our historical experience of bad debts and our specific review

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of outstanding receivables. Accounts receivable are written-off against the allowance when we believe an account, or a portion thereof, is no longer collectible.

### Inventories

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

### Derivative Instruments

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

#### 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

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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. 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,

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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 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 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.

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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 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 liquidated damages are deemed probable of occurrence and are reasonably estimable.

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

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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 \$78.2 million and \$76.6 million at September 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 \$11.7 million and \$24.9 million at September 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

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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, Interest - Imputation of Interest (Subtopic 835-30) - 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

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entities to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the normal course 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.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805) - Simplifying the Accounting for Measurement-Period Adjustments. The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period with a corresponding adjustment to goodwill in the reporting period in which the adjustment amounts are determined. The effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the change to the provisional amounts will be recorded in the same period's financial statements, calculated as if the accounting had been completed at the acquisition date. This ASU is effective for fiscal years beginning after December 15, 2015, and early adoption is permitted. The amendments in this update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update with earlier application permitted for financial statements that have not been issued. We adopted this ASU on October 1, 2015, and we do not anticipate a material impact from adoption.



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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 September 30, 2015		Nine Months Ended September 30, 2015	
	2014	2014	2014	2014
	(in thousands, except per share data)			
Net income available to common shareholders	\$12,695	\$7,308	\$3,407	\$26,313
Weighted average common shares outstanding - Basic	38,114	39,213	38,329	39,268
Dilutive effect of stock-based awards	244	280	262	248
Weighted average common shares outstanding - Diluted	38,358	39,493	38,591	39,516
Earnings per common share - Basic	\$0.33	\$0.19	\$0.09	\$0.67
Earnings per common share - Diluted	\$0.33	\$0.19	\$0.09	\$0.67

## 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 1.1 million and 1.2 million stock-based awards were excluded from the calculation of diluted EPS for the three and nine months ended September 30, 2015, and 2014 because they were anti-dilutive. These stock-based awards could be dilutive in future periods.

## Note 3: Certain Balance Sheet Components

	September 30, 2015 (in thousands)	December 31, 2014
Accounts receivable, net		
Trade receivables (net of allowance of \$4,959 and \$6,195)	\$298,895	\$312,302
Unbilled receivables	41,528	36,087
Total accounts receivable, net	\$340,423	\$348,389

At September 30, 2015 and December 31, 2014, \$4.5 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 September 30, 2015 and December 31, 2014, contract retainage amounts that were unbilled and classified as unbilled receivables were \$4.7 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 September 30, 2015 and December 31, 2014, long-term unbilled receivables totaled \$3.8 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 September 30, 2015 and December 31, 2014.

Allowance for doubtful accounts activity    Three Months Ended September 30,    Nine Months Ended September 30,

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	2015	2014	2015	2014
	(in thousands)			
Beginning balance	\$5,422	\$7,355	\$6,195	\$8,368
Provision (release) for doubtful accounts, net	(141	) (356	) (111	) (545
Accounts written-off	(162	) (233	) (503	) (1,023
Effect of change in exchange rates	(160	) (242	) (622	) (276
Ending balance	\$4,959	\$6,524	\$4,959	\$6,524

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Inventories	September 30, 2015 (in thousands)	December 31, 2014
Materials	\$123,730	\$90,557
Work in process	10,193	8,991
Finished goods	80,314	54,956
Total inventories	\$214,237	\$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 \$3.0 million and \$2.5 million at September 30, 2015 and December 31, 2014, respectively.

Property, plant, and equipment, net	September 30, 2015 (in thousands)	December 31, 2014
Machinery and equipment	\$278,609	\$287,448
Computers and software	107,328	100,212
Buildings, furniture, and improvements	130,009	134,461
Land	20,758	21,186
Construction in progress, including purchased equipment	24,784	21,007
Total cost	561,488	564,314
Accumulated depreciation	(371,193	) (356,525
Property, plant, and equipment, net	\$190,295	\$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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Depreciation expense	\$11,885	\$13,691	\$34,784	\$42,118

## Note 4: Intangible Assets

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

	September 30, 2015			December 31, 2014		
	Gross Assets	Accumulated Amortization	Net	Gross Assets	Accumulated Amortization	Net
	(in thousands)					
Core-developed technology	\$392,667	\$(357,007	) \$35,660	\$405,434	\$(359,500	) \$45,934
Customer contracts and relationships	242,627	(168,552	) 74,075	262,930	(172,755	) 90,175
Trademarks and trade names	64,808	(62,884	) 1,924	68,205	(64,905	) 3,300

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Other	11,131	(11,023	) 108	11,579	(11,079	) 500
Total intangible assets	\$711,233	\$(599,466	) \$111,767	\$748,148	\$(608,239	) \$139,909

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A summary of intangible asset activity is as follows:

	Nine Months Ended September 30,	
	2015	2014
	(in thousands)	
Beginning balance, intangible assets, gross	\$748,148	\$804,281
Intangible assets acquired	4,827	1,453
Intangible assets impaired	(497	) —
Effect of change in exchange rates	(41,245	) (35,742
Ending balance, intangible assets, gross	\$711,233	\$769,992

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 acquired in 2015 are based on the preliminary purchase price allocation relating to our acquisition of Temetra. Refer to Note 5 for additional information regarding this acquisition. The following table reflects our preliminary allocation of purchase price for intangible assets acquired on August 26, 2015:

	Fair Value	Weighted Average
	(in thousands)	Useful Life
		(in years)
Identified intangible assets		
Core-developed technology	\$4,378	7.0
Customer contracts and relationships	337	7.0
Trademarks and trade names	56	3.0
Other	56	2.0
Total identified intangible assets subject to amortization	\$4,827	6.9

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 September 30, 2015)	\$8,189
2016	25,566
2017	19,005
2018	13,271
2019	10,448
Beyond 2019	35,288
Total intangible assets subject to amortization	\$111,767

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## Note 5: Goodwill

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

	Electricity (in thousands)	Gas	Water	Total Company
Balances 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
Balances at September 30, 2015				
Goodwill before impairment	421,608	336,870	357,103	1,115,581
Accumulated impairment losses	(368,332)	) —	(272,284)	) (640,616)
Goodwill, net	\$53,276	\$336,870	\$84,819	\$474,965

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.

On August 26, 2015, we completed our acquisition of 100% of Temetra in a stock purchase. Goodwill acquired in 2015 is based on the preliminary purchase price allocation of the Temetra acquisition. We are continuing to collect information to determine the fair values of accrued liabilities and contingent consideration, both of which would affect goodwill. Due to the timing of the acquisition, we completed a preliminary assessment of the fair values of these liabilities, and as a result, the fair values of these liabilities are provisional until we are able to complete our assessment. The preliminary purchase price of Temetra includes the following:

	Total Preliminary Purchase Price (in thousands)
Cash paid (net of \$1,395 cash received)	\$5,754
Estimated working capital adjustment	905
Estimated fair value of contingent consideration	2,673
Total preliminary purchase price	\$9,332

The estimated contingent consideration could be earned by the former Temetra shareholders based on Temetra's operational performance through the end of 2018. Refer to Note 4 for additional information regarding this acquisition. Pro forma information has not been provided as the acquisition is not considered significant.

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.

## Note 6: Debt

The components of our borrowings were as follows:

	September 30, 2015 (in thousands)	December 31, 2014
Credit facility:		
USD denominated term loan	\$222,188	\$232,500
Multicurrency revolving line of credit	158,519	91,469
Total debt	380,707	323,969
Less: current portion of debt	11,250	30,000
Long-term debt	\$369,457	\$293,969

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## Credit Facility

On June 23, 2015, we entered into an amended and restated credit agreement providing for committed credit facilities in the amount of \$725 million U.S. dollars (the 2015 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 September 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 September 30, 2015, the interest rate for both the term loan and the USD revolver was 1.95% (the LIBOR rate plus a margin of 1.75%), and the interest rate for the EUR revolver was 1.75% (the EURIBOR floor rate plus a margin of 1.75%).

Total credit facility repayments were as follows:

	Nine Months Ended September 30,	
	2015	2014
	(in thousands)	
Term loan	\$10,313	\$18,750
Multicurrency revolving line of credit	19,873	50,000
Total credit facility repayments	\$30,186	\$68,750

At September 30, 2015, \$158.5 million was outstanding under the credit facility revolver, and \$238.4 million was available for additional borrowings or standby letters of credit due to the most recent total leverage ratio. At September 30, 2015, \$46.2 million was utilized by outstanding standby letters of credit, resulting in \$253.8 million available for additional standby letters of credit. 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 \$3.9 million were capitalized associated with the 2015 credit facility. Unamortized prepaid debt fees were as follows:

	September 30, 2015 (in thousands)	December 31, 2014
Unamortized prepaid debt fees	\$4,422	\$2,298

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## 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 September 30, 2015 (in thousands)	December 31, 2014
<b>Asset Derivatives</b>			
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	331	107
Total asset derivatives		\$331	\$182
<b>Liability Derivatives</b>			
Derivatives designated as hedging instruments under ASC 815-20			
Interest rate swap contracts	Other current liabilities	\$1,111	\$1,317
Derivatives not designated as hedging instruments under ASC 815-20			
Foreign exchange forward contracts	Other current liabilities	383	236
Total liability derivatives		\$1,494	\$1,553

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

	2015 (in thousands)	2014
Net unrealized loss on hedging instruments at January 1,	\$(15,148	) \$(15,636
Unrealized loss on hedging instruments	(681	) (344
Realized losses reclassified into net income	761	788
Net unrealized loss on hedging instruments at September 30,	\$(15,068	) \$(15,192

Included in the net unrealized loss on hedging instruments at September 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:

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## Offsetting of Derivative Assets

	Gross Amounts of Recognized Assets Presented in the Consolidated Balance Sheets (in thousands)	Derivative Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheets Cash Collateral Received	Net Amount
September 30, 2015	\$331	\$(331	) \$—	\$—
December 31, 2014	\$182	\$(182	) \$—	\$—

Offsetting of Derivative  
Liabilities

	Gross Amounts of Recognized Liabilities Presented in the Consolidated Balance Sheets (in thousands)	Derivative Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheets Cash Collateral Pledged	Net Amount
September 30, 2015	\$1,494	\$(331	) \$—	\$1,163
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 September 30, 2015 and December 31, 2014. No derivative asset or liability balance with any of our counterparties was individually significant at September 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 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 \$1.1 million. At September 30, 2015, our LIBOR-based debt balance was \$347.2 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.

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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 nine months ended September 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)	
	2015	2014	Location	Amount	Location	Amount
	(in thousands)			2015	2014	2015
Three Months Ended September 30,						
Interest rate swap contracts	\$ (296 )	\$ 217	Interest expense	\$ (412 )	\$ (431 )	Interest expense \$— \$—
Nine Months Ended September 30,						
Interest rate swap contracts	\$ (1,104 )	\$ (556 )	Interest expense	\$ (1,235 )	\$ (1,276 )	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 409 contracts were entered into during the nine months ended September 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 \$118,000 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 nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Foreign exchange forward contracts	\$ (1,278 )	\$ (2,458 )	\$ (3,004 )	\$ (4,389 )

#### 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.

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:

	September 30, 2015 (in thousands)	December 31, 2014
<b>Assets</b>		
Plan assets in other long-term assets	\$400	\$567
<b>Liabilities</b>		
Current portion of pension plan liability in wages and benefits payable	3,498	4,552
Long-term portion of pension plan liability	94,100	101,432
Net pension plan benefit liability	\$97,198	\$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 September 30, 2015 as compared with December 31, 2014.

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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 \$312,000 and \$389,000 to the defined benefit pension plans for the nine months ended September 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 \$382,000 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Service cost	\$904	\$723	\$3,162	\$2,750
Interest cost	595	871	1,820	2,661
Expected return on plan assets	(122	) (158	) (387	) (478
Settlements and other	375	6	374	33
Amortization of actuarial net loss	488	118	1,470	363
Amortization of unrecognized prior service costs	14	17	43	53
Net periodic benefit cost	\$2,254	\$1,577	\$6,482	\$5,382

## 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 nine months ended September 30, stock-based compensation expense and the related tax benefit were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Stock options	\$713	\$606	\$2,005	\$1,706
Restricted stock units	1,969	2,413	8,374	10,307
Unrestricted stock awards	200	230	500	690
Total stock-based compensation	\$2,882	\$3,249	\$10,879	\$12,703
Related tax benefit	\$809	\$850	\$3,189	\$3,523

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 September 30, 2015, 2,830,492 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.

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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 September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	
Dividend yield <sup>(1)</sup>	—	% —	% —	% —	%
Expected volatility <sup>(1)</sup>	—	% 33.6	% 34.5	% 39.3	%
Risk-free interest rate <sup>(1)</sup>	—	% 1.9	% 1.7	% 1.7	%
Expected term (years) <sup>(1)</sup>	—	5.5	5.5	5.5	

<sup>(1)</sup> There were no employee stock options granted for the three months ended September 30, 2015.

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.

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

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value <sup>(1)</sup> (in thousands)	Weighted Average Grant Date Fair Value
Outstanding, January 1, 2014	1,180	\$ 54.79	4.6	\$ 1,300	
Granted	160	35.65			\$ 13.65
Exercised	(41 )	26.17		546	
Forfeited	(7 )	44.06			
Expired	(141 )	69.24			
Outstanding, September 30, 2014	1,151	\$ 51.42	5.1	\$ 1,011	
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	(167 )	53.95			
Outstanding, September 30, 2015	1,123	\$ 49.12	5.4	\$ —	
Exercisable September 30, 2015	739	\$ 55.52	3.8	\$ —	
Expected to vest, September 30, 2015	374	\$ 36.86	8.7	\$ —	

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  
(1) 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 September 30, 2015, total unrecognized stock-based compensation expense related to nonvested stock options was approximately \$3.1 million, which is expected to be recognized over a weighted average period of approximately 1.9 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

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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. 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 September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	
Dividend yield <sup>(1)</sup>	—	% —	% —	% —	%
Expected volatility <sup>(1)</sup>	—	% 30.1	% 30.1	% 32.3	%
Risk-free interest rate <sup>(1)</sup>	—	% 0.7	% 0.7	% 0.4	%
Expected term (years) <sup>(1)</sup>	—	2.3	2.1	2.0	
Weighted average fair value <sup>(1)</sup>	\$—	\$43.05	\$33.48	\$35.15	

(1) There were no long-term performance restricted stock units granted for the three months ended September 30, 2015.

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.



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The following table summarizes restricted stock unit activity for the nine months ended September 30:

	Number of Restricted Stock Units (in thousands)	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value <sup>(1)</sup> (in thousands)
Outstanding, January 1, 2014	658		
Granted <sup>(2)</sup>	330	\$35.64	
Released	(266)	)	\$13,022
Forfeited	(29)	)	
Outstanding, September 30, 2014	693		
Outstanding, January 1, 2015	682		
Granted <sup>(2)</sup>	319	\$35.30	
Released	(288)	)	\$11,852
Forfeited	(54)	)	
Outstanding, September 30, 2015	659		
Vested but not released, September 30, 2015			\$159
Expected to vest, September 30, 2015	537		\$17,131

(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.

Restricted stock units granted in 2014 and 2015 do not include awards under the Performance Award

(2) 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 September 30, 2014 and 2015, respectively.

At September 30, 2015, unrecognized compensation expense on restricted stock units was \$20.6 million, which is expected to be recognized over a weighted average period of approximately 1.9 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands, except per share data)			
Shares of unrestricted stock granted	6	6	14	18
Weighted average grant date fair value per share	\$33.91	\$41.42	\$36.51	\$39.19

#### 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.

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The following table summarizes ESPP activity for the three and nine months ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Shares of stock sold to employees <sup>(1)</sup>	11	13	39	47

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

There were approximately 406,000 shares of common stock available for future issuance under the ESPP at September 30, 2015.

## Note 10: Income Taxes

Our tax provision as a percentage of income 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 nine months ended September 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 nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Net interest and penalties expense	\$170	\$237	\$645	\$1,476

Accrued interest and penalties recorded were as follows:

	September 30, 2015	December 31, 2014
	(in thousands)	
Accrued interest	\$1,886	\$1,755
Accrued penalties	2,585	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:

	September 30, 2015	December 31, 2014
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	(in thousands)	
Unrecognized tax benefits related to uncertain tax positions	\$32,973	\$28,146
The amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate	31,660	26,980

At September 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

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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.

## 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:

	September 30, 2015 (in thousands)	December 31, 2014
Credit facilities <sup>(1)</sup>		
Multicurrency revolving line of credit	\$500,000	\$660,000
Long-term borrowings	(158,519	) (91,469
Standby LOCs issued and outstanding	(46,230	) (50,399
		)
Net available for additional borrowings under the multi-currency revolving line of credit	\$238,395	\$518,132
Net available for additional standby LOCs under sub-facility	253,770	449,601
Unsecured multicurrency revolving lines of credit with various financial institutions		
Multicurrency revolving lines of credit	\$99,147	\$106,855
Standby LOCs issued and outstanding	(31,610	) (28,636
Short-term borrowings <sup>(2)</sup>	(9,360	) (4,282
Net available for additional borrowings and LOCs	\$58,177	\$73,937
Unsecured surety bonds in force	\$80,745	\$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.

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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 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. Following expert reports and depositions, both sides filed various summary judgment motions. On August 28, 2015, the Court issued orders on the motions. Among other things, the Court granted Transdata's motion for summary judgment that certain prior art did not invalidate the claims, denied CenterPoint's and SDG&E's motion for summary judgment that they did not infringe certain asserted claims, and granted defendants' motion for summary judgment on the issue of willfulness. Defendants have moved for reconsideration of the first two orders. Transdata has moved to have the cases remanded to their originating districts for trial. Defendants are opposing the motion on the basis that the motions for reconsideration should be decided first and/or certain issues should be certified for immediate appeal. The U.S. PTO also instituted additional re-examinations in May 2014 on all three patents but issued Notices of Intent to Issue Re-examination Certificates confirming the patentability of the challenged claims. Petitions for inter partes review, 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. In addition, Transdata filed a complaint in the Eastern District of Texas on September 13, 2015 asserting that Itron infringes the three patents in the litigation above. The complaint seeks unspecified damages and injunctive relief. We have not yet responded to the complaint, and there is currently no schedule for the case. We do not believe these matters 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 September 30,		Nine Months Ended September 30,	
2015	2014	2015	2014

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	(in thousands)				
Beginning balance	\$58,139	\$42,549	\$36,466	\$45,146	
New product warranties	1,760	2,278	4,767	4,992	
Other changes/adjustments to warranties	2,363	2,632	30,088	3,686	
Claims activity	(7,147	) (5,605	) (14,711	) (12,113	)
Effect of change in exchange rates	(371	) (1,500	) (1,866	) (1,357	)
Ending balance	54,744	40,354	54,744	40,354	
Less: current portion of warranty	40,060	22,283	40,060	22,283	
Long-term warranty	\$14,684	\$18,071	\$14,684	\$18,071	

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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 nine months ended September 30 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Total warranty expense	\$4,123	\$4,910	\$34,855	\$8,678

Warranty expense increased during the nine months ended September 30, 2015 compared with 2014 primarily due to special warranty provisions. During the second quarter of 2015, we concluded it was necessary to issue a product replacement notification to customers of our Water segment who had purchased certain communication modules manufactured between July 2013 and December 2014. We determined that a component of the modules was failing prematurely. The charge recorded for this matter during the nine months ended September 30, 2015 was \$28.2 million.

Unearned Revenue Related to Extended Warranty

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Beginning balance	\$34,084	\$33,958	\$34,138	\$33,528
Unearned revenue for new extended warranties	826	987	2,251	2,837
Unearned revenue recognized	(716	) (633	) (2,029	) (2,037
Effect of change in exchange rates	(187	) (121	) (353	) (137
Ending balance	34,007	34,191	34,007	34,191
Less: current portion of unearned revenue for extended warranty	3,416	2,592	3,416	2,592
Long-term unearned revenue for extended warranty within other long-term obligations	\$30,591	\$31,599	\$30,591	\$31,599

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Plan costs	\$5,803	\$5,694	\$18,704	\$16,670

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

	September 30, 2015 (in thousands)	December 31, 2014
IBNR accrual	\$2,115	\$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.

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## 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 nine months ended September 30, 2015, the total expected restructuring costs decreased by approximately \$16.3 million. This includes \$9.7 million in restructuring expense release, recognized in the nine months ended September 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 result of employee negotiations and the need to keep additional employees to meet revised forecasted demand on certain projects. In addition, we are expecting lower future legal costs associated with the termination of employees in certain locations. The favorable change in the translation impact of foreign exchange rates also lowered the expected remaining costs to be recognized. We also recognized a loss of \$630,000 on the sale of a non-core business during the third quarter of 2015 as part of our restructuring activities. This loss is included in the Asset impairment & net loss on sale or disposal line in the table below. 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.

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

	Total Expected Costs at September 30, 2015	Costs Recognized in Prior Periods	Costs Recognized During the Nine Months Ended September 30, 2015	Remaining Costs to be Recognized at September 30, 2015
	(in thousands)			
Employee severance costs	\$33,982	\$47,447	\$(13,465)	) \$—
Asset impairments & net loss on sale or disposal	9,347	7,952	1,395	—
Other restructuring costs	7,067	401	2,384	4,282
Total	\$50,396	\$55,800	\$(9,686)	) \$4,282
Segments:				
Electricity	\$25,924	\$29,660	\$(7,790)	) \$4,054
Gas	10,981	12,185	(1,303)	) 99
Water	1,725	1,106	597	22
Corporate unallocated	11,766	12,849	(1,190)	) 107
Total	\$50,396	\$55,800	\$(9,686)	) \$4,282

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

Accrued Employee Severance	Asset Impairments & Net Loss on Sale	Other Accrued Costs	Total
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	(in thousands)	or Disposal			
Beginning balance, January 1, 2015	\$59,333	\$—	\$3,526	\$62,859	
Costs charged to (released from) expense	(13,465	) 1,395	2,384	(9,686	)
Cash payments	(9,450	) —	(2,575	) (12,025	)
Non-cash items	—	(1,395	) —	(1,395	)
Effect of change in exchange rates	(4,563	) —	(241	) (4,804	)
Ending balance, September 30, 2015	\$31,855	\$—	\$3,094	\$34,949	

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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 \$23.3 million and \$49.1 million as of September 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 \$11.7 million and \$13.8 million as of September 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.

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 projects 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 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 September 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 September 30, 2015, we repurchased 655,178 shares of our common stock, totaling \$22.0 million, and \$28.0 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 September 30, 2015		Nine Months Ended September 30, 2014	
		2014	2015	2014
	(in thousands)			
Before-tax amount				
Foreign currency translation adjustment	\$ (17,025	) \$ (49,820	) \$ (64,630	) \$ (61,208
Foreign currency translation adjustment reclassified into net income on disposal	962	—	962	—
Net unrealized gain (loss) on derivative instruments designated as cash flow hedges	(296	) 217	(1,104	) (556
Net hedging loss reclassified into net income	412	430	1,235	1,275
Pension plan benefits liability adjustment	877	141	1,887	449
Total other comprehensive income (loss), before tax	(15,070	) (49,032	) (61,650	) (60,040
Tax (provision) benefit				
Foreign currency translation adjustment	325	429	696	448
Foreign currency translation adjustment reclassified into net income on disposal	—	—	—	—
Net unrealized gain (loss) on derivative instruments designated as cash flow hedges	114	(83	) 423	212
Net hedging loss reclassified into net income	(159	) (164	) (474	) (487
Pension plan benefits liability adjustment	(11	) (43	) (24	) (136
Total other comprehensive income (loss) tax (provision) benefit	269	139	621	37
Net-of-tax amount				
Foreign currency translation adjustment	(16,700	) (49,391	) (63,934	) (60,760
Foreign currency translation adjustment reclassified into net income on disposal	962	—	962	—
Net unrealized gain (loss) on derivative instruments designated as cash flow hedges	(182	) 134	(681	) (344
Net hedging loss reclassified into net income	253	266	761	788
Pension plan benefits liability adjustment	866	98	1,863	313
Total other comprehensive income (loss), net of tax	\$(14,801	) \$(48,893	) \$(61,029	) \$(60,003

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

Foreign Currency Translation	Net Unrealized Gain (Loss) on Derivative	Net Unrealized Gain (Loss) on Nonderivative	Pension Plan Benefit Liability	Total
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	Adjustments (in thousands)	Instruments	Instruments	Adjustments	
Balances at January 1, 2014	\$3,799	\$(1,256	) \$(14,380	) \$(9,885	) \$(21,722 )
OCI before reclassifications	(60,760	) (344	) —	627	(60,477 )
Amounts reclassified from AOCI	—	788	—	(314	) 474
Total other comprehensive income (loss)	(60,760	) 444	—	313	(60,003 )
Balances at September 30, 2014	\$(56,961	) \$(812	) \$(14,380	) \$(9,572	) \$(81,725 )
Balances at January 1, 2015	\$(86,534	) \$(768	) \$(14,380	) \$(34,832	) \$(136,514 )
OCI before reclassifications	(63,934	) (681	) —	(1	) (64,616 )
Amounts reclassified from AOCI	962	761	—	1,864	3,587
Total other comprehensive income (loss)	(62,972	) 80	—	1,863	(61,029 )
Balances at September 30, 2015	\$(149,506	) \$(688	) \$(14,380	) \$(32,969	) \$(197,543 )

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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 <sup>(1)</sup>				Affected Line Item in the Consolidated Statements of Operations
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	
	(in thousands)				
Amortization of defined benefit pension items					
Prior-service costs	\$(14 )	\$(17 )	\$(43 )	\$(53 )	(2)
Actuarial losses	(488 )	(118 )	(1,470 )	(363 )	(2)
Settlement and Other	(375 )	(6 )	(375 )	(35 )	(2)
Total, before tax	(877 )	(141 )	(1,888 )	(451 )	Income before income taxes
Tax benefit (provision)	11	43	24	137	Income tax provision
Total, net of tax	(866 )	(98 )	(1,864 )	(314 )	Net income
Total reclassifications for the period, net of tax	\$(866 )	\$(98 )	\$(1,864 )	\$(314 )	Net income

<sup>(1)</sup> Amounts in parenthesis indicate debits to the Consolidated Statements of Operations.

<sup>(2)</sup> These AOCI components are included in the computation of net periodic pension cost. Refer to Note 8 for additional details.

We reclassified \$962,000 of accumulated currency translation loss into net income upon sale of an insignificant business in Europe. This reclassification was included in restructuring in the Consolidated Statements of Operations. There was no tax impact as a result of this transaction.

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 September 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:

	September 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Assets				
Cash and cash equivalents	\$109,458	\$109,458	\$112,371	\$112,371
Foreign exchange forwards	331	331	107	107
Interest rate swaps	—	—	75	75
Liabilities				
Credit facility				

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USD denominated term loan	\$222,188	\$222,177	\$232,500	\$231,645
Multicurrency revolving line of credit	158,519	158,523	91,469	91,124
Interest rate swaps	1,111	1,111	1,317	1,317
Foreign exchange forwards	383	383	236	236

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

Cash and cash equivalents: Due to the liquid nature of these instruments, the carrying amount approximates fair value (Level 1).

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Credit facility - term loan and multicurrency revolving line of credit: The term loan and revolver are not traded publicly. The fair values, which are valued based upon a hypothetical market participant, are calculated using a discounted cash flow model with Level 2 inputs, including estimates of incremental borrowing rates for debt with similar terms, maturities, and credit profiles. Due to the proximity between entering into the 2015 credit facility and the balance sheet date, the carrying amounts approximate fair value for the term loan and multicurrency revolving line of credit. Refer to Note 6 for a further discussion of our debt.

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

## Note 15: Segment Information

We operate under the Itron brand worldwide and manage and report under three operating segments, Electricity, Gas, and Water. Our Water operating segment includes both our global water and heat solutions. This structure allows each segment to develop its own go-to-market strategy, prioritize its marketing and product development requirements, and focus on its strategic investments. Our sales, marketing, and delivery functions are managed under each segment. Our product development and manufacturing operations are managed on a worldwide basis to promote a global perspective in our operations and processes and yet still maintain alignment with the segments.

We have three GAAP measures of segment performance: revenue, gross profit (margin), and operating income (margin). Our operating segments have distinct products, and, therefore, intersegment revenues are minimal. Certain operating expenses are allocated to the operating segments based upon internally established allocation methodologies. Corporate operating expenses, interest income, interest expense, other income (expense), and income tax provision are not allocated to the segments, nor included in the measure of segment profit or loss. In addition, we allocate only certain production assets and intangible assets to our operating segments. We do not manage the performance of the segments on a balance sheet basis.

## Segment Products

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





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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Revenues				
Electricity	\$206,389	\$203,441	\$603,651	\$567,414
Gas	136,588	149,276	401,063	449,707
Water	126,115	143,737	382,728	443,481
Total Company	\$469,092	\$496,454	\$1,387,442	\$1,460,602
Gross profit				
Electricity	\$56,859	\$45,959	\$164,601	\$141,675
Gas	45,916	53,492	133,541	168,609
Water	44,191	51,311	105,594	158,054
Total Company	\$146,966	\$150,762	\$403,736	\$468,338
Operating income (loss)				
Electricity	\$10,575	\$(11,196)	) \$16,875	\$(35,412)
Gas	15,741	23,836	44,075	73,889
Water	14,290	19,157	10,876	60,319
Corporate unallocated	(13,398)	) (15,339)	) (35,030)	) (45,872)
Total Company	27,208	16,458	36,796	52,924
Total other income (expense)	(3,739)	) (4,421)	) (11,899)	) (13,966)
Income before income taxes	\$23,469	\$12,037	\$24,897	\$38,958

During the second quarter of 2015, we concluded it was necessary to issue a product replacement notification to customers of our Water segment who had purchased certain communication modules manufactured between July 2013 and December 2014. We determined that a component of the modules was failing prematurely. This resulted in a decrease to gross profit of \$1.5 million and \$28.2 million for the three and nine months ended September 30, 2015. After adjusting for the tax impact, this charge resulted in a decrease to basic and diluted earnings per share of \$0.02 and \$0.45 for the three and nine months ended September 30, 2015.

For the three and nine months ended September 30, 2015, our Electricity segment recognized reimbursements of \$3.4 million and \$8.0 million (classified as an acquisition-related cost recovery within general and administrative expense). These reimbursements were received from certain former SmartSynch, Inc. (SmartSynch) shareholders related to the settlement of litigation, arising from the SmartSynch acquisition, which we paid in February 2015.

For the three months ended September 30, 2015, one customer represented 11% of total Electricity segment revenues. For the three months ended September 30, 2015, no single customer represented more than 10% of the total Company, Gas, or Water operating segment revenues. For the three months ended September 30, 2014, no single customer represented more than 10% of total Company or the Electricity, Gas, or Water operating segment revenues. For the nine months ended September 30, 2015 and September 30, 2014, no single customer represented more than 10% of total Company or the Electricity, Gas, or Water operating segment revenues.

Revenues by region were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
United States and Canada	\$257,901	\$237,684	\$742,927	\$652,390

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Europe, Middle East, and Africa	166,231	201,673	509,322	641,434
Other <sup>(1)</sup>	44,960	57,097	135,193	166,778
Total revenues	\$469,092	\$496,454	\$1,387,442	\$1,460,602

<sup>(1)</sup> The Other region includes our operations in Latin America and Asia Pacific.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Electricity	\$8,875	\$11,596	\$27,419	\$36,754
Gas	5,502	6,486	16,045	19,590
Water	5,282	6,466	14,810	18,679
Corporate Unallocated	95	79	240	210
Total Company	\$19,754	\$24,627	\$58,514	\$75,233

## Note 16: Subsequent Event

## Stock Repurchases

Subsequent to September 30, 2015, we repurchased 88,266 shares of our common stock under the stock repurchase program authorized by the Board of Directors on February 19, 2015. The average price paid per share was \$34.04.

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

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes included in this report and with our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission (SEC) on February 20, 2015.

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

### Certain Forward-Looking Statements

This document contains forward-looking statements concerning our operations, financial performance, revenues, earnings growth, liquidity, and other items. This document reflects our current plans and expectations and is based on information currently available as of the date of this Quarterly Report on Form 10-Q. When we use the words "expect," "intend," "anticipate," "believe," "plan," "project," "estimate," "future," "objective," "may," "will," "will continue," and similar terms, they are intended to identify forward-looking statements. Forward-looking statements rely on a number of assumptions and estimates. These assumptions and estimates could be inaccurate and cause our actual results to vary materially from expected results. Risks and uncertainties include 1) the rate and timing of customer demand for our products, 2) failure to meet performance or delivery milestones in customer contracts, 3) changes in estimated liabilities for product warranties and/or litigation, 4) changes in foreign currency exchange rates and interest rates, 5) rescheduling or cancellations of current customer orders and commitments, 6) our dependence on customers' acceptance of new products and their performance, 7) competition, 8) changes in domestic and international laws and regulations, 9) international business risks, 10) our own and our customers' or suppliers' access to and cost of capital, 11) future business combinations, and 12) other factors. You should not solely rely on these forward-looking statements as they are only valid as of the date of this Quarterly Report on Form 10-Q. We do not have any obligation to publicly update or revise any forward-looking statement in this document. For a more complete description of these and other risks, refer to Item 1A: "Risk Factors" included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, which was filed with the SEC on February 20, 2015.

### Results of Operations

We are a technology company, offering end-to-end smart metering solutions to electric, natural gas, and water utilities around the world. Our smart metering solutions, meter data management software, and knowledge application solutions bring additional value to a utility's metering and grid systems. Our professional services help our customers project-manage, operate, and maintain their systems. We operate under the Itron brand worldwide and manage and report under three operating segments, Electricity, Gas, and Water. Our Water operating segment includes both our global water and heat solutions. This structure allows each segment to develop its own go-to-market strategy, prioritize its marketing and product development requirements, and focus on its strategic investments. Our sales, marketing, and delivery functions are managed under each segment. Our product development and manufacturing operations are managed on a worldwide basis to promote a global perspective in our operations and processes and yet still maintain alignment with the segments.

We have three measures of segment performance under U.S. generally accepted accounting principles (GAAP): revenue, gross profit (margin), and operating income (margin). In addition, we measure segment performance using non-GAAP operating income. Intersegment revenues are minimal. Certain operating expenses are allocated to the operating segments based upon internally established allocation methodologies. Interest income, interest expense, other income (expense), income tax provision, and certain corporate operating expenses are neither allocated to the

segments nor included in the measures of segment performance. See pages 54-56 for information about our non-GAAP measures and reconciliations to the most comparable GAAP measures.

#### Overview

For the three and nine months ended September 30, 2015, our revenues were unfavorably impacted by changes in foreign currency rates, while our cost of revenues and our operating expenses were favorably impacted. A more detailed analysis of revenue, gross profit, and operating expense fluctuations is provided in Operating Segment Results. Period-over-period changes referred to below, on a constant currency basis, represent differences between 2015 results and 2014 results, exclusive of changes in foreign currency rates.

Revenues for the three and nine months ended September 30, 2015 were \$469 million and \$1.4 billion compared with \$496 million and \$1.5 billion in the same periods last year. Total revenues were unfavorably impacted for the quarter and year-to-date periods

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by \$46.0 million and \$139.9 million due to changes in foreign exchange rates. On a constant currency basis, revenues increased \$18.6 million for the three month period and \$66.7 million for the nine month period.

Gross margin for the three and nine months ended September 30, 2015 was 31.3% and 29.1%, compared with 30.4% and 32.1% for the same periods in 2014. During the nine-month period in 2015, gross margin was negatively impacted by increased warranty charges of \$26.2 million. The charge in the year-to-date period relates primarily to a product replacement notification sent to customers of our Water business who purchased certain communication modules manufactured between July 2013 and December 2014 that were failing prematurely.

Operating expenses for the three and nine months ended September 30, 2015 were lower by \$14.5 million and \$48.5 million compared with the same periods in 2014. For the third quarter and year-to-date period of 2015, total operating expenses were favorably impacted by \$11.7 million and \$39.2 million due to changes in foreign exchange rates. Apart from the foreign exchange impact, operating expense categories were lower by \$2.9 million for the three months ended September 30, 2015 as compared with 2014, primarily driven by sales and marketing and general and administrative expenses, as well as lower intangible asset amortization expense. Apart from the foreign exchange impact, operating expense categories were lower by \$9.3 million for the nine months ended September 30, 2015 as compared with the same period in 2014, with higher restructuring expense release and lower intangible asset amortization expense, partially offset by \$3.9 million in increased product development expense.

Total backlog was \$1.2 billion and twelve-month backlog was \$727 million at September 30, 2015.

On August 26, 2015, we completed our acquisition of 100% of Temetra Limited (Temetra) in a stock purchase. Temetra is a technology company located in Ireland and focused on meter data management and meter data collection in the water industry with a software-as-a-service business model. The acquisition strengthens our data analytics capabilities and provides us with additional cloud-based technology options for our water utility customers. The preliminary purchase price of Temetra was \$9.3 million (net of \$1.4 million of cash and cash equivalents acquired). Refer to Item 1: "Financial Statements, Note 5: Goodwill" for additional information about this acquisition.

In November 2014, our management approved restructuring projects (2014 Projects) for 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. 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 nine months ended September 30, 2015, the total expected restructuring costs decreased by approximately \$16.3 million. This includes \$9.7 million in restructuring expense release, recognized in the nine months ended September 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 result of employee negotiations and the need to keep additional employees to meet revised forecasted demand on certain projects. In addition, we are expecting lower future legal costs associated with the termination of employees in certain locations. The favorable change in the translation impact of foreign exchange rates also lowered the expected remaining costs to be recognized. We also recognized a loss of \$630,000 on the sale of a non-core business during the third quarter of 2015 as part of our restructuring activities. This loss on disposal is classified as restructuring in the Consolidated Statement of Operations. 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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## Total Company GAAP and Non-GAAP Highlights and Unit Shipments

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
(in thousands, except margin and per share data)						
<b>GAAP</b>						
Revenues	\$469,092	\$496,454	(6)%	\$1,387,442	\$1,460,602	(5)%
Gross profit	146,966	150,762	(3)%	403,736	468,338	(14)%
Operating expenses	119,758	134,304	(11)%	366,940	415,414	(12)%
Operating income	27,208	16,458	65%	36,796	52,924	(30)%
Other income (expense)	(3,739 )	(4,421 )	(15)%	(11,899 )	(13,966 )	(15)%
Income tax provision	(10,144 )	(4,484 )	126%	(19,673 )	(11,679 )	68%
Net income attributable to Itron, Inc.	12,695	7,308	74%	3,407	26,313	(87)%
<b>Non-GAAP<sup>(1)</sup></b>						
Operating expenses	\$115,165	\$123,112	(6)%	\$358,450	\$382,757	(6)%
Operating income	31,801	27,650	15%	45,286	85,581	(47)%
Net income	16,597	15,409	8%	9,747	49,059	(80)%
<b>GAAP Margins and Earnings</b>						
<b>Per Share</b>						
Gross margin	31.3	% 30.4	%	29.1	% 32.1	%
Operating margin	5.8	% 3.3	%	2.7	% 3.6	%
Basic EPS	\$0.33	\$0.19		\$0.09	\$0.67	
Diluted EPS	\$0.33	\$0.19		\$0.09	\$0.67	
<b>Non-GAAP Earnings Per Share<sup>(1)</sup></b>						
Diluted EPS	\$0.43	\$0.39		\$0.25	\$1.24	

These measures exclude certain expenses that we do not believe are indicative of our core operating results. See <sup>(1)</sup> pages 54-56 for information about these non-GAAP measures and reconciliations to the most comparable GAAP measures.

Revenues by region were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(in thousands)				
<b>Revenues by Region</b>				
United States and Canada (North America)	\$257,901	\$237,684	\$742,927	\$652,390
Europe, Middle East, and Africa (EMEA)	166,231	201,673	509,322	641,434
Other <sup>(2)</sup>	44,960	57,097	135,193	166,778
Total revenues	\$469,092	\$496,454	\$1,387,442	\$1,460,602

<sup>(2)</sup> The Other region includes our operations in Latin America and Asia Pacific.



For the three months ended September 30, 2015, revenues in the EMEA region and our Other region were adversely impacted by \$31.1 million and \$11.8 million, respectively, due to changes in foreign exchange rates. For the nine months ended September 30, 2015, revenues in the EMEA region and our Other region were adversely impacted by \$105.2 million and \$28.6 million, respectively, due to changes in foreign exchange rates.

#### Meter and Module Summary

We classify meters into three categories:

- Standard metering – no built-in remote reading communication technology
- Advanced metering – one-way communication of meter data
- Smart metering – two-way communication including remote meter configuration and upgrade (consisting primarily of our OpenWay® technology)

In addition, advanced and smart meter communication modules can be sold separately from the meter.

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Our revenue is driven significantly by sales of meters and communication modules. A summary of our meter and communication module shipments is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(units in thousands)			
Meters				
Standard	4,100	4,800	13,540	14,130
Advanced and smart	1,930	1,400	5,330	4,280
Total meters	6,030	6,200	18,870	18,410
Stand-alone communication modules				
Advanced and smart	1,530	1,480	4,250	4,410

## Revenues

Revenues decreased \$27.4 million and \$73.2 million, or 6% and 5%, for the three and nine months ended September 30, 2015, compared with the same periods in 2014. Total revenue for the three and nine months ended September 30, 2015 was unfavorably impacted by \$46.0 million and \$139.9 million due to changes in foreign exchange rates. On a constant currency basis, for the three month periods, revenues increased in the Electricity and Water segments by \$17.7 million and \$1.4 million. Gas segment revenues were effectively flat. For the nine month periods, on a constant currency basis, Electricity segment revenues increased by \$77.9 million, and Gas and Water segment revenues decreased by \$9.4 million and \$1.8 million. A more detailed analysis of revenue fluctuations is provided in Operating Segment Results.

No single customer accounted for more than 10% of total Company revenues during the three and nine months ended September 30, 2015 and 2014. Our 10 largest customers accounted for 24% and 23% of total revenues during the three and nine months ended September 30, 2015 and 19% and 18% of total revenues during the three and nine months ended September 30, 2014.

## Gross Margins

Gross margin for the third quarter of 2015 was 31.3%, compared with 30.4% for the same period in 2014. For the nine months ended September 30, 2015, gross margin was 29.1%, compared with 32.1% in the same period in 2014. The improvement in the third quarter 2015 gross margin was primarily driven by a net charge of \$11.4 million related to an OpenWay project that was recorded in the third quarter of 2014. The reduction in gross margin for the first nine months of 2015 was the result of declines in the gross margin for the Gas and Water segments. A more detailed analysis of these fluctuations is provided in Operating Segment Results.

## Operating Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands)			(in thousands)		
Sales and marketing	\$39,217	\$44,484	(12)%	\$123,302	\$138,212	(11)%
Product development	41,559	42,303	(2)%	126,399	130,711	(3)%
General and administrative	31,118	36,542	(15)%	103,195	114,629	(10)%
Amortization of intangible assets	7,869	10,917	(28)%	23,730	33,096	(28)%
Restructuring	(5	) 58	N/A	(9,686	) (2,211	) 338%

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Goodwill impairment	—	—	N/A	—	977	N/A
Total operating expenses	\$119,758	\$134,304	(11)%	\$366,940	\$415,414	(12)%

Operating expenses decreased \$14.5 million for the three months ended September 30, 2015 as compared with the same period in 2014. This decrease were primarily the result of a favorable foreign exchange impact of \$11.7 million, as well as a \$3.4 million reimbursement of litigation settlement costs, which is classified as acquisition-related costs within general and administrative expense. During the third quarter of 2015, apart from the favorable foreign exchange impact and litigation reimbursement, increases in product development and general and administrative expenses of \$3.0 million due to higher employee costs and professional services, were partially offset by decreases in sales and marketing and amortization expenses of \$2.5 million. For the nine months

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ended September 30, 2015, operating expenses decreased \$48.5 million. This decrease was primarily driven by a favorable foreign exchange impact of \$39.2 million and reimbursements of litigation settlements costs of \$8.0 million. A more detailed analysis of operating expenses fluctuations is provided in Operating Segment Results.

**Non-GAAP Operating Expenses**

For non-GAAP purposes, total company and segment operating expenses exclude intangible asset amortization, restructuring, and goodwill impairment expenses, as well as acquisition-related costs (classified within general and administrative). Total non-GAAP operating expenses, as a percentage of revenues, were 25% and 26% for the three and nine months ended September 30, 2015 and 2014. The reduced non-GAAP operating expenses in 2015 was primarily the result of fluctuations in foreign exchange rates.

**Other Income (Expense)**

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands)			(in thousands)		
Interest income	\$180	\$163	10%	\$440	\$313	41%
Interest expense	(2,526 )	(2,611 )	(3)%	(7,485 )	(7,625 )	(2)%
Amortization of prepaid debt fees	(273 )	(404 )	(32)%	(1,851 )	(1,212 )	53%
Other income (expense), net	(1,120 )	(1,569 )	(29)%	(3,003 )	(5,442 )	(45)%
Total other income (expense)	\$(3,739 )	\$(4,421 )	(15)%	\$(11,899 )	\$(13,966 )	(15)%

**Interest income:** Interest income is generated from our cash and cash equivalents balances and certain deposits on hand with third parties. Interest income for the three months ended September 30, 2015 remained consistent, while it is higher for the nine months ended September 30, 2015 as the result of higher interest rates in Brazil and Indonesia as compared with the same period in 2014.

**Interest expense:** Interest expense for the three and nine months ended September 30, 2015 remained consistent with the three and nine months ended September 30, 2014. Although we had higher average total debt outstanding in 2015, interest expense decreased due to lower commitment fees on the revolver (resulting from decreased revolver capacity and lower fee percentage), as well as lower interest rates on lines of credit at certain of our international locations. Average total debt outstanding was \$379.0 million and \$327.3 million for the quarters ended September 30, 2015 and 2014 and \$361.2 million and \$348.2 million for the nine month periods ended September 30, 2015 and 2014.

**Amortization of prepaid debt fees:** Amortization of prepaid debt fees for the three months ended September 30, 2015 remained consistent as compared with the same period in 2014. Amortization of prepaid debt fee for the nine months ended September 30, 2015 increased due to the 2015 credit facility entered into on June 23, 2015. Upon entering into the 2015 credit facility, a portion of our unamortized prepaid debt fees, totaling \$821,000, related to the 2011 credit facility was written-off. Refer to Item 1: "Financial Statements Note 6: Debt" for additional details related to our long-term borrowings.

**Other income (expense), net:** Other expenses, net, consist primarily of unrealized and realized foreign currency gains and losses from balances denominated in currencies other than the reporting entity's functional currency and other non-operating income (expenses). As a result of currency movements in certain markets in which we do business, foreign currency losses, net of hedging, were \$752,000 and \$1.9 million for the three and nine months ended September 30, 2015, compared with foreign currency losses, net of hedging, of \$1.0 and \$3.9 million in the same

periods in 2014.

#### Income Tax Provision

For the three and nine months ended September 30, 2015, the income tax provisions were \$10.1 million and \$19.7 million compared with income tax provisions of \$4.5 million and \$11.7 million in the same periods in 2014. Our tax expense for the three and nine months ended September 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 nine months ended September 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.

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## Operating Segment Results

For a description of our operating segments, refer to Item 1: “Financial Statements Note 15: Segment Information.”

Segment	Three Months Ended September 30,			Nine Months Ended September 30,				
	2015	2014	% Change	2015	2014	% Change		
Revenues	(in thousands)			(in thousands)				
Electricity	\$206,389	\$203,441	1%	\$603,651	\$567,414	6%		
Gas	136,588	149,276	(8)%	401,063	449,707	(11)%		
Water	126,115	143,737	(12)%	382,728	443,481	(14)%		
Total revenues	\$469,092	\$496,454	(6)%	\$1,387,442	\$1,460,602	(5)%		
Segment Gross Profit and Margin	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	2014	2014	2015	2014	2014	2014	2014
	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin
	(in thousands)		(in thousands)		(in thousands)		(in thousands)	
Electricity	\$56,859	27.5%	\$45,959	22.6%	\$164,601	27.3%	\$141,675	25.0%
Gas	45,916	33.6%	53,492	35.8%	133,541	33.3%	168,609	37.5%
Water	44,191	35.0%	51,311	35.7%	105,594	27.6%	158,054	35.6%
Total gross profit and margin	\$146,966	31.3%	\$150,762	30.4%	\$403,736	29.1%	\$468,338	32.1%
Segment Operating Expenses	Three Months Ended September 30,			Nine Months Ended September 30,				
	2015	2014	% Change	2015	2014	% Change		
	(in thousands)			(in thousands)				
Electricity	\$46,284	\$57,155	(19)%	\$147,726	\$177,087	(17)%		
Gas	30,175	29,656	2%	89,466	94,720	(6)%		
Water	29,901	32,154	(7)%	94,718	97,735	(3)%		
Corporate unallocated	13,398	15,339	(13)%	35,030	45,872	(24)%		
Total operating expenses	\$119,758	\$134,304	(11)%	\$366,940	\$415,414	(12)%		
Segment Operating Income (Loss)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	2014	2014	2015	2014	2014	2014	2014
	Operating Income (Loss)	Operating Margin	Operating Income (Loss)	Operating Margin	Operating Income (Loss)	Operating Margin	Operating Income (Loss)	Operating Margin
	(in thousands)		(in thousands)		(in thousands)		(in thousands)	
Electricity	\$110,634	27.8%	\$91,880	22.6%	\$437,075	27.3%	\$383,324	25.0%
Gas	14,741	33.6%	19,727	35.8%	43,975	33.3%	51,990	37.5%
Water	13,584	35.0%	16,634	35.7%	41,824	27.6%	46,980	35.6%
Corporate unallocated	(7,170)	(13.3)%	(8,751)	(13.3)%	(20,000)	(24.1)%	(25,030)	(24.1)%
Total operating income (loss)	\$127,189	28.1%	\$108,690	22.6%	\$462,874	27.3%	\$406,264	25.0%

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Income (Loss)  
and Operating  
Margin

Electricity	\$10,575	5%	\$(11,196 )	(6)%	\$16,875	3%	\$(35,412 )	(6)%
Gas	15,741	12%	23,836	16%	44,075	11%	73,889	16%
Water	14,290	11%	19,157	13%	10,876	3%	60,319	14%
Corporate unallocated	(13,398 )		(15,339 )		(35,030 )		(45,872 )	
Total Company	\$27,208	6%	\$16,458	3%	\$36,796	3%	\$52,924	4%

Non-GAAP Segment Operating Income (Loss) <sup>(1)</sup>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
	Non-GAAP Operating Income (Loss)	Non-GAAP Operating Margin	Non-GAAP Operating Income (Loss)	Non-GAAP Operating Margin	Non-GAAP Operating Income (Loss)	Non-GAAP Operating Margin	Non-GAAP Operating Income (Loss)	Non-GAAP Operating Margin
	(in thousands)		(in thousands)		(in thousands)		(in thousands)	
Electricity	\$9,638	5%	\$(4,939 )	(2)%	\$16,708	3%	\$(23,758 )	(4)%
Gas	17,072	12%	25,972	17%	48,637	12%	81,609	18%
Water	16,224	13%	21,496	15%	16,146	4%	68,133	15%
Corporate unallocated	(11,133 )		(14,879 )		(36,205 )		(40,403 )	
Total Company	\$31,801	7%	\$27,650	6%	\$45,286	3%	\$85,581	6%

These measures exclude certain expenses that we do not believe are indicative of our core operating results. See (1) pages 54-56 for information about these non-GAAP measures and reconciliations to the most comparable GAAP measures.

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## Electricity:

The effects of changes in foreign currency exchange rates and the constant currency changes in certain Electricity segment financial results for the three and nine months ended September 30, 2015, compared with the same periods in 2014, were as follows:

	Three Months Ended September 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2015	2014			
	(in thousands)				
Electricity Segment					
Revenues	\$206,389	\$203,441	\$(14,801)	) \$17,749	\$2,948
Gross Profit	56,859	45,959	(3,631)	) 14,531	10,900
Operating Expenses	46,284	57,155	(4,012)	) (6,859)	) (10,871)

	Nine Months Ended September 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2015	2014			
	(in thousands)				
Electricity Segment					
Revenues	\$603,651	\$567,414	\$(41,643)	) \$77,880	\$36,237
Gross Profit	164,601	141,675	(11,569)	) 34,495	22,926
Operating Expenses	147,726	177,087	(13,600)	) (15,761)	) (29,361)

## Revenues - Three months ended September 30, 2015 vs. Three months ended September 30, 2014

In constant currency, revenues increased \$17.7 million, or 9%, for the three months ended September 30, 2015, compared with the same period in 2014. This increase was primarily driven by basic, AMR, and smart product revenues and professional services in North America totaling \$16.0 million and \$4.8 million and increased product revenue of \$2.7 million in Asia Pacific, partially offset by lower product revenue in EMEA of \$4.7 million.

## Revenues - Nine months ended September 30, 2015 vs. Nine months ended September 30, 2014

For the first nine months of 2015, revenues in constant currency increased \$77.9 million, or 15%. Revenues were higher in 2015 primarily due to increased basic, AMR, and smart product revenues and professional services in North America of \$80.4 million and \$13.1 million, and higher professional services revenue of \$9.2 million in EMEA. Lower product revenues of \$25.7 million in EMEA partially offset the improvements.

One customer accounted for 11% of the Electricity operating segment revenues for the three months ended September 30, 2015, while no customer accounted for more than 10% of the Electricity operating segment revenues for the three months ended September 30, 2014. No single customer accounted for more than 10% of the Electricity operating segment revenues during the nine months ended September 30, 2015 and 2014.

## Gross Margin - Three months ended September 30, 2015 vs. Three months ended September 30, 2014

Gross margin was 27.5% for the three months ended September 30, 2015, compared with 22.6% for the three months ended 2014. In 2015, gross margin increased 490 basis points over the prior year, primarily as the result of an \$11.4



million charge based on estimated costs to complete an OpenWay project in North America that was recorded during the three months ended September 30, 2014. This negatively impacted the 2014 gross margin by 640 basis points. Additionally, product mix in North America was less favorable in 2015 than in 2014.

Gross Margin - Nine months ended September 30, 2015 vs. Nine months ended September 30, 2014

For the nine months ended September 30, 2015, gross margin was 27.3%, compared with 25.0% for the first nine months in 2014. During 2015, the 230 basis point improvement over the prior year, was primarily the result of the \$11.4 million OpenWay charge in the third quarter of 2014. This resulted in a 230 basis point reduction in the 2014 gross margin.

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Operating Expenses - Three months ended September 30, 2015 vs. Three months ended September 30, 2014  
In constant currency, operating expenses decreased \$6.9 million, or 13%, for the three months ended September 30, 2015, compared with the same period in 2014. We received a reimbursement of \$3.4 million (classified as an acquisition-related cost recovery within general and administrative expense) in September 2015 related to the settlement of litigation arising from the SmartSynch acquisition, which we paid in February 2015. In addition, we had lower restructuring expense of \$1.8 million and lower amortization expense of \$1.3 million.

Operating Expenses - Nine months ended September 30, 2015 vs. Nine months ended September 30, 2014  
In constant currency, operating expenses decreased \$15.8 million, or 10%, for the nine months ended September 30, 2015, compared with the same period in 2014. The decrease resulted primarily from the reimbursement of \$8.0 million (classified as an acquisition-related cost recovery within general and administrative expense) in 2015 related to the settlement of litigation arising from the SmartSynch acquisition, which we paid in February 2015. In addition, intangible asset amortization expense decreased \$4.0 million and product development costs decreased by \$1.8 million.

Non-GAAP Operating Expenses - Three months ended September 30, 2015 vs. Three months ended September 30, 2014

Total non-GAAP operating expenses, as a percentage of revenues, was 23% for the three months ended September 30, 2015 and was 25% for the same period in 2014. The overall improvement in non-GAAP operating expenses, represented by the lower ratio as a percentage of revenue, in 2015 was driven by increased revenues and cost reductions resulting from our restructuring projects.

Non-GAAP Operating Expenses - Nine months ended September 30, 2015 vs. Nine months ended September 30, 2014

Total non-GAAP operating expenses, as a percentage of revenues, was 24% for the nine months ended September 30, 2015 and was 29% for the same period in 2014. The overall improvement in non-GAAP operating expenses, represented by the lower ratio as a percentage of revenue, in 2015 was driven by increased revenues and cost reductions resulting from our restructuring projects.

Gas:

The effects of changes in foreign currency exchange rates and the constant currency changes in certain Gas segment financial results for the three and nine months ended September 30, 2015, compared with the same periods in 2014, were as follows:

	Three Months Ended September 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2015	2014			
	(in thousands)				
Gas Segment					
Revenues	\$ 136,588	\$ 149,276	\$(12,201)	\$(487)	\$(12,688)
Gross Profit	45,916	53,492	(2,646)	(4,930)	(7,576)
Operating Expenses	30,175	29,656	(2,933)	3,452	519
	Nine Months Ended September 30,				
	2015	2014	Effect of Changes in	Constant Currency	Total Change

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			Foreign Currency Exchange Rates	Change		
	(in thousands)					
Gas Segment						
Revenues	\$401,063	\$449,707	\$(39,277	) \$(9,367	) \$(48,644	)
Gross Profit	133,541	168,609	(10,467	) (24,601	) (35,068	)
Operating Expenses	89,466	94,720	(10,417	) 5,163	(5,254	)

Revenues - Three months ended September 30, 2015 vs. Three months ended September 30, 2014

In constant currency, revenues were consistent for the three months ended September 30, 2015 and 2014. Lower revenues of \$2.4 million in North America and Asia Pacific were almost completely offset by increases in EMEA and Latin America.

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Revenues - Nine months ended September 30, 2015 vs. Nine months ended September 30, 2014

For the nine months ended September 30, 2015, constant currency revenues decreased \$9.4 million, or 2%, compared with the same period in 2014. The overall decline was due to lower product revenue of \$11.0 million in EMEA and \$2.0 million in Asia Pacific, partially offset by increases of \$2.0 million and \$1.6 million in product revenue in Latin America and North America.

No single customer accounted for more than 10% of the Gas operating segment revenues during the three and nine months ended September 30, 2015 and 2014.

Gross Margin - Three months ended September 30, 2015 vs. Three months ended September 30, 2014

Gross margin was 33.6% for the three months ended September 30, 2015, compared with 35.8% for the same period in 2014. This decrease of 220 basis points was driven by lower volumes and less favorable product mix, primarily in EMEA.

Gross Margin - Nine months ended September 30, 2015 vs. Nine months ended September 30, 2014

For the nine months ended September 30, 2015, gross margin was 33.3%, compared with 37.5% for the same period last year. Unfavorable product mix and lower volumes in EMEA negatively impacted gross margin. Our first generation smart meters sold in EMEA negatively impacted gross margin due to higher average product cost.

Operating Expenses - Three months ended September 30, 2015 vs. Three months ended September 30, 2014

In constant currency, operating expenses increased \$3.5 million, or 13%, for the three months ended September 30, 2015, compared with the same period in 2014. Higher general and administrative expenses of \$4.2 million, resulting primarily from increased employee related costs and professional services, were partially offset by lower intangible asset amortization, product development, and restructuring expenses.

Operating Expenses - Nine months ended September 30, 2015 vs. Nine months ended September 30, 2014

In constant currency, operating expenses increased \$5.2 million, or 6%, for the nine months ended September 30, 2015, compared with the same period in 2014. Higher general and administrative expenses of \$7.6 million, resulting from employee related costs, higher legal fees and litigation charges as well as increased allocations of corporate expenses, were partially offset by lower sales and marketing, intangible asset amortization, and restructuring expenses.

Non-GAAP Operating Expenses - Three months ended September 30, 2015 vs. Three months ended September 30, 2014

Total non-GAAP operating expenses, as a percentage of revenues, were 21% for the three months ended September 30, 2015 and was 18% for the same period in 2014. The total as a percentage of revenue increased in 2015 as the result of lower revenues during the period.

Non-GAAP Operating Expenses - Nine months ended September 30, 2015 vs. Nine months ended September 30, 2014

Total non-GAAP operating expenses, as a percentage of revenues, were 21% for the nine months ended September 30, 2015 and was 19% for the same period in 2014. The total as a percentage of revenue increased in 2015 primarily as the result of lower revenues during the period.

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## Water:

The effects of changes in foreign currency exchange rates and the constant currency changes in certain Water segment financial results for the three and nine months ended September 30, 2015, compared with the same periods in 2014, were as follows:

	Three Months Ended September 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2015	2014			
	(in thousands)				
Water Segment					
Revenues	\$126,115	\$143,737	\$(18,995 )	\$1,373	\$(17,622 )
Gross Profit	44,191	51,311	(6,453 )	(667 )	(7,120 )
Operating Expenses	29,901	32,154	(4,283 )	2,030	(2,253 )

	Nine Months Ended September 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2015	2014			
	(in thousands)				
Water Segment					
Revenues	\$382,728	\$443,481	\$(58,951 )	\$(1,802 )	\$(60,753 )
Gross Profit	105,594	158,054	(20,674 )	(31,786 )	(52,460 )
Operating Expenses	94,718	97,735	(13,297 )	10,280	(3,017 )

## Revenues - Three months ended September 30, 2015 vs. Three months ended September 30, 2014

In constant currency, revenues increased \$1.4 million, or 1%, for the three months ended September 30, 2015, compared with the third quarter of 2015. This was primarily due to \$3.4 million in higher revenue in North America, largely offset by a decrease of \$2.2 million in Latin America and EMEA.

## Revenues - Nine months ended September 30, 2015 vs. Nine months ended September 30, 2014

In constant currency, revenues decreased \$1.8 million, or 1%, for the first nine months of 2015, compared with the same period last year. This decrease was primarily due to lower product revenue of \$5.5 million in Latin America, due to continued reduced expenditures by our utility customers in that region, and was offset by minor increases in North America and Asia Pacific.

No single customer represented more than 10% of the Water operating segment revenues during the three and nine months ended September 30, 2015 and 2014.

## Gross Margin - Three months ended September 30, 2015 vs. Three months ended September 30, 2014

During the third quarter of 2015, gross margin decreased to 35.0%, compared with 35.7% in 2014. We experienced lower gross margins in North America and EMEA due to unfavorable product mix, nearly balanced by favorable mix in Latin America.

## Gross Margin - Nine months ended September 30, 2015 vs. Nine months ended September 30, 2014

Gross margin decreased to 27.6% for the nine months ended September 30, 2015, compared with 35.6% for the same period last year, primarily as the result of a warranty charge of \$28.2 million. This warranty charge during the first nine months of 2015 negatively impacted gross margin by 740 basis points.

Operating Expenses - Three months ended September 30, 2015 vs. Three months ended September 30, 2014  
Operating expenses for the three months ended September 30, 2015 increased by \$2.0 million in constant currency, or 1%, compared with the third quarter of 2014. This increase was primarily the result of \$2.8 million in increased sales and marketing and product development expenses, offset slightly by lower general and administrative expenses.

Operating Expenses - Nine months ended September 30, 2015 vs. Nine months ended September 30, 2014  
In constant currency, operating expenses for the nine months ended September 30, 2015 increased by \$10.3 million, or 3%, compared with the same period last year, primarily as the result of increased sales and marketing, product development, and general and administrative costs resulting from increased allocated corporate costs.

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Non-GAAP Operating Expenses - Three months ended September 30, 2015 vs. Three months ended September 30, 2014

Total non-GAAP operating expenses, as a percentage of revenues, was 22% for the three months ended September 30, 2015 and 21% for the same period in 2014. The increase in operating expenses in 2015 as a percentage of revenue was primarily driven by a decline in revenues during the period.

Non-GAAP Operating Expenses - Nine months ended September 30, 2015 vs. Nine months ended September 30, 2014

Total non-GAAP operating expenses, as a percentage of revenues, was 23% for the nine months ended September 30, 2015 and 20% for the same period in 2014. The increase in operating expenses in 2015 as a percentage of revenue was driven by a decline in revenues during the period.

Corporate unallocated:

Corporate Unallocated Expenses - Three months ended September 30, 2015 vs. Three months ended September 30, 2014

Operating expenses not directly associated with an operating segment are classified as “Corporate unallocated.” These expenses decreased by \$1.9 million for the three months ended September 30, 2015 primarily due to \$2.7 million in lower general and administrative expense. General and administrative costs decreased as the result of the absence in 2015 of startup costs for our shared services center in Europe.

Corporate Unallocated Expenses - Nine months ended September 30, 2015 vs. Nine months ended September 30, 2014

Corporate unallocated expenses decreased by \$10.8 million, which includes a favorable foreign exchange rate impact of \$1.9 million, for the nine months ended September 30, 2015 primarily due to lower restructuring expense of \$6.6 million. The release in 2015 restructuring expense was primarily the result of 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. In addition, 2014 included startup costs for our shared services center in Europe.

### Bookings and Backlog of Orders

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

Quarter Ended	Quarterly Bookings (in millions)	Ending Total Backlog	Ending 12-Month Backlog
September 30, 2015	\$337	\$1,220	\$727
June 30, 2015	398	1,372	791

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March 31, 2015	424	1,438	779
December 31, 2014	648	1,486	747
September 30, 2014	514	1,345	700

Information on bookings by our operating segments is as follows:

Quarter Ended	Total Bookings (in millions)	Electricity	Gas	Water
September 30, 2015	\$337	\$151	\$100	86
June 30, 2015	398	175	116	107
March 31, 2015	424	191	109	124
December 31, 2014	648	167	348	133
September 30, 2014	514	247	128	139



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## Financial Condition

## Cash Flow Information:

	Nine Months Ended September 30,	
	2015	2014
	(in thousands)	
Operating activities	\$20,154	\$116,538
Investing activities	(38,533	) (32,253
Financing activities	28,355	(79,355
Effect of exchange rates on cash and cash equivalents	(12,889	) (7,260
Decrease in cash and cash equivalents	\$(2,913	) \$(2,330

Cash and cash equivalents was \$109.5 million at September 30, 2015, compared with \$112.4 million at December 31, 2014.

## Operating activities

Cash provided by operating activities during the nine months ended September 30, 2015 was \$20.2 million compared with \$116.5 million during the same period in 2014. The decrease in cash provided was due to lower net income of \$22.1 million as well as \$49.2 million in increased inventory build-up to meet forecasted demand in North America and EMEA. In addition, payments of other current liabilities, including litigation payments and restructuring accrual release during the first nine months of 2015 were \$28.6 million higher in 2015 than in 2014. We also had higher taxes paid, primarily in North America, of \$16.1 million as compared with 2014. These increased uses of cash were partially offset by \$24.7 million of greater deferred income tax and \$13.3 million of lower payments of accounts payable during the period due to payment timing, as well as a \$23.8 million net increase in warranty reserves related primarily to the product replacement notification provided to our Water customers who had purchased certain communication modules.

## Investing activities

Cash used in investing activities during the nine months ended September 30, 2015 was \$6.3 million higher compared with the same period in 2014, primarily due to the acquisition of Temetra, a technology company located in Ireland, for \$5.8 million. Refer to Item 1: "Financial Statements, Note 5: Goodwill" for additional information about this acquisition.

## Financing activities

Net cash provided by financing activities during the nine months ended September 30, 2015 was \$28.4 million, compared with a cash use of \$79.4 million for the same period in 2014. The increased cash provided by financing activities is primarily a result of draws on our revolving line of credit of \$89.7 million (gross of repayments) in the nine months ended September 30, 2015, while no draws occurred during the same period in 2014. In addition, debt repayments decreased by \$38.6 million in 2015, while share repurchases increased by \$20.0 million. Refer to Part II, Item 2: "Unregistered Sale of Equity Securities and Use of Proceeds" for additional details related to our share repurchase program.

## Effect of exchange rates on cash and cash equivalents

The effect of exchange rates on the cash balances of currencies held in foreign denominations for the nine months ended September 30, 2015 was a decrease of \$12.9 million, compared with a decrease of \$7.3 million for the same period in 2014. The increased impact of exchange rates is the result of a strengthening of the U.S. dollar compared with most foreign currencies during the nine months ended September 30, 2015.



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## Free cash flow (Non-GAAP)

To supplement our consolidated statements of cash flows presented on a GAAP basis, we use the non-GAAP measure of free cash flow to analyze cash flows generated from our operations. The presentation of non-GAAP free cash flow is not meant to be considered in isolation or as an alternative to net income as an indicator of our performance, or as an alternative to cash flows from operating activities as a measure of liquidity. We calculate free cash flows, using amounts from our Consolidated Statements of Cash Flows, as follows:

	Nine Months Ended September 30,		
	2015	2014	% Change
	(in thousands)		
Net cash provided by operating activities	\$20,154	\$116,538	(83)%
Acquisitions of property, plant, and equipment	(33,324	) (32,060	) 4%
Free cash flow	\$(13,170	) \$84,478	N/A

Free cash flow (non-GAAP) decreased almost exclusively as a result of lower cash provided by operating activities. See the cash flow discussion of operating activities above.

## Off-balance sheet arrangements:

We have no off-balance sheet financing agreements or guarantees as defined by Item 303 of Regulation S-K at September 30, 2015 and December 31, 2014 that we believe are reasonably likely to have a current or future effect on our financial condition, results of operations, or cash flows.

## Liquidity and Capital Resources:

Our principal sources of liquidity are cash flows from operations, borrowings, and sales of common stock. Cash flows may fluctuate and are sensitive to many factors including changes in working capital and the timing and magnitude of capital expenditures and payments on debt. Working capital, which represents current assets less current liabilities, was \$334.2 million at September 30, 2015, compared with \$261.9 million at December 31, 2014.

## Borrowings

On June 23, 2015, we entered into an amended and restated credit agreement providing for committed credit facilities in the amount of \$725 million U.S. dollars (the 2015 credit facility). The 2015 credit facility consists of a U.S. dollar term loan facility (the term loan) with a principal amount of \$225 million and a multicurrency revolving credit facility (the revolver) with a principal amount of up to \$500 million. The revolver also contains a \$300 million letter of credit sub-facility and a \$50 million swingline sub-facility (available for immediate cash needs at a higher interest rate). The 2015 credit replaced our prior credit facility. At September 30, 2015, \$158.5 million was outstanding under the revolver, and \$238.4 million was available for additional borrowings due to the covenant constraints on our total leverage. At September 30, 2015, \$46.2 million was utilized by outstanding standby letters of credit, resulting in \$253.8 million available for additional letters of credit.

For further description of the term loan and the revolver under our 2015 credit facility, refer to Item 1: “Financial Statements, Note 6: Debt.”

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

## Share Repurchase

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 September 30, 2015, we repurchased 655,178 shares of our common stock, totaling \$22.0 million, and \$28.0 million remained under the current program for future purchases.

Repurchases are made in the open market or in privately negotiated transactions and in accordance with applicable securities laws. Refer to Part II, Item 2: “Unregistered Sales of Equity Securities and Use of Proceeds” for additional information related to our share repurchase program.

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### Restructuring

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 nine months ended September 30, 2015, the total expected restructuring costs decreased by approximately \$16.3 million. This includes \$9.7 million in restructuring expense release, recognized in the nine months ended September 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 result of employee negotiations and the need to keep additional employees to meet revised forecasted demand on certain projects. 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.

At September 30, 2015, the current and long-term portions of the restructuring related liability balances were \$23.3 million and \$11.7 million. For further details regarding our restructuring activities, refer to Item 1: "Financial Statements, Note 12: Restructuring."

### Other Liquidity Considerations

We have tax credits and net operating loss carryforwards in various jurisdictions that are available to reduce cash taxes. However, utilization of tax credits and net operating losses are limited in certain jurisdictions. Based on current projections, we expect to pay, net of refunds, approximately \$1.3 million in state taxes, \$15.7 million in U.S federal taxes, and \$8.6 million in local and foreign taxes in 2015. For a discussion of our tax provision and unrecognized tax benefits, see Item 1: "Financial Statements, Note 10: Income Taxes."

At September 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.

We have not provided U.S. deferred taxes related to the cash in certain foreign subsidiaries because our investment is considered permanent in duration. As of September 30, 2015, there was \$38.0 million of cash and short-term investments held by certain foreign subsidiaries in which we are permanently reinvested for tax purposes. If this cash were repatriated to fund U.S. operations, additional tax costs may be required. Tax is one of the many factors that we consider in the management of global cash. Included in the determination of the tax costs in repatriating foreign cash into the United States are the amount of earnings and profits in a particular jurisdiction, withholding taxes that would be imposed, and available foreign tax credits. Accordingly, the amount of taxes that we would need to accrue and pay to repatriate foreign cash could vary significantly.

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, Inc, we consolidate them because we have a greater than 50% ownership interest and/or because we exercise control over the operations. 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. Approximately \$26.3 million of our consolidated cash balance at September 30, 2015 is held in our joint venture entities. As a result, the minority shareholders of these

entities control their proportional share of this cash balance, and there may be limitations on our ability to repatriate cash to the United States from these entities.

For a description of our funded and unfunded non-U.S. defined benefit pension plans and our expected 2015 contributions, refer to Item 1: “Financial Statements, Note 8: Defined Benefit Pension Plans.”

For a description of our bonus and profit sharing plans, including the amounts accrued at September 30, 2015 and the expected timing of payment, refer to Bonus and Profit Sharing within Critical Accounting Estimates below.

#### General Liquidity Overview

We expect to grow through a combination of internal new product development, licensing technology from and to others, distribution agreements, partnering arrangements, and acquisitions of technology or other companies. We expect these activities to be funded with existing cash, cash flow from operations, borrowings, or the sale of common stock or other securities. We believe existing sources of liquidity will be sufficient to fund our existing operations and obligations for the next 12 months and into the foreseeable

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future, but offer no assurances. Our liquidity could be affected by the stability of the electricity, gas, and water industries, competitive pressures, changes in estimated liabilities for product warranties and/or litigation, future business combinations, capital market fluctuations, international risks, and other factors described under “Risk Factors” within Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, which was filed with the SEC on February 20, 2015, as well as “Quantitative and Qualitative Disclosures About Market Risk” within Item 3 of Part I included in this Quarterly Report on Form 10-Q.

### Contingencies

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

### Critical Accounting Estimates

#### Revenue Recognition

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

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

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

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 liquidated damages are deemed probable of occurrence and are reasonably estimable.

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 vendor specific objective evidence (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). The objective of ESP is 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.



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We analyze the selling prices used in our allocation of arrangement consideration on an annual basis. Selling prices are analyzed on a more frequent basis if a significant change in our business necessitates a more timely analysis or if we experience significant variances in our selling prices.

### Warranty

We offer standard warranties on our hardware products and large application software products. We accrue the estimated cost of new product warranties based on historical and projected product performance trends and costs during the warranty period. Testing 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.

### 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 post-employment benefits are accrued when the obligation is probable and estimable, such as benefits stipulated by human resource policies and practices or statutory requirements and negotiations with works councils. 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 later of when we terminate a contract in accordance with the contract terms or when we cease using the rights conveyed by the contract.

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 are less than the net book value less costs to sell. 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 in the Consolidated Statements of Operations.

In determining restructuring charges, we analyze our future operating requirements, including the required headcount by business functions and facility space requirements. Our restructuring costs and any resulting accruals involve significant estimates using the best information available at the time the estimate are made. Our estimates involve a number of risks and uncertainties, some of which are beyond our control, including real estate market conditions and local labor and employment laws, rules, and regulations. If the amounts and timing of cash flows from restructuring activities are significantly different from what we have estimated, the actual amount of restructuring and asset impairment charges could be materially different, either higher or lower, than those we have recorded.

### Income Taxes

The calculation of our annual estimated effective tax rate requires significant judgment and is subject to several factors, including 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.

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

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

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

### 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 where we do not acquire a business. 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. In-process research and development (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 forecast discounted cash flows associated with each reporting unit. The reporting units are aligned with our reporting segments, 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.

Based on our qualitative analysis as of October 1, 2014, we determined that it was more likely than not that the fair value of the Electricity, Gas and Water reporting units exceeded their respective carrying values. As a result, it was

not necessary to complete the two-step impairment test for those reporting units.

Changes in market demand, fluctuations in the economies in which we operate, the volatility and decline in the worldwide equity markets, and a further decline in our market capitalization could negatively impact the remaining carrying value of our goodwill, which could have a significant effect on our current and future results of operations and financial condition.

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

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Several economic assumptions and actuarial data are used in calculating the expense and obligations related to these plans. The assumptions are updated annually at December 31 and include the discount rate, the expected remaining service life, the expected rate of return on plan assets, and the rate of future compensation increase. The discount rate is a significant assumption used to value our pension benefit obligation. We determine a discount rate for our plans based on the estimated duration of each plan's liabilities. For our euro denominated defined benefit pension plans, which represent 94% of our benefit obligation, we use two discount rates, with consideration of the duration of the plans, using a hypothetical yield curve developed from euro-denominated AA-rated corporate bond issues, partially weighted for market value, with minimum amounts outstanding of €500 million for bonds with less than 10 years to maturity and €50 million for bonds with 10 or more years to maturity, and excluding the highest and lowest yielding 10% of bonds within each maturity group. The discount rates used, depending on the duration of the plans, were 1.50% and 2.00%, respectively. The weighted average discount rate used to measure the projected benefit obligation for all of the plans at December 31, 2014 was 2.36%. A change of 25 basis points in the discount rate would change our pension benefit obligation by approximately \$5.2 million. The financial and actuarial assumptions used at December 31, 2014 may differ materially from actual results due to changing market and economic conditions and other factors. These differences could result in a significant change in the amount of pension expense recorded in future periods. Gains and losses resulting from changes in actuarial assumptions, including the discount rate, are recognized in OCI in the period in which they occur.

Our general funding policy for these qualified pension plans is to contribute amounts at least sufficient to satisfy funding standards of the respective countries for each plan. Refer to Item 1: "Financial Statements, Note 8: Defined Benefit Pension Plans" for our expected contributions for 2015.

**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 probable that the targets will be achieved and the amounts can be reasonably estimated, a compensation accrual is recorded based on the proportional achievement of the financial and nonfinancial targets. Although we monitor and accrue expenses quarterly based on our estimated progress toward the achievement of the annual targets, the actual results at the end of the year may require awards that are significantly greater or less than the estimates made in earlier quarters. For the three and nine months ended September 30, 2015, we accrued \$10.1 million and \$26.5 million, compared with \$11.4 million and \$25.6 million for the same periods in 2014. Awards are typically distributed in the first quarter of the following year.

**Stock-Based Compensation**

We measure and recognize compensation expense for all stock-based awards made to employees and directors, including awards of stock options, stock sold pursuant to our Employee Stock Purchase Plan (ESPP), and the issuance of restricted stock units and unrestricted stock awards, based on estimated fair values. The fair 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. The fair value of restricted stock units with a market condition is estimated at the date of award using a Monte Carlo simulation model, which includes assumptions for the dividend yield, expected volatility, risk-free interest rate and the expected term. In valuing our

stock options and restricted stock units with a market condition, significant judgment is required in determining the expected volatility of our common stock and the expected life that individuals will hold their stock options prior to exercising. Expected volatility for stock options is based on the historical and implied volatility of our own common stock while the volatility for our restricted stock units with a market condition is based on the historical volatility of our own stock and the stock for companies comprising the market index within the market condition. The expected life of stock option grants is derived from the historical actual term of option grants and an estimate of future exercises during the remaining contractual period of the option. While volatility and estimated life are assumptions that do not bear the risk of change subsequent to the grant date of stock options, these assumptions may be difficult to measure as they represent future expectations based on historical experience. Further, our expected volatility and expected life may change in the future, which could substantially change the grant-date fair value of future awards of stock options and ultimately the expense we record. For ESPP awards, the fair value is the difference between the market close price of our common stock on the date of purchase and the discounted purchase price. For restricted stock units without a market condition and unrestricted stock awards, the fair value is the market close price of our common stock on the date of grant. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results and future estimates may differ substantially from our current estimates. We expense

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stock-based compensation at the date of grant for unrestricted stock awards. For awards with only a service condition, we expense stock-based compensation, adjusted for estimated forfeitures, using the straight-line method over the requisite service period for the entire award. For awards with both performance and service conditions, we expense the stock-based compensation, adjusted for estimated forfeitures, on a straight-line basis over the requisite service period for each separately vesting portion of the award. Excess tax benefits are credited to common stock when the deduction reduces cash taxes payable. When we have tax deductions in excess of the compensation cost, they are classified as financing cash inflows in the Consolidated Statements of Cash Flows.

## Non-GAAP Measures

Our Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP), which we supplement with certain non-GAAP financial information. These non-GAAP measures should not be considered in isolation or as a substitute for the related GAAP measures, and other companies may define such measures differently. We encourage investors to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure. These non-GAAP measures exclude the impact of certain expenses that we do not believe are indicative of our core operating results. We use these non-GAAP financial measures for financial and operational decision making and/or as a means for determining executive compensation. These non-GAAP financial measures facilitate management's internal comparisons to our historical performance.

Non-GAAP operating expenses and non-GAAP operating income – We define non-GAAP operating expenses as operating expenses excluding certain expenses related to the amortization of intangible assets acquired through a business acquisition, restructuring, acquisitions and goodwill impairment. We define non-GAAP operating income as operating income excluding the expenses related to the amortization of intangible assets acquired through a business acquisition, restructuring, acquisitions and goodwill impairment. We consider these non-GAAP financial measures to be useful metrics for management and investors because they exclude the effect of expenses that are related to previous acquisitions and restructuring projects. By excluding these expenses, we believe that it is easier for management and investors to compare our financial results over multiple periods and analyze trends in our operations. For example, in certain periods expenses related to amortization of intangible assets may decrease, which would improve GAAP operating margins, yet the improvement in GAAP operating margins due to this lower expense is not necessarily reflective of an improvement in our core business. There are some limitations related to the use of non-GAAP operating expense and non-GAAP operating income versus operating expense and operating income calculated in accordance with GAAP. Non-GAAP operating expense and non-GAAP operating income exclude some costs that are recurring.

Non-GAAP net income and non-GAAP diluted EPS – We define non-GAAP net income as net income excluding the expenses associated with amortization of intangible assets acquired through a business acquisition, restructuring, acquisitions, goodwill impairment and amortization of debt placement fees. We define non-GAAP diluted EPS as non-GAAP net income divided by the weighted average shares, on a diluted basis, outstanding during each period. We consider these financial measures to be useful metrics for management and investors for the same reasons that we use non-GAAP operating income. The same limitations described above regarding our use of non-GAAP operating income apply to our use of non-GAAP net income and non-GAAP diluted EPS. We compensate for these limitations by providing specific information regarding the GAAP amounts excluded from these non-GAAP measures and evaluating non-GAAP net income and non-GAAP diluted EPS together with GAAP net income and GAAP diluted EPS.

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## Reconciliation of GAAP Measures to Non-GAAP Measures

The table below reconciles the non-GAAP financial measures of operating expenses, operating income, net income and diluted EPS, free cash flow, and operating income by segment with the most directly comparable GAAP financial measures.

(Unaudited; in thousands, except per share data)

TOTAL COMPANY RECONCILIATIONS	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>NON-GAAP OPERATING EXPENSES</b>				
GAAP operating expenses	\$ 119,758	\$ 134,304	\$ 366,940	\$ 415,414
Amortization of intangible assets	(7,869)	(10,917)	(23,730)	(33,096)
Restructuring	5	(58)	9,686	2,211
Acquisition-related expenses	3,271	(217)	5,554	(795)
Goodwill impairment	—	—	—	(977)
Non-GAAP operating expenses	\$ 115,165	\$ 123,112	\$ 358,450	\$ 382,757
<b>NON-GAAP OPERATING INCOME</b>				
GAAP operating income	\$ 27,208	\$ 16,458	\$ 36,796	\$ 52,924
Amortization of intangible assets	7,869	10,917	23,730	33,096
Restructuring	(5)	58	(9,686)	(2,211)
Acquisition-related expenses	(3,271)	217	(5,554)	795
Goodwill impairment	—	—	—	977
Non-GAAP operating income	\$ 31,801	\$ 27,650	\$ 45,286	\$ 85,581
<b>NON-GAAP NET INCOME &amp; DILUTED EPS</b>				
GAAP net income attributable to Itron, Inc.	\$ 12,695	\$ 7,308	\$ 3,407	\$ 26,313
Amortization of intangible assets	7,869	10,917	23,730	33,096
Amortization of debt placement fees	244	379	1,773	1,137
Restructuring	(5)	58	(9,686)	(2,211)
Acquisition-related expenses	(3,271)	217	(5,554)	795
Goodwill impairment	—	—	—	977
Income tax effect of non-GAAP adjustments <sup>(1)</sup>	(935)	(3,470)	(3,923)	(11,048)
Non-GAAP net income	\$ 16,597	\$ 15,409	\$ 9,747	\$ 49,059
Non-GAAP diluted EPS	\$ 0.43	\$ 0.39	\$ 0.25	\$ 1.24
Weighted average common shares outstanding - Diluted	38,358	39,493	38,591	39,516
<b>FREE CASH FLOW</b>				
Net cash provided by operating activities	\$ 2,587	\$ 49,347	\$ 20,154	\$ 116,538
Acquisitions of property, plant, and equipment	(12,332)	(12,657)	(33,324)	(32,060)



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Free Cash Flow    \$(9,745                      ) \$36,690    \$(13,170                      ) \$84,478

(1) The income tax effect of non-GAAP adjustments is calculated using the statutory tax rates for the relevant jurisdictions if no valuation allowance exists. If a valuation allowance exists, there is no tax impact to the non-GAAP adjustment

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(Unaudited; in thousands)

SEGMENT RECONCILIATIONS	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>NON-GAAP OPERATING INCOME - ELECTRICITY</b>				
Electricity - GAAP operating income (loss)	\$10,575	\$(11,196	) \$16,875	\$(35,412
Amortization of intangible assets	4,413	6,129	13,296	18,473
Restructuring	(1,960	) (89	) (7,790	) (8,544
Acquisition-related expenses	(3,390	) 217	(5,673	) 748
Goodwill impairment	—	—	—	977
Electricity - Non-GAAP operating income (loss)	\$9,638	\$(4,939	) \$16,708	\$(23,758
<b>NON-GAAP OPERATING INCOME - GAS</b>				
Gas - GAAP operating income	\$15,741	\$23,836	\$44,075	\$73,889
Amortization of intangible assets	1,950	2,612	5,865	7,982
Restructuring	(619	) (476	) (1,303	) (262
Gas - Non-GAAP operating income	\$17,072	\$25,972	\$48,637	\$81,609
<b>NON-GAAP OPERATING INCOME - WATER</b>				
Water - GAAP operating income	\$14,290	\$19,157	\$10,876	\$60,319
Amortization of intangible assets	1,506	2,176	4,569	6,641
Restructuring	324	163	597	1,173
Acquisition-related expenses	104	—	104	—
Water - Non-GAAP operating income	\$16,224	\$21,496	\$16,146	\$68,133
<b>NON-GAAP OPERATING INCOME - CORPORATE UNALLOCATED</b>				
Corporate unallocated - GAAP operating loss	\$(13,398	) \$(15,339	) \$(35,030	) \$(45,872
Restructuring	2,250	460	(1,190	) 5,422
Acquisition-related expenses	15	—	15	47
Corporate unallocated - Non-GAAP operating loss	\$(11,133	) \$(14,879	) \$(36,205	) \$(40,403

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## Item 3: Quantitative and Qualitative Disclosures about Market Risk

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

## Interest Rate Risk

We are exposed to interest rate risk through our variable rate debt instruments. 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.

The table below provides information about our financial instruments that are sensitive to changes in interest rates and the scheduled minimum repayment of principal and the weighted average interest rates at September 30, 2015. Weighted average variable rates in the table are based on implied forward rates in the Reuters U.S. dollar yield curve as of September 30, 2015 and our estimated leverage ratio, which determines our additional interest rate margin at September 30, 2015.

	2015	2016	2017	2018	2019	Beyond 2019	Total	Fair Value
	(in thousands)							
<b>Variable Rate Debt</b>								
Principal: U.S. dollar term loan	\$2,813	\$11,250	\$14,063	\$19,688	\$22,500	\$151,874	\$222,188	\$222,177
Average interest rate	2.13	% 2.65	% 3.33	% 3.75	% 4.13	% 4.42	%	
<b>Principal: Multicurrency revolving line of credit</b>	\$—	\$—	\$—	\$—	\$—	\$158,520	\$158,520	\$158,523
Average interest rate	2.05	% 2.46	% 2.99	% 3.33	% 3.63	% 3.85	%	
<b>Interest rate swap on LIBOR-based debt</b>								
Average interest rate (Pay)	1.00	% 1.00	% —	% —	% —	% —	%	
Average interest rate (Receive)	0.38	% 0.77	% —	% —	% —	% —	%	
Net/Spread	(0.62	)% (0.23	)% —	% —	% —	% —	%	

Based on a sensitivity analysis as of September 30, 2015, we estimate that, if market interest rates average one percentage point higher in 2015 than in the table above, our financial results in 2015 would not be materially

impacted.

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

#### Foreign Currency Exchange Rate Risk

We conduct business in a number of countries. As a result, over half of our revenues and operating expenses are denominated in foreign currencies, which expose our account balances to movements in foreign currency exchange rates that could have a material effect on our financial results. Our primary foreign currency exposure relates to non-U.S. dollar denominated transactions in our international subsidiary operations, the most significant of which is the euro. Revenues denominated in functional currencies other than the U.S. dollar were 48% and 50% of total revenues for the three and nine months ended September 30, 2015 compared with 55% and 58% for the same respective periods in 2014.

We are also exposed to foreign exchange risk when we enter into non-functional currency transactions, both intercompany and third party. At each period-end, 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 409 contracts were entered into during the nine months ended September 30, 2015) not designated for hedge accounting, with the intent to reduce earnings volatility associated with certain of these balances. The notional amounts of the contracts ranged from \$118,000 to \$22.0 million, offsetting our exposures from the euro, British pound, Canadian dollar, Australian dollar, Mexican peso, and various other currencies.

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

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Item 4: Controls and Procedures

Evaluation of disclosure controls and procedures. At September 30, 2015, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e)) under the Securities Exchange Act of 1934, as amended. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that as of September 30, 2015, our disclosure controls and procedures were effective to ensure the

(a) information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Changes in internal controls over financial reporting. In the ordinary course of business, we review our system of internal control over financial reporting and make changes to our applications and processes to improve such controls and increase efficiency, while ensuring that we maintain an effective internal control environment.

(b) Changes may include such activities as implementing new, more efficient applications and automating manual processes. We are currently upgrading our global enterprise resource software applications at our locations outside of the United States. We will continue to upgrade our financial applications in stages, and we believe the related changes to processes and internal controls will allow us to be more efficient and further enhance our internal control over financial reporting.

Additionally, we have established a shared services center in Europe, and we are currently transitioning certain finance and accounting activities within our EMEA locations to the shared services center in a staged approach. The implementation of our shared services is ongoing, and we believe the related changes to processes and internal controls will allow us to be more efficient and further enhance our internal control over financial reporting.

There have been no other changes in our internal control over financial reporting during the three months ended September 30, 2015 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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## PART II: OTHER INFORMATION

Item 1: Legal Proceedings  
Refer to Item 1: "Financial Statements, Note 11: Commitments and Contingencies."

Item 1A: Risk Factors  
There were no material changes to risk factors during the third quarter of 2015 from those previously disclosed in Item 1A: "Risk Factors" of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, which was filed with the SEC on February 20, 2015.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable.

(b) Not applicable.

(c) Issuer Repurchase of Equity Securities

The table below summarizes information about our repurchases of our equity securities, based on settlement date, during the quarterly period ended September 30, 2015.

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share <sup>(2)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
July 1 through July 31	203,000	\$32.07	203,000	\$33,588
August 1 through August 31	93,365	32.20	93,365	30,581
September 1 through September 30	86,038	29.94	86,038	28,005
Total	382,403	\$31.62	382,403	

On February 19, 2015, Itron's Board authorized a new repurchase program of up to \$50 million of our common stock over a 12-month period beginning February 19, 2015. Repurchases are made in the open market or in privately negotiated transactions, and in accordance with applicable securities laws. No shares were purchased outside of this plan.

<sup>(2)</sup> Includes commissions.

Subsequent to September 30, 2015, we repurchased 88,266 shares of our common stock under the stock repurchase program authorized by the Board of Directors on February 19, 2015. The average price paid per share was \$34.04.

Item 5: Other Information

(a) No information was required to be disclosed in a report on Form 8-K during the third quarter of 2015 that was not reported.

(b) Not applicable.



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Item 6: Exhibits

Exhibit Number	Description of Exhibits
12.1	Computation of Ratio of Earnings to Fixed Charges. (filed with this report)
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.



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SIGNATURE

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

ITRON, INC.

November 4, 2015  
Date

By: /s/ W. MARK SCHMITZ  
W. Mark Schmitz  
Executive Vice President and Chief Financial Officer

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