

ITRON INC /WA/
Form 10-K
June 30, 2016

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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 91-1011792
(State of Incorporation) (I.R.S. Employer Identification Number)
2111 N Molter Road, Liberty Lake, Washington 99019
(509) 924-9900
(Address and telephone number of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
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Common stock, no par value	NASDAQ Global Select Market
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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

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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 Act). Yes No

As of June 30, 2015 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the shares of common stock held by non-affiliates of the registrant (based on the closing price for the common stock on the NASDAQ Global Select Market) was \$1,309,640,099.

As of May 31, 2016 there were outstanding 38,243,435 shares of the registrant's common stock, no par value, which is the only class of common stock of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE: None

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Itron, Inc.

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In this Annual Report on Form 10-K, the terms “we,” “us,” “our,” “Itron,” and the “Company” refer to Itron, Inc.

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 Annual Report on Form 10-K. When we use the words “expect,” “intend,” “anticipate,” “believe,” “plan,” “project,” “estimate,” “future,” “objective,” “may,” “will,” “will continue,” and similar, they are intended to identify forward-looking statements. Forward-looking statements rely on a number of assumptions and estimates. These assumptions and estimates could be inaccurate and cause our actual results to vary materially from expected results. Risks and uncertainties include 1) the rate and timing of customer demand for our products, 2) rescheduling or cancellations of current customer orders and commitments, 3) changes in estimated liabilities for product warranties, litigation, and costs to deliver and implement network solutions, 4) our dependence on customers’ acceptance of new products and their performance, 5) competition, 6) changes in domestic and international laws and regulations, 7) changes in foreign currency exchange rates and interest rates, 8) international business risks, 9) our own and our customers’ or suppliers’ access to and cost of capital, 10) future business combinations, 11) implementation of restructuring projects, 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 Annual Report on Form 10-K. 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 this Annual Report on Form 10-K.

PART I

ITEM 1: BUSINESS

Available Information

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

General

Itron is among the leading technology and services companies dedicated to the resourceful use of electricity, natural gas, and water. We provide comprehensive solutions that measure, manage, and analyze energy and water use. Our broad product portfolio helps utilities responsibly and efficiently manage resources.

With increasing populations and resource consumption, there continues to be growing demand for electricity, natural gas, and water. This demand comes at a time when utilities are challenged by cost constraints, regulatory requirements, and environmental concerns. Our solution is to provide utilities with the knowledge they need to optimize their resources and to better understand and serve their customers - knowledge that gives their customers control over their energy and water needs and allows for better management and conservation of valuable resources.

We were incorporated in 1977 with a focus on meter reading technology. In 2004, we entered the electricity meter manufacturing business with the acquisition of Schlumberger Electricity Metering. In 2007, we expanded our presence in global meter manufacturing and systems with the acquisition of Actaris Metering Systems SA.

The following is a discussion of our major products, our markets, and our operating segments. Refer to Item 8: “Financial Statements and Supplementary Data” included in this Annual Report on Form 10-K for specific segment results.

Our Business

We offer solutions that enable electric and natural gas utilities to build smart grids to manage assets, secure revenue, lower operational costs, improve customer service, and enable demand response. Our solutions include standard meters and next-generation advanced and smart metering products, metering systems, and services, which ultimately empower and benefit consumers.

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We supply comprehensive solutions to address the unique challenges facing the water industry, including increasing demand and resource scarcity. We offer a complete product portfolio, including standard meters and advanced and smart metering products, metering systems, and services, for applications in the residential and commercial industrial markets for water and heat.

We offer a portfolio of services to our customers from standalone services to end-to-end solutions. These include licensing meter data management and analytics software, managed services, software-as-a-service (hosted software), technical support services, licensing hardware technology, and consulting services.

We classify metering systems into three categories: standard metering systems, advanced metering systems, and smart metering systems. These categories are described in more detail below:

Standard Metering Systems

Standard metering systems employ a standard meter, which measures electricity, natural gas, water, or thermal energy by mechanical, electromechanical, or electronic means, with no built-in remote-reading communication capability. Standard meters require manual reading, which is typically performed by a utility representative or meter reading service provider. Worldwide, we produce standard residential, commercial and industrial (C&I), and transmission and distribution (T&D) electricity, natural gas, water, and heat meters.

Advanced Metering Systems

Advanced metering systems use a meter with a one-way communication module embedded in or attached to the meter to collect and store meter data, which is transmitted to handheld computers, mobile units, and/or fixed networks. This allows utilities to collect meter data for billing systems and analyze the data for more efficient resource management and operations. Worldwide, we produce electricity, natural gas, and water advanced metering systems and related technology. Communication technologies can vary by region and country and include telephone, radio frequency (RF), cellular, power line carrier (PLC), and Ethernet devices.

Smart Metering Systems

Smart metering systems employ meters, which have two-way communication capability to collect and transmit meter data to support various applications beyond monthly billings. Our smart metering solutions have substantially more features and functions than our advanced metering systems. Smart meters can collect and store interval data, remotely connect and disconnect service to the meter, send data, receive commands, and interface with other devices, such as in-home displays, smart thermostats and appliances, home area networks, and advanced control systems. Smart meters can also include adaptive communication technology (ACT). ACT enables dynamic selection of the optimal communications path, utilizing RF or PLC, based on network operating conditions, data attributes and application requirements.

Bookings and Backlog of Orders

Bookings for a reported period represent customer contracts and purchase orders received during the period for hardware, software, and services that have met certain conditions, such as regulatory and/or contractual approval. Total backlog represents committed but undelivered contracts and purchase orders at period-end. Twelve-month backlog represents the portion of total backlog that we estimate will be recognized as revenue over the next 12 months. Backlog is not a complete measure of our future 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.

Year Ended	Annual Bookings	Total Backlog	12-Month Backlog
	(in millions)		
December 31, 2015	\$ 1,981	\$ 1,575	\$ 836

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December 31, 2014	2,385	1,516	737
December 31, 2013	1,946	1,079	524

Information on bookings by our operating segments is as follows:

Year Ended	Total Bookings (in millions)	Electricity	Gas	Water
December 31, 2015	\$1,981	\$ 958	\$577	\$ 446
December 31, 2014	2,385	1,074	753	558
December 31, 2013	1,946	786	552	608

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Our Operating Segments

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.

Sales and Distribution

We use a combination of direct and indirect sales channels in our operating segments. A direct sales force is utilized for large electric, natural gas, and water utilities, with which we have long-established relationships. For smaller utilities, we typically use an indirect sales force that consists of distributors, sales representatives, partners, and meter manufacturer representatives.

No single customer represented more than 10% of total revenues for the years ended December 31, 2015, 2014, and 2013. Our 10 largest customers in each of the years ended December 31, 2015, 2014, and 2013, accounted for approximately 22%, 19%, and 21% of total revenues, respectively.

Raw Materials

Our products require a wide variety of components and materials, which are subject to price and supply fluctuations. We enter into standard purchase orders in the ordinary course of business, which can include purchase orders for specific quantities based on market prices, as well as open-ended agreements that provide for estimated quantities over an extended shipment period, typically up to one year at an established unit cost. Although we have multiple sources of supply for most of our material requirements, certain components and raw materials are supplied by sole-source vendors, and our ability to perform certain contracts depends on the availability of these materials. Refer to Item 1A: "Risk Factors", included in this Annual Report on Form 10-K, for further discussion related to supply risks.

Partners

In connection with delivering products and systems to our customers, we may partner with third party vendors to provide hardware, software, or services, e.g., meter installation and communication network equipment and infrastructure. Our ability to perform on our contractual obligations with our customers is dependent on these partners meeting their obligations to us.

Product Development

Our product development is focused on both improving existing technology and developing innovative new technology for electricity, natural gas, water and heat meters, sensing and control devices, data collection software, communication technologies, data warehousing, and software applications. We invested approximately \$162 million, \$176 million, and \$175 million in product development in 2015, 2014 and 2013, which represented approximately 9% of total revenues for each year.

Workforce

As of December 31, 2015, we had approximately 7,900 people in our workforce, including 6,900 permanent and temporary employees. We have not experienced significant work stoppages and consider our employee relations to be good.

Competition

We provide a broad portfolio of products, solutions, software, and services to electric, gas, and water utility customers globally. Consequently, we operate within a large and complex competitive landscape. Some of our competitors have diversified product portfolios and participate in multiple geographic markets, while others focus on specific regional markets and/or certain types of products, including some low-cost suppliers based in China and India. Our competitors in China have an increasing presence in other markets around the world, however, this does not represent a major market share in any one of our global operating regions. Our competitors range from small to large established companies. Our primary competitors for each operating segment are discussed below.

We believe that our competitive advantage is based on our in-depth knowledge of the utility industries, our capacity to innovate, our ability to provide complete end-to-end integrated solutions (including metering, network communications, data collection systems, meter data management software, and other metering software applications), our established customer relationships, and our track record of delivering reliable, accurate, and long-lived products and services. Refer to Item 1A: “Risk Factors” included in this Annual Report on Form 10-K for a discussion of the competitive pressures we face.

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Electricity

We are among the leading global suppliers of electricity metering solutions, including standard meters and advanced and smart metering systems. Within the electricity business line, our primary global competitors include Aclara (Sun Capital Partners), Elster (Honeywell International Inc.), Landis+Gyr (Toshiba), and Silver Spring Networks. On a regional basis, other major competitors include OSAKI Group, Sagemcom Energy & Telecom (SAS), Sensus (The Resolute Fund, L.P.), Trilliant Networks, and ZIV (Avantha Group).

Gas

We are among the leading global suppliers of gas metering solutions, including standard meters and advanced and smart metering systems. Our primary global competitor is Elster. On a regional basis, other major competitors include Aclara, Apator, Landis+Gyr, LAO Industria, and Sensus.

Water

We are among the leading global suppliers of standard and advanced water meters and communication modules. Our primary global competitors include Apator, Diehl Metering (Diehl Stiftung & Co. KG), Elster, Sensus, and Zenner Performance (Zenner International GmbH & Co. KG). On a regional basis, other major competitors include Badger Meter, LAO Industria, and Neptune Technologies (Roper Industries).

Strategic Alliances

We pursue strategic alliances with other companies in areas where collaboration can produce product advancement and acceleration of entry into new markets. The objectives and goals of a strategic alliance can include one or more of the following: technology exchange, product development, joint sales and marketing, or access to new geographic markets. Refer to Item 1A: "Risk Factors" included in this Annual Report on Form 10-K for a discussion of risks associated with strategic alliances.

Intellectual Property

Our patents and patent applications cover a range of technologies, which relate to standard metering, advanced metering systems and technology, smart metering systems and technology, meter data management software, and knowledge application solutions. We also rely on a combination of copyrights, patents, and trade secrets to protect our products and technologies.

Disputes over the ownership, registration, and enforcement of intellectual property rights arise in the ordinary course of our business. While we believe patents and trademarks are important to our operations and, in aggregate, constitute valuable assets, no single patent or trademark, or group of patents or trademarks, is critical to the success of our business. We license some of our technology to other companies, some of which are our competitors.

Environmental Regulations

In the ordinary course of our business we use metals, solvents, and similar materials that are stored on-site. We believe we are in compliance with environmental laws, rules, and regulations applicable to the operation of our business.

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EXECUTIVE OFFICERS

Set forth below are the names, ages, and titles of our executive officers as of June 29, 2016.

Name	Age	Position
Philip C. Mezey	56	President and Chief Executive Officer
W. Mark Schmitz	64	Executive Vice President and Chief Financial Officer
Thomas L. Deitrich	49	Executive Vice President and Chief Operating Officer
Michel C. Cadieux	59	Senior Vice President, Human Resources
Shannon M. Votava	56	Senior Vice President, General Counsel and Corporate Secretary

Philip C. Mezey is President and Chief Executive Officer and a member of our Board of Directors. Mr. Mezey was appointed to his current position and to the Board of Directors in January 2013. Mr. Mezey joined Itron in March 2003, and in 2007 Mr. Mezey became Senior Vice President and Chief Operating Officer, Itron North America. Mr. Mezey served as President and Chief Operating Officer, Energy from March 2011 through December 2012.

W. Mark Schmitz is Executive Vice President and Chief Financial Officer. Mr. Schmitz was appointed to this role in September 2014. Prior to joining Itron, Mr. Schmitz was Chief Financial Officer of Alghanim Industries from 2009 to 2013. Mr. Schmitz served as the Executive Vice President and Chief Financial Officer of The Goodyear Tire and Rubber Company from 2007 to 2008 and as Vice President and Chief Financial Officer of Tyco International Limited's Fire and Security Segment from 2003 to 2007.

Thomas L. Deitrich is Executive Vice President and Chief Operating Officer. Mr. Deitrich joined Itron in October 2015. From 2012 to September 2015, Mr. Deitrich was Senior Vice President and General Manager for Digital Networking at Freescale Semiconductor, Inc. (Freescale), and he served as the Senior Vice President and General Manager of Freescale's RF, Analog, Sensor, and Cellular Products Group from 2009 to 2012. Mr. Deitrich had other roles of increasing responsibility at Freescale from 2006 to 2009. Prior to Freescale, Mr. Deitrich worked for Flextronics, Sony-Ericsson/Ericsson, and GE.

Michel C. Cadieux is Senior Vice President, Human Resources and has been so since joining Itron in February 2014. From 2008 to 2012, Mr. Cadieux was Senior Vice President of Human Resources and Security at Freescale Semiconductor, Inc.

Shannon M. Votava is Senior Vice President, General Counsel and Corporate Secretary. Ms. Votava was promoted to this role in March 2016. Ms. Votava joined Itron in May 2010 as Assistant General Counsel and was promoted to Vice President and General Counsel in January 2012. She assumed the responsibilities of Corporate Secretary in January 2013. Before joining Itron, Ms. Votava served as Associate General Counsel, Commercial at Cooper Industries plc from October 2008 to April 2010, and as General Counsel for Honeywell's Electronic Materials business from 2003 to 2008.

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ITEM 1A: RISK FACTORS

We are dependent on the utility industry, which has experienced volatility in capital spending.

We derive the majority of our revenues from sales of products and services to utilities. Purchases of our products may be deferred as a result of many factors, including economic downturns, slowdowns in new residential and commercial construction, customers' access to capital upon acceptable terms, the timing and availability of government subsidies or other incentives, utility specific financial circumstances, mergers and acquisitions, regulatory decisions, weather conditions, and fluctuating interest rates. We have experienced, and may in the future experience, variability in operating results on an annual and a quarterly basis as a result of these factors.

Utility industry sales cycles can be lengthy and unpredictable.

The utility industry is subject to substantial government regulation. Regulations have often influenced the frequency of meter replacements. Sales cycles for standalone meter products have typically been based on annual or biennial bid-based agreements. Utilities place purchase orders against these agreements as their inventories decline, which can create fluctuations in our sales volumes.

Sales cycles for advanced and smart metering systems are generally long and unpredictable due to several factors, including budgeting, purchasing, and regulatory approval processes that can take several years to complete. Our utility customers typically issue requests for quotes and proposals, establish evaluation processes, review different technical options with vendors, analyze performance and cost/benefit justifications, and perform a regulatory review, in addition to applying the normal budget approval process. Today, governments around the world are implementing new laws and regulations to promote increased energy efficiency, slow or reverse growth in the consumption of scarce resources, reduce carbon dioxide emissions, and protect the environment. Many of the legislative and regulatory initiatives encourage utilities to develop a smart grid infrastructure, and some of these initiatives provide for government subsidies, grants, or other incentives to utilities and other participants in their industry to promote transition to smart grid technologies. If government regulations regarding the smart grid and smart metering are delayed, revised to permit lower or different investment levels in metering infrastructure, or terminated altogether, this could have a material adverse effect on our results of operation, cash flow, and financial condition.

Our quarterly results may fluctuate substantially due to several factors.

We have experienced variability in quarterly results, including losses, and believe our quarterly results will continue to fluctuate as a result of many factors, including those risks and events included throughout this section. Additional factors that may cause our results to vary include:

- a higher proportion of products sold with fewer features and functionality, resulting in lower revenues and gross margins;
- a shift in sales channel mix, which could impact the revenue received and commissions paid;
- a decrease in sales volumes, which could result in lower gross margins as driven by lower absorption of manufacturing costs;
- a change in accounting standards or practices that may impact us to a greater degree than other companies due to our product mix, which would impact revenue recognition, or our borrowing structure;
- a change in existing taxation rules or practices due to our specific operating structure that may not be comparable to other companies; and
- a shortfall in sales without a proportional decrease in expenses.

We face product-failure exposure.

Our products are complex and may contain defects or experience failures due to any number of issues in design, materials, deployment, and/or use. If any of our products contain a defect, a compatibility or interoperability issue, or other types of errors, we may have to devote significant time and resources to identify and correct the issue. We provide product warranties for varying lengths of time and establish allowances in anticipation of warranty expenses. In addition, we record contingent liabilities for additional product-failure related costs. These warranty and related product-failure allowances may be inadequate due to product defects, and unanticipated component failures, as well as higher than anticipated material, labor, and other costs we may incur to replace projected product failures. A product recall or a significant number of product returns could be expensive; damage our reputation and relationships with utilities, meter and communication vendors, and other third-party vendors; result in the loss of business to competitors; or result in litigation against us. We may incur additional warranty expenses in the future with respect to new or established products, which could materially and adversely affect our operations and financial position.

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Our customer contracts are complex and contain provisions that could cause us to incur penalties, be liable for damages, and/or incur unanticipated expenses with respect to the functionality, deployment, operation, and availability of our products and services.

In addition to the risk of unanticipated warranty or recall expenses, our customer contracts may contain provisions that could cause us to incur penalties, be liable for damages, including liquidated damages, or incur other expenses if we experience difficulties with respect to the functionality, deployment, operation, and availability of our products and services. Some of these contracts contain long-term commitments to a set schedule of delivery or performance. If we failed in our initial estimated schedule or we fail in our management of the project, this may cause delays in completion. In the event of late deliveries, late or improper installations or operations, failure to meet product or performance specifications or other product defects, or interruptions or delays in our managed service offerings, our customer contracts may expose us to penalties, liquidated damages, and other liabilities. In the event we were to incur contractual penalties, such as liquidated damages or other related costs that exceed our expectations, our business, financial condition, and operating results could be materially and adversely affected. Further, we could be required to recognize a current-period expense related to a specific component of a customer contract at the time we determine the products and/or services to be delivered under that component would result in a loss due to expected revenues estimated to be less than expected costs. Depending on the amounts of the associated revenues (if any) and the costs, this charge could be material to our results of operations in the period it is recognized.

We depend on our ability to develop new competitive products.

Our future success will depend, in part, on our ability to continue to design and manufacture new competitive products and to enhance and sustain our existing products, keep pace with technological advances and changing customer requirements, gain international market acceptance, and manage other factors in the markets in which we sell our products. Product development will require continued investment in order to maintain our competitive position, and the periods in which we incur significant product development costs may drive variability in our quarterly results. We may not have the necessary capital, or access to capital at acceptable terms, to make these investments. We have made, and expect to continue to make, substantial investments in technology development. However, we may experience unforeseen problems in the development or performance of our technologies or products. In addition, we may not meet our product development schedules. New products often require certifications or regulatory approvals before the products can be used and we cannot be certain that our new products will be approved in a timely manner. Finally, we may not achieve market acceptance of our new products and services.

We face increasing competition.

We face competitive pressures from a variety of companies in each of the markets we serve. Some of our present and potential future competitors have, or may have, substantially greater financial, marketing, technical, or manufacturing resources and, in some cases, have greater name recognition, customer relationships, and experience. Some competitors may enter markets we serve and sell products at lower prices in order to gain or grow market share. Our competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources to the development, promotion, and sale of their products and services than we can. Some competitors have made, and others may make, strategic acquisitions or establish cooperative relationships among themselves or with third parties that enhance their ability to address the needs of our prospective customers. It is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Other companies may also drive technological innovation and develop products that are equal in quality and performance or superior to our products, which could put pressure on our market position, reduce our overall sales, and require us to invest additional funds in new technology development. In addition, there is a risk that low-cost providers will expand their presence in our markets, improve their quality, or form alliances or cooperative relationships with our competitors, thereby contributing to

future price erosion. Some of our products and services may become commoditized, and we may have to adjust the prices of some of our products to stay competitive. Further, some utilities may purchase meters separately from the communication devices. The specifications for the meters would require interchangeability, which could lead to further commoditization of the meter, driving prices lower and reducing margins. Should we fail to compete successfully with current or future competitors, we could experience material adverse effects on our business, financial condition, results of operations, and cash flows.

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Our acquisitions of and investments in third parties have risks.

We may complete additional acquisitions or make investments in the future, both within and outside of the United States. In order to finance future acquisitions, we may need to raise additional funds through public or private financings, and there are no assurances that such financing would be available at acceptable terms. Acquisitions and investments involve numerous risks such as the diversion of senior management's attention; unsuccessful integration of the acquired entity's personnel, operations, technologies, and products; incurrence of significant expenses to meet an acquiree's customer contractual commitments; lack of market acceptance of new services and technologies; or difficulties in operating businesses in international legal jurisdictions. Failure to properly or adequately address these issues could result in the diversion of management's attention and resources and materially and adversely impact our ability to manage our business. In addition, acquisitions and investments in third parties may involve the assumption of obligations, significant write-offs, or other charges associated with the acquisition. Impairment of an investment, goodwill, or an intangible asset may result if these risks were to materialize. For investments in entities that are not wholly owned by Itron, such as joint ventures, a loss of control as defined by U.S. generally accepted accounting principles (GAAP) could result in a significant change in accounting treatment and a change in the carrying value of the entity. There can be no assurances that an acquired business will perform as expected, accomplish our strategic objectives, or generate significant revenues, profits, or cash flows.

We may face adverse publicity, consumer or political opposition, or liability associated with our products.

The safety and security of the power grid and natural gas and water supply systems, the accuracy and protection of the data collected by meters and transmitted via the smart grid, concerns about the safety and perceived health risks of using radio frequency communications, and privacy concerns of monitoring home appliance energy usage have been the focus of recent adverse publicity. Negative publicity and consumer opposition may cause utilities or their regulators to delay or modify planned smart grid initiatives. Smart grid projects may be, or may be perceived as, unsuccessful.

We may be subject to claims that there are adverse health effects from the radio frequencies utilized in connection with our products. If these claims prevail, our customers could suspend implementation or purchase substitute products, which could cause a loss of sales.

Changes in tax laws, valuation allowances, and unanticipated tax liabilities could adversely affect our effective income tax rate and profitability.

We are subject to income tax in the United States and numerous foreign jurisdictions. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves may be established when we believe that certain positions might be challenged despite our belief that our tax return positions are fully supportable. We adjust these reserves in light of changing facts and circumstances. The provision for income taxes includes the impact of reserve positions and changes to reserves that are considered appropriate, as well as valuation allowances when we determine it is more likely than not that a deferred tax asset cannot be realized. In addition, future changes in tax laws in the jurisdictions in which we operate could have a material impact on our effective income tax rate and profitability. We regularly assess all of these matters to determine the adequacy of our tax provision, which is subject to significant judgment.

Disruption and turmoil in global credit and financial markets, which may be exacerbated by the inability of certain countries to continue to service their sovereign debt obligations, and the possible negative implications of such events for the global economy, may negatively impact our business, liquidity, operating results, and financial condition.

The current economic conditions, including volatility in the availability of credit and foreign exchange rates and extended economic slowdowns, have contributed to the instability in some global credit and financial markets. Additionally, at-risk financial institutions in certain countries may, without forewarning, seize a portion of depositors' account balances. The seized funds would be used to recapitalize the at-risk financial institution and would no longer be available for the depositors' use. If such seizure were to occur at financial institutions where we have funds on deposit, it could have a significant impact on our overall liquidity. While the ultimate outcome of these events cannot be predicted, it is possible that such events may have a negative impact on the global economy and our business, liquidity, operating results, and financial condition.

We are subject to international business uncertainties, obstacles to the repatriation of earnings, and foreign currency fluctuations.

A substantial portion of our revenues is derived from operations conducted outside the United States. International sales and operations may be subjected to risks such as the imposition of government controls, government expropriation of facilities, lack

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of a well-established system of laws and enforcement of those laws, access to a legal system free of undue influence or corruption, political instability, terrorist activities, restrictions on the import or export of critical technology, currency exchange rate fluctuations, and adverse tax burdens. Lack of availability of qualified third-party financing, generally longer receivable collection periods than those commonly practiced in the United States, trade restrictions, changes in tariffs, labor disruptions, difficulties in staffing and managing international operations, difficulties in imposing and enforcing operational and financial controls at international locations, potential insolvency of international distributors, preference for local vendors, burdens of complying with different permitting standards and a wide variety of foreign laws, and obstacles to the repatriation of earnings and cash all present additional risk to our international operations. Fluctuations in the value of international currencies may impact our operating results due to the translation to the U.S. dollar as well as our ability to compete in international markets. International expansion and market acceptance depend on our ability to modify our technology to take into account such factors as the applicable regulatory and business environment, labor costs, and other economic conditions. In addition, the laws of certain countries do not protect our products or technologies in the same manner as the laws of the United States. Further, foreign regulations or restrictions, e.g., opposition from unions or works councils, could delay, limit, or disallow significant operating decisions made by our management, e.g., decisions to exit certain businesses, close certain manufacturing locations, or other restructuring actions. There can be no assurance that these factors will not have a material adverse effect on our future international sales and, consequently, on our business, financial condition, and results of operations.

We depend on certain key vendors and components.

Certain of our products, subassemblies, and system components are procured from limited sources. Our reliance on such limited sources involves certain risks, including the possibility of shortages and reduced control over delivery schedules, quality, costs, and our vendors' access to capital upon acceptable terms. Any adverse change in the supply, or price, of these components could adversely affect our business, financial condition, and results of operations. In addition, we depend on a small number of contract manufacturing vendors for a large portion of our low-volume manufacturing business and all of our repair services for our domestic handheld meter reading units. Should any of these vendors become unable to perform up to their responsibilities, our operations could be materially disrupted.

We may engage in future restructuring activities and incur additional charges in our efforts to improve profitability. We also may not achieve the anticipated savings and benefits from current or any future restructuring projects.

In recent years, we have implemented multiple restructuring projects to adjust our cost structure, and we may engage in similar restructuring activities in the future. These restructuring activities reduce our available employee talent, assets, and other resources, which could slow product development, impact ability to respond to customers, increase quality issues, temporarily reduce manufacturing efficiencies, and limit our ability to increase production quickly. In addition, delays in implementing restructuring projects, unexpected costs, or failure to meet targeted improvements could reduce the overall savings anticipated from the restructuring project.

Business interruptions could adversely affect our business.

Our worldwide operations could be subject to hurricanes, tornadoes, earthquakes, floods, fires, extreme weather conditions, medical epidemics or pandemics, or other natural or man-made disasters or business interruptions. The occurrence of any of these business disruptions could seriously harm our business, financial condition, and results of operations.

Our key manufacturing facilities are concentrated, and, in the event of a significant interruption in production at any of our manufacturing facilities, considerable expense, time, and effort could be required to establish alternative production lines to meet contractual obligations, which would have a material adverse effect on our business, financial

condition, and results of operations.

We may encounter strikes or other labor disruptions that could adversely affect our financial condition and results of operations.

We have significant operations throughout the world. In a number of countries outside the U.S., our employees are covered by collective bargaining agreements. As the result of various corporate or operational actions, which our management has undertaken or may be made in the future, we could encounter labor disruptions. These disruptions may be subject to local media coverage, which could damage our reputation. Additionally, the disruptions could delay our ability to meet customer orders and could adversely affect our results of operations. Any labor disruptions could also have an impact on our other employees. Employee morale and productivity could suffer, and we may lose valued employees whom we wish to retain.

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Asset impairment could result in significant changes that would adversely impact our future operating results.

We have significant intangible assets, long-lived assets, goodwill, and deferred tax assets that are susceptible to valuation adjustments as a result of changes in various factors or conditions.

We assess impairment of amortizable intangible and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that could trigger an impairment of such assets include the following:

- underperformance relative to projected future operating results;
- changes in the manner or use of the acquired assets or the strategy for our overall business;
- negative industry or economic trends;
- decline in our stock price for a sustained period or decline in our market capitalization below net book value; and
- changes in our organization or management reporting structure, which could result in additional reporting units, requiring greater aggregation or disaggregation in our analysis by reporting unit and potentially alternative methods/assumptions of estimating fair values.

We assess the potential impairment of goodwill each year as of October 1. We also assess the potential impairment of goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Adverse changes in economic conditions or our operations could affect the assumptions we use to calculate the fair value, which in turn could result in an impairment charge in future periods that would impact our results of operations and financial position in that period.

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

We are subject to a variety of litigation that could adversely affect our results of operations, financial condition, and cash flows.

From time to time, we are involved in litigation that arises from our business. Litigation may, for example, relate to alleged infringements of intellectual property rights of others. Non-practicing entities may also make infringement claims in order to reach a settlement with us. In addition, these entities may bring claims against our customers, which, in some instances, could result in an indemnification of the customer. Litigation may also relate to, among other things, product failure or product liability claims, contractual disputes, employment matters, or securities litigation. Litigation can be expensive to defend and can divert the attention of management and other personnel for long periods of time, regardless of the ultimate outcome. We may be required to pay damage awards or settlements or become subject to equitable remedies that could adversely affect our financial condition and results of operations. While we currently maintain insurance coverage, such insurance may not provide adequate coverage against potential claims.

We may face losses associated with alleged unauthorized use of third party intellectual property.

We may be subject to claims or inquiries regarding alleged unauthorized use of a third party's intellectual property. An adverse outcome in any intellectual property litigation or negotiation could subject us to significant liabilities to third parties, require us to license technology or other intellectual property rights from others, require us to comply with injunctions to cease marketing or the use of certain products or brands, or require us to redesign, re-engineer, or rebrand certain products or packaging, any of which could affect our business, financial condition, and results of operations. If we are required to seek licenses under patents or other intellectual property rights of others, we may not be able to acquire these licenses at acceptable terms, if at all. In addition, the cost of responding to an intellectual property infringement claim, in terms of legal fees, expenses, and the diversion of management resources, whether or not the claim is valid, could have a material adverse effect on our business, financial condition, and results of operations.

If our products infringe the intellectual property rights of others, we may be required to indemnify our customers for any damages they suffer. We generally indemnify our customers with respect to infringement by our products of the proprietary rights of third parties. Third parties may assert infringement claims against our customers. These claims may require us to initiate or defend protracted and costly litigation on behalf of our customers, regardless of the merits of these claims. If any of these claims succeed,

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we may be forced to pay damages on behalf of our customers or may be required to obtain licenses for the products they use. If we cannot obtain all necessary licenses on commercially reasonable terms, our customers may be forced to stop using our products.

We are affected by the availability and regulation of radio spectrum and interference with the radio spectrum that we use.

A significant number of our products use radio spectrum, which are subject to regulation by the Federal Communications Commission (FCC) in the United States. The FCC may adopt changes to the rules for our licensed and unlicensed frequency bands that are incompatible with our business. In the past, the FCC has adopted changes to the requirements for equipment using radio spectrum, and it is possible that the FCC or the U.S. Congress will adopt additional changes.

Although radio licenses are generally required for radio stations, Part 15 of the FCC's rules permits certain low-power radio devices (Part 15 devices) to operate on an unlicensed basis. Part 15 devices are designed for use on frequencies used by others. These other users may include licensed users, which have priority over Part 15 users. Part 15 devices cannot cause harmful interference to licensed users and must be designed to accept interference from licensed radio devices. In the United States, our advanced and smart metering systems are typically Part 15 devices that transmit information to (and receive information from, if applicable) handheld, mobile, or fixed network systems pursuant to these rules.

We depend upon sufficient radio spectrum to be allocated by the FCC for our intended uses. As to the licensed frequencies, there is some risk that there may be insufficient available frequencies in some markets to sustain our planned operations. The unlicensed frequencies are available for a wide variety of uses and may not be entitled to protection from interference by other users who operate in accordance with FCC rules. The unlicensed frequencies are also often the subject of proposals to the FCC requesting a change in the rules under which such frequencies may be used. If the unlicensed frequencies become crowded to unacceptable levels, restrictive, or subject to changed rules governing their use, our business could be materially adversely affected.

We have committed, and will continue to commit, significant resources to the development of products that use particular radio frequencies. Action by the FCC could require modifications to our products. The inability to modify our products to meet such requirements, the possible delays in completing such modifications, and the cost of such modifications all could have a material adverse effect on our future business, financial condition, and results of operations.

Outside of the United States, certain of our products require the use of RF and are subject to regulations in those jurisdictions where we have deployed such equipment. In some jurisdictions, radio station licensees are generally required to operate a radio transmitter and such licenses may be granted for a fixed term and must be periodically renewed. In other jurisdictions, the rules permit certain low power devices to operate on an unlicensed basis. Our advanced and smart metering systems typically transmit to (and receive information from, if applicable) handheld, mobile, or fixed network reading devices in license-exempt bands pursuant to rules regulating such use. In Europe, we generally use the 169 megahertz (MHz), 433 MHz, and 868 MHz bands. In the rest of the world, we primarily use the 433 MHz and 2.4000-2.4835 gigahertz (GHz) bands, as well as other local license-exempt bands. To the extent we introduce new products designed for use in the United States or another country into a new market, such products may require significant modification or redesign in order to meet frequency requirements and other regulatory specifications. In some countries, limitations on frequency availability or the cost of making necessary modifications may preclude us from selling our products in those countries. In addition, new consumer products may create interference with the performance of our products, which could lead to claims against us.

We may be unable to adequately protect our intellectual property.

While we believe that our patents and other intellectual property have significant value, it is uncertain that this intellectual property or any intellectual property acquired or developed by us in the future will provide meaningful competitive advantages. There can be no assurance that our patents or pending applications will not be challenged, invalidated, or circumvented by competitors or that rights granted thereunder will provide meaningful proprietary protection. Moreover, competitors may infringe our patents or successfully avoid them through design innovation. To combat infringement or unauthorized use of our intellectual property, we may need to commence litigation, which can be expensive and time-consuming. In addition, in an infringement proceeding a court may decide that a patent or other intellectual property right of ours is not valid or is unenforceable, or may refuse to stop the other party from using the technology or other intellectual property right at issue on the grounds that it is non-infringing or the legal requirements for an injunction have not been met. Policing unauthorized use of our intellectual property is difficult and expensive, and we cannot provide assurance that we will be able to prevent misappropriation of our proprietary rights, particularly in countries that do not protect such rights in the same manner as in the United States.

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We have pension benefit obligations, which could have a material impact on our earnings, liabilities, and shareholders' equity and could have significant adverse impacts in future periods.

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

The determination of pension plan expense, benefit obligation, and future contributions depends heavily on market factors such as the discount rate and the actual return on plan assets. We estimate pension plan expense, benefit obligation, and future contributions to these plans using assumptions with respect to these and other items. Changes to those assumptions could have a significant effect on future contributions as well as on our annual pension costs and/or result in a significant change to shareholders' equity.

A number of key personnel are critical to the success of our business.

Our success depends in large part on the efforts of our highly qualified technical and management personnel and highly skilled individuals in all disciplines. The loss of one or more of these employees and the inability to attract and retain qualified replacements could have a material adverse effect on our business.

If we are unable to protect our information technology infrastructure and network against data corruption, cyber-based attacks or network security breaches, we could be exposed to customer liability and reputational risk.

We rely on various information technology systems to capture, process, store, and report data and interact with customers, vendors, and employees. Despite security steps we have taken to secure all information and transactions, our information technology systems, and those of our third-party providers, may be subject to cyber attacks. Any data breaches could result in misappropriation of data or disruption of operations. In addition, hardware and operating system software and applications that we procure from third parties may contain defects in design or manufacture that could interfere with the operation of the systems. Misuse of internal applications; theft of intellectual property, trade secrets, or other corporate assets; and inappropriate disclosure of confidential information could stem from such incidents.

In addition, we have designed products and services that connect to and are part of the "Internet of Things." While we attempt to provide adequate security measures to safeguard our products from cyber attacks, the potential for an attack remains. A successful attack may result in inappropriate access to information or an inability for our products to function properly.

Any such operational disruption and/or misappropriation of information could result in lost sales, negative publicity, or business delays and could have a material adverse effect on our business.

We may not realize the expected benefits from strategic alliances.

We have several strategic alliances with large and complex organizations and other companies with which we work to offer complementary products and services. There can be no assurance we will realize the expected benefits from these strategic alliances. If successful, these relationships may be mutually beneficial and result in shared growth. However, alliances carry an element of risk because, in most cases, we must both compete and collaborate with the same company from one market to the next. Should our strategic partnerships fail to perform, we could experience delays in product development or experience other operational difficulties.

We rely on information technology systems.

Our industry requires the continued operation of sophisticated information technology systems and network infrastructures, which may be subject to disruptions arising from events that are beyond our control. We are dependent on information technology systems, including, but not limited to, networks, applications, and outsourced services. We continually enhance and implement new systems and processes throughout our global operations.

We offer managed services and software utilizing several data center facilities located worldwide. Any damage to, or failure of, these systems could result in interruptions in the services we provide to our utility customers. As we continue to add capacity to our existing and future data centers, we may move or transfer data. Despite precautions taken during this process, any delayed or unsuccessful data transfers may impair the delivery of our services to our utility customers. We also sell vending and pre-payment systems with security features that, if compromised, may lead to claims against us.

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We are completing a phased upgrade of our primary enterprise resource planning (ERP) systems to allow for greater depth and breadth of functionality worldwide. System conversions are expensive and time consuming undertakings that impact all areas of the Company. While successful implementations of each phase will provide many benefits to us, an unsuccessful or delayed implementation of any particular phase may cost us significant time and resources.

The failure of these systems to operate effectively, problems with transitioning to upgraded or replacement systems, or a breach in security of these systems due to computer viruses, hacking, acts of terrorism, and other causes could materially and adversely affect our business, financial condition, and results of operations by harming our ability to accurately forecast sales demand, manage our supply chain and production facilities, achieve accuracy in the conversion of electronic data and records, and report financial and management information on a timely and accurate basis. In addition, due to the systemic internal control features within ERP systems, we may experience difficulties that could affect our internal control over financial reporting.

Changes in environmental regulations, violations of such regulations, or future environmental liabilities could cause us to incur significant costs and could adversely affect our operations.

Our business and our facilities are subject to numerous laws, regulations, and ordinances governing, among other things, the storage, discharge, handling, emission, generation, manufacture, disposal, remediation of, and exposure to toxic or other hazardous substances, and certain waste products. Many of these environmental laws and regulations subject current or previous owners or operators of land to liability for the costs of investigation, removal, or remediation of hazardous materials. In addition, these laws and regulations typically impose liability regardless of whether the owner or operator knew of, or was responsible for, the presence of any hazardous materials and regardless of whether the actions that led to the presence were conducted in compliance with the law. In the ordinary course of our business, we use metals, solvents, and similar materials, which are stored on-site. The waste created by the use of these materials is transported off-site on a regular basis by unaffiliated waste haulers. Many environmental laws and regulations require generators of waste to take remedial actions at, or in relation to, the off-site disposal location even if the disposal was conducted in compliance with the law. The requirements of these laws and regulations are complex, change frequently, and could become more stringent in the future. Failure to comply with current or future environmental regulations could result in the imposition of substantial fines, suspension of production, alteration of our production processes, cessation of operations, or other actions, which could materially and adversely affect our business, financial condition, and results of operations. There can be no assurance that a claim, investigation, or liability will not arise with respect to these activities, or that the cost of complying with governmental regulations in the future will not have a material adverse effect on us.

Our credit facility limits our ability and the ability of many of our subsidiaries to take certain actions.

Our credit facility places restrictions on our ability, and the ability of many of our subsidiaries, dependent on meeting specified financial ratios, to, among other things:

- incur more debt;
- make certain investments;
- enter into transactions with affiliates;
- merge or consolidate;
- pay dividends, make distributions, and repurchase capital stock;
- create liens;
- enter into sale lease-back transactions;
- transfer or sell assets.

Our credit facility contains other customary covenants, including the requirement to meet specified financial ratios and provide periodic financial reporting. Our ability to borrow under our credit facility will depend on the satisfaction of these covenants. Events beyond our control can affect our ability to meet those covenants. Our failure to comply with obligations under our borrowing arrangements may result in declaration of an event of default. An event of

default, if not cured or waived, may permit acceleration of required payments against such indebtedness. We cannot be certain we will be able to remedy any such defaults. If our required payments are accelerated, we cannot be certain that we will have sufficient funds available to pay the indebtedness or that we will have the ability to raise sufficient capital to replace the indebtedness on terms favorable to us or at all. In addition, in the case of an event of default under our secured indebtedness such as our credit facility, the lenders may be permitted to foreclose on our assets securing that indebtedness.

Our credit facility is sensitive to interest rate fluctuations that could impact our financial position and results of operations.

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Our ability to service our indebtedness is dependent on our ability to generate cash, which is influenced by many factors beyond our control.

Our ability to make payments on or refinance our indebtedness, fund planned capital expenditures, and continue research and development will depend on our ability to generate cash in the future. This is dependent on the degree to which we succeed in executing our business plans, which is influenced, in part, by general economic, financial, competitive, legislative, regulatory, counterparty, and other risks that are beyond our control. We may need to refinance all or a portion of our indebtedness on or before maturity. We cannot provide assurance that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

We are exposed to counterparty default risks with our financial institutions and insurance providers.

If one or more of the depository institutions in which we maintain significant cash balances were to fail, our ability to access these funds might be temporarily or permanently limited, and we could face material liquidity problems and financial losses.

The lenders of our credit facility consist of several participating financial institutions. Our revolving line of credit allows us to provide letters of credit in support of our obligations for customer contracts and provides additional liquidity. If our lenders are not able to honor their line of credit commitments due to the loss of a participating financial institution or other circumstance, we would need to seek alternative financing, which may not be under acceptable terms, and therefore could adversely impact our ability to successfully bid on future sales contracts and adversely impact our liquidity and ability to fund some of our internal initiatives or future acquisitions.

Our international sales and operations are subject to complex laws relating to foreign corrupt practices and anti-bribery laws, among many others, and a violation of, or change in, these laws could adversely affect our operations.

The Foreign Corrupt Practices Act in the United States requires United States companies to comply with an extensive legal framework to prevent bribery of foreign officials. The laws are complex and require that we closely monitor local practices of our overseas offices. The United States Department of Justice has recently heightened enforcement of these laws. In addition, other countries continue to implement similar laws that may have extra-territorial effect. In the United Kingdom, where we have operations, the U.K. Bribery Act imposes significant oversight obligations on us and could impact our operations outside of the United Kingdom. The costs for complying with these and similar laws may be significant and could require significant management time and focus. Any violation of these or similar laws, intentional or unintentional, could have a material adverse effect on our business, financial condition, or results of operations.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results, prevent fraud, or maintain investor confidence. Failure to maintain effective internal controls over financial reporting resulted in a material weakness during 2015.

Effective internal controls are necessary for us to provide reliable and accurate financial reports and effectively prevent fraud. We have devoted significant resources and time to comply with the internal control over financial reporting requirements of the Sarbanes-Oxley Act. In addition, Section 404 under the Sarbanes-Oxley Act requires that our auditors attest to the design and operating effectiveness of our controls over financial reporting. Our compliance with the annual internal control report requirement for each fiscal year will depend on the effectiveness of our financial reporting, data systems, and controls across our operating subsidiaries. Furthermore, an important part of our growth strategy has been, and will likely continue to be, the acquisition of complementary businesses, and we expect these systems and controls to become increasingly complex to the extent that we integrate acquisitions and our

business grows. Likewise, the complexity of our transactions, systems, and controls may become more difficult to manage. We cannot be certain that these measures will ensure that we design, implement, and maintain adequate controls over our financial processes and reporting in the future, especially for acquisition targets that may not have been required to be in compliance with Section 404 of the Sarbanes-Oxley Act at the date of acquisition.

Failure to implement new controls or enhancements to controls, failure to remediate the material weakness, difficulties encountered in control implementation or operation, or difficulties in the assimilation of acquired businesses into our control system could result in additional errors, material misstatements, or delays in our financial reporting obligations. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock and our access to capital.

The material weakness over financial reporting related to revenue recognition is disclosed in Item 9A. Remediating our material weakness and ensuring that we maintain effective internal control over financial reporting will require substantial management

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time and attention. We have also incurred significant costs, including legal, accounting and other professional fees in connection with assessing the impacts of misstatements and revising our previously issued financial statements.

Our failure to prepare and timely file our periodic reports with the SEC limits our access to the public markets to raise debt or equity capital.

We did not file our 2015 Annual Report on Form 10-K or our Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (our “First Quarter 2016 Form 10-Q”) within the time frame required by SEC rules. Because of our failure to have timely filed those periodic reports with the SEC, we are currently ineligible to use SEC Form S-3, which is a short-form registration statement, to register our securities for public offer and sale, until we have timely filed all periodic reports under the Securities Exchange Act of 1934, as amended, for a period of twelve months and any portion of a month from the due date of the last untimely report. Our inability to use Form S-3 limits our ability to access the public capital markets rapidly, including in reaction to changing business needs or market conditions. While we may currently register an offering of our securities on Form S-1, doing so would likely increase transaction costs and adversely impact our ability to raise capital or complete any related transaction, such as an acquisition, in a timely manner.

We are subject to regulatory compliance.

We are subject to various governmental regulations in all of the jurisdictions in which we conduct business. Failure to comply with current or future regulations could result in the imposition of substantial fines, suspension of production, alteration of our production processes, cessation of operations, or other actions, which could materially and adversely affect our business, financial condition, and results of operations.

Regulations related to “conflict minerals” may force us to incur additional expenses, may result in damage to our business reputation, and may adversely impact our ability to conduct our business.

In August 2012, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC adopted requirements for companies that use certain minerals and derivative metals (referred to as “conflict minerals,” regardless of their actual country of origin) in their products. Some of these metals are commonly used in electronic equipment and devices, including our products. These requirements require companies to investigate, disclose and report whether or not such metals originated from the Democratic Republic of Congo or adjoining countries and required due diligence efforts. There may be increased costs associated with complying with these disclosure requirements, including for diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. Further interpretation and implementation of these rules could adversely affect the sourcing, supply, and pricing of materials used in our products.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

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ITEM 2: PROPERTIES

We own our headquarters facility, which is located in Liberty Lake, Washington.

Our Gas and Water manufacturing facilities are located throughout the world, while our Electricity manufacturing facilities are located primarily in Europe, Middle East, and Africa (EMEA) and North America. The following table lists our major manufacturing facilities by the location and product line.

Region	Product Line	Gas	Water	Multiple Product Lines
North America	Oconee, SC (O)	Owenton, KY (O)	None	Waseca, MN - G,W (L)
EMEA	Chasseneuil, France (O) Godollo, Hungary (O)	Argenteuil, France (L)	Massy, France (L)	None
		Reims, France (O)	Macon, France (O)	
		Karlsruhe, Germany (O)	Haguenau, France (O)	
		Stretford, England (O)	Oldenburg, Germany (O)	
Asia/Pacific	None	Wujiang, China (L)	Asti, Italy (O)	Bekasi, Indonesia - E,W (O)
Latin America	None	Buenos Aires, Argentina (O)	Suzhou, China (L) Dehradun, India (L)	Americana, Brazil (O)

(O) - Manufacturing facility is owned

(L) - Manufacturing facility is leased

E - Electricity manufacturing facility, G - Gas manufacturing facility, W - Water manufacturing facility

Our principal properties are in good condition, and we believe our current facilities are sufficient to support our operations. Our major manufacturing facilities are owned, while smaller factories are typically leased.

In addition to our manufacturing facilities, we have numerous sales offices, product development facilities, and distribution centers, which are located throughout the world.

ITEM 3: LEGAL PROCEEDINGS

Please refer to Item 8: "Financial Statements and Supplementary Data, Note 13: Commitments and Contingencies" included in this Annual Report on Form 10-K. Except as described therein, there were no material pending legal proceedings, as defined by Item 103 of Regulation S-K, at December 31, 2015.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information for Common Stock

Our common stock is traded on the NASDAQ Global Select Market. The following table reflects the range of high and low common stock sales prices for the four quarters of 2015 and 2014 as reported by the NASDAQ Global Select Market.

	2015		2014	
	High	Low	High	Low
First Quarter	\$41.86	\$35.05	\$43.14	\$33.64
Second Quarter	\$37.81	\$34.44	\$41.21	\$33.68
Third Quarter	\$33.91	\$28.30	\$42.88	\$35.77
Fourth Quarter	\$37.53	\$31.75	\$43.35	\$36.42

Performance Graph

The following graph compares the five-year cumulative total return to shareholders on our common stock with the five-year cumulative total return of our peer group of companies used for the year ended December 31, 2015 and the NASDAQ Composite Index.

* \$100 invested on 12/31/10 in stock or index, including investment of dividends.

Fiscal years ending December 31.

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The performance graph above is being furnished solely to accompany this Report pursuant to Item 201(e) of Regulation S-K, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

The above presentation assumes \$100 invested on December 31, 2010 in the common stock of Itron, Inc., the peer group, and the NASDAQ Composite Index, with all dividends reinvested. With respect to companies in the peer group, the returns of each such corporation have been weighted to reflect relative stock market capitalization at the beginning of each annual period plotted. The stock prices shown above for our common stock are historical and not necessarily indicative of future price performance.

Each year, we reassess our peer group to identify global companies that are either direct competitors or have similar industry and business operating characteristics. Our 2015 peer group includes the following publicly traded companies: Badger Meter, Inc., Echelon Corporation, National Instruments Corporation, Roper Industries, Inc., and Silver Spring Networks, Inc.

Issuer Repurchase of Equity Securities

The table below summarizes information about our purchases of our shares of common stock, based on settlement date, during the quarterly period ended December 31, 2015.

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share ⁽²⁾	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)
October 1 through October 31	88,266	\$ 34.04	88,266	\$ 25,000
November 1 through November 30	—	—	—	25,000
December 1 through December 31	—	—	—	25,000
Total	88,266	\$ 34.04	88,266	

On February 19, 2015, our Board of Directors authorized a twelve-month repurchase program of up to \$50 million ⁽¹⁾ of Itron's common stock. 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.

⁽²⁾ Includes commissions.

Holders

At May 31, 2016, there were 224 holders of record of our common stock.

Dividends

Since the inception of the Company, we have not declared or paid cash dividends. We intend to retain future earnings for the development of our business and do not anticipate paying cash dividends in the foreseeable future.

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ITEM 6: SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data below is derived from our consolidated financial statements, which have been revised to correct previously issued financial statements. Refer to Item 8: “Financial Statements and Supplementary Data, Note 2: Revised Financials” included in this Annual Report on Form 10-K for further discussion and analysis of this revision. Information included in the table below from fiscal years 2013 through 2015 Consolidated Statements of Operations and Consolidated Statements of Cash Flows, and the Consolidated Balance Sheets for 2014 and 2015, have been audited by an independent registered public accounting firm.

These selected consolidated financial and other data represent portions of our financial statements. You should read this information together with Item 7: “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Item 8: “Financial Statements and Supplementary Data” included in this Annual Report on Form 10-K. Historical results are not necessarily indicative of future performance.

	Year Ended December 31,				
	2015	2014 ⁽⁵⁾	2013 ⁽⁴⁾	2012 ⁽³⁾	2011 ⁽²⁾
	(in thousands, except per share data)				
Consolidated Statements of Operations Data					
Revenues	\$1,883,533	\$1,947,616	\$1,938,025	\$2,156,365	\$2,426,137
Cost of revenues	1,326,848	1,333,566	1,323,257	1,448,753	1,686,165
Gross profit	556,685	614,050	614,768	707,612	739,972
Operating income (loss)	52,846	480	(139,863)	139,153	(460,652)
Net income (loss) attributable to Itron, Inc.	12,678	(23,670)	(153,153)	99,839	(510,570)
Earnings (loss) per common share - Basic	\$0.33	\$(0.60)	\$(3.90)	\$2.52	\$(12.57)
Earnings (loss) per common share - Diluted	\$0.33	\$(0.60)	\$(3.90)	\$2.50	\$(12.57)
Weighted average common shares outstanding - Basic	38,224	39,184	39,281	39,625	40,612
Weighted average common shares outstanding - Diluted	38,506	39,184	39,281	39,934	40,612
Consolidated Balance Sheets Data					
Working capital ⁽¹⁾	\$281,166	\$262,393	\$338,476	\$338,985	\$324,708
Total assets	1,681,363	1,751,747	1,907,179	2,110,825	2,065,522
Total debt	371,212	323,969	378,750	417,500	452,502
Total Itron, Inc. shareholders' equity	604,758	681,001	839,011	982,253	905,103
Other Financial Data					
Cash provided by operating activities	\$73,350	\$132,973	\$105,421	\$205,090	\$252,358
Cash used in investing activities ⁽³⁾	(48,951)	(41,496)	(56,771)	(125,445)	(78,741)
Cash provided by (used in) financing activities	7,740	(91,877)	(57,438)	(77,528)	(209,453)
Capital expenditures	(43,918)	(44,495)	(60,020)	(50,543)	(60,076)

(1) Working capital represents current assets less current liabilities.

During 2011, we incurred a goodwill impairment charge of \$584.8 million. In addition, restructuring projects were approved and commenced to increase efficiency and lower our cost of manufacturing, for which we incurred costs of \$63.6 million in 2011.

(3) On May 1, 2012, we completed our acquisition of SmartSynch, Inc. for \$77.7 million in cash (net of \$6.7 million of cash and cash equivalents acquired).

(4)

During 2013, we incurred a goodwill impairment charge of \$174.2 million. In addition, we incurred costs of \$36.3 million in 2013 related to restructuring projects to increase efficiency.

(5) During 2014, we incurred costs of \$49.5 million related to restructuring projects to improve operational efficiencies and reduce expenses. Refer to Item 8: “Financial Statements and Supplementary Data, Note 14: Restructuring” included in this Annual Report on Form 10-K for further disclosures regarding the restructuring charges.

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ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with Item 8: "Financial Statements and Supplementary Data."

Overview

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, install, implement, 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 39-41 for information about our non-GAAP measures and reconciliations to the most comparable GAAP measures.

For the year ended December 31, 2015, management reevaluated revenue and costs recognized as part of multiple element arrangements containing software and post contract services. This analysis revealed misstatements that existed in our previously reported financial statements. Accordingly, the financial statements for the years ended December 31, 2014 and 2013, and the quarters contained within the fiscal years ending December 31, 2015 and 2014 have been revised. These misstatements primarily impacted the timing of revenue and cost recognition associated with contracts involving certain software products that we were unable to demonstrate vendor specific objective evidence (VSOE) of fair value for certain undelivered elements or determine whether software was essential to the functionality of certain hardware.

Management evaluated these misstatements considering both qualitative and quantitative factors and determined that none of our previously issued annual or quarterly financial statements were materially misstated. However, the aggregate misstatements to all prior periods could not be corrected in 2015 without materially misstating the consolidated financial statements for the year ended December 31, 2015. As a result, we have revised the previously issued financial statements in this Annual Report on Form 10-K for the year ended December 31, 2015 and all accompanying footnotes and other Items contained within.

In addition to the foregoing revisions, the updated statements reflect other adjustments in the revised periods for items previously considered immaterial, as well as for events which occurred after our preliminary FY 2015 results announcement but are properly attributable to the year ended December 31, 2015.

For further discussion and analysis of this revision, refer to Item 8: "Financial Statements and Supplementary Data, Note 2: Revision of Prior Period Financial Statements" and "Note 18: Quarterly Results (Unaudited)," included in this Annual Report on Form 10-K. For further discussion regarding the material weakness surrounding software revenue

recognition and management's planned remediation plans, refer to Item 9A; "Controls and Procedures" included in this Annual Report on Form 10-K.

Our 2015 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 decreased \$64.1 million, or 3%, in 2015, compared with 2014. On a constant currency basis, revenues increased \$114.2 million, driven higher in 2015 by increases in product shipments in the Electricity and Water segments and increased professional services in Electricity, partially offset by a decline in product volumes in the Gas segment. Revenues increased \$40.8 million, or 2%, in 2014, compared with 2013 on a constant currency basis. Revenues were driven higher in 2014 by increases in product shipments in the Gas and Water segments and increased services revenue in the Electricity segment, partially offset by a decline in product volumes in the Electricity segment.

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Total backlog was \$1.6 billion, and twelve-month backlog was \$836.0 million at December 31, 2015.

Total company gross margin decreased 190 basis points in 2015, compared with 2014. During 2015, gross margin was negatively impacted by a special warranty charge of \$29.4 million in our Water segment. The special warranty charge relates 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. Total company gross margin decreased 20 basis points in 2014, compared with 2013. The gross margin reduction was the result of decreased margins in our Electricity and Gas segments, partially offset by improved margins in our Water segment.

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 purchase price of Temetra was \$9.8 million (net of \$1.4 million of cash and cash equivalents acquired). Refer to Item 8: “Financial Statements and Supplementary Data, Note 6: Goodwill” for additional information about this acquisition.

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). 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.

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 fourth quarter of 2016. Upon completion of the 2014 Projects, we expect to achieve annualized savings of \$40 million.

During the year ended December 31, 2015, the total expected restructuring costs decreased by approximately \$15.1 million. This includes \$12.2 million in restructuring severance expense release, recognized during the year ended December 31, 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. 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.

On February 2, 2015, we reached a settlement agreement with the counterparty related to the product development contract litigation from the SmartSynch, Inc. acquisition. As a result of the settlement, we recognized litigation cost, net of recovery from an indemnification escrow from SmartSynch shareholders, of \$14.7 million, inclusive of attorney’s fees incurred, reflected in our results of operations for the year ended December 31, 2014 within general and administrative expense. In 2015, we recovered \$8.2 million of costs associated with this settlement from SmartSynch shareholders.

On February 7, 2014, our 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. Under this program, we repurchased 1,246,241 shares of our common stock, which fully utilized the \$50 million authorized under the program.

On February 19, 2015, our 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 December 31, 2015, we repurchased 743,444 shares of our common stock, totaling \$25.0 million. This program expired on February 19, 2016 with no share repurchases made subsequent to December 31, 2015. Refer to Part II, Item 5: “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” for additional information related to our share repurchase program.

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Total Company GAAP and Non-GAAP Highlights and Unit Shipments

	Year Ended December 31,					
	2015	% Change	2014	% Change	2013	
	(in thousands, except margin and per share data)					
GAAP						
Revenues	\$1,883,533	(3)%	\$1,947,616	—	%	\$1,938,025
Gross profit	556,685	(9)%	614,050	—	%	614,768
Operating expenses	503,839	(18)%	613,570	(19)%		754,631
Operating income	52,846	N/A	480	N/A		(139,863)
Other income (expense)	(15,744)	(16)%	(18,745)	38	%	(13,537)
Income tax (provision) benefit	(22,099)	448	%	(4,035)	N/A	2,466
Net income (loss) attributable to Itron, Inc.	12,678	N/A	(23,670)	(85)%		(153,153)
Non-GAAP⁽¹⁾						
Operating expenses	\$484,967	(4)%	\$504,931	1	%	\$499,749
Operating income	71,718	(34)%	109,119	(5)%		115,019
Net income	27,981	(54)%	60,621	(14)%		70,315
GAAP Margins and Earnings Per Share						
Gross margin	29.6	%	31.5	%		31.7 %
Operating margin	2.8	%	—	%		(7.2)%
Basic EPS	\$0.33		\$(0.60)			\$(3.90)
Diluted EPS	\$0.33		\$(0.60)			\$(3.90)
Non-GAAP Earnings Per Share⁽¹⁾						
Diluted EPS	\$0.73		\$1.54			\$1.78

These measures exclude certain expenses that we do not believe are indicative of our core operating results. See ⁽¹⁾ pages 39-41 for information about these non-GAAP measures and reconciliations to the most comparable GAAP measures.

Revenues by region were as follows:

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Revenues by region			
United States and Canada	\$997,293	\$875,796	\$848,951
Europe, Middle East, and Africa (EMEA)	701,301	849,841	849,464
Other	184,939	221,979	239,610
Total Company	\$1,883,533	\$1,947,616	\$1,938,025

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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.

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

	Year Ended December 31,		
	2015	2014	2013
	(units in thousands)		
Meters			
Standard	17,560	18,740	17,850
Advanced and smart	7,290	6,090	5,930
Total meters	24,850	24,830	23,780
Stand-alone communication modules			
Advanced and smart	5,840	5,770	5,550

Revenues

Revenues decreased \$64.1 million, or 3%, in 2015, compared with 2014. Revenues in 2015 were lower due to \$178.3 million of adverse foreign currency impact. On a constant currency basis, revenue increased in our Electricity and Water segments by 15% and 3%, respectively. Revenues increased \$9.6 million in 2014, compared with 2013. Changes in currency exchange rates unfavorably impacted revenues by \$31.2 million across all segments. On a constant currency basis, the Gas and Water segments had increased revenue of 7% and 8%, respectively, partially offset by a decline of 5% in the Electricity segment revenue. A more detailed analysis of these fluctuations is provided in Operating Segment Results.

No single customer represented more than 10% of total revenues for the years ended December 31, 2015, 2014, and 2013. Our 10 largest customers accounted for 22%, 19%, and 21% of total revenues in 2015, 2014, and 2013.

Gross Margin

Gross margin was 29.6% for 2015, compared with 31.5% in 2014. The decrease was driven by a special warranty charge of \$29.4 million related to the premature failure of certain communication modules that necessitated a product replacement notification. Gross margin was 31.5% in 2014, compared with 31.7% in 2013. The decrease was driven by decreased margins in the Electricity and Gas segments, partially offset by improved margins in Water. A more detailed analysis of these fluctuations is provided in Operating Segment Results.

Operating Expenses

The following table shows the components of operating expense:

Year Ended December 31,

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	2015	% Change	2014	% Change	2013
	(in thousands)		(in thousands)		(in thousands)
Sales and marketing	\$161,380	(12)%	\$ 182,503	—%	\$ 182,687
Product development	162,334	(8)%	175,500	—%	175,420
General and administrative	155,715	(4)%	162,466	13%	143,932
Amortization of intangible assets	31,673	(27)%	43,619	4%	42,019
Restructuring	(7,263)	(115)%	49,482	36%	36,347
Goodwill impairment	—	N/A	—	(100)%	174,226
Total operating expenses	\$503,839	(18)%	\$ 613,570	(19)%	\$ 754,631

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Operating expenses decreased \$109.7 million for the year ended December 31, 2015 as compared with the same period in 2014. This decrease was partially the result of a favorable foreign exchange impact of \$54.0 million. On a constant currency basis, operating expense decreased \$55.8 million, which included a \$50.6 million reduction in restructuring expense, an \$18.3 million decrease in variable compensation, and a \$21.0 million reduction in acquisition related expenses as a result of a \$14.7 million settlement recorded in 2014, for which we recovered \$8.2 million in 2015. These decreases were partially offset by increased litigation, professional service, and temporary worker expenses.

For the year ended December 31, 2014, operating expenses decreased \$141.1 million as compared with the same period in 2013. This decrease includes \$17.0 million related to favorable foreign exchange impact. On a constant currency basis, operating expense decreased \$124.1 million, which includes a \$165.7 million decrease in goodwill impairment charges. This was partially offset by a \$14.3 million increase in restructuring expense following the approval of the 2014 Projects, and a \$22.1 million increase in general and administrative expenses due to higher litigation and variable compensation costs in 2014.

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 26% for the years ended December 31, 2015, 2014, and 2013.

Other Income (Expense)

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

	Year Ended December 31,				
	2015	% Change	2014	% Change	2013
	(in thousands)		(in thousands)		(in thousands)
Interest income	\$761	54%	\$494	(57)%	\$1,152
Interest expense	(10,161)	2%	(9,990)	11%	(9,030)
Amortization of prepaid debt fees	(2,128)	32%	(1,612)	(3)%	(1,656)
Other income (expense), net	(4,216)	(45)%	(7,637)	91%	(4,003)
Total other income (expense)	\$(15,744)	(16)%	\$(18,745)	38%	\$(13,537)

Interest income: Interest income is generated from our cash and cash equivalents. Interest rates have continued to remain low and therefore interest income was consistent for the years ended December 31, 2015 and 2014. The higher interest income for the year ended December 31, 2013 relates to interest recognized on certain deposits with governmental entities related to tax contingencies.

Interest expense: Interest expense for the year ended December 31, 2015 remained consistent compared with 2014 despite an increase in outstanding debt. This was caused by 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. For the year ended December 31, 2014, interest expense increased despite the reduction in outstanding debt due to the impact of interest rate swaps, which became effective during the third quarter of 2013. The weighted-average debt outstanding was \$367.1 million, \$340.6 million, and \$410.8 million, at December 31, 2015, 2014, and 2013, respectively.

Amortization of prepaid debt fees: Amortization of prepaid debt fees increased for the year ended December 31, 2015 due to the 2015 credit facility entered into on June 23, 2015. Upon entering into the 2015 credit facility, \$821,000 of

unamortized prepaid debt fees related to the 2011 credit facility was written-off. Amortization of prepaid debt fees was consistent for the years ended December 31, 2014 and 2013.

Other income (expense), net: Other expenses, net, consist primarily of unrealized and realized foreign currency gains and losses due to transactions denominated in a currency other than the reporting entity's functional currency. Foreign currency losses, net of hedging, were \$3.0 million in 2015, compared with net foreign currency losses of \$5.1 million in 2014 and \$3.3 million in 2013.

Income Tax Provision (Benefit)

We recognized income tax provision (benefit) of \$22.1 million, \$4.0 million, and \$(2.5) million for the years ended December 31, 2015, 2014, and 2013. Our actual tax rate differs from the 35% U.S. federal statutory tax rate due to the level of business in domestic and foreign jurisdictions, tax credits (including research and development and foreign tax), state income taxes, adjustments

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to valuation allowances, uncertain tax positions, and goodwill impairments that are non-deductible for tax purposes, among other items. For additional discussion related to income taxes, see Item 8: “Financial Statements and Supplementary Data, Note 12: Income Taxes.”

In April 2016, the United States Internal Revenue Service (IRS) proposed certain significant adjustments to our research and development tax credit position as part of the 2011 to 2013 tax audit. Management disagrees with the proposed adjustments on technical and factual grounds. We plan to avail ourselves of all administrative, and if necessary, judicial remedies and do not expect the adjustments to ultimately result in a material change to our financial position.

Operating Segment Results

For a description of our operating segments, refer to Item 8: “Financial Statements and Supplementary Data, Note 17: Segment Information” in this Annual Report on Form 10-K. The following tables and discussion highlight significant changes in trends or components of each operating segment.

	Year Ended December 31,					
	2015		2014		2013	
Segment Revenues	(in thousands)	% Change	(in thousands)	% Change	(in thousands)	
Electricity	\$820,306	6%	\$771,857	(6)%	\$825,391	
Gas	543,805	(9)%	599,091	5%	570,450	
Water	519,422	(10)%	576,668	6%	542,184	
Total Company	\$1,883,533	(3)%	\$1,947,616	—%	\$1,938,025	

	Year Ended December 31,					
	2015		2014		2013	
Segment Gross Profit and Margin	Gross Profit (in thousands)	Gross Margin	Gross Profit (in thousands)	Gross Margin	Gross Profit (in thousands)	Gross Margin
Electricity	\$225,446	27.5%	\$200,249	25.9%	\$219,852	26.6%
Gas	185,559	34.1%	211,623	35.3%	207,577	36.4%
Water	145,680	28.0%	202,178	35.1%	187,339	34.6%
Total Company	\$556,685	29.6%	\$614,050	31.5%	\$614,768	31.7%

	Year Ended December 31,					
	2015		2014		2013	
Segment Operating Expenses	(in thousands)	% Change	(in thousands)	% Change	(in thousands)	
Electricity	\$194,342	(30)%	\$278,000	(39)%	\$457,131	
Gas	118,088	(13)%	135,522	8%	125,401	
Water	125,816	(4)%	130,822	4%	125,324	
Corporate unallocated	65,593	(5)%	69,226	48%	46,775	
Total Company	\$503,839	(18)%	\$613,570	(19)%	\$754,631	

	Year Ended December 31,					
	2015		2014		2013	
Operating Income (Loss)	Operating Income (Loss)	Operating Margin	Operating Income (Loss)	Operating Margin	Operating Income (Loss)	Operating Margin
	(in thousands)		(in thousands)		(in thousands)	

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Segment Operating Income
(Loss) and Operating Margin

Electricity	\$31,104	3.8%	\$ (77,751)	(10.1)%	\$ (237,279)	(28.7)%
Gas	67,471	12.4%	76,101	12.7%	82,176	14.4%
Water	19,864	3.8%	71,356	12.4%	62,015	11.4%
Corporate unallocated	(65,593)		(69,226)		(46,775)	
Total Company	\$52,846	2.8%	\$480	—%	\$ (139,863)	(7.2)%

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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 year ended December 31, 2015 compared with 2014, and for the year ended December 31, 2014 compared with 2013, were as follows:

	Year Ended December 31,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2015	2014			
	(in thousands)				
Electricity Segment					
Revenues	\$820,306	\$771,857	\$(55,440)	\$103,889	\$48,449
Gross Profit	225,446	200,249	(14,322)	39,519	25,197
Operating Expenses	194,342	278,000	(20,234)	(63,424)	(83,658)

	Year Ended December 31,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2014	2013			
	(in thousands)				
Electricity Segment					
Revenues	\$771,857	\$825,391	\$(14,218)	\$(39,316)	\$(53,534)
Gross Profit	200,249	219,852	(2,307)	(17,296)	(19,603)
Operating Expenses	278,000	457,131	(13,215)	(165,916)	(179,131)

Revenues - 2015 vs. 2014

In constant currency, Electricity revenues for 2015 increased by \$103.9 million, or 15%, compared with 2014 revenues. The increase was primarily driven by increased North America revenue of \$109.8 million, including increased smart and advanced meter sales and professional services revenue and \$13.4 million improved services revenue in EMEA. The improvements in North America and EMEA were partially offset by \$26.0 million lower product revenue in EMEA due to the planned exit of certain markets and products under our restructuring plan.

Revenues - 2014 vs. 2013

In constant currency, revenues for 2014 decreased by \$39.3 million, or 5%, compared with 2013 revenues. The decrease was primarily driven by lower product sales in EMEA, resulting in a \$50.0 million decline in revenue. In addition, Latin America's product revenue declined \$12.3 million due to our decision to reduce the manufacture and sale of standard meters in the region as part of our restructuring projects. These decreases were partially offset by \$7.0 million increase in North American revenue and \$17.4 million increase in EMEA services revenue.

No customer represented more than 10% of the Electricity operating segment revenues in 2015, 2014, or 2013.

Gross Margin - 2015 vs. 2014

Gross margin was 27.5% in 2015, compared with 25.9% in 2014. The margin improvement was driven by net charges for an OpenWay project in North America of \$15.9 million, which negatively impacted 2014 gross margin by 220 basis points. In addition, we had lower variable compensation expense in 2015. These improvements were partially offset by decreased product revenue in EMEA.

Gross Margin - 2014 vs. 2013

Gross margin was 25.9% in 2014, compared with 26.6% in 2013. The 70 basis point margin reduction was driven by decreased revenue in all regions except North America and increased variable compensation expense. These decreases were partially offset by lower warranty costs in Latin America. In 2014, net charges for an OpenWay project in North America were \$15.9 million, which negatively impacted gross margin by 220 basis points. A similar charge was recorded on this project in 2013 for \$14.5 million, which reduced gross margin by 170 basis points.

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Operating Expenses - 2015 vs. 2014

In constant currency, operating expenses decreased \$63.4 million, or 25%, primarily due to reduced restructuring charges of \$25.5 million. In addition, general and administrative expenses decreased \$19.8 million due to an \$8.2 million litigation expense reimbursement related to a \$14.7 million charge in 2014, which are included in general and administrative expense. Variable compensation expense included in the sales and marketing, product development, and general and administrative categories were all lower when comparing 2015 to 2014, while amortization expense decreased \$5.4 million year over year.

Operating Expenses - 2014 vs. 2013

In constant currency, operating expenses decreased by \$165.9 million, or 37%, in 2014 compared with 2013. This was primarily due to decreased goodwill impairment of \$165.7 million. There was also a reduction of \$9.0 million in product development expense as a result of restructuring activities. These decreases were partially offset by \$8.2 million in higher general and administrative expense, primarily due to a legal settlement related to a contract dispute that resulted in \$14.7 million of litigation expense. Intangible asset amortization expense increased \$5.7 million based on the projected cash flows determined at acquisition.

Non-GAAP Operating Expenses - 2015 vs. 2014

Total non-GAAP operating expenses, as a percentage of revenues, were 23% and 28% for the years ended December 31, 2015 and 2014, respectively. The reduction in operating expenses was primarily the result of favorable foreign currency impact and reduced variable compensation expense in 2015.

Non-GAAP Operating Expenses - 2014 vs. 2013

Total non-GAAP operating expenses, as a percentage of revenues, was 28% and 29% for the years ended December 31, 2014 and 2013, respectively.

Gas:

The effects of changes in foreign currency exchange rates and the constant currency changes in certain Gas segment financial results for the year ended December 31, 2015 compared with 2014, and for the year ended December 31, 2014 compared with 2013, were as follows:

	Year Ended December 31,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2015	2014			
	(in thousands)				
Gas Segment					
Revenues	\$543,805	\$599,091	\$(49,908)	\$(5,378)	\$(55,286)
Gross Profit	185,559	211,623	(11,786)	(14,278)	(26,064)
Operating Expenses	118,088	135,522	(14,054)	(3,380)	(17,434)
	Year Ended December 31,		Effect of Changes in Foreign Currency	Constant Currency Change	Total Change
	2014	2013			

Exchange
Rates

(in thousands)

Gas Segment

Revenues	\$599,091	\$570,450	\$(9,135)	\$37,776	\$28,641
Gross Profit	211,623	207,577	(1,554)	5,600	4,046
Operating Expenses	135,522	125,401	(1,649)	11,770	10,121

Revenues - 2015 vs. 2014

In constant currency, Gas revenues decreased by \$5.4 million, or 1%, in 2015 compared with 2014. A significant portion of this decrease was in our EMEA region, which had a \$20.2 million decrease due to the phase out of a large project and a planned reduction in standard meter volumes as we shift our focus to smart meters, which did show increased sales during 2015. These decreases were partially offset by a \$13.5 million revenue increase in North America driven by higher product shipments.

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Revenues - 2014 vs. 2013

In constant currency, revenues increased by \$37.8 million, or 7%, in 2014 compared with 2013. The increase was driven by \$27.5 million in increased revenues in North America and \$7.6 million and \$3.9 million in increased product sales in EMEA and Latin America, respectively.

No single customer represented more than 10% of the Gas operating segment revenues in 2015, 2014, or 2013.

Gross Margin - 2015 vs. 2014

Gross margin was 34.1% in 2015, compared with 35.3% in 2014. The decrease in gross margin was driven by lower standard meter volumes and lower margins associated with sales of first generation smart meters in EMEA. In addition, EMEA experienced higher inventory costs associated with the closure of our Naples manufacturing facility as part of our restructuring activities. This decline more than offset improvements in Latin America and Asia/Pacific due to higher overall sales as well as improved sales in North America of our higher margin communication modules.

Gross Margin - 2014 vs. 2013

Gross margin was 35.3% in 2014, compared with 36.4% in 2013. The 110 basis point decline in gross margin was primarily the result of less favorable product mix in EMEA.

Operating Expenses - 2015 vs. 2014

In constant currency, operating expenses decreased by \$3.4 million, or 3%, in 2015. The decrease was primarily due to the reduced restructuring charges of \$8.2 million and reduced intangible amortization of \$1.3 million. These decreases were partially offset by a \$6.3 million increase in general and administrative expense resulting from higher employee related costs and increased allocations of corporate expenses.

Operating Expenses - 2014 vs. 2013

In constant currency, operating expenses increased by \$11.8 million, or 10% in 2014. The increase was primarily due to increases in restructuring expense of \$5.3 million and product development costs of \$7.6 million. These increases more than offset a scheduled decrease in amortization expense of \$1.6 million.

Non-GAAP Operating Expenses - 2015 vs. 2014

Total non-GAAP operating expense, as a percentage of revenues, was 20% and 19% for the years ended December 31, 2015 and 2014, respectively.

Non-GAAP Operating Expenses - 2014 vs. 2013

Total non-GAAP operating expense, as a percentage of revenues, was 19% for the years ended December 31, 2014 and 2013.

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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 year ended December 31, 2015 compared with 2014, and for the year ended December 31, 2014 compared with 2013, were as follows:

	Year Ended December 31,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2015	2014			
	(in thousands)				
Water Segment					
Revenues	\$519,422	\$576,668	\$(72,902)	\$15,656	\$(57,246)
Gross Profit	145,680	202,178	(25,156)	(31,342)	(56,498)
Operating Expenses	125,816	130,822	(16,723)	11,717	(5,006)

	Year Ended December 31,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2014	2013			
	(in thousands)				
Water Segment					
Revenues	\$576,668	\$542,184	\$(7,863)	\$42,347	\$34,484
Gross Profit	202,178	187,339	(2,675)	17,514	14,839
Operating Expenses	130,822	125,324	(1,622)	7,120	5,498

Revenues - 2015 vs. 2014

In constant currency, revenues increased \$15.7 million, or 3%, in 2015. This increase was driven primarily by growth in product sales in North America and EMEA of \$18.4 million, as the result of increased sales of advanced and smart meters and modules in those regions. The increase was partially offset by lower product sales in Latin America of \$5.0 million due to continued reduced expenditures by our utility customers in that region.

Revenues - 2014 vs. 2013

In constant currency, revenues increased \$42.3 million, or 8%, in 2014. The increase was driven primarily by growth in product sales in EMEA of \$33.7 million, in Latin America of \$7.5 million, and in Asia/Pacific of \$5.7 million. North America revenue declined \$3.6 million due to the completion of a significant project in 2013.

No single customer represented more than 10% of the Water operating segment revenues in 2015, 2014, or 2013.

Gross Margin - 2015 vs. 2014

Gross margin decreased to 28.0% in 2015, compared with 35.1% in 2014, primarily as the result of a warranty charge of \$29.4 million. This warranty charge negatively impacted 2015 gross margin by 570 basis points.

Gross Margin - 2014 vs. 2013

Gross margin increased to 35.1% in 2014, compared with 34.6% in 2013, due to decreases in manufacturing costs globally.

Operating Expenses - 2015 vs. 2014

In constant currency, operating expenses increased \$11.7 million, or 10%, in 2015. The increase was a result of a \$4.1 million increase in sales and marketing expense, higher product development expense of \$5.3 million, and a \$4.7 million increase in general and administrative expenses, primarily due to higher litigation costs. These increases were partially offset by reductions in restructuring and intangible asset amortization expense totaling \$2.4 million.

Operating Expenses - 2014 vs. 2013

In constant currency, operating expenses increased by \$7.1 million, or 6% in 2014. The increase was a result of a \$3.7 million increase in sales and marketing expense, primarily higher compensation expense related to increased revenues, higher product development expense of \$2.1 million, and a \$4.2 million increase in general and administrative expenses. The overall increase was partially offset by a decrease in intangible asset amortization expense of \$2.1 million.

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Non-GAAP Operating Expenses - 2015 vs. 2014

Total non-GAAP operating expenses, as a percentage of revenues, were 23% for the year ended December 31, 2015, compared with 21% in 2014. The increase was primarily the result of the reduced revenues for 2015.

Non-GAAP Operating Expenses - 2014 vs. 2013

Total non-GAAP operating expenses, as a percentage of revenues, were 21% for the years ended December 31, 2014 and 2013.

Corporate unallocated:

Operating expenses not directly associated with an operating segment are classified as “Corporate unallocated.” These expenses decreased \$3.6 million, or 5%, in 2015. This decrease was primarily due to \$18.1 million reduction in restructuring expenses, and a decrease in variable compensation. These decreases were partially offset by higher litigation expenses.

Corporate unallocated expenses increased \$22.4 million, or 48%, in 2014. This increase was primarily due to \$13.8 million of increased restructuring expenses in 2014, as well as an \$8.1 million increase in general and administrative expense due to increased variable compensation expense and costs associated with our shared services center in Ireland, which was established late in 2013.

Financial Condition

Cash Flow Information:

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Operating activities	\$73,350	\$132,973	\$105,421
Investing activities	(48,951)	(41,496)	(56,771)
Financing activities	7,740	(91,877)	(57,438)
Effect of exchange rates on cash and cash equivalents	(13,492)	(12,034)	(2,818)
Increase (decrease) in cash and cash equivalents	\$18,647	\$(12,434)	\$(11,606)

Cash and cash equivalents at December 31, 2015 were \$131.0 million, compared with \$112.4 million at December 31, 2014. The increase in cash and cash equivalents was primarily the result of an increase in proceeds from borrowings, a decrease in debt payments, and an increase in net income (loss) exclusive of depreciation and amortization and deferred income taxes. These were partially offset by an increase in inventory and decrease in restructuring liabilities. Cash and cash equivalents at December 31, 2014 were lower compared with the prior year primarily due to a decrease in net income (loss) exclusive of goodwill impairment, an increase in accounts receivable, and higher payments on debt. These were partially offset by increases in accounts payable, unearned revenue, and other current liabilities.

Operating activities

Net cash provided by operating activities in 2015 was \$59.6 million lower than in 2014. This decrease was primarily due to a \$52.7 million increase in inventory in 2015 for expected demand in North America and EMEA, and a \$57.4 million increased use of cash in other current liabilities due to payments and releases of significant restructuring accruals in 2015 as compared to a substantial increase in restructuring liabilities in 2014. Additionally, while warranty liabilities increased \$18.0 million in 2015, cash paid for claims activity was lower compared to 2014, resulting in a \$27.5 million decreased use of cash. A year over year increase of \$37.3 million in net income (loss) and a \$36.2

million increase in deferred income taxes also increased cash provided by operating activities as compared with 2014.

Net cash provided by operating activities in 2014 was \$27.6 million higher than 2013. This increase was primarily due to a decrease in accounts payable payments of \$20.8 million due to timing, a \$21.8 million increase in deferred revenue, and a decline in inventory in 2014 as compared to an increase in 2013, resulting in \$19.6 million increased cash, and an increase in other liabilities of \$27.1 million as a result of restructuring activities and litigation accruals recognized at the end of 2014. These increases were partially offset by the decrease in net income of \$45.6 million, exclusive of the impact of the goodwill impairment charge, and decreased receipts on accounts receivable balances due to invoice timing resulting in a \$26.9 million reduction in cash provided as compared with 2013.

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Investing activities

Net cash used in investing activities in 2015 was \$7.5 million higher than in 2014. This increase in investing activities during 2015 was the result of the \$5.8 million paid as part of the Temetra acquisition.

Net cash used in investing activities in 2014 was \$15.3 million lower than in 2013. This decrease in investing activities during 2014 was the result of \$15.5 million in reduced acquisitions of property, plant, and equipment.

Financing activities

Net cash provided by financing activities in 2015 was \$99.6 million greater than in 2014, primarily as a result of \$65.8 million of additional proceeds from borrowings and a \$39.4 million decrease in debt repayments.

Net cash used in financing activities in 2014 was \$34.4 million higher than in 2013, primarily as a result of increased repayments of debt, net of proceeds from borrowings, of \$16.0 million in 2014, and an increase of \$12.7 million in repurchases of our common stock.

Effect of exchange rates on cash and cash equivalents

Changes in exchange rates on the cash balances of currencies held in foreign denominations resulted in a decrease of \$13.5 million, a decrease of \$12.0 million, and a decrease of \$2.8 million in 2015, 2014, and 2013, respectively. Our foreign currency exposure relates to non-U.S. dollar denominated balances in our international subsidiary operations, the most significant of which is the euro.

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:

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Net cash provided by operating activities	\$73,350	\$132,973	\$105,421
Acquisitions of property, plant, and equipment	(43,918)	(44,495)	(60,020)
Free cash flow	\$29,432	\$88,478	\$45,401

Free cash flow in 2015 was \$59.0 million lower than in 2014 as a result of lower cash provided by operating activities. See the cash flow discussion of operating activities above.

Free cash flow in 2014 was \$43.1 million greater than in 2013, primarily as result of a \$27.6 million increase in cash provided by operating activities and a \$15.5 million decrease in acquisitions of property, plant, and equipment. See the cash flow discussion of operating and investing 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 December 31, 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.

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Disclosures about contractual obligations and commitments:

The following table summarizes our known obligations to make future payments pursuant to certain contracts as of December 31, 2015, as well as an estimate of the timing in which these obligations are expected to be satisfied.

	Total	Less than 1 year	1-3 years	3-5 years	Beyond 5 years
	(in thousands)				
Credit Facilities ⁽¹⁾					
USD denominated term loan	\$246,091	\$16,574	\$46,566	\$182,951	\$—
Multicurrency revolving line of credit	170,750	3,392	8,445	158,913	—
Operating lease obligations ⁽²⁾	36,076	10,396	16,517	8,007	1,156
Purchase and service commitments ⁽³⁾	180,077	179,254	603	220	—
Other long-term liabilities reflected on the balance sheet under generally accepted accounting principles ⁽⁴⁾	77,988	—	36,772	12,211	29,005
Total	\$710,982	\$209,616	\$108,903	\$362,302	\$30,161

Borrowings are disclosed within Item 8: “Financial Statements and Supplementary Data, Note 7: Debt” included in (1) this Annual Report on Form 10-K, with the addition of estimated interest expense but not including the amortization of prepaid debt fees.

Operating lease obligations are disclosed in Item 8: “Financial Statements and Supplementary Data, Note 13: (2) Commitments and Contingencies” included in this Annual Report on Form 10-K and do not include common area maintenance charges, real estate taxes, and insurance charges for which we are obligated.

We enter into standard purchase orders in the ordinary course of business that typically obligate us to purchase materials and other items. Purchase orders can include open-ended agreements that provide for estimated quantities (3) over an extended shipment period, typically up to one year at an established unit cost. Our long-term executory purchase agreements that contain termination clauses have been classified as less than one year, as the commitments are the estimated amounts we would be required to pay at December 31, 2015 if the commitments were canceled.

Other long-term liabilities consist of warranty obligations, estimated pension benefit payments, and other obligations. Estimated pension benefit payments include amounts from 2017-2025. Long-term unrecognized tax benefits totaling \$27.5 million (net of pre-payments), which include accrued interest and penalties, are not included in the above contractual obligations and commitments table as we cannot reliably estimate the period of cash (4) settlement with the respective taxing authorities. Additionally, because the amount and timing of the future cash outflows are uncertain, deferred revenue totaling \$66.2 million, which includes deferred revenue related to extended warranty guarantees, is not included in the table. For further information on defined benefit pension plans, income taxes, and warranty obligations and deferred revenue for extended warranties, see Item 8: “Financial Statements and Supplementary Data, Notes 9, 12, and 13,” respectively, included in this Annual Report on Form 10-K.

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 \$281.2 million at December 31, 2015, compared with \$262.4 million at December 31, 2014.

Borrowings

Our credit facility consists of a \$225 million U.S. dollar term loan and a multicurrency revolving line of credit (the revolver) with a principal amount of up to \$500 million. At December 31, 2015, \$151.8 million was outstanding under the revolver, and \$46.6 million was utilized by outstanding standby letters of credit, resulting in \$301.6 million available for additional borrowings.

The credit facility includes debt covenants, which contain certain financial ratio thresholds, place certain restrictions on the incurrence of debt, investments, and the issuance of dividends, and require quarterly unaudited and annual audited financial reporting. We were not in compliance with the financial reporting portion of these covenants under the 2015 credit facility at March 31, 2016. We have been granted waivers which extend the due dates for annual audited financial statements and quarterly unaudited financial statements through September 12, 2016.

For further description of the term loan and the revolver under our credit facility, refer to Item 8: “Financial Statements and Supplementary Data, Note 7: Debt” included in this Annual Report on Form 10-K.

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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 8: “Financial Statements and Supplementary Data, Note 13: Commitments and Contingencies” included in this Annual Report on Form 10-K.

For a description of the risks and uncertainties related to our credit facility and ability to file timely periodic reports, refer to Item 1A: “Risk Factors” included in this Annual Report on Form 10-K.

Share Repurchases

On February 19, 2015, our 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 December 31, 2015, we repurchased 743,444 shares of our common stock, totaling \$25.0 million. This program expired on February 19, 2016 with no share repurchases made subsequent to December 31, 2015.

Restructuring

In November 2014, our management approved restructuring 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.

Total expected costs were approximately \$50.2 million as of December 31, 2015. A substantial portion of the total expected restructuring charges was recognized in the fourth quarter of 2014, and \$29.6 million was accrued at December 31, 2015 under the 2013 and 2014 Projects, of which \$25.2 million is expected to be paid over the next 12 months. Certain projects are subject to a variety of labor and employment laws, rules, and regulations that could result in a delay in implementing projects at some locations. Real estate market conditions may impact the timing of our ability to sell some of the manufacturing facilities we have designated for closure and disposal. This may delay the completion of the 2014 Projects beyond December 31, 2016. For further details regarding our restructuring activities, refer to Item 8: “Financial Statements and Supplementary Data, Note 14: Restructuring” included in this Annual Report on Form 10-K.

Income Tax

Our tax provision (benefit) as a percentage of income (loss) before tax typically differs from the U.S. federal statutory rate of 35%. Changes in our actual tax rate are subject to several factors, including fluctuations in operating results, new or revised tax legislation and accounting pronouncements, changes in the level of business in domestic and foreign jurisdictions, tax credits (including research and development and foreign tax), state income taxes, adjustments to valuation allowances, and uncertain tax positions, among other items. Changes in tax laws, valuation allowances, and unanticipated tax liabilities could significantly impact our tax rate.

Our cash income tax payments (refunds) for 2015, 2014, and 2013 were as follows:

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
U.S. federal taxes paid (refunded)	\$15,700	\$3,300	\$(13)
State income taxes paid (refunded)	1,543	438	(18)
Foreign and local income taxes paid	11,946	14,484	18,690
Total income taxes paid	\$29,189	\$18,222	\$18,659

Based on current projections, we expect to pay, net of refunds, approximately \$7.0 million in federal taxes, \$5.1 million in state taxes and \$12.3 million in foreign and local income taxes in 2016.

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 December 31, 2015, there was \$42.6 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 incurred. Tax is one of 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.

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Other Liquidity Considerations

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 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 \$26.9 million of our consolidated cash balance at December 31, 2015 resides 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 U.S. from these entities.

For a description of our funded and unfunded non-U.S. defined benefit pension plans and our expected 2016 contributions, refer to Item 8: “Financial Statements and Supplementary Data, Note 9: Defined Benefit Pension Plans” included in this Annual Report on Form 10-K.

At December 31, 2015, we have accrued \$11.9 million of bonus and profit sharing plans expense for the achievement of annual financial and nonfinancial targets, which was paid in cash during the first quarter of 2016.

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, and the sale of common stock or other securities. We believe existing sources of liquidity will be sufficient to fund our existing operations and obligations for the next 12 months and into the foreseeable future, but offer no assurances. Our liquidity could be affected by the stability of the 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 Item 1A: “Risk Factors,” as well as Item 7A: “Quantitative and Qualitative Disclosures About Market Risk,” both included in this Annual Report on Form 10-K.

Contingencies

Refer to Item 8: “Financial Statements and Supplementary Data, Note 13: Commitments and Contingencies” included in this Annual Report on Form 10-K.

Critical Accounting Estimates

Revenue Recognition

Many 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. For further discussion and analysis of this revision to prior year financial statements as a result of management identifying misstatements related to revenue recognition, refer to Item 8: “Financial Statements and Supplementary Data, Note 2: Revision of Prior Period Financial Statements” and “Note 18: Quarterly Results (Unaudited),” included in this Annual Report on Form 10-K.

If implementation services are essential to a software arrangement and VSOE exists for undelivered software elements, 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 and 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, which 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 liquidated damages represent contingent revenue and, if so, we reduce

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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 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.

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. 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 expense in the Consolidated Statements of Operations.

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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

We estimate income tax expense in each of the taxing jurisdictions in which we operate. Changes in our actual tax rate are subject to several factors, including fluctuations in operating results, new or revised tax legislation and accounting pronouncements, changes in the level of business in domestic and foreign jurisdictions, tax credits (including research and development and foreign tax), state income taxes, adjustments to valuation allowances, and uncertain tax positions, among other items. Changes in tax laws, valuation allowances, and unanticipated tax liabilities could significantly impact our tax rate.

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

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

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

Inventories

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

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.

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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 analysis as of October 1, 2015, all reporting units' fair values exceeded their respective carrying values by at least 40%. 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.

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 2.25%, respectively. The weighted average discount rate used to measure the projected benefit obligation for all of the plans at December 31, 2015 was 2.59%. A change of 25 basis points in the discount rate would change our pension benefit obligation by approximately \$7.1 million. The financial and actuarial assumptions used at December 31, 2015 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. Our contributions for both funded and unfunded plans are paid from cash flows from our operations. Refer to Item 8: “Financial Statements and Supplementary Data, Note 9: Defined Benefit Pension Plans” included in this Annual Report on Form 10-K for our expected contributions for 2016.

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.

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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 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.

Effective October 1, 2013, we changed the terms of the ESPP to reduce the discount to 5% from the fair market value of the stock at the end of each fiscal quarter. As a result of this change, the ESPP is no longer considered compensatory, and no compensation expense is recognized for sales of our common stock to employees.

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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, restructuring, acquisitions and goodwill impairment. We define non-GAAP operating income as operating income excluding the expenses related to the amortization of intangible assets, restructuring, acquisitions and goodwill impairment. We consider these non-GAAP financial measures to be useful metrics for management and investors because they exclude the effect of expenses that are related to previous acquisitions and 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, 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 tables below reconcile 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	Year Ended December 31,		
	2015	2014	2013
NON-GAAP OPERATING EXPENSES			
GAAP operating expenses	\$503,839	\$613,570	\$754,631
Amortization of intangible assets	(31,673)	(43,619)	(42,019)
Restructuring	7,263	(49,482)	(36,347)
Acquisition-related recovery (expense)	5,538	(15,538)	(2,290)
Goodwill impairment	—	—	(174,226)
Non-GAAP operating expenses	\$484,967	\$504,931	\$499,749
NON-GAAP OPERATING INCOME			
GAAP operating income (loss)	\$52,846	\$480	\$(139,863)
Amortization of intangible assets	31,673	43,619	42,019
Restructuring	(7,263)	49,482	36,347
Acquisition-related expense (recovery)	(5,538)	15,538	2,290
Goodwill impairment	—	—	174,226
Non-GAAP operating income	\$71,718	\$109,119	\$115,019
NON-GAAP NET INCOME & DILUTED EPS			
GAAP net income (loss) attributable to Itron, Inc.	\$12,678	\$(23,670)	\$(153,153)
Amortization of intangible assets	31,673	43,619	42,019
Amortization of debt placement fees	2,021	1,512	1,556
Restructuring	(7,263)	49,482	36,347
Acquisition-related expense (recovery)	(5,538)	15,538	2,290
Goodwill impairment	—	—	174,226
Income tax effect of non-GAAP adjustments ⁽¹⁾	(5,590)	(25,860)	(32,970)
Non-GAAP net income	\$27,981	\$60,621	\$70,315
Non-GAAP diluted EPS	\$0.73	\$1.54	\$1.78
Weighted average common shares outstanding - Diluted	38,506	39,461	39,602
FREE CASH FLOW			
Net cash provided by operating activities	\$73,350	\$132,973	\$105,421
Acquisitions of property, plant, and equipment	(43,918)	(44,495)	(60,020)
Free Cash Flow	\$29,432	\$88,478	\$45,401

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	Year Ended December 31,		
	2015	2014	2013
NON-GAAP OPERATING INCOME - ELECTRICITY			
Electricity - GAAP operating income (loss)	\$31,104	\$(77,751)	\$(237,279)
Amortization of intangible assets	17,663	24,452	18,835
Restructuring	(7,253)	20,430	25,172
Acquisition-related expense (recovery)	(5,655)	15,491	2,287
Goodwill impairment	—	—	174,226
Electricity - Non-GAAP operating income (loss)	\$35,859	\$(17,378)	\$(16,759)
NON-GAAP OPERATING INCOME - GAS			
Gas - GAAP operating income	\$67,471	\$76,101	\$82,176
Amortization of intangible assets	7,787	10,471	12,264
Restructuring	(287)	9,149	4,299
Gas - Non-GAAP operating income	\$74,971	\$95,721	\$98,739
NON-GAAP OPERATING INCOME - WATER			
Water - GAAP operating income	\$19,864	\$71,356	\$62,015
Amortization of intangible assets	6,223	8,696	10,920
Restructuring	778	2,335	3,075
Acquisition-related expense	104	—	—
Water - Non-GAAP operating income	\$26,969	\$82,387	\$76,010
NON-GAAP OPERATING INCOME - CORPORATE UNALLOCATED			
Corporate unallocated - GAAP operating loss	\$(65,593)	\$(69,226)	\$(46,775)
Restructuring	(501)	17,568	3,801
Acquisition-related expense	13	47	3
Corporate unallocated - Non-GAAP operating loss	\$(66,081)	\$(51,611)	\$(42,971)

ITEM 7A: 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.

In October 2015, we entered into a forward starting pay-fixed receive one-month LIBOR interest rate swap. The interest rate swap is effective August 31, 2016 to June 23, 2020, and converts \$214 million of our LIBOR based debt from a floating LIBOR interest rate to a fixed interest rate of 1.42% (excluding the applicable margin on the debt). The notional balance will amortize to maturity at the same rate as required minimum payments on our term loan. At December 31, 2015, our LIBOR-based debt balance was \$314.4 million.

In November 2015, we entered into three interest rate cap contracts with a total notional amount of \$100 million at a cost of \$1.7 million. The interest rate cap contracts expire on June 23, 2020 and were entered into in order to limit our interest rate exposure on \$100 million of our variable LIBOR based debt up to 2.00%. In the event LIBOR is higher than 2.00%, we will pay interest at the capped rate of 2.00% with respect to the \$100 million notional amount of such agreements. The interest rate cap contracts do not include the effect of the applicable margin.

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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 December 31, 2015. Weighted average variable rates in the table are based on implied forward rates in the Reuters U.S. dollar yield curve as of December 31, 2015 and our estimated leverage ratio, which determines our additional interest rate margin at December 31, 2015.

	2016	2017	2018	2019	2020	Total	Fair Value
	(in thousands)						
Variable Rate Debt							
Principal: U.S. dollar term loan	\$11,250	\$14,063	\$19,688	\$22,500	\$151,874	\$219,375	\$217,830
Average interest rate	2.45	% 3.08	% 3.46	% 3.72	% 3.84	%	
Principal: Multicurrency revolving line of credit	\$—	\$—	\$—	\$—	\$151,837	\$151,837	\$150,570
Average interest rate	2.20	% 2.58	% 2.91	% 3.21	% 3.36	%	
Interest rate swap on LIBOR based debt							
Average interest rate (pay)	1.14	% 1.42	% 1.42	% 1.42	% 1.42	%	
Average interest rate (receive)	0.77	% 1.33	% 1.71	% 1.97	% 2.09	%	
Net/spread	(0.37))% (0.09))% 0.29	% 0.55	% 0.67	%	

Based on a sensitivity analysis as of December 31, 2015, we estimate that, if market interest rates average one percentage point higher in 2016 than in the table above, our financial results in 2016 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, approximately 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 51% of total revenues for the year ended December 31, 2015, compared with 58% and 59% for the years ended December 31, 2014 and 2013.

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 516 contracts were entered into during the year ended December 31, 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 \$23.4 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 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
REPORT OF MANAGEMENT

To the Board of Directors and Shareholders of Itron, Inc.

Management is responsible for the preparation of our consolidated financial statements and related information appearing in this Annual Report on Form 10-K. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present our results of operations, financial position, and cash flows in conformity with U.S. generally accepted accounting principles. Management has included in our financial statements amounts based on estimates and judgments that it believes are reasonable under the circumstances.

Management's explanation and interpretation of our overall operating results and financial position, with the basic financial statements presented, should be read in conjunction with the entire report. The notes to the consolidated financial statements, an integral part of the basic financial statements, provide additional detailed financial information. Our Board of Directors has an Audit/Finance Committee composed of independent directors. The Committee meets regularly with financial management and Ernst & Young LLP to review internal control, auditing, and financial reporting matters.

Philip C. Mezey

W. Mark Schmitz

President and Chief Executive Officer Executive Vice President and Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Itron, Inc.

We have audited the accompanying consolidated balance sheets of Itron, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Itron, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Itron, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated June 29, 2016 expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Seattle, Washington
June 29, 2016

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CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2015	2014	2013
	(in thousands, except per share data)		
Revenues	\$1,883,533	\$1,947,616	\$1,938,025
Cost of revenues	1,326,848	1,333,566	1,323,257
Gross profit	556,685	614,050	614,768
Operating expenses			
Sales and marketing	161,380	182,503	182,687
Product development	162,334	175,500	175,420
General and administrative	155,715	162,466	143,932
Amortization of intangible assets	31,673	43,619	42,019
Restructuring	(7,263)) 49,482	36,347
Goodwill impairment	—	—	174,226
Total operating expenses	503,839	613,570	754,631
Operating income (loss)	52,846	480	(139,863)
Other income (expense)			
Interest income	761	494	1,152
Interest expense	(12,289)	(11,602)	(10,686)
Other income (expense), net	(4,216)	(7,637)	(4,003)
Total other income (expense)	(15,744)	(18,745)	(13,537)
Income (loss) before income taxes	37,102	(18,265)	(153,400)
Income tax (provision) benefit	(22,099)	(4,035)	2,466
Net income (loss)	15,003	(22,300)	(150,934)
Net income attributable to noncontrolling interests	2,325	1,370	2,219
Net income (loss) attributable to Itron, Inc.	\$12,678	\$(23,670)	\$(153,153)
Earnings (loss) per common share - Basic	\$0.33	\$(0.60)	\$(3.90)
Earnings (loss) per common share - Diluted	\$0.33	\$(0.60)	\$(3.90)
Weighted average common shares outstanding - Basic	38,224	39,184	39,281
Weighted average common shares outstanding - Diluted	38,506	39,184	39,281

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

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ITRON, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Net income (loss)	\$ 15,003	\$(22,300)	\$(150,934)
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(72,929)	(89,297)	7,904
Net unrealized gain (loss) on derivative instruments, designated as cash flow hedges	1,086	488	433
Pension plan benefits liability adjustment	6,296	(24,947)	5,117
Total other comprehensive income (loss), net of tax	(65,547)	(113,756)	13,454
Total comprehensive income (loss), net of tax	(50,544)	(136,056)	(137,480)
Comprehensive income (loss) attributable to noncontrolling interest, net of tax:			
Net income attributable to noncontrolling interests	2,325	1,370	2,219
Foreign currency translation adjustments	—	—	(35)
Amounts attributable to noncontrolling interests	2,325	1,370	2,184
Comprehensive income (loss) attributable to Itron, Inc.	\$(52,869)	\$(137,426)	\$(139,664)

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

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ITRON, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2015	December 31, 2014
	(in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 131,018	\$ 112,371
Accounts receivable, net	330,895	346,547
Inventories	190,465	154,221
Deferred tax assets current, net	—	45,504
Other current assets	106,562	123,819
Total current assets	758,940	782,462
Property, plant, and equipment, net		
Deferred tax assets noncurrent, net	190,256	207,152
Other long-term assets	109,387	74,439
Intangible assets, net	52,726	46,965
Goodwill	101,932	139,909
Total assets	468,122	500,820
	\$ 1,681,363	\$ 1,751,747
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 185,827	\$ 183,831
Other current liabilities	78,630	101,315
Wages and benefits payable	76,980	94,818
Taxes payable	14,859	21,951
Current portion of debt	11,250	30,000
Current portion of warranty	36,927	21,145
Unearned revenue	73,301	67,009
Total current liabilities	477,774	520,069
Long-term debt		
Long-term warranty	359,962	293,969
Pension plan benefit liability	17,585	15,403
Deferred tax liabilities noncurrent, net	85,971	101,862
Other long-term obligations	1,723	3,808
Total liabilities	115,645	118,094
	1,058,660	1,053,205
Commitments and contingencies (Note 13)		
Equity		
Preferred stock, no par value, 10 million shares authorized, no shares issued or outstanding—	—	—
Common stock, no par value, 75 million shares authorized, 37,906 and 38,591 shares issued and outstanding	1,246,671	1,270,045
Accumulated other comprehensive loss, net	(200,607)	(135,060)
Accumulated deficit	(441,306)	(453,984)
Total Itron, Inc. shareholders' equity	604,758	681,001
Noncontrolling interests	17,945	17,541

Total equity	622,703	698,542
Total liabilities and equity	\$1,681,363	\$ 1,751,747

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

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ITRON, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(in thousands)

	Shares	Amount	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Itron, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
Balances at January 1, 2013	39,277	\$ 1,294,213	\$ (34,384)	\$ (266,862)	\$ 992,967	\$ 16,546	\$ 1,009,513
Revision to prior period financial statements (see Note 2)	—	—	(409)	(10,299)	(10,708)	—	(10,708)
Balance at January 1, 2013 as revised	39,277	1,294,213	(34,793)	(277,161)	982,259	16,546	998,805
Net income (loss)				(153,153)	(153,153)	2,219	(150,934)
Other comprehensive income (loss), net of tax			13,489		13,489	(35)	13,454
Distributions to noncontrolling interests						(995)	(995)
Stock issues:							
Options exercised	74	1,771			1,771		1,771
Restricted stock awards released	331	—			—		—
Issuance of stock-based compensation awards	18	811			811		811
Employee stock purchase plan	94	3,528			3,528		3,528
Stock-based compensation expense		18,039			18,039		18,039
Employee stock plans income tax deficiencies		(756)			(756)		(756)
Repurchase of common stock	(645)	(26,977)			(26,977)		(26,977)
Balances at December 31, 2013	39,149	\$ 1,290,629	\$ (21,304)	\$ (430,314)	\$ 839,011	\$ 17,735	\$ 856,746
Net income (loss)				(23,670)	(23,670)	1,370	(22,300)
Other comprehensive income (loss), net of tax			(113,756)		(113,756)	—	(113,756)
Distributions to noncontrolling interests						(1,564)	(1,564)
Stock issues and repurchases:							
Options exercised	65	1,621			1,621		1,621
Restricted stock awards released	281	—			—		—
	21	936			936		936

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Issuance of stock-based compensation awards							
Employee stock purchase plan	61	2,247			2,247		2,247
Stock-based compensation expense		16,924			16,924		16,924
Employee stock plans income tax deficiencies		(2,647)			(2,647)		(2,647)
Repurchase of common stock	(986)	(39,665)			(39,665)		(39,665)
Balances at December 31, 2014	38,591	\$ 1,270,045	\$ (135,060)	\$ (453,984)	\$ 681,001	\$ 17,541	\$ 698,542
Net income				12,678	12,678	2,325	15,003
Other comprehensive income (loss), net of tax			(65,547)		(65,547)	—	(65,547)
Distributions to noncontrolling interests						(1,921)	(1,921)
Stock issues and repurchases:							
Options exercised	24	853			853		853
Restricted stock awards released	296	—			—		—
Issuance of stock-based compensation awards	20	706			706		706
Employee stock purchase plan	54	1,819			1,819		1,819
Stock-based compensation expense		13,384			13,384		13,384
Employee stock plans income tax deficiencies		(1,853)			(1,853)		(1,853)
Repurchase of common stock	(1,079)	(38,283)			(38,283)		(38,283)
Balances at December 31, 2015	37,906	\$ 1,246,671	\$ (200,607)	\$ (441,306)	\$ 604,758	\$ 17,945	\$ 622,703

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

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ITRON, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Operating activities			
Net income (loss)	\$15,003	\$(22,300)	\$(150,934)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	75,993	98,139	99,246
Stock-based compensation	14,089	17,860	18,850
Amortization of prepaid debt fees	2,128	1,612	1,657
Deferred taxes, net	1,488	(34,757)	(25,308)
Goodwill impairment	—	—	174,226
Restructuring, non-cash	976	5,172	1,259
Other adjustments, net	2,003	914	551
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(9,009)	(15,119)	11,732
Inventories	(52,737)	7,208	(12,391)
Other current assets	12,512	(10,947)	(9,950)
Other long-term assets	(3,721)	(12,540)	(2,298)
Accounts payables, other current liabilities, and taxes payable	(7,060)	56,158	(4,466)
Wages and benefits payable	(10,866)	7,502	(1,822)
Unearned revenue	11,943	30,584	8,744
Warranty	20,161	(7,297)	(6,546)
Other operating, net	447	10,784	2,871
Net cash provided by operating activities	73,350	132,973	105,421
Investing activities			
Acquisitions of property, plant, and equipment	(43,918)	(44,495)	(60,020)
Business acquisitions, net of cash equivalents acquired	(5,754)	—	(860)
Other investing, net	721	2,999	4,109
Net cash used in investing activities	(48,951)	(41,496)	(56,771)
Financing activities			
Proceeds from borrowings	113,467	47,657	35,000
Payments on debt	(62,998)	(102,438)	(73,750)
Issuance of common stock	2,663	3,647	5,299
Repurchase of common stock	(38,283)	(39,665)	(26,977)
Other financing, net	(7,109)	(1,078)	2,990
Net cash provided by (used in) financing activities	7,740	(91,877)	(57,438)
Effect of foreign exchange rate changes on cash and cash equivalents	(13,492)	(12,034)	(2,818)
Increase (decrease) in cash and cash equivalents	18,647	(12,434)	(11,606)
Cash and cash equivalents at beginning of period	112,371	124,805	136,411
Cash and cash equivalents at end of period	\$131,018	\$112,371	\$124,805

Supplemental disclosure of cash flow information:

Cash paid during the period for:

Income taxes, net	\$29,189	\$18,222	\$18,659
Interest, net of amounts capitalized	10,198	9,912	9,026

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

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ITRON, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

In this Annual Report, the terms “we,” “us,” “our,” “Itron,” and the “Company” refer to Itron, Inc.

Note 1: Summary of Significant Accounting Policies

We were incorporated in the state of Washington in 1977. We provide a portfolio of solutions to utilities for the electricity, gas, and water markets throughout the world.

Financial Statement Preparation

The consolidated financial statements presented in this Annual Report include the Consolidated Statements of Operations, Comprehensive Income (Loss), Equity, and Cash Flows for the years ended December 31, 2015, 2014, and 2013 and the Consolidated Balance Sheets as of December 31, 2015 and 2014 of Itron, Inc. and its subsidiaries.

Basis of Consolidation

We consolidate all entities in which we have a greater than 50% ownership interest or in which we exercise control over the operations. We use the equity method of accounting for entities in which we have a 50% or less investment and exercise significant influence. Entities in which we have less than a 20% investment and where we do not exercise significant influence are accounted for under the cost method. Intercompany transactions and balances are eliminated upon consolidation.

Noncontrolling Interests

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

Business Acquisitions

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 purchase price of Temetra was \$9.8 million (net of \$1.4 million of cash and cash equivalents acquired). Refer to Note 6 for additional information about this acquisition.

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded for invoices issued to customers in accordance with our contractual arrangements. Interest and late payment fees are minimal. Unbilled receivables are recorded when revenues are recognized upon product shipment or service delivery and invoicing occurs at a later date. We record an allowance for doubtful

accounts representing our estimate of the probable losses in accounts receivable at the date of the balance sheet based on our historical experience of bad debts and our specific review of outstanding receivables. Accounts receivable are written-off against the allowance when we believe an account, or a portion thereof, is no longer collectible.

Inventories

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

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Derivative Instruments

All derivative instruments, whether designated in hedging relationships or not, are recorded on the Consolidated Balance Sheets at fair value as either assets or liabilities. The components and fair values of our derivative instruments are determined using the fair value measurements of significant other observable inputs (Level 2), as defined by GAAP. The net fair value of our derivative instruments may switch between a net asset and a net liability depending on market circumstances at the end of the period. We include the effect of our counterparty credit risk based on current published credit default swap rates when the net fair value of our derivative instruments are in a net asset position and the effect of our own nonperformance risk when the net fair value of our derivative instruments are in a net liability position.

For any derivative designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. For any derivative designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded as a component of other comprehensive income (loss) (OCI) and are recognized in earnings when the hedged item affects earnings. Ineffective portions of cash flow hedges are recognized in other income (expense) 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 other comprehensive income (loss) (AOCI) 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) in the Consolidated Statements of Operations. We classify cash flows from our derivative programs as cash flows from operating activities in the Consolidated Statements of Cash Flows.

Derivatives are not used for trading or speculative purposes. Our derivatives are with 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 8 and Note 15 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 Statement of Operations according to the use of the asset, except those gains and losses recognized in conjunction with our restructuring activities, which are classified within restructuring expense.

Prepaid Debt Fees

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

Business Combinations

On the date of acquisition, the assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree are recorded at their fair values. The acquiree's results of operations are also included as of the date of acquisition in our consolidated results. Intangible assets that arise from contractual/legal rights, or are capable of being separated, as well as in-process research and development (IPR&D), are measured and recorded at fair value, and amortized over the estimated useful life. IPR&D is not amortized until such time as the associated development projects are completed or terminated. If a development project is completed, the IPR&D is reclassified as a core technology intangible asset and amortized over its estimated useful life. If the development project is terminated, the recorded value of the associated IPR&D is immediately expensed. If practicable, assets acquired and liabilities assumed arising from contingencies are measured and recorded at fair value. If not practicable, such assets and liabilities are measured and recorded when it is probable that a gain or loss has occurred and the amount can be reasonably estimated. The residual balance of the purchase price, after fair value allocations to all identified assets and liabilities, represents goodwill.

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Acquisition-related costs are expensed as incurred. Restructuring costs associated with an acquisition are generally expensed in periods subsequent to the acquisition date, and changes in deferred tax asset valuation allowances and acquired income tax uncertainties, including penalties and interest, after the measurement period are recognized as a component of the provision for income taxes. Our acquisitions may include contingent consideration, which require us to recognize the fair value of the estimated liability at the time of the acquisition. Subsequent changes in the estimate of the amount to be paid under the contingent consideration arrangement are recognized in the Consolidated Statements of Operations. Cash payments for contingent or deferred consideration are classified within cash flows from investing activities within the Consolidated Statements of Cash Flows.

Goodwill and Intangible Assets

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

Goodwill is assigned to our reporting units based on the expected benefit from the synergies arising from each business combination, determined by using certain financial metrics, including the forecasted discounted cash flows associated with each reporting unit. Each reporting unit corresponds with its respective operating segment, effective in the fourth quarter of 2013.

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

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. We forecast discounted future cash flows at the reporting unit level using risk-adjusted discount rates and estimated future revenues and operating costs, which take into consideration factors such as existing backlog, expected future orders, supplier contracts, and expectations of competitive and economic environments. We also identify similar publicly traded companies and develop a correlation, referred to as a multiple, to apply to the operating results of the reporting units. These combined fair values are then reconciled to the aggregate market value of our common stock on the date of valuation, while considering a reasonable control premium.

Contingencies

A loss contingency is recorded if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. We evaluate, among other factors, the degree of probability of an unfavorable outcome and our ability to make a reasonable estimate of the amount of the ultimate loss. Loss

contingencies that we determine to be reasonably possible, but not probable, are disclosed but not recorded. Changes in these factors and related estimates could materially affect our financial position and results of operations. Legal costs to defend against contingent liabilities are expensed as incurred.

Bonus and Profit Sharing

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

Warranty

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

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of new products in the development stage helps identify and correct potential warranty issues prior to manufacturing. Quality control efforts during manufacturing reduce our exposure to warranty claims. When testing or quality control efforts fail to detect a fault in one of our products, we may experience an increase in warranty claims. We track warranty claims to identify potential warranty trends. If an unusual trend is noted, an additional warranty accrual would be recorded if a failure event is probable and the cost can be reasonably estimated. When new products are introduced, our process relies on historical averages of similar products until sufficient data are available. As actual experience on new products becomes available, it is used to modify the historical averages to ensure the expected warranty costs are within a range of likely outcomes. Management regularly evaluates the sufficiency of the warranty provisions and makes adjustments when necessary. The warranty allowances may fluctuate due to changes in estimates for material, labor, and other costs we may incur to repair or replace projected product failures, and we may incur additional warranty and related expenses in the future with respect to new or established products, which could adversely affect our financial position and results of operations. The long-term warranty balance includes estimated warranty claims beyond one year. Warranty expense is classified within cost of revenues.

Restructuring

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

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

Defined Benefit Pension Plans

We sponsor both funded and unfunded defined benefit pension plans for certain international employees. We recognize a liability for the projected benefit obligation in excess of plan assets or an asset for plan assets in excess of the projected benefit obligation. We also recognize the funded status of our defined benefit pension plans on our Consolidated Balance Sheets and recognize as a component of OCI, net of tax, the actuarial gains or losses and prior service costs or credits, if any, that arise during the period but that are not recognized as components of net periodic benefit cost. If actuarial gains and losses exceed ten percent of the greater of plan assets or plan liabilities, we amortize them over the employees' average future service period.

Share Repurchase Plan

From time to time, we may repurchase shares of Itron 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 displayed 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.

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

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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.

Revenue from our OpenWay 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, which 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.

Our software customers often purchase a combination of software, service, and post contract customer support. For these types of arrangement, revenue recognition is dependent upon the availability of vendor specific objective evidence (VSOE) of fair value for any undelivered element. We determine VSOE by reference to the range of comparable standalone sales or stated renewals. We review these standalone sales or renewals on at least an annual basis. If VSOE is established for all undelivered elements in the contract, revenue is recognized for delivered elements when all other revenue recognition criteria are met. Where VSOE of all undelivered elements is not established, revenue for software and software related elements is deferred until all software products have been delivered, all software related services have commenced, and undelivered services do not include significant production, customization or modification. Revenue would be recognized over the longest period that services would be provided.

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

We allocate consideration to each deliverable in an arrangement based on its relative selling price. We determine selling price using VSOE, if it exists, otherwise we use third-party evidence (TPE). We define VSOE as a median price of recent standalone transactions that are priced within a narrow range. TPE is determined based on the prices charged by our competitors for a similar deliverable when sold separately. If neither VSOE nor TPE of selling price exists for a unit of accounting, we use estimated selling price (ESP) to determine the price at which we would transact if the product or service were regularly sold by us on a standalone basis. Our determination of ESP involves a

weighting of several factors based on the specific facts and circumstances of the arrangement. The factors considered include the cost to produce the deliverable, the anticipated margin on that deliverable, our ongoing pricing strategy and policies, and the characteristics of the varying markets in which the deliverable is sold.

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

Unearned revenue is recorded when a customer pays for products or services, but the criteria for revenue recognition have not been met as of the balance sheet date. Unearned revenues of \$139.5 million and \$134.1 million at December 31, 2015 and 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

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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 \$56.6 million and \$63.4 million at December 31, 2015 and 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, 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. 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 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.

Effective October 1, 2013, we changed the terms of the ESPP to reduce the discount to 5% from the fair market value of the stock at the end of each fiscal quarter. As a result of this change, the ESPP is no longer considered compensatory, and no compensation expense is recognized for sales of our common stock to employees.

Income Taxes

We account for income taxes using the asset and liability method of accounting. Deferred tax assets and liabilities are recognized based upon anticipated future tax consequences, in each of the jurisdictions that 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) net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of our tax liabilities involves applying complex tax regulations in different tax jurisdictions to our tax positions. The effect on deferred tax assets and liabilities of a change in tax legislation and/or rates is recognized in the period that includes the enactment date. A valuation

allowance is recorded to reduce the carrying amounts of deferred tax assets if it is not more likely than not that such assets will be realized. We do not record tax liabilities on undistributed earnings of international subsidiaries that are permanently reinvested.

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. Foreign currency losses, net of hedging, were \$3.0 million in 2015, compared with net foreign currency losses of \$5.1 million in 2014 and \$3.3 million in 2013.

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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. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date (ASU 2015-14), which deferred the effective date for implementation of ASU 2014-09 by one year and is now effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted but not earlier than the original effective date. In March 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (ASU 2016-08), which clarifies the implementation guidance of principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing (ASU 2016-10), which clarifies the identification of performance obligations and licensing implementation guidance. In May 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients (ASU 2016-12), to improve guidance on assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The effective date and transition requirements in ASU 2016-08, ASU 2016-10, and ASU 2016-12 are the same as the effective date and transition requirements of ASU 2015-14. We have not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (ASU 2015-03). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the corresponding debt liability. In August 2015, the FASB issued Accounting Standards Update 2015-15, Interest - Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (ASU 2015-15). ASU 2015-15 provides additional guidance on the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. ASU 2015-03 and ASU 2015-15 are effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted, and is to be applied on a retrospective basis. Effective January 1, 2016, we adopted the provisions of ASU 2015-03 and ASU 2015-15. The adoption of the provisions of ASU 2015-03 and ASU 2015-15 will not materially impact our consolidated financial statements and related disclosures.

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 adopted this standard on January 1, 2016, and we do not anticipate a material impact from adoption.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330) - Simplifying the Measurement of Inventory (ASU 2015-11). The amendments in ASU 2015-11 apply to inventory measured using first-in, first-out (FIFO) or average cost and will require entities to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the normal 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

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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 the adoption of this guidance did not have a material impact on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740) (ASU 2015-17). ASU 2015-17 requires deferred tax liabilities and assets to be classified as noncurrent in the Consolidated Balance Sheet. The standard will be effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for financial statements that have not been previously issued. The ASU may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We adopted this ASU on a prospective basis in the fourth quarter of 2015.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. The new standard also will result in enhanced quantitative and qualitative disclosures, including significant judgments made by management, to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing leases. The standard requires modified retrospective adoption and will be effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. We are currently assessing the basis of adoption and evaluating the impact of the adoption of the update on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, Investments - Equity Method and Joint Ventures (Topic 323) (ASU 2016-07), which simplified the accounting for equity method investments by eliminating the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. ASU 2016-07 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 March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718), which simplifies several areas within Topic 718. These include the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard will be effective for annual reporting periods beginning after December 15, 2016, with early adoption permitted. We are currently assessing the basis of adoption and evaluating the impact of the adoption of the update on our consolidated financial statements.

Note 2: Revision of Prior Period Financial Statements

We have revised the previously reported consolidated financial statements for the years ended December 31, 2014 and 2013. Additionally, we revised the unaudited quarterly financial information for each quarter in the fiscal year ended December 31, 2014, and the first three quarters of fiscal 2015 as shown in Note 18. Adjustments related to periods prior to January 1, 2013 are reflected as an adjustment to beginning retained earnings for the year ended December 31,

2013. All impacted financial statement line items and related footnotes reflect these revisions.

The revision reflects adjustments primarily related to the following areas:

Adjustments to arrangements including software where VSOE of fair value did not exist for undelivered elements and the determination of whether software was essential to the functionality of certain hardware. To correct these items, revenues and costs associated with certain software license agreements and related services were deferred and recognized ratably from the point at which customization or modification had been completed and all services have commenced, through the date services are completed or the Postcontract Customer Support term, whichever was longer.

Adjustments previously identified that were considered immaterial and had not been corrected. These adjustments have now been reflected in the periods in which the item arose.

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Statement of operations data:	Year Ended December 31, 2014		
	As Previously Reported	Adjustments	As Revised
	(in thousands, except per share data)		
Revenues	\$1,970,697	\$ (23,081)	\$1,947,616
Cost of revenues	1,347,572	(14,006)	1,333,566
Gross profit	623,125	(9,075)	614,050
Operating expenses			
Sales and marketing	185,239	(2,736)	182,503
Product development	175,500	—	175,500
General and administrative	163,101	(635)	162,466
Amortization of intangible assets	43,619	—	43,619
Restructuring	50,857	(1,375)	49,482
Goodwill impairment	977	(977)	—
Total operating expenses	619,293	(5,723)	613,570
Operating income (loss)	3,832	(3,352)	480
Other income (expense)			
Interest income	494	—	494
Interest expense	(11,602)	—	(11,602)
Other income (expense), net	(7,633)	(4)	(7,637)
Total other income (expense)	(18,741)	(4)	(18,745)
Income (loss) before income taxes	(14,909)	(3,356)	(18,265)
Income tax (provision) benefit	(6,641)	2,606	(4,035)
Net income (loss)	(21,550)	(750)	(22,300)
Net income attributable to noncontrolling interests	1,370	—	1,370
Net income (loss) attributable to Itron, Inc.	\$(22,920)	\$(750)	\$(23,670)
Earnings (loss) per common share - Basic	\$(0.58)	\$(0.02)	\$(0.60)
Earnings (loss) per common share - Diluted	\$(0.58)	\$(0.02)	\$(0.60)
Weighted average common shares outstanding - Basic	39,184	—	39,184
Weighted average common shares outstanding - Diluted	39,184	—	39,184

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Statement of operations data: Year Ended December 31, 2013

	As Previously Reported	Adjustments	As Revised
	(in thousands, except per share data)		
Revenues	\$1,948,728	\$ (10,703)	\$1,938,025
Cost of revenues	1,334,195	(10,938)	1,323,257
Gross profit	614,533	235	614,768
Operating expenses			
Sales and marketing	180,371	2,316	182,687
Product development	176,019	(599)	