ITRON INC /WA/
Form 10-Q
August 12, 2016

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 000-22418
ITRON, INC.
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ¨ No x
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
As of July 31, 2016 there were outstanding 38,242,461 shares of the registrant's common stock, no par value, which is the only class of common stock of the registrant.

Table of Contents

Itron, Inc.
Table of Contents

	Page
PART I: FINANCIAL INFORMATION	
Item 1: Financial Statements (Unaudited)	
Consolidated Statements of Operations	1
Consolidated Statements of Comprehensive Income (Loss)	2
Consolidated Balance Sheets	3
Consolidated Statements of Cash Flows	4
Notes to Condensed Consolidated Financial Statements	5
Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3: Quantitative and Qualitative Disclosures About Market Risk	43
Item 4: Controls and Procedures	45
PART II: OTHER INFORMATION	
Item 1: Legal Proceedings	46
Item 1A: Risk Factors	46
Item 2: Unregistered Sales of Equity Securities and Use of Proceeds	46
Item 5: Other Information	46
Item 6: Exhibits	47
SIGNATURE	48

Table of Contents

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

	Three Months Ended March 31,	
	2016	2015
	(in thousands, except per share data)	
Revenues	$497,590	$446,746
Cost of revenues	334,387	308,324
Gross profit	163,203	138,422
Operating expenses		
Sales and marketing	40,767	41,027
Product development	45,346	41,522
General and administrative	45,069	39,585
Amortization of intangible assets	6,210	7,973
Restructuring	2,237	(5,181)
Total operating expenses	139,629	124,926
Operating income	23,574	13,496
Other income (expense)		
Interest income	271	48
Interest expense	(2,918)	(2,682)
Other income (expense), net	(1,517)	21
Total other income (expense)	(4,164)	(2,613)
Income before income taxes	19,410	10,883
Income tax provision	(8,626)	(5,030)
Net income	10,784	5,853
Net income attributable to noncontrolling interests	695	455
Net income attributable to Itron, Inc.	$10,089	$5,398
Earnings per common share - Basic	$0.27	$0.14
Earnings per common share - Diluted	$0.26	$0.14
Weighted average common shares outstanding - Basic	38,059	38,442
Weighted average common shares outstanding - Diluted	38,376	38,758

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

Table of Contents

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

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Net income	$10,784	$5,853
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	10,106	(60,319)
Net unrealized gain (loss) on derivative instruments, designated as cash flow hedges	(2,606)	(114)
Pension benefit obligation adjustment	(318)	504
Total other comprehensive income (loss), net of tax	7,182	(59,929)
Total comprehensive income (loss), net of tax	17,966	(54,076)
Comprehensive income (loss) attributable to noncontrolling interests, net of tax:	695	455
Comprehensive income (loss) attributable to Itron, Inc.	$17,271	$(54,531)

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

Table of Contents

ITRON, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2016	December 31, 2015
	(in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$132,615	$131,018
Accounts receivable, net	368,432	330,895
Inventories	189,010	190,465
Other current assets	110,996	106,562
Total current assets	801,053	758,940
Property, plant, and equipment, net	190,004	190,256
Deferred tax assets noncurrent, net	108,161	109,387
Other long-term assets	48,201	51,679
Intangible assets, net	96,386	101,932
Goodwill	475,872	468,122
Total assets	$1,719,677	$1,680,316
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$201,001	$185,827
Other current liabilities	73,753	78,630
Wages and benefits payable	86,827	76,980
Taxes payable	15,877	14,859
Current portion of debt	11,250	11,250
Current portion of warranty	32,244	36,927
Unearned revenue	96,808	73,301
Total current liabilities	517,760	477,774
Long-term debt	336,908	358,915
Long-term warranty	18,498	17,585
Pension benefit obligation	88,312	85,971
Deferred tax liabilities noncurrent, net	1,729	1,723
Other long-term obligations	111,242	115,645
Total liabilities	1,074,449	1,057,613
Commitments and contingencies (Note 11)		
Equity		
Common stock	1,251,231	1,246,671
Accumulated other comprehensive loss, net	(193,425)	(200,607)
Accumulated deficit	(431,217)	(441,306)
Total Itron, Inc. shareholders' equity	626,589	604,758
Noncontrolling interests	18,639	17,945
Total equity	645,228	622,703
Total liabilities and equity	$1,719,677	$1,680,316

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

Table of Contents

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

	Three Months Ended March 31,					
	2016			2015		
	(in thousands)					
Operating activities						
Net income	$	10,784		$	5,853	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	16,674			19,355		
Stock-based compensation	3,900			4,108		
Amortization of prepaid debt fees	276			390		
Deferred taxes, net	4,507			(4,932		)
Restructuring, non-cash	1,114			(110		)
Other adjustments, net	66			337		
Changes in operating assets and liabilities:						
Accounts receivable	(33,308		)	237		
Inventories	3,244			(23,732		)
Other current assets	(5,457		)	(7,888		)
Other long-term assets	2,945			(3,081		)
Accounts payable, other current liabilities, and taxes payable	10,161			3,760		
Wages and benefits payable	9,349			(9,913		)
Unearned revenue	14,343			14,582		
Warranty	(4,045		)	2,384		
Other operating, net	(748		)	(5,305		)
Net cash provided by (used in) operating activities	33,805			(3,955		)
Investing activities						
Acquisitions of property, plant, and equipment	(8,791		)	(9,472		)
Other investing, net	558			(118		)
Net cash used in investing activities	(8,233		)	(9,590		)

Financing activities				
Proceeds from borrowings	—		63,000	
Payments on debt	(23,406	)	(22,373	)
Issuance of common stock	660		451	
Repurchase of common stock	—		(16,341	)
Other financing, net	(2,289	)	1,186	
Net cash provided by (used in) financing activities	(25,035	)	25,923	
Effect of foreign exchange rate changes on cash and cash equivalents	1,060		(6,665	)
Increase in cash and cash equivalents	1,597		5,713	
Cash and cash equivalents at beginning of period	131,018		112,371	
Cash and cash equivalents at end of period	$ 132,615		$ 118,084	
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Income taxes, net	$ 3,680		$ 19,245	
Interest, net of amounts capitalized	2,624		2,265	

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

ITRON, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2016
(UNAUDITED)
In this Quarterly Report on Form 10-Q, the terms "we," "us," "our," "Itron," and the "Company" refer to Itron, Inc.

Note 1: Summary of Significant Accounting Policies

Financial Statement Preparation
The condensed consolidated financial statements presented in this Quarterly Report on Form 10-Q are unaudited and reflect entries necessary for the fair presentation of the Consolidated Statements of Operations and the Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2016 and 2015, the Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015, and the Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015 of Itron, Inc. and its subsidiaries. All entries required for the fair presentation of the financial statements are of a normal recurring nature, except as disclosed. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period.

Certain information and notes normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) regarding interim results. These condensed consolidated financial statements should be read in conjunction with the 2015 audited financial statements and notes included in our Annual Report on Form 10-K filed with the SEC on June 30, 2016. There have been no significant changes in financial statement preparation or significant accounting policies since December 31, 2015, with the following exceptions.

Revision of Prior Period Financial Statements
We revised our previously reported consolidated financial statements for the first three quarters of fiscal 2015 as reported in our Annual Report on Form 10-K filed with the SEC on June 30, 2016. These revisions 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. All impacted financial statement line items and related notes to condensed consolidated financial statements reflect these revisions.

Prepaid Debt Fees
Prepaid debt fees for term debt represent the capitalized direct costs incurred related to the issuance of debt and are recorded as a direct deduction from the carrying amount of the corresponding debt liability. We have elected to present prepaid debt fees for revolving debt within other long-term assets in the Consolidated Balance Sheets. 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.

Stock-Based Compensation
We grant various stock-based compensation awards to its officers, employees and Board of Directors with service, market, and/or performance vesting conditions. Beginning with the fiscal quarter ending March 31, 2016, we granted phantom stock units, which are settled in cash upon vesting and accounted for as liability-based awards.

We measure and recognize compensation expense for all stock-based compensation 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 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. For phantom stock units, fair value is the market close price of our common stock at the end of each reporting period.

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

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vesting portion of the award. For awards with a market condition, we expense the fair value over the requisite service period. Excess tax benefits are credited to common stock when the deduction reduces cash taxes payable. When we have tax deductions in excess of the compensation cost, they are classified as financing cash inflows in the Consolidated Statements of Cash Flows.

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

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, which deferred the effective date for implementation of ASU 2014-09 by one year and are 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 results of operations, financial position, cash flows, and related financial statement 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 ASU 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. We adopted this standard on January 1, 2016, and it did not materially impact our consolidated results of operations, financial position, cash flows, and related financial statement 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 it did not materially impact our consolidated results of operations, financial position, cash flows, and related financial statement disclosures.

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. We are currently assessing the impact of adoption on our consolidated results of operations, financial position, cash flows, and related financial statement disclosures.

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 impact of adoption on our consolidated results of operations, financial position, cash flows, and related financial statement disclosures.

Table of Contents

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 results of operations, financial position, cash flows, and related financial statement disclosures.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718) (ASU 2016-09), 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. ASU 2016-09 is effective for us on January 1, 2017, 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 results of operations, financial position, cash flows, and related financial statement disclosures.

Note 2: Earnings Per Share

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

	Three Months Ended March 31,	
	2016	2015
	(in thousands, except per share data)	
Net income available to common shareholders	$ 10,089	$ 5,398
Weighted average common shares outstanding - Basic	38,059	38,442
Dilutive effect of stock-based awards	317	316
Weighted average common shares outstanding - Diluted	38,376	38,758
Earnings per common share - Basic	$ 0.27	$ 0.14
Earnings per common share - Diluted	$ 0.26	$ 0.14

Stock-based Awards

For stock-based awards, the dilutive effect is calculated using the treasury stock method. Under this method, the dilutive effect is computed as if the awards were exercised at the beginning of the period (or at time of issuance, if later) and assumes the related proceeds were used to repurchase common stock at the average market price during the period. Related proceeds include the amount the employee must pay upon exercise, future compensation cost associated with the stock award, and the amount of excess tax benefits, if any. Approximately 1.2 million and 1.3 million stock-based awards were excluded from the calculation of diluted EPS for the three months ended March 31, 2016, and 2015 because they were anti-dilutive. These stock-based awards could be dilutive in future periods.

Note 3: Certain Balance Sheet Components

Accounts receivable, net	March 31, 2016	December 31, 2015
	(in thousands)	
Trade receivables (net of allowance of $4,541 and $5,949)	$321,814	$ 298,550

Unbilled receivables	46,618	32,345
Total accounts receivable, net	$368,432	$ 330,895

At March 31, 2016 and December 31, 2015, $1.5 million and $0.7 million, respectively, were recorded as contract retainage receivables within trade receivables, in accordance with contract retainage provisions. At March 31, 2016 and December 31, 2015, contract retainage receivables that were unbilled and classified as unbilled receivables were $4.6 million and $3.5 million, respectively. These contract retainage receivables within trade receivables and unbilled receivables are expected to be collected within the following 12 months.

At March 31, 2016 and December 31, 2015, long-term billed contract retainage receivables were $0.4 million. At March 31, 2016 and December 31, 2015, long-term unbilled contract retainage receivables were $3.8 million and $3.6 million, respectively. These long-term billed and unbilled contract retainage receivables are classified within other long-term assets, as collection is not

Table of Contents

anticipated within the following 12 months. We consider whether collectability of such retainage is reasonably assured in connection with our overall assessment of the collectability of amounts due or that will become due under our contracts.

Allowance for doubtful accounts activity	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Beginning balance	$5,949	$6,195
Provision (release) for doubtful accounts, net	(8)	269
Accounts written-off	(1,478)	(16)
Effect of change in exchange rates	78	(509)
Ending balance	$4,541	$5,939

Inventories	March 31, 2016	December 31, 2015
	(in thousands)	
Materials	$115,331	$ 111,191
Work in process	10,836	9,400
Finished goods	62,843	69,874
Total inventories	$189,010	$ 190,465

Consigned inventory is held at third party locations; however, we retain title to the inventory until it is purchased by the third party. Consigned inventory, consisting of raw materials and finished goods, was $2.3 million and $2.6 million at March 31, 2016 and December 31, 2015, respectively.

Property, plant, and equipment, net	March 31, 2016	December 31, 2015
	(in thousands)	
Machinery and equipment	$289,411	$ 289,015
Computers and software	104,795	104,310
Buildings, furniture, and improvements	128,437	127,531
Land	20,009	19,882
Construction in progress, including purchased equipment	32,567	32,639
Total cost	575,219	573,377
Accumulated depreciation	(385,215)	(383,121)
Property, plant, and equipment, net	$190,004	$ 190,256

Depreciation expense	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Depreciation expense	$10,464	$11,382

Note 4: Intangible Assets

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

	March 31, 2016			December 31, 2015		
	Gross Assets	Accumulated Amortization	Net	Gross Assets	Accumulated Amortization	Net
	(in thousands)					
Core-developed technology	$393,957	$(365,728)	$28,229	$388,981	$(358,092)	$30,889
Customer contracts and relationships	239,560	(172,592)	66,968	238,379	(168,885)	69,494
Trademarks and trade names	64,385	(63,243)	1,142	64,069	(62,571)	1,498
Other	11,079	(11,032)	47	11,078	(11,027)	51
Total intangible assets	$708,981	$(612,595)	$96,386	$702,507	$(600,575)	$101,932

Table of Contents

A summary of intangible asset activity is as follows:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Beginning balance, intangible assets, gross	$702,507	$748,148
Intangible assets impaired	—	(497)
Effect of change in exchange rates	6,474	(42,038)
Ending balance, intangible assets, gross	$708,981	$705,613

Intangible assets impaired during the three months ended March 31, 2015 includes purchased software licenses to be sold to others. This amount was expensed as part of cost of revenues in the Consolidated Statement of Operations.

Estimated future annual amortization expense is as follows:

Year Ending December 31,	Estimated Annual Amortization (in thousands)
2016 (amount remaining at March 31, 2016)	$ 19,031
2017	18,841
2018	13,132
2019	10,325
2020	8,423
Beyond 2020	26,634
Total intangible assets subject to amortization	$ 96,386

Note 5: Goodwill

The following table reflects goodwill allocated to each reporting unit:

	Electricity	Gas	Water	Total Company
	(in thousands)			
Balances at January 1, 2016				
Goodwill before impairment	$414,910	$331,436	$350,314	$1,096,660
Accumulated impairment losses	(362,177)	—	(266,361)	(628,538)
Goodwill, net	52,733	331,436	83,953	468,122
Effect of change in exchange rates	600	5,756	1,394	7,750
Balances at March 31, 2016				
Goodwill before impairment	422,011	337,192	357,930	1,117,133
Accumulated impairment losses	(368,678)	—	(272,583)	(641,261)
Goodwill, net	$53,333	$337,192	$85,347	$475,872

Note 6: Debt

The components of our borrowings were as follows:

	March 31, 2016	December 31, 2015
	(in thousands)	
Credit facility:		
USD denominated term loan	$216,563	$ 219,375
Multicurrency revolving line of credit	132,572	151,837
Total debt	349,135	371,212
Less: current portion of debt	11,250	11,250
Less: unamortized prepaid debt fees - term loan	977	1,047
Long-term debt less unamortized prepaid debt fees - term loan	$336,908	$ 358,915

9

Table of Contents

Credit Facility

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

The 2015 credit facility includes debt covenants, which contain certain financial ratio thresholds, 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. On April 1, 2016 and June 13, 2016, we entered into the first and second amendments to the 2015 credit facility. As a result of these amendments, we have been granted waivers which extend the due dates for annual audited financial statements for the year ended December 31, 2015 and quarterly unaudited financial statements for the periods ended March 31, 2016 and June 30, 2016 through September 12, 2016, and our $300 million standby letter of credit sub-facility was reduced to $250 million.

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

Under the 2015 credit facility, we elect applicable market interest rates for both the term loan and any outstanding revolving loans. We also pay an applicable margin, which is based on our total leverage ratio (as defined in the credit agreement). The applicable rates per annum may be based on either: (1) the LIBOR rate or EURIBOR rate (floor of 0%), plus an applicable margin, or (2) the Alternate Base Rate, plus an applicable margin. The Alternate Base Rate election is equal to the greatest of three rates: (i) the prime rate, (ii) the Federal Reserve effective rate plus 1/2 of 1%, or (iii) one month LIBOR plus 1%. At March 31, 2016, the interest rate for both the term loan and the USD revolver was 2.19% (the LIBOR rate plus a margin of 1.75%), and the interest rate for the EUR revolver was 1.75% (the EURIBOR floor rate plus a margin of 1.75%).

Total credit facility repayments were as follows:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	

Term loan	$2,813	$7,500
Multicurrency revolving line of credit	20,593	14,873
Total credit facility repayments	$23,406	$22,373

At March 31, 2016, $132.6 million was outstanding under the credit facility revolver, and $321.5 million was available for additional borrowings or standby letters of credit. At March 31, 2016, $45.9 million was utilized by outstanding standby letters of credit, resulting in $254.1 million available for additional standby letters of credit. This availability decreases to $204.1 million as a result of the amendments discussed above. No amounts were outstanding under the swingline sub-facility.

Table of Contents

Upon entering into the 2015 credit facility, a portion of our unamortized prepaid debt fees, totaling $0.8 million, were written-off to interest expense. Prepaid debt fees of approximately $3.9 million were capitalized associated with the 2015 credit facility. Unamortized prepaid debt fees were as follows:

	March 31, 2016	December 31, 2015
	(in thousands)	
Unamortized prepaid debt fees - revolver	$2,951	$ 3,128
Unamortized prepaid debt fees - term loan	977	1,047

Note 7: Derivative Financial Instruments

As part of our risk management strategy, we use derivative instruments to hedge certain foreign currency and interest rate exposures. Refer to Note 13 and Note 14 for additional disclosures on our derivative instruments.

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

The fair values of our derivative instruments were as follows:

Asset Derivatives	Balance Sheet Location	Fair Value March 31, 2016	December 31, 2015
Derivatives designated as hedging instruments under ASC 815-20		(in thousands)	
Interest rate swap contracts	Other long-term assets	$—	$ 1,632
Interest rate cap contracts	Other long-term assets	689	1,423
Derivatives not designated as hedging instruments under ASC 815-20			
Foreign exchange forward contracts	Other current assets	237	27
Total asset derivatives		$926	$ 3,082
Liability Derivatives			
Derivatives designated as hedging instruments under ASC 815-20			
Interest rate swap contracts	Other current liabilities	$1,313	$ 868
Interest rate swap contracts	Other long-term obligations	1,417	—
Derivatives not designated as hedging instruments under ASC 815-20			
Foreign exchange forward contracts	Other current liabilities	505	99
Total liability derivatives		$3,235	$ 967

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

	2016	2015
	(in thousands)	
Net unrealized loss on hedging instruments at January 1,	$(14,062)	$(15,148)
Unrealized loss on hedging instruments	(2,782)	(369)
Realized losses reclassified into net income	176	255
Net unrealized loss on hedging instruments at March 31,	$(16,668)	$(15,262)

Reclassification of amounts related to hedging instruments are included in interest expense in the Consolidated Statements of Operations for the periods ended March 31, 2016 and 2015. Included in the net unrealized loss on hedging instruments at March 31, 2016 and 2015 is a loss of $14.4 million, net of tax, related to our nonderivative net investment hedge, which terminated in 2011. This loss on our net investment hedge will remain in accumulated OCI until such time when earnings are impacted by a sale or liquidation of the associated foreign operation.

Table of Contents

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

Offsetting of Derivative Assets	Gross Amounts of Recognized Assets Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
		Derivative Financial Instruments	Cash Collateral Received	
	(in thousands)			
March 31, 2016	$ 926	$ (288)	$ —	$ 638
December 31, 2015	$ 3,082	$ (565)	$ —	$ 2,517

Offsetting of Derivative Liabilities	Gross Amounts of Recognized Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
		Derivative Financial Instruments	Cash Collateral Pledged	
	(in thousands)			
March 31, 2016	$ 3,235	$ (288)	$ —	$ 2,947
December 31, 2015	$ 967	$ (565)	$ —	$ 402

Our derivative assets and liabilities subject to netting arrangements consist of foreign exchange forward and interest rate contracts with nine counterparties at March 31, 2016 and December 31, 2015. No derivative asset or liability balance with any of our counterparties was individually significant at March 31, 2016 or December 31, 2015. Our derivative contracts with each of these counterparties exist under agreements that provide for the net settlement of all contracts through a single payment in a single currency in the event of default. We have no pledges of cash collateral against our obligations nor have we received pledges of cash collateral from our counterparties under the associated derivative contracts.

Cash Flow Hedges

As a result of our floating rate debt, we are exposed to variability in our cash flows from changes in the applicable interest rate index. We enter into swaps to achieve a fixed rate of interest on a portion of our debt in order to increase our ability to forecast interest expense. The objective of these swaps is to reduce the variability of cash flows from increases in the LIBOR based borrowing rates on our floating rate credit facility. The swaps do not protect us from changes to the applicable margin under our credit facility.

In May 2012, we entered into six interest rate swaps, which were effective July 31, 2013 to August 8, 2016, to 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). The cash flow hedges are expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk through the term of the hedge. Consequently, effective changes in the fair value of the interest rate swaps are recorded as a component of OCI and will be recognized in earnings when the hedged item affects earnings. The amounts paid or received on the hedges will be recognized as adjustments to interest expense. The amount of net losses expected to be reclassified into earnings in the next 12 months is $0.4 million.

In October 2015, we entered into an interest rate swap, which is effective from 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. The cash flow hedge is expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk through the term of the hedge. Consequently, effective changes in the fair value of the interest rate swap is recorded as a component of OCI and will be recognized in earnings when the hedged item affects earnings. The amounts paid or received on the hedge will be recognized as an adjustment to interest expense. The amount of net losses expected to be reclassified into earnings in the next 12 months is $0.9 million. At March 31, 2016, our LIBOR based debt balance was $296.6 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

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Table of Contents

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. The amount of net losses expected to be reclassified into earnings in the next 12 months is insignificant.

At March 31, 2016, our LIBOR based debt balance was $296.6 million. The amount of cash flow hedge ineffectiveness was insignificant for the three months ended March 31, 2016 and 2015.

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

The before-tax effects of our cash flow derivative instruments on the Consolidated Balance Sheets and the Consolidated Statements of Operations were as follows:

Derivatives in ASC 815-20 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)		
			Location	Amount		Location	Amount	
	2016	2015		2016	2015		2016	2015
	(in thousands)			(in thousands)			(in thousands)	
Three Months Ended March 31,								
Interest rate swap contracts	$ (3,779)	$ (597)	Interest expense	$ (286)	$ (412)	Interest expense	$ —	$ —
Interest rate cap contracts	(734)	—	Interest expense	—	—	Interest expense	—	—

Derivatives Not Designated as Hedging Relationships

We are also exposed to foreign exchange risk when we enter into non-functional currency transactions, both intercompany and third party. At each period-end, non-functional currency monetary assets and liabilities are revalued with the change recorded to other income and expense. We enter into monthly foreign exchange forward contracts (a total of 122 contracts were entered into during the three months ended March 31, 2016), which are not designated for hedge accounting, with the intent to reduce earnings volatility associated with currency exposures. The notional amounts of the contracts ranged from $100,000 to $31.0 million, offsetting our exposures from the euro, British pound, Canadian dollar, Australian dollar, Mexican peso, and various other currencies.

The effect of our foreign exchange forward derivative instruments on the Consolidated Statements of Operations was as follows:

Derivatives Not Designated as Hedging Instrument under ASC 815-20	Gain (Loss) Recognized on Derivatives in Other Income (Expense) Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Foreign exchange forward contracts	$ (855)	$ (2,796)

Table of Contents

Note 8: Defined Benefit Pension Plans

We sponsor both funded and unfunded defined benefit pension plans for our international employees, primarily in Germany, France, Italy, Indonesia, Brazil, and Spain, offering death and disability, retirement, and special termination benefits. The defined benefit obligation is calculated annually by using the projected unit credit method. The measurement date for the pension plans was December 31, 2015.

Amounts recognized on the Consolidated Balance Sheets consist of:

	March 31, 2016		December 31, 2015	
	(in thousands)			
Assets				
Plan assets in other long-term assets	$	511	$	359
Liabilities				
Current portion of pension benefit obligation in wages and benefits payable	3,159		3,493	
Long-term portion of pension benefit obligation	88,312		85,971	
Pension benefit obligation, net	$	90,960	$	89,105

Our asset investment strategy focuses on maintaining a portfolio using primarily insurance funds, which are accounted for as investments and measured at fair value, in order to achieve our long-term investment objectives on a risk adjusted basis. Our general funding policy for these qualified pension plans is to contribute amounts sufficient to satisfy regulatory funding standards of the respective countries for each plan.

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

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Service cost	$986	$1,089
Interest cost	633	620
Expected return on plan assets	(126)	(136)
Settlements and other	(3)	(1)
Amortization of actuarial net loss	327	497
Amortization of unrecognized prior service costs	15	15
Net periodic benefit cost	$1,832	$2,084

Table of Contents

Note 9: Stock-Based Compensation

We record stock-based compensation expense for awards of stock options, restricted stock units, unrestricted stock, and phantom stock units. We expense stock-based compensation primarily using the straight-line method over the requisite service period. Stock-based compensation expense and the related tax benefit were as follows:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Stock options	$554	$649
Restricted stock units	3,096	3,326
Unrestricted stock awards	250	133
Phantom stock units	76	—
Total stock-based compensation	$3,976	$4,108
Related tax benefit	$1,208	$1,149

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

Subject to stock splits, dividends, and other similar events, 7,473,956 shares of common stock are reserved and authorized for issuance under our Amended and Restated 2010 Stock Incentive Plan (Stock Incentive Plan). Awards consist of stock options, restricted stock units, and unrestricted stock awards. At March 31, 2016, 2,063,770 shares were available for grant under the Stock Incentive Plan. The Stock Incentive Plan shares are subject to a fungible share provision such that the authorized share reserve is reduced by (i) one share for every one share subject to a stock option or share appreciation right granted under the Plan and (ii) 1.7 shares for every one share of common stock that was subject to an award other than an option or share appreciation right.

Stock Options

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

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

	Three Months Ended March 31,	
	2016	2015
Dividend yield	— %	— %
Expected volatility	33.5%	34.5%
Risk-free interest rate	1.3 %	1.7 %
Expected term (years)	5.5	5.5

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

Table of Contents

A summary of our stock option activity is as follows:

	Shares (in thousands)	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value[(1)] (in thousands)	Weighted Average Grant Date Fair Value
Outstanding, January 1, 2015	1,123	$ 51.90	4.4	$ 1,676	
Granted	204	35.29			$ 12.15
Exercised	(2)	26.65		17	
Expired	(1)	37.40			
Outstanding, March 31, 2015	1,324	$ 49.39	5.5	$ 451	
Outstanding, January 1, 2016	1,180	$ 48.31			
Granted	185	40.04			$ 13.15
Exercised	(12)	35.29		73	
Forfeited	(35)	35.29			
Expired	(1)	48.51			
Outstanding, March 31, 2016	1,317	$ 47.61	5.5	$ 2,859	
Exercisable March 31, 2016	892	$ 52.46	3.6	$ 1,040	
Expected to vest, March 31, 2016	404	$ 37.42	9.4	$ 1,736	

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

At March 31, 2016, total unrecognized stock-based compensation expense related to nonvested stock options was approximately $4.9 million, which is expected to be recognized over a weighted average period of approximately 2.4 years.

Restricted Stock Units

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

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

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

the 3-year performance period (the market condition). Compensation expense, net of forfeitures, is recognized on a straight-line basis, and the restricted stock units vest upon achievement of the performance condition, provided participants are employed by Itron at the end of the respective performance periods. For U.S. participants who retire during the performance period, a pro-rated number of restricted stock units (based on the number of days of employment during the performance period) immediately vest based on the attainment of the performance goals as assessed after the end of the performance period.

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

Table of Contents

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

	Three Months Ended March 31,	
	2016	2015
Dividend yield	— %	— %
Expected volatility	30.0 %	30.1 %
Risk-free interest rate	0.7 %	0.7 %
Expected term (years)	1.8	2.1
Weighted average fair value	$44.77	$33.46

Expected volatility is based on the historical volatility of our common stock for the related expected term. We believe this approach is reflective of current and historical market conditions and is an appropriate indicator of expected volatility. The risk-free interest rate is the rate available as of the award date on zero-coupon U.S. government issues with a term equal to the expected term of the award. The expected term is the term of an award based on the period of time between the date of the award and the date the award is expected to vest. The expected term assumption is based upon the plan's performance period as of the date of the award. We have not paid dividends in the past and do not plan to pay dividends in the foreseeable future.

The following table summarizes restricted stock unit activity:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value[1]
	(in thousands)		(in thousands)
Outstanding, January 1, 2015	682		
Granted[2]	315	$ 35.30	
Released	(266)		$ 10,888
Forfeited	(22)		
Outstanding, March 31, 2015	709		
Outstanding, January 1, 2016	756		
Granted[2]	172	$ 40.02	
Released	(262)		$ 10,098
Forfeited	(30)		
Outstanding, March 31, 2016	636		
Vested but not released, March 31, 2016	5		$ 207
Expected to vest, March 31, 2016	506		$ 21,106

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

(2) Restricted stock units granted in 2015 and 2016 do not include awards under the Performance Award Agreement for the respective years, as these awards are not granted until attainment of annual performance goals has been

determined at the conclusion of the performance period, which had not occurred as of March 31, 2015 and 2016, respectively.

At March 31, 2016, total unrecognized compensation expense on restricted stock units was $31.8 million, which is expected to be recognized over a weighted average period of approximately 2.2 years.

Phantom Stock Units

Phantom stock units are a form of share-based award that are indexed to our stock price and are settled in cash upon vesting. Since phantom stock units are settled in cash, compensation expense recognized over the vesting period will vary based on changes in fair value. Fair value is remeasured at the end of each reporting period based on the market close price of our common stock.

Table of Contents

The following table summarizes phantom stock unit activity:

	Number of Phantom Stock Units (in thousands)	Weighted Average Fair Value
Outstanding, January 1, 2016	—	
Granted	61	$ 41.72
Outstanding, March 31, 2016	61	$ 41.72
Expected to vest, March 31, 2016	53	$ 41.72

At March 31, 2016, total unrecognized compensation expense on phantom stock units was $2.5 million, which is expected to be recognized over a weighted average period of approximately 2.9 years.

Unrestricted Stock Awards

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

The following table summarizes unrestricted stock award activity:

	Three Months Ended March 31,	
	2016	2015
	(in thousands, except per share data)	
Shares of unrestricted stock granted	7	3
Weighted average grant date fair value per share	$35.61	$41.56

Employee Stock Purchase Plan

Under the terms of the ESPP, employees can deduct up to 10% of their regular cash compensation to purchase our common stock at a 5% discount from the fair market value of the stock at the end of each fiscal quarter, subject to other limitations under the plan. The sale of the stock to the employees occurs at the beginning of the subsequent quarter. The ESPP is not considered compensatory, and no compensation expense is recognized for sales of our common stock to employees.

The following table summarizes ESPP activity:

	Three Months Ended March 31,	
	2016	2015

	(in thousands)	
Shares of stock sold to employees[1]	11	10

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

There were approximately 381,000 shares of common stock available for future issuance under the ESPP at March 31, 2016.

Table of Contents

Note 10: Income Taxes

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

Our tax expense for the three months ended March 31, 2016 differed from the federal statutory rate of 35% due to the forecasted mix of earnings in domestic and international jurisdictions and losses experienced in jurisdictions with valuation allowances on deferred tax assets.

Our tax expense for the three months ended March 31, 2015 differed from the federal statutory rate of 35% due to the forecasted mix of earnings in domestic and international jurisdictions, valuation allowances, and discrete tax items.

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

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Net interest and penalties expense	$ 99	$ 301

Accrued interest and penalties recorded were as follows:

	March 31, 2016	December 31, 2015
	(in thousands)	
Accrued interest	$ 2,229	$ 2,105
Accrued penalties	2,649	2,577

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

	March 31, 2016	December 31, 2015
	(in thousands)	
Unrecognized tax benefits related to uncertain tax positions	$ 54,978	$ 54,880
The amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate	53,670	53,602

At March 31, 2016, we are under examination by certain tax authorities for the 2000 to 2013 tax years. The material jurisdictions where we are subject to examination for the 2000 to 2013 tax years include, among others, the U.S., France, Germany, Italy, Brazil and the United Kingdom. No material changes have occurred to previously disclosed assessments. We believe we have appropriately accrued for the expected outcome of all tax matters and do not currently anticipate that the ultimate resolution of these examinations will have a material adverse effect on our

financial condition, future results of operations, or liquidity.

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

Table of Contents

Note 11: Commitments and Contingencies

Guarantees and Indemnifications

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

Our available lines of credit, outstanding standby LOCs, and performance bonds were as follows:

	March 31, 2016	December 31, 2015
	(in thousands)	
Credit facilities[1]		
Multicurrency revolving line of credit	$500,000	$ 500,000
Long-term borrowings	(132,572)	(151,837)
Standby LOCs issued and outstanding	(45,928)	(46,574)
Net available for additional borrowings under the multi-currency revolving line of credit	$321,500	$ 301,589
Net available for additional standby LOCs under sub-facility[2]	254,072	253,426
Unsecured multicurrency revolving lines of credit with various financial institutions		
Multicurrency revolving lines of credit	$100,424	$ 97,989
Standby LOCs issued and outstanding	(26,392)	(31,122)
Short-term borrowings[3]	(1,373)	(3,884)
Net available for additional borrowings and LOCs	$72,659	$ 62,983
Unsecured surety bonds in force	$131,617	$ 87,558

(1) Refer to Note 6 for details regarding our secured credit facilities.

(2) Subsequent to March 31, 2016, as a result of entering into the first and second amendments to the 2015 credit facility, the maximum limit available for additional standby LOCs under sub-facility was reduced from $300 million to $250 million.

(3) Short-term borrowings are included in “Other current liabilities” on the Consolidated Balance Sheets.

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

We generally provide an indemnification related to the infringement of any patent, copyright, trademark, or other intellectual property right on software or equipment within our sales contracts, which indemnifies the customer from and pays the resulting costs, damages, and attorney’s fees awarded against a customer with respect to such a claim provided that: 1) the customer promptly notifies us in writing of the claim and 2) we have the sole control of the defense and all related settlement negotiations. We may also provide an indemnification to our customers for third party claims resulting from damages caused by the negligence or willful misconduct of our employees/agents in connection with the performance of certain contracts. The terms of our indemnifications generally do not limit the maximum potential payments. It is not possible to predict the maximum potential amount of future payments under these or similar agreements.

Legal Matters

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

On July 14, 2016, we entered into a confidential settlement agreement with Transdata Incorporated (Transdata) under which Transdata agreed to dismiss with prejudice all pending litigation in various United States District Courts against us and certain of our customers. As a part of the settlement, we will receive a patent license from Transdata for the use of the patents in future meter production and sales.

Table of Contents

In Brazil, the Conselha Administravo de Defensa Economica commenced an investigation of water meter suppliers, including a subsidiary of the Company, to determine whether such suppliers participated in agreements or concerted practices to coordinate their commercial policy in Brazil. Although the Company is unable to determine the final amount of any fine at this time, we believe that we have made adequate provisions based on information available to us. Consequently, we do not believe that the actual fine and ultimate outcome of this matter will have a material adverse effect on our operations or financial condition.

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

Warranty

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

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Beginning balance	$54,512	$36,548
New product warranties	2,404	1,800
Other changes/adjustments to warranties	1,034	3,445
Claims activity	(7,390)	(2,773)
Effect of change in exchange rates	182	(1,955)
Ending balance	50,742	37,065
Less: current portion of warranty	32,244	22,256
Long-term warranty	$18,498	$14,809

Total warranty expense is classified within cost of revenues and consists of new product warranties issued, costs related to extended warranty contracts, and other changes and adjustments to warranties. Warranty expense was as follows:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Total warranty expense	$3,438	$5,245

Unearned Revenue Related to Extended Warranty

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

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Beginning balance	$33,654	$34,138
Unearned revenue for new extended warranties	581	605
Unearned revenue recognized	(857)	(649)
Effect of change in exchange rates	120	(194)

Ending balance	33,498	33,900
Less: current portion of unearned revenue for extended warranty	3,750	2,971
Long-term unearned revenue for extended warranty within other long-term obligations	$29,748	$30,929

Health Benefits

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

Table of Contents

Plan costs were as follows:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Plan costs	$6,774	$6,513

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

	March 31, 2016	December 31, 2015
	(in thousands)	
IBNR accrual	$2,013	$ 2,051

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

Note 12: Restructuring

2014 Projects

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

We began implementing these projects in the fourth quarter of 2014, and we expect to substantially complete these projects by the fourth quarter of 2016. Certain aspects of the projects are subject to a variety of labor and employment laws, rules, and regulations, which could result in a delay in completing the projects at some locations.

The total expected restructuring costs, the restructuring costs recognized in prior periods, the restructuring costs recognized during the three months ended March 31, 2016, and the remaining expected restructuring costs as of March 31, 2016 related to the 2014 Projects were as follows:

	Total Expected Costs at March 31, 2016	Costs Recognized in Prior Periods	Costs Recognized During the Three Months Ended March 31, 2016	Remaining Costs to be Recognized at March 31, 2016
	(in thousands)			
Employee severance costs	$35,400	$ 34,373	$ 1,027	$ —
Asset impairments & net loss on sale or disposal	9,994	8,880	1,114	—
Other restructuring costs	6,045	3,929	96	2,020

Total	$51,439	$ 47,182	$ 2,237	$ 2,020
Segments:				
Electricity	$24,098	$ 21,743	$ 528	$ 1,827
Gas	13,206	11,855	1,264	87
Water	1,891	1,940	(64)	15
Corporate unallocated	12,244	11,644	509	91
Total	$51,439	$ 47,182	$ 2,237	$ 2,020

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

Table of Contents

Other restructuring costs include expenses for employee relocation, professional fees associated with employee severance, and costs to exit the facilities once the operations in those facilities have ceased. Costs associated with restructuring activities are generally presented in the Consolidated Statements of Operations as restructuring, except for certain costs associated with inventory write-downs, which are classified within cost of revenues, and accelerated depreciation expense, which is recognized according to the use of the asset.

2013 Projects

In September 2013, our management approved projects (the 2013 Projects) to restructure our operations to improve profitability and increase efficiencies. We began implementing these projects in the third quarter of 2013, and we expect to substantially complete project activities by the fourth quarter of 2016 and begin recognizing full savings in 2017. While project activities are expected to continue through September 2016, no further costs are expected to be recognized.

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

The following table summarizes the activity within the restructuring related balance sheet accounts for the 2014 and 2013 Projects during the three months ended March 31, 2016:

	Accrued Employee Severance	Asset Impairments & Net Loss on Sale or Disposal	Other Accrued Costs	Total
	(in thousands)			
Beginning balance, January 1, 2016	$26,533	$ —	$3,048	$29,581
Costs charged to expense	1,027	1,114	96	2,237
Cash payments	(5,323)	—	(188)	(5,511)
Non-cash items	—	(1,114)	—	(1,114)
Effect of change in exchange rates	352	—	(90)	262
Ending balance, March 31, 2016	$22,589	$ —	$2,866	$25,455

The current portions of the restructuring related liability balances were $21.6 million and $25.2 million as of March 31, 2016 and December 31, 2015. The current portion of the liability is classified within other current liabilities on the Consolidated Balance Sheets. The long-term portions of the restructuring related liability balances were $3.9 million and $4.4 million as of March 31, 2016 and December 31, 2015. The long-term portion of the restructuring liability is classified within other long-term obligations on the Consolidated Balance Sheets, and includes facility exit costs and severance accruals.

Table of Contents

Note 13: Shareholders' Equity

Preferred Stock

We have authorized the issuance of 10 million shares of preferred stock with no par value. In the event of a liquidation, dissolution, or winding up of the affairs of the corporation, whether voluntary or involuntary, the holders of any outstanding preferred stock would be entitled to be paid a preferential amount per share to be determined by the Board of Directors prior to any payment to holders of common stock. There was no preferred stock issued or outstanding at March 31, 2016 and December 31, 2015.

Other Comprehensive Income (Loss)

The before-tax amount, income tax (provision) benefit, and net-of-tax amount related to each component of other comprehensive income (loss) were as follows:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Before-tax amount		
Foreign currency translation adjustment	$10,458	$(60,773)
Net unrealized gain (loss) on derivative instruments designated as cash flow hedges	(4,513)	(597)
Net hedging loss reclassified into net income	286	412
Pension benefit obligation adjustment	(455)	511
Total other comprehensive income (loss), before tax	5,776	(60,447)
Tax (provision) benefit		
Foreign currency translation adjustment	(352)	454
Net unrealized gain (loss) on derivative instruments designated as cash flow hedges	1,731	228
Net hedging loss reclassified into net income	(110)	(157)
Pension benefit obligation adjustment	137	(7)
Total other comprehensive income (loss) tax (provision) benefit	1,406	518
Net-of-tax amount		
Foreign currency translation adjustment	10,106	(60,319)
Net unrealized gain (loss) on derivative instruments designated as cash flow hedges	(2,782)	(369)
Net hedging loss reclassified into net income	176	255
Pension benefit obligation adjustment	(318)	504
Total other comprehensive income (loss), net of tax	$7,182	$(59,929)

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

	Foreign Currency Translation Adjustments	Net Unrealized Gain (Loss) on Derivative Instruments	Net Unrealized Gain (Loss) on Nonderivative Instruments	Pension Benefit Obligation Adjustments	Total
	(in thousands)				
Balances at January 1, 2015	$(85,080)	$(768)	$(14,380)	$(34,832)	$(135,060)

OCI before reclassifications	(60,319)	(369)	—	(1)	(60,689)
Amounts reclassified from AOCI	—	255	—	505	760
Total other comprehensive income (loss)	(60,319)	(114)	—	504	(59,929)
Balances at March 31, 2015	$(145,399)	$ (882)	$ (14,380)	$ (34,328)	$(194,989)
Balances at January 1, 2016	$(158,009)	$ 318	$ (14,380)	$ (28,536)	$(200,607)
OCI before reclassifications	10,106	(2,782)	—	(79)	7,245
Amounts reclassified from AOCI	—	176	—	(239)	(63)
Total other comprehensive income (loss)	10,106	(2,606)	—	(318)	7,182
Balances at March 31, 2016	$(147,903)	$ (2,288)	$ (14,380)	$ (28,854)	$(193,425)

Table of Contents

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

	Amount Reclassified from AOCI[1] Three Months Ended March 31,		Affected Line Item in the Consolidated Statements of Operations
	2016	2015	
	(in thousands)		
Amortization of defined benefit pension items			
Prior-service costs	$ 15	$ (15)	[2]
Actuarial losses	327	(497)	[2]
Settlement and Other	—	—	[2]
Total, before tax	342	(512)	Income before income taxes
Tax benefit (provision)	(103)	7	Income tax provision
Total, net of tax	239	(505)	Net income
Total reclassifications for the period, net of tax	$ 239	$ (505)	Net income

(1) Amounts in parentheses indicate debits to the Consolidated Statements of Operations.

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

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

Note 14: Fair Values of Financial Instruments

The fair values at March 31, 2016 and December 31, 2015 do not reflect subsequent changes in the economy, interest rates, and other variables that may affect the determination of fair value. The following table presents the fair values of our financial instruments:

	March 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(in thousands)		
Assets				
Cash and cash equivalents	$132,615	$132,615	$131,018	$131,018
Foreign exchange forwards	237	237	27	27
Interest rate swaps	—	—	1,632	1,632
Interest rate caps	689	689	1,423	1,423
Liabilities				
Credit facility				
USD denominated term loan	$216,563	$215,089	$219,375	$217,830
Multicurrency revolving line of credit	132,572	131,442	151,837	150,570
Interest rate swaps	2,730	2,730	868	868
Foreign exchange forwards	505	505	99	99

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

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

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

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

Table of Contents

Note 15: Segment Information

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

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

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

Table of Contents

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

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Revenues		
Electricity	$217,295	$191,840
Gas	139,256	125,081
Water	141,039	129,825
Total Company	$497,590	$446,746
Gross profit		
Electricity	$64,586	$54,204
Gas	48,577	44,037
Water	50,040	40,181
Total Company	$163,203	$138,422
Operating income (loss)		
Electricity	$10,632	$1,114
Gas	16,299	14,491
Water	18,076	8,715
Corporate unallocated	(21,433)	(10,824)
Total Company	23,574	13,496
Total other income (expense)	(4,164)	(2,613)
Income before income taxes	$19,410	$10,883

For the three months ended March 31, 2016, one customer represented 13% of total Electricity segment revenues. For the three months ended March 31, 2016, no single customer represented more than 10% of the Gas and Water operating segment revenues or total Company revenues. For the three months ended March 31, 2015, no single customer represented more than 10% of total Company or the Electricity, Gas, or Water operating segment revenues.

Revenues by region were as follows:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
United States and Canada	$262,037	$227,438
Europe, Middle East, and Africa	195,710	176,187
Other[1]	39,843	43,121
Total revenues	$497,590	$446,746

[1] The Other region includes our operations in Latin America and Asia Pacific.

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

	Three Months Ended March 31,

	2016	2015
	(in thousands)	
Electricity	$7,262	$9,149
Gas	4,921	5,341
Water	4,382	4,792
Corporate Unallocated	109	73
Total Company	$16,674	$19,355

Table of Contents

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

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes included in this report and with our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission (SEC) on June 30, 2016.

Documents we provide to the 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), at the SEC's Headquarters at 100 F Street, NE, Washington, DC 20549, or by calling 1-800-SEC-0330.

Certain Forward-Looking Statements

This document contains forward-looking statements concerning our operations, financial performance, revenues, earnings growth, liquidity, and other items. This document reflects our current plans and expectations and is based on information currently available as of the date of this Quarterly Report on Form 10-Q. When we use the words "expect," "intend," "anticipate," "believe," "plan," "project," "estimate," "future," "objective," "may," "will," "will continue," and simila they are intended to identify forward-looking statements. Forward-looking statements rely on a number of assumptions and estimates. Although we believe that these assumptions and estimates are reasonable, any of these assumptions and estimates could prove to be inaccurate and the forward looking statements based on them could be incorrect and cause our actual results to vary materially from expected results. Our operations involve risks and uncertainties which could materially affect our results of operations and whether the forward looking statements ultimately prove to be correct. These risks and uncertainties include 1) the rate and timing of customer demand for our products, 2) failure to meet performance or delivery milestones in customer contracts, 3) changes in estimated liabilities for product warranties and/or litigation, 4) changes in foreign currency exchange rates and interest rates, 5) rescheduling or cancellations of current customer orders and commitments, 6) our dependence on customers' acceptance of new products and their performance, 7) competition, 8) changes in domestic and international laws and regulations, 9) international business risks, 10) our own and our customers' or suppliers' access to and cost of capital, 11) future business combinations, and 12) other factors. For a more complete description of these and other risks, refer to Item 1A: "Risk Factors" included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, which was filed with the SEC on June 30, 2016 and our other reports on file with the SEC. We do not have any obligation to update or revise any forward looking statement in this document.

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: revenue, gross profit (margin), and operating income (margin). 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.

The following discussion includes financial information prepared in accordance with accounting principles generally accepted in the United States (GAAP), as well as certain adjusted or non-GAAP financial measures such as constant currency, free cash flow, non-GAAP operating expense, non-GAAP operating income, non-GAAP net income, adjusted EBITDA, and non-GAAP diluted earnings per share (EPS). We believe that non-GAAP financial measures, when reviewed in conjunction with GAAP financial measures, can provide more information to assist investors in evaluating current period performance and in assessing future performance. For these reasons, our internal management reporting also includes non-GAAP measures. We strongly encourage investors and shareholders to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure. Non-GAAP measures as presented herein may not be comparable to similarly titled measures used by other companies.

In our discussions of the operating results below, we sometimes refer to the impact of foreign currency exchange rate fluctuations, which are references to the differences between the foreign currency exchange rates we use to convert operating results from local

Table of Contents

currencies into U.S. dollars for reporting purposes. We also use the term “constant currency,” which represents results adjusted to exclude foreign currency exchange rate impacts. We calculate the constant currency change as the difference between the current period results translated using the current period currency exchange rates and the comparable prior period’s results restated using current period currency exchange rates. We believe the reconciliations of changes in constant currency provides useful supplementary information to investors in light of fluctuations in foreign currency exchange rates.

Refer to the Non-GAAP Measures section below on pages 40-42 for the detailed reconciliation of items that impacted free cash flow, non-GAAP operating expense, non-GAAP operating income, non-GAAP net income, adjusted EBITDA, and non-GAAP diluted EPS in the presented periods.

Total Company Highlights and Unit Shipments

The following are highlights and significant developments for the three months ended March 31, 2016:

- Revenues for the three months ended March 31, 2016 were $497.6 million compared with $446.7 million in the same period last year, an increase of $50.8 million, or 11%. All operating segments experienced improved revenue in the first quarter of 2016.
- Gross margin for the three months ended March 31, 2016 was 32.8%, compared with 31.0% in the same period last year, an increase of 180 basis points.
- Operating expenses for the three months ended March 31, 2016 were $14.7 million higher compared with the same period last year due to increased restructuring, general and administrative, and product development costs.
- Net income attributable to Itron, Inc. for the three months ended March 31, 2016 was $10.1 million compared with $5.4 million in the same period last year.
- Adjusted EBITDA for the first quarter ended March 31, 2016 improved $10.7 million or 36% compared with the same period last year.
- GAAP diluted EPS improved $0.12 to $0.26 for the first quarter of 2016 as compared to the same period last year.
- Non-GAAP diluted EPS improved $0.22 to $0.44 for the first quarter of 2016 as compared to the same period last year.
- Total backlog was $1.5 billion and twelve-month backlog was $785 million at March 31, 2016.

Table of Contents

The following table summarizes the changes in GAAP and Non-GAAP financial measures:

	Three Months Ended March 31,		
	2016	2015	% Change
	(in thousands, except margin and per share data)		
GAAP			
Revenues	$497,590	$446,746	11%
Gross profit	163,203	138,422	18%
Operating expenses	139,629	124,926	12%
Operating income	23,574	13,496	75%
Other income (expense)	(4,164)	(2,613)	59%
Income tax provision	(8,626)	(5,030)	71%
Net income attributable to Itron, Inc.	10,089	5,398	87%
Non-GAAP[1]			
Operating expenses	$131,179	$119,810	9%
Operating income	32,024	18,612	72%
Net income attributable to Itron, Inc.	16,831	8,549	97%
Adjusted EBITDA	40,276	29,560	36%
GAAP Margins and Earnings Per Share			
Gross margin	32.8 %	31.0 %	
Operating margin	4.7 %	3.0 %	
Basic EPS	$0.27	$0.14	
Diluted EPS	$0.26	$0.14	
Non-GAAP Earnings Per Share[1]			
Diluted EPS	$0.44	$0.22	

(1) These measures exclude certain expenses that we do not believe are indicative of our core operating results. See pages 40-42 for information about these non-GAAP measures and reconciliations to the most comparable GAAP measures.

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:

	Three Months Ended March 31,	
	2016	2015

	(units in thousands)	
Meters		
Standard	4,370	4,740
Advanced and smart	2,190	1,540
Total meters	6,560	6,280
Stand-alone communication modules		
Advanced and smart	1,460	1,310

Table of Contents

Results of Operations

Revenue and Gross Margin

The actual results and effects of changes in foreign currency exchange rates in revenues and gross profit were as follows:

	Three Months Ended March 31,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change[1]	Total Change
	2016	2015			
	(in thousands)				
Total Company					
Revenues	$497,590	$446,746	$(15,967)	$ 66,811	$50,844
Gross Profit	163,203	138,422	(3,607)	28,388	24,781

(1) Constant currency change is a non-GAAP financial measure and represents the total change between periods excluding the effect of changes in foreign currency exchange rates.

Revenues
Revenues increased $50.8 million, or 11%, for the three months ended March 31, 2016, compared with the same period in 2015. Revenues in the Electricity, Gas, and Water segments increased by $25.5 million, $14.2 million, and $11.2 million, respectively. Total revenue for the three months ended March 31, 2016 was unfavorably impacted by $16.0 million due to changes in foreign exchange rates.

No single customer accounted for more than 10% of total Company revenues during the three months ended March 31, 2016 and 2015. Our 10 largest customers accounted for 29% of total revenues during the three months ended March 31, 2016 and 21% of total revenues during the three months ended March 31, 2015.

Gross Margin
Gross margin for the first quarter of 2016 was 32.8%, compared with 31.0% for the same period in 2015. The improvement in the first quarter gross margin was primarily driven by improved revenue across all segments and reduced warranty charges in our Water segment.

Operating Expenses

The actual results and effects of changes in foreign currency exchange rates in operating expenses were as follows:

	Three Months Ended March 31,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change[1]	Total Change
	2016	2015			
	(in thousands)				
Total Company					

Sales and marketing	$40,767	$41,027	$ (1,520)	$ 1,260	$(260)
Product development	45,346	41,522	(534)	4,358	3,824
General and administrative	45,069	39,585	(1,328)	6,812	5,484
Amortization of intangible assets	6,210	7,973	(270)	(1,493)	(1,763)
Restructuring	2,237	(5,181)	(148)	7,566	7,418
Total Operating Expenses	$139,629	$124,926	$ (3,800)	$ 18,503	$14,703

(1) Constant currency change is a non-GAAP financial measure and represents the total change between periods excluding the effect of changes in foreign currency exchange rates.

Operating expenses increased $14.7 million for the three months ended March 31, 2016 as compared with the same period in 2015. The increase was primarily related to an increase in restructuring expenses of $7.4 million, an increase in general and administrative expense of $5.5 million, and an increase in product development of $3.8 million. A more detailed analysis of operating expenses fluctuations is provided in Operating Segment Results.

Table of Contents

Other Income (Expense)

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

	Three Months Ended March 31,		
	2016	2015	% Change
	(in thousands)		
Interest income	$271	$48	465%
Interest expense	(2,642)	(2,292)	15%
Amortization of prepaid debt fees	(276)	(390)	(29)%
Other income (expense), net	(1,517)	21	N/A
Total other income (expense)	$(4,164)	$(2,613)	59%

Other income (expense) decreased $1.6 million for the three months ended March 31, 2016 as compared with the same period in 2015. The decrease was primarily related to the unrealized and realized foreign currency gains and losses from balances denominated in currencies other than a reporting entity's functional currency. As a result of currency movements in certain markets in which we do business, foreign currency losses, net of hedging, were $1.1 million for the three months ended March 31, 2016, compared with foreign currency gains, net of hedging, of $0.2 million in the same period in 2015.

Income Tax Provision

For the three months ended March 31, 2016, the tax rate was 44% or an income tax provision of $8.6 million compared with a tax rate of 46% or an income tax provision of $5.0 million for the same period in 2015. Our tax expense for the three months ended March 31, 2016 differed from the federal statutory rate of 35% due to the forecasted mix of earnings in domestic and international jurisdictions and losses experienced in jurisdictions with valuation allowances on deferred tax assets. Our tax expense for the three months ended March 31, 2015 differed from the federal statutory rate of 35% due to the forecasted mix of earnings in domestic and international jurisdictions, valuation allowances, and discrete tax items.

Table of Contents

Operating Segment Results

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

	Three Months Ended March 31,		
	2016	2015	% Change
Segment Revenues	(in thousands)		
Electricity	$217,295	$191,840	13%
Gas	139,256	125,081	11%
Water	141,039	129,825	9%
Total revenues	$497,590	$446,746	11%

	Three Months Ended March 31,			
	2016		2015	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin
Segment Gross Profit and Margin	(in thousands)		(in thousands)	
Electricity	$64,586	29.7%	$54,204	28.3%
Gas	48,577	34.9%	44,037	35.2%
Water	50,040	35.5%	40,181	31.0%
Total gross profit and margin	$163,203	32.8%	$138,422	31.0%

	Three Months Ended March 31,		
	2016	2015	% Change
Segment Operating Expenses	(in thousands)		
Electricity	$53,954	$53,090	2%
Gas	32,278	29,546	9%
Water	31,964	31,466	2%
Corporate unallocated	21,433	10,824	98%
Total operating expenses	$139,629	$124,926	12%

	Three Months Ended March 31,			
	2016		2015	
	Operating Income (Loss)	Operating Margin	Operating Income (Loss)	Operating Margin
Segment Operating Income (Loss) and Operating Margin	(in thousands)		(in thousands)	
Electricity	$10,632	4.9%	$1,114	0.6%
Gas	16,299	11.7%	14,491	11.6%
Water	18,076	12.8%	8,715	6.7%
Corporate unallocated	(21,433)		(10,824)	
Total Company	$23,574	4.7%	$13,496	3.0%

Table of Contents

Electricity

The effects of changes in foreign currency exchange rates and the constant currency changes in certain Electricity segment financial results were as follows:

	Three Months Ended March 31,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change[1]	Total Change
	2016	2015			
	(in thousands)				
Electricity Segment					
Revenues	$217,295	$191,840	$(7,435)	$32,890	$25,455
Gross Profit	64,586	54,204	(1,575)	11,957	10,382
Operating Expenses	53,954	53,090	(1,553)	2,417	864

(1) Constant currency change is a non-GAAP financial measure and represents the total change between periods excluding the effect of changes in foreign currency exchange rates.

Revenues - Three months ended March 31, 2016 vs. Three months ended March 31, 2015
Revenues increased $25.5 million, or 13%, for the three months ended March 31, 2016, compared with the same period in 2015. This increase was primarily driven by increased product and professional services revenue in North America and Europe, Middle East, and Africa (EMEA). The increase in North America was driven by favorable product mix, while EMEA increased due to higher volumes as well as higher services revenue in the region. Electricity revenues were unfavorably impacted by $7.4 million from changes in foreign currency exchange rates.

For the three months ended March 31, 2016, one customer represented 13% of total Electricity segment revenues. No single customer accounted for more than 10% of the Electricity operating segment revenues during the three months ended March 31, 2015.

Gross Margin - Three months ended March 31, 2016 vs. Three months ended March 31, 2015
Gross margin was 29.7% for the three months ended March 31, 2016, compared with 28.3% for the same period in 2015. The 140 basis point increase over the prior year was primarily the result of an improved product mix and higher volumes.

Operating Expenses - Three months ended March 31, 2016 vs. Three months ended March 31, 2015
Operating expenses increased $0.9 million, or 2%, for the three months ended March 31, 2016, compared with the same period in 2015. The increase was caused by a $3.3 million increase in restructuring due to a $2.8 million restructuring release in the first quarter of 2015. This increase was offset by slight decreases in amortization, general and administrative expenses, product development, and sales and marketing during the three months ended March 31, 2016 as compared with the same period last year.

Gas

The effects of changes in foreign currency exchange rates and the constant currency changes in certain Gas segment financial results were as follows:

	Three Months Ended March 31, 2016	2015	Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change[1]	Total Change
	(in thousands)				
Gas Segment					
Revenues	$139,256	$125,081	$(2,687)	$16,862	$14,175
Gross Profit	48,577	44,037	(212)	4,752	4,540
Operating Expenses	32,278	29,546	(573)	3,305	2,732

(1) Constant currency change is a non-GAAP financial measure and represents the total change between periods excluding the effect of changes in foreign currency exchange rates.

Table of Contents

Revenues - Three months ended March 31, 2016 vs. Three months ended March 31, 2015
Revenues increased $14.2 million, or 11%, for the three months ended March 31, 2016 compared to 2015. This was due to regional strength in North America, as well as an increase in EMEA smart meter shipments.

No single customer accounted for more than 10% of the Gas operating segment revenues during the three months ended March 31, 2016 and 2015.

Gross Margin - Three months ended March 31, 2016 vs. Three months ended March 31, 2015
Gross margin was 34.9% for the three months ended March 31, 2016, compared with 35.2% for the same period in 2015. The decrease was primarily due to an increase in sales of higher cost first-generation smart meter sales in EMEA.

Operating Expenses - Three months ended March 31, 2016 vs. Three months ended March 31, 2015
Operating expenses increased $2.7 million, or 9%, for the three months ended March 31, 2016, compared to 2015. The increase was primarily due to a $2.6 million increase in product development expense.

Water

The effects of changes in foreign currency exchange rates and the constant currency changes in certain Water segment financial results were as follows:

	Three Months Ended March 31,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change[1]	Total Change
	2016	2015			
	(in thousands)				
Water Segment					
Revenues	$141,039	$129,825	$(5,844)	$17,058	$11,214
Gross Profit	50,040	40,181	(1,820)	11,679	9,859
Operating Expenses	31,964	31,466	(892)	1,390	498

(1) Constant currency change is a non-GAAP financial measure and represents the total change between periods excluding the effect of changes in foreign currency exchange rates.

Revenues - Three months ended March 31, 2016 vs. Three months ended March 31, 2015
Revenues increased $11.2 million, or 9%, for the three months ended March 31, 2016, compared with the first quarter of 2015. This was due to higher product revenue in EMEA and North America, including an increase in sales of communication modules.

No single customer represented more than 10% of the Water operating segment revenues during the three months ended March 31, 2016 and 2015.

Gross Margin - Three months ended March 31, 2016 vs. Three months ended March 31, 2015
During the first quarter of 2016 gross margin increased to 35.5%, compared with 31.0% in 2015. The 450 basis point improvement was primarily due to improved margins in North America, driven by reduced warranty charges in 2016. The first quarter 2015 included a significant warranty accrual associated with our preliminary failure estimates for certain communication modules manufactured between July 2013 and December 2014.

Operating Expenses - Three months ended March 31, 2016 vs. Three months ended March 31, 2015
Operating expenses for the three months ended March 31, 2016 increased by $0.5 million, or 2%, compared with the first quarter of 2015. This increase was primarily the result of $2.0 million in increased product development and sales and marketing expenses, partially offset by lower general and administrative expenses.

Corporate unallocated

Corporate Unallocated Expenses - Three months ended March 31, 2016 vs. Three months ended March 31, 2015
Operating expenses not directly associated with an operating segment are classified as “Corporate unallocated.” These expenses increased by $10.6 million, or 98%, for the three months ended March 31, 2016 compared to the same period in 2015. The increase was primarily due to increased professional service fees associated with the revision of previously issued financial statements, as discussed in our Annual Report on Form 10-K, along with increased legal costs.

Table of Contents

Bookings and Backlog of Orders

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

Quarter Ended	Quarterly Bookings	Ending Total Backlog[1]	Ending 12-Month Backlog
	(in millions)		
March 31, 2016	$394	$ 1,504	$ 785
December 31, 2015	822	1,575	836
September 30, 2015	337	1,252	734
June 30, 2015	398	1,403	799
March 31, 2015	424	1,470	780

(1) The March 31, 2016 ending total backlog was adjusted for an error as the prior periods' backlog did not reflect the deferral of 2011 and 2012 revenues as disclosed in our 2015 Annual Report on Form 10-K (2015 Form 10-K). This revenue deferral was properly recorded as a beginning retained earnings balance adjustment for the year ended December 31, 2013 in the 2015 Form 10-K. The total backlog was adjusted upward by approximately $29 million, which is not considered material.

Information on bookings by our operating segments is as follows:

Quarter Ended	Total Bookings	Electricity	Gas	Water
	(in millions)			
March 31, 2016	$394	$ 145	$137	$112
December 31, 2015	822	441	251	130
September 30, 2015	337	151	100	86
June 30, 2015	398	175	116	107
March 31, 2015	424	191	109	124

Financial Condition

Cash Flow Information:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Operating activities	$33,805	$(3,955)

Investing activities	(8,233)	(9,590)
Financing activities	(25,035)	25,923
Effect of exchange rates on cash and cash equivalents	1,060	(6,665)
Increase in cash and cash equivalents	$ 1,597	$ 5,713

Cash and cash equivalents was $132.6 million at March 31, 2016, compared with $131.0 million at December 31, 2015.

Operating activities

Cash provided by operating activities during the three months ended March 31, 2016 was $33.8 million compared with a cash use of $4.0 million during the same period in 2015. The increase in cash provided was primarily due to a $4.9 million increase in net income, a $9.4 million increase in cash provided due to deferred income tax adjustments, and a $27.0 million increased source of cash from inventory caused by a prior year buildup for expected demand in North America and EMEA. Additionally, changes in

Table of Contents

wages and benefits payable resulted in a $19.3 million increased source of cash due to lower variable compensation payments during the three months ended March 31, 2016 compared to the same period last year. The changes were partially offset by a $33.5 million increased use of cash in accounts receivable during the three months ended March 31, 2016 caused by an increase in revenues and the timing of significant invoices in both North America and EMEA.

Investing activities
Cash used by investing activities during the three months ended March 31, 2016 was $1.4 million lower compared with the same period in 2015, primarily due to reduced acquisitions of property, plant, and equipment and an increase in proceeds from sales of property, plant, and equipment.

Financing activities
Net cash used by financing activities during the three months ended March 31, 2016 was $25.0 million, compared with a cash source of $25.9 million for the same period in 2015. The increased use of cash by financing activities is primarily a result of utilizing no proceeds from borrowings in the three months ended March 31, 2016, compared to $63.0 million during the same period in 2015, as free cash flow was sufficient to fund operating and investing activities. This was partially offset by a $16.3 million reduction in cash used for repurchases of common stock during the three months ended March 31, 2016, compared to the same period in 2015.

Effect of exchange rates on cash and cash equivalents
The effect of exchange rates on the cash balances of currencies held in foreign denominations for the three months ended March 31, 2016 was an increase of $1.1 million, compared with a decrease of $6.7 million for the same period in 2015. The impact of exchange rates is the result of a decrease in the U.S. dollar value compared with most foreign currencies during the three months ended March 31, 2016, compared to a increase in value compared with most foreign currencies during the same period in 2015.

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 provided by (used in) operating activities as a measure of liquidity. We calculate free cash flows, using amounts from our Consolidated Statements of Cash Flows, as follows:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Net cash provided by operating activities	$33,805	$(3,955)
Acquisitions of property, plant, and equipment	(8,791)	(9,472)
Free cash flow	$25,014	$(13,427)

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

Off-balance sheet arrangements:

We have no off-balance sheet financing agreements or guarantees as defined by Item 303 of Regulation S-K at March 31, 2016 and December 31, 2015 that we believe are reasonably likely to have a current or future effect on our financial condition, results of operations, or cash flows.

Liquidity and Capital Resources:

Our principal sources of liquidity are cash flows from operations, borrowings, and sales of common stock. Cash flows may fluctuate and are sensitive to many factors including changes in working capital and the timing and magnitude of capital expenditures and payments of debt. Working capital, which represents current assets less current liabilities, was $283.3 million at March 31, 2016, compared with $281.2 million at December 31, 2015.

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. The revolver also contains a $300 million letter of credit sub-facility and a $50 million

Table of Contents

swingline sub-facility (available for immediate cash needs at a higher interest rate). At March 31, 2016, $132.6 million was outstanding under the revolver, and $321.5 million was available for additional borrowings or standby letters of credit. At March 31, 2016, $45.9 million was utilized by outstanding standby letters of credit, resulting in $254.1 million available for additional letters of credit. This availability decreases to $204.1 million as a result of the amendments to the 2015 credit facility discussed below.

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. On April 1, 2016 and June 13, 2016, we entered into the first and second amendments to the 2015 credit facility. As a result of these amendments, we have been granted waivers which extend the due dates for annual audited financial statements for the year ended December 31, 2015 and quarterly unaudited financial statements for the periods ended March 31, 2016 and June 30, 2016 through September 12, 2016 and our $300 million standby letter of credit sub-facility was reduced to $250 million.

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

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

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.

As of March 31, 2016, $25.5 million was accrued for the restructuring projects, of which $21.6 million is expected to be paid over the next 12 months. 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.

For further details regarding our restructuring activities, refer to Item 1: “Financial Statements, Note 12: Restructuring.”

Other Liquidity Considerations
We have tax credits and net operating loss carryforwards in various jurisdictions that are available to reduce cash taxes. However, utilization of tax credits and net operating losses are limited in certain jurisdictions. Based on current projections, we expect to pay, net of refunds, approximately $6.8 million in state taxes, $12.0 million in U.S federal taxes, and $15.3 million in local and foreign taxes during 2016. For a discussion of our tax provision and unrecognized tax benefits, see Item 1: “Financial Statements, Note 10: Income Taxes.”

At March 31, 2016, we are under examination by certain tax authorities for the 2000 to 2013 tax years. The material jurisdictions where we are subject to examination include, among others, the United States, France, Germany, Italy, Brazil, and the United Kingdom. No material changes have occurred to previously disclosed assessments. We believe we have appropriately accrued for the expected outcome of all tax matters and do not currently anticipate that the ultimate resolution of these examinations will have a material adverse effect on our financial condition, future results of operations, or liquidity.

We have not provided U.S. deferred taxes related to the cash in certain foreign subsidiaries because our investment is considered permanent in duration. As of March 31, 2016, there was $34.4 million of cash and short-term investments held by certain foreign subsidiaries in which we are permanently reinvested for tax purposes. If this cash were repatriated to fund U.S. operations, additional tax costs may be required. Tax is one of the many factors that we consider in the management of global cash. Included in the determination of the tax costs in repatriating foreign cash into the United States are the amount of earnings and profits in a particular jurisdiction, withholding taxes that would be imposed, and available foreign tax credits. Accordingly, the amount of taxes that we would need to accrue and pay to repatriate foreign cash could vary significantly.

In several of our consolidated international subsidiaries, we have joint venture partners, who are minority shareholders. Although these entities are not wholly-owned by Itron, Inc., we consolidate them because we have a greater than 50% ownership interest and/or because we exercise control over the operations. The noncontrolling interest balance in our Consolidated Balance Sheets represents the proportional share of the equity of the joint venture entities, which is attributable to the minority shareholders. Approximately $32.5 million of our consolidated cash balance at March 31, 2016 is held in our joint venture entities. As a result,

Table of Contents

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

At March 31, 2016, we have accrued $13.4 million of bonus and profit sharing plans expense for the expected achievement of annual financial and nonfinancial targets, which will be paid in cash during the third quarter of 2016 and first quarter of 2017.

General Liquidity Overview

We expect to grow through a combination of internal new product development, licensing technology from and to others, distribution agreements, partnering arrangements, and acquisitions of technology or other companies. We expect these activities to be funded with existing cash, cash flow from operations, borrowings, or the sale of common stock or other securities. We believe existing sources of liquidity will be sufficient to fund our existing operations and obligations for the next 12 months and into the foreseeable future, but offer no assurances. Our liquidity could be affected by the stability of the electricity, gas, and water industries, competitive pressures, changes in estimated liabilities for product warranties and/or litigation, future business combinations, capital market fluctuations, international risks, and other factors described under “Risk Factors” within Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, which was filed with the SEC on June 30, 2016, as well as “Quantitative and Qualitative Disclosures About Market Risk” within Item 3 of Part I included in this Quarterly Report on Form 10-Q.

Contingencies

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

Critical Accounting Estimates

The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material effect on our consolidated financial statements and thus actual results could differ from the amounts reported and disclosed herein. Our critical accounting policies that require the use of estimates and assumptions were discussed in detail in the Annual Report on Form 10-K and have not changed materially from that discussion, with the following exception.

Stock-Based Compensation

We grant various stock-based compensation awards to its officers, employees and Board of Directors with service, market, and/or performance vesting conditions. Beginning with the fiscal quarter ending March 31, 2016, we granted phantom stock units which are settled in cash upon vesting and accounted for as liability-based awards.

We measure and recognize compensation expense for all stock-based compensation 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 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. For phantom stock units, fair value is the market close price of our common stock at the end of each reporting period.

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.

Table of Contents

Non-GAAP Measures

Our consolidated financial statements are prepared in accordance with 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 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.

Adjusted EBITDA – We define adjusted EBITDA as net income (a) minus interest income, (b) plus interest expense, depreciation, amortization of intangible assets, restructuring, acquisition related expense, goodwill impairment and (c) exclude the tax expense or benefit. We believe that providing this financial measure is important for management and investors to understand our ability to service our debt as it is a measure of the cash generated by our core business. Management uses adjusted EBITDA as a performance measure for executive compensation. A limitation to using adjusted EBITDA is that it does not represent the total increase or decrease in the cash balance for the period and the measure includes some non-cash items and excludes other non-cash items. Additionally, the items that we exclude in our calculation of adjusted EBITDA may differ from the items that our peer companies exclude when they report their results. We compensate for these limitations by providing a reconciliation of this measure to GAAP net income.

Free cash flow - We define free cash flow as net cash provided by operating activities less cash used for acquisitions of property, plant and equipment. We believe free cash flow provides investors with a relevant measure of liquidity and a useful basis for assessing our ability to fund our operations and repay our debt. The same limitations described above regarding our use of adjusted EBITDA apply to our use of free cash flow. We compensate for these limitations

by providing specific information regarding the GAAP amounts and reconciling to free cash flow.

Table of Contents

Reconciliation of GAAP Measures to Non-GAAP Measures

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

TOTAL COMPANY RECONCILIATIONS	Three Months Ended March 31,	
	2016	2015
	(in thousands, except per share data)	
NON-GAAP OPERATING EXPENSES		
GAAP operating expenses	$139,629	$124,926
Amortization of intangible assets	(6,210)	(7,973)
Restructuring	(2,237)	5,181
Acquisition-related expenses	(3)	(2,324)
Non-GAAP operating expenses	$131,179	$119,810
NON-GAAP OPERATING INCOME		
GAAP operating income	$23,574	$13,496
Amortization of intangible assets	6,210	7,973
Restructuring	2,237	(5,181)
Acquisition-related expenses	3	2,324
Non-GAAP operating income	$32,024	$18,612
NON-GAAP NET INCOME & DILUTED EPS		
GAAP net income attributable to Itron, Inc.	$10,089	$5,398
Amortization of intangible assets	6,210	7,973
Amortization of debt placement fees	247	365
Restructuring	2,237	(5,181)
Acquisition-related expenses	3	2,324
Income tax effect of non-GAAP adjustments[1]	(1,955)	(2,330)
Non-GAAP net income attributable to Itron, Inc.	$16,831	$8,549
Non-GAAP diluted EPS	$0.44	$0.22
Weighted average common shares outstanding - Diluted	38,376	38,758
ADJUSTED EBITDA		
GAAP net income attributable to Itron, Inc.	$10,089	$5,398
Interest income	(271)	(48)
Interest expense	2,918	2,682
Income tax provision	8,626	5,030
Depreciation and amortization	16,674	19,355
Restructuring	2,237	(5,181)
Acquisition-related expenses	3	2,324
Adjusted EBITDA	$40,276	$29,560

FREE CASH FLOW		
Net cash provided by operating activities	$33,805	$(3,955)
Acquisitions of property, plant, and equipment	(8,791)	(9,472)
Free Cash Flow	$25,014	$(13,427)

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

Table of Contents

SEGMENT RECONCILIATIONS	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
NON-GAAP OPERATING INCOME - ELECTRICITY		
Electricity - GAAP operating income	$10,632	$1,114
Amortization of intangible assets	3,250	4,455
Restructuring	528	(2,762)
Acquisition-related expenses	3	2,324
Electricity - Non-GAAP operating income	$14,413	$5,131
NON-GAAP OPERATING INCOME - GAS		
Gas - GAAP operating income	$16,299	$14,491
Amortization of intangible assets	1,619	1,970
Restructuring	1,264	125
Gas - Non-GAAP operating income	$19,182	$16,586
NON-GAAP OPERATING INCOME - WATER		
Water - GAAP operating income	$18,076	$8,715
Amortization of intangible assets	1,341	1,548
Restructuring	(64)	117
Water - Non-GAAP operating income	$19,353	$10,380
NON-GAAP OPERATING INCOME - CORPORATE UNALLOCATED		
Corporate unallocated - GAAP operating loss	$(21,433)	$(10,824)
Restructuring	509	(2,661)
Corporate unallocated - Non-GAAP operating loss	$(20,924)	$(13,485)

Table of Contents

Item 3: Quantitative and Qualitative Disclosures about Market Risk

In the normal course of business, we are exposed to interest rate and foreign currency exchange rate risks that could impact our financial position and results of operations. As part of our risk management strategy, we 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 were effective from July 31, 2013 to August 8, 2016.

In October 2015, we entered into an interest rate swap, which is effective from 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 March 31, 2016, our LIBOR-based debt balance was $296.6 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.

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 March 31, 2016. Weighted average variable rates in the table are based on implied forward rates in the Reuters U.S. dollar yield curve as of March 31, 2016 and our estimated leverage ratio, which determines our additional interest rate margin at March 31, 2016.

	2016	2017	2018	2019	2020	Total	Fair Value
	(in thousands)						
Variable Rate Debt							
Principal: U.S. dollar term loan	$8,438	$14,063	$19,688	$22,500	$151,873	$216,562	$215,089
Average interest rate	2.29 %	2.50 %	2.73 %	2.98 %	3.17 %		
Principal: Multicurrency revolving line of credit	$—	$—	$—	$—	$132,572	$132,572	$131,442
Average interest rate	2.09 %	2.20 %	2.34 %	2.53 %	2.70 %		
Interest rate swap on LIBOR-based debt							
Average interest rate (pay)	1.19 %	1.42 %	1.42 %	1.42 %	1.42 %		
Average interest rate (receive)	0.56 %	0.75 %	0.98 %	1.23 %	1.42 %		

Net/Spread	(0.63)%	(0.67)%	(0.44)%	(0.19)%	— %

Based on a sensitivity analysis as of March 31, 2016, 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 50% of total revenues for the three months ended March 31, 2016 compared with 54% for the same respective period in 2015.

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 122 contracts were entered into during the three months ended March 31, 2016) 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 $100,000 to $31.0 million, offsetting our exposures from the euro, British pound, Canadian dollar, Australian dollar, Mexican peso, and various other currencies.

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

Table of Contents

Item 4: Controls and Procedures

(a) Evaluation of disclosure controls and procedures. An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e)) under the Securities Exchange Act of 1934, as amended. These disclosure controls and procedures ensure the information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that as of March 31, 2016, the Company's disclosure controls and procedures were not effective as a result of a material weakness in our internal control over financial reporting identified during the year ended December 31, 2015, as disclosed in our 2015 Annual Report on Form 10-K. Management has concluded that the deficiencies identified in our revenue processes and controls, the combination of which represents a material weakness, were also present as of March 31, 2016, as our remediation efforts have not yet been completed. Specifically, we did not design and maintain effective controls to determine whether vendor specific objective evidence (VSOE) of fair value could be demonstrated for substantially all maintenance contracts associated with certain software solutions and whether software was essential to the functionality of certain hardware.

(b) Changes in internal controls over financial reporting. In the ordinary course of business, we review our system of internal control over financial reporting and make changes to our applications and processes to improve such controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient applications and automating manual processes. We are currently upgrading our global enterprise resource software applications at our locations outside of the United States. We will continue to upgrade our financial applications in stages, and we believe the related changes to processes and internal controls will allow us to be more efficient and further enhance our internal control over financial reporting.

Additionally, we have established a shared services center in Europe, and we are currently transitioning certain finance and accounting activities within our EMEA locations to the shared services center in a staged approach. The implementation of our shared services is ongoing, and we believe the related changes to processes and internal controls will allow us to be more efficient and further enhance our internal control over financial reporting.
Except for these changes and the remediation efforts related to the material weakness noted below, there have been no other changes in our internal control over financial reporting during the three months ended March 31, 2016 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

(c) Remediation of Material Weakness in Internal Control over Financial Reporting. To remediate the material weakness in our internal control over financial reporting described above, we are implementing and/or plan to implement the following:

- Continue to engage outside consultants to advise on changes in the design of controls and procedures to determine whether VSOE of fair value exists for certain software elements;
-

- Implement enhancements to revenue processes and systems to identify transactions warranting additional review and automate certain manual processes;
- Expand mandatory revenue recognition training for employees directly responsible for executing control activities related to our sales contracts;
- Expand our revenue recognition policies and procedures to provide detailed explanations specific to Itron's sales contracts; and
- Continue to engage outside consultants to advise on technical matters related to significant sales contracts or revenue streams.

When fully implemented and operational, we believe the measures described above will remediate the material weakness we have identified and strengthen our internal control over financial reporting.

Table of Contents

PART II: OTHER INFORMATION

Item 1: Legal Proceedings

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

Item 1A: Risk Factors

There were no material changes to risk factors during the first quarter of 2016 from those previously disclosed in Item 1A: “Risk Factors” of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, which was filed with the SEC on June 30, 2016.

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

(a) Not applicable.

(b) Not applicable.

(c) Issuer Repurchase of Equity Securities

The repurchase program, which was approved by Itron's Board on February 19, 2015 authorizing repurchase of up to $50 million of our common stock, expired on February 19, 2016. There were no repurchases of equity securities during the quarter ended March 31, 2016.

Item 5: Other Information

(a) No information was required to be disclosed in a report on Form 8-K during the first quarter of 2016 that was not reported.

(b) Not applicable.

Table of Contents

Item 6: Exhibits

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

Table of Contents

SIGNATURE

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

	ITRON, INC.
August 12, 2016	By: /s/ W. MARK SCHMITZ
Date	W. Mark Schmitz
	Executive Vice President and Chief Financial Officer