

ITRON INC /WA/  
Form 10-Q  
May 15, 2018

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

FORM 10-Q

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-22418

ITRON, INC.

(Exact name of registrant as specified in its charter)

Washington 91-1011792

(State of Incorporation) (I.R.S. Employer Identification Number)

2111 N Molter Road, Liberty Lake, Washington 99019

(509) 924-9900

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

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of April 30, 2018, there were outstanding 39,201,753 shares of the registrant's common stock, no par value, which is the only class of common stock of the registrant.

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## PART I: FINANCIAL INFORMATION

## Item 1: Financial Statements (Unaudited)

## ITRON, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Three Months Ended March 31, 2018      2017 (in thousands, except per share data)	
Revenues		
Product revenues	\$537,110	\$432,365
Service revenues	70,111	45,227
Total revenues	607,221	477,592
Cost of revenues		
Product cost of revenues	382,850	287,093
Service cost of revenues	44,516	32,862
Total cost of revenues	427,366	319,955
Gross profit	179,855	157,637
Operating expenses		
Sales and marketing	51,921	41,255
Product development	60,284	40,767
General and administrative	102,493	37,187
Amortization of intangible assets	17,740	4,549
Restructuring	87,865	3,052
Total operating expenses	320,303	126,810
Operating income (loss)	(140,448 )	30,827
Other income (expense)		
Interest income	661	269
Interest expense	(15,504 )	(3,199 )
Other income (expense), net	(1,167 )	(2,836 )
Total other income (expense)	(16,010 )	(5,766 )
Income (loss) before income taxes	(156,458 )	25,061
Income tax benefit (provision)	11,188	(9,047 )
Net income (loss)	(145,270 )	16,014
Net income attributable to noncontrolling interests	396	169
Net income (loss) attributable to Itron, Inc.	\$(145,666)	\$15,845
Earnings (loss) per common share - Basic	\$(3.74 )	\$0.41
Earnings (loss) per common share - Diluted	\$(3.74 )	\$0.40
Weighted average common shares outstanding - Basic	38,945	38,474
Weighted average common shares outstanding - Diluted	38,945	39,215

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



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ITRON, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(UNAUDITED)

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Net income (loss)	\$(145,270)	\$16,014
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	16,300	15,016
Net unrealized gain (loss) on derivative instruments, designated as cash flow hedges	1,169	292
Pension benefit obligation adjustment	414	401
Total other comprehensive income, net of tax	17,883	15,709
Total comprehensive income (loss), net of tax	(127,387 )	31,723
Comprehensive income attributable to noncontrolling interests, net of tax	396	169
Comprehensive income (loss) attributable to Itron, Inc.	\$(127,783)	\$31,554
The accompanying notes are an integral part of these condensed consolidated financial statements.		

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ITRON, INC.  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

	March 31, 2018	December 31, 2017
	(in thousands)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 143,951	\$ 176,274
Accounts receivable, net	481,389	398,029
Inventories	209,373	193,835
Other current assets	97,925	81,604
Total current assets	932,638	849,742
Property, plant, and equipment, net	234,924	200,768
Deferred tax assets, net	58,917	49,971
Restricted cash	1,466	311,010
Other long-term assets	46,843	43,666
Intangible assets, net	318,984	95,228
Goodwill	1,142,757	555,762
Total assets	\$2,736,529	\$ 2,106,147
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Accounts payable	\$275,702	\$ 262,166
Other current liabilities	90,259	56,736
Wages and benefits payable	119,312	90,505
Taxes payable	22,659	16,100
Current portion of debt	16,250	19,688
Current portion of warranty	26,533	21,150
Unearned revenue	87,293	41,438
Total current liabilities	638,008	507,783
Long-term debt	1,105,538	593,572
Long-term warranty	15,446	13,712
Pension benefit obligation	100,045	95,717
Deferred tax liabilities, net	1,571	1,525
Other long-term obligations	171,318	88,206
Total liabilities	2,031,926	1,300,515
Commitments and contingencies (Note 11)		
Equity		
Preferred stock, no par value, 10 million shares authorized, no shares issued or outstanding—	—	—
Common stock, no par value, 75 million shares authorized, 39,181 and 38,771 shares issued and outstanding	1,310,379	1,294,767
Accumulated other comprehensive loss, net	(152,595)	(170,478)
Accumulated deficit	(471,812)	(337,873)
Total Itron, Inc. shareholders' equity	685,972	786,416

Noncontrolling interests	18,631	19,216
Total equity	704,603	805,632
Total liabilities and equity	\$2,736,529	\$ 2,106,147

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



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ITRON, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Operating activities		
Net income (loss)	\$(145,270)	\$16,014
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	31,072	14,378
Stock-based compensation	8,095	5,211
Amortization of prepaid debt fees	3,386	266
Deferred taxes, net	(16,508)	) 882
Restructuring, non-cash	47	—
Other adjustments, net	(106)	) 946
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(7,768)	) 13,119
Inventories	(253)	) (11,274 )
Other current assets	(8,849)	) (11,169 )
Other long-term assets	4,509	646
Accounts payable, other current liabilities, and taxes payable	7,826	28,277
Wages and benefits payable	16,438	(1,796 )
Unearned revenue	23,317	14,020
Warranty	663	(2,303 )
Other operating, net	58,953	(3,960 )
Net cash provided by (used in) operating activities	(24,448)	) 63,257
Investing activities		
Acquisitions of property, plant, and equipment	(17,433)	) (9,122 )
Business acquisitions, net of cash equivalents acquired	(802,488)	) —
Other investing, net	100	(78 )
Net cash used in investing activities	(819,821)	) (9,200 )
Financing activities		
Proceeds from borrowings	555,938	—
Payments on debt	(32,395)	) (2,813 )
Issuance of common stock	3,384	405
Prepaid debt fees	(24,042)	) —
Other financing, net	(1,046)	) 155
Net cash provided by (used in) financing activities	501,839	(2,253 )
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	563	2,559
Increase (decrease) in cash, cash equivalents, and restricted cash	(341,867)	) 54,363
Cash, cash equivalents, and restricted cash at beginning of period	487,335	133,565
Cash, cash equivalents, and restricted cash at end of period	\$145,468	\$187,928

Supplemental disclosure of cash flow information:

Cash paid during the period for:

Income taxes, net	\$1,498	\$1,224
Interest	6,878	2,422

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

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ITRON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

(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, 2018 and 2017, the Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017, and the Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017 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, 2018 are not necessarily indicative of the results expected for the full year or for any other 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 audited financial statements and notes included in our 2017 Annual Report on Form 10-K filed with the SEC on February 28, 2018. There have been no significant changes in financial statement preparation or significant accounting policies since December 31, 2017, with the exception of the adoption of Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers (Topic 606).

On January 1, 2018, we adopted Topic 606 using the modified retrospective method applied to those contracts that were not completed. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC 605, Revenue Recognition. The cumulative impact of adoption was a net decrease to accumulated deficit of \$10.9 million as of January 1, 2018, with the impact primarily related to multiple element arrangements that contain software and software related elements. As we had not established vendor specific objective evidence of fair value for certain of our software and software related elements, we historically combined them as one unit of account and recognized the combined unit of account using the combined services approach. Under Topic 606, these software and software related elements are generally determined to be distinct performance obligations. As such, we are able to recognize revenue as we satisfy the performance obligations, either at a point in time or over time. For contracts that were modified prior to January 1, 2018, we have reflected the aggregate effect of all modifications prior to the date of initial adoption in order to identify the satisfied and unsatisfied performance obligations, determine the transaction price, and allocate the transaction price to satisfied and unsatisfied performance obligations. The impact to revenues for the three months ended March 31, 2018 was immaterial as a result of applying Topic 606.

Refer to the updated Revenue Recognition accounting policy described below and Note 16 for additional disclosures regarding our revenues from contracts with customers and the adoption of Topic 606.

Reclassifications

Certain reclassifications have been made to prior period consolidated financial statements to conform to classifications used in the current period. These reclassifications had no impact on net income (loss), shareholders' equity or cash flows as previously reported.

#### Restricted Cash and Cash Equivalents

Cash and cash equivalents that are contractually restricted from operating use are classified as restricted cash and cash equivalents. On December 22, 2017, we issued \$300 million aggregate principal amount of 5.00% senior unsecured notes due in 2026 (December Notes). The proceeds of the December Notes plus payments for prepaid interest and a premium for a special mandatory redemption option were deposited into escrow, where the funds remained until all the escrow release conditions were satisfied, specifically the closing of the acquisition of Silver Spring Networks, Inc. (SSNI) on January 5, 2018. We recognized the balance in escrow as restricted cash in our consolidated financial statements as of December 31, 2017.

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The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Consolidated Statements of Cash Flows:

	Three months ended March 31	
	2018	2017
	(in thousands)	
Cash and cash equivalents	\$ 143,951	\$ 187,928
Current restricted cash included in other current assets	51	—
Long-term restricted cash	1,466	—
Total cash, cash equivalents, and restricted cash	\$ 145,468	\$ 187,928

## Revenue Recognition

The majority of our revenues consist primarily of hardware sales, but may also include the license of software, software implementation services, cloud services and software as a service ("SaaS"), project management services, installation services, consulting services, post-sale maintenance support, and extended or noncustomary warranties. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable. In determining whether the definition of a contract has been met, we will consider whether the arrangement creates enforceable rights and obligations, which involves evaluation of agreement terms that would allow for the customer to terminate the agreement. If the customer is able to terminate the agreement without providing further consideration to us, the agreement would not be considered to meet the definition of a contract.

Many of our revenue arrangements involve multiple performance obligations consisting of hardware, meter reading system software, installation, and/or project management services. Separate contracts entered into with the same customer (or related parties of the customer) at or near the same time are accounted for as a single contract where one or more of the following criteria are met:

- The contracts are negotiated as a package with a single commercial objective;
- The amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
- The goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation.

Once the contract has been defined, we evaluate whether the promises in the contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment, and the decision to separate the combined or single contract into multiple performance obligations could change the amount of revenue and profit recognized in a given period. For some of our contracts, the customer contracts with us to provide a significant service of integrating, customizing or modifying goods or services in the contract in which case the goods or services would be combined into a single performance obligation. It is common that we may promise to provide multiple distinct goods or services within a contract in which case we separate the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, we allocate the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. If applicable, for goods or services where we have observable standalone sales, the observable standalone sales are used to determine the standalone selling price. For the majority of our goods and services, we do not have observable standalone sales. As a result, we estimate the standalone selling price using either the adjusted market assessment approach or the expected cost plus a margin approach. Approaches used to estimate the standalone selling price for a given good or service will maximize the use of observable inputs and considers several factors, including our pricing practices, costs to provide a good or service, the type of good or service, and availability of other transactional data, among others.

We determine the estimated standalone selling prices of goods or services used in our allocation of arrangement consideration on an annual basis or more frequently if there is a significant change in our business or if we experience significant variances in our transaction prices.

Many of our contracts with customers include variable consideration, which can include liquidated damage provisions, rebates and volume and early payment discounts. Some of our contracts with customers contain clauses for liquidated damages related to the timing of delivery or milestone accomplishments, which could become material in an event of failure to meet the contractual deadlines. At the inception of the arrangement and on an ongoing basis, we evaluate the probability and magnitude of having to pay liquidated damages. We estimate variable consideration using the expected value method, taking into consideration contract terms, historical customer behavior and historical sales. In the case of liquidated damages, we also take into consideration progress towards meeting contractual milestones, including whether milestones have not been achieved, specified rates, if applicable, stated

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in the contract, and history of paying liquidated damages to the customer or similar customers. Variable consideration is included in the transaction price if, in our judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur.

In the normal course of business, we do not accept product returns unless the item is defective as manufactured. We establish provisions for estimated returns and warranties. In addition, we do not typically provide customers with the right to a refund.

Hardware revenues are recognized at a point in time. Transfer of control is typically at the time of shipment, receipt by the customer, or, if applicable, upon receipt of customer acceptance provisions. We will recognize revenue prior to receipt of customer acceptance for hardware in cases where the customer acceptance provision is determined to be a formality. Transfer of control would not occur until receipt of customer acceptance in hardware arrangements where such provisions are subjective or where we do not have history of meeting the acceptance criteria.

Perpetual software licenses are considered to be a right to use intellectual property and are recognized at a point in time. Transfer of control is considered to be at the point at which it is available to the customer to download and use or upon receipt of customer acceptance. In certain contracts, software licenses may be sold with professional services that include implementation services that include a significant service of integrating, customizing or modifying the software. In these instances, the software license is combined into single performance obligation with the implementation services and recognized over time as the implementation services are performed.

Hardware and software licenses (when not combined with professional services) are typically billed when shipped and revenue recognized at a point-in-time. As a result, the timing of revenue recognition and invoicing does not have a significant impact on contract assets and liabilities.

Professional services, which include implementation, project management, installation, and consulting services are recognized over time. We measure progress towards satisfying these performance obligations using input methods, most commonly based on the costs incurred in relation to the total expected costs to provide the service. We expect this method to best depict our performance in transferring control of services promised to the customer or represents a reasonable proxy for measuring progress. The estimate of expected costs to provide services requires judgment. Cost estimates take into consideration past history and the specific scope requested by the customer and are updated quarterly. We may also offer professional services on a stand-ready basis over a specified period of time, in which case revenue would be recognized ratably over the term. Invoicing of these services is commensurate with performance and occurs on a monthly basis. As such, these services do not have a significant impact on contract assets and contract liabilities.

Cloud services and SaaS arrangements where customers have access to certain of our software within a cloud-based IT environment that we manage, host and support are offered to customers on a subscription basis. Revenue for the cloud services and SaaS offerings are generally recognized over time, ratably over the contract term commencing with the date the services are made available to the customer.

Services, including professional services, cloud services and SaaS arrangements, are commonly billed on a monthly basis in arrears and typically result in an unbilled receivable, which is not considered a contract asset as our right to consideration is unconditional.

Certain of our revenue arrangements include an extended or noncustomary warranty provisions that covers all or a portion of a customer's replacement or repair costs beyond the standard or customary warranty period. Whether or not the extended warranty is separately priced in the arrangement, such warranties are considered to be a separate good or service, and a portion of the transaction price is allocated to this extended warranty performance obligation. This

revenue is recognized, ratably over the extended warranty coverage period.

Hardware and software post-sale maintenance support fees are recognized over time, ratably over the life of the related service contract. Shipping and handling costs and incidental expenses billed to customers are recognized as revenue, with the associated cost charged to cost of revenues. We recognize sales, use, and value added taxes billed to our customers on a net basis. Support fees are typically billed on an annual basis, resulting in a contract liability.

Payment terms with customers can vary by customer; however, amounts billed are typically payable within 30 to 90 days, depending on the destination country. We do not make a practice of offering financing as part of our contracts with customers.

We incur certain incremental costs to obtain contracts with customers, primarily in the form of sales commissions. Where the amortization period is one year or less, we have elected to apply the practical expedient and recognize the related commissions



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expense as incurred. Otherwise, such incremental costs are capitalized and amortized over the contract period. Capitalized incremental costs are not material.

### New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 currently believe the most significant impact relates to our real estate leases and the increased financial statement disclosures, but are continuing to evaluate the effect that the updated standard will have on our consolidated results of operations, financial position, cash flows, and related financial statement disclosures.

In October 2016, the FASB issued ASU 2016-16, Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory (Topic 740) (ASU 2016-16), which removes the prohibition in Topic 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. Under ASU 2016-16, the selling entity is required to recognize a current tax expense or benefit upon transfer of the asset. Similarly, the purchasing entity is required to recognize a deferred tax asset or deferred tax liability, as well as the related deferred tax benefit or expense, upon receipt of the asset. The resulting deferred tax asset or deferred tax liability is measured by computing the difference between the tax basis of the asset in the buyer's jurisdiction and its financial reporting carrying value in the consolidated financial statements and multiplying such difference by the enacted tax rate in the buyer's jurisdiction. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. We adopted this standard effective January 1, 2018 using a modified retrospective transition method, recognizing a \$0.9 million one-time decrease to accumulated deficit.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07), which provides additional guidance on the presentation of net benefit costs in the income statement. ASU 2017-07 requires an employer disaggregate the service cost component from the other components of net benefit cost and to disclose other components outside of a subtotal of income from operations. It also allows only the service cost component of net benefit costs to be eligible for capitalization. ASU 2017-07 is effective for fiscal years beginning after December 15, 2017 with early adoption permitted.

We adopted this standard on January 1, 2018 retrospectively for the presentation of the service cost component of net periodic pension cost in the statement of operations, and prospectively for the capitalization of the service cost component of net periodic pension cost. For applying the retrospective presentation requirements, we elected to utilize amounts previously disclosed in our defined benefit pension plan footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation. This resulted in a reclassification of an immaterial amount of net periodic pension benefit costs from operating income to other income (expense) in all periods presented on the Consolidated Statements of Operations.

In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12), which amends and simplifies existing guidance in order to allow companies to more accurately present the economic effects of risk management activities in the financial statements. This update expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. Additionally, the amendments in ASU 2017-12 provide new guidance about income statement classification and eliminates the requirement to separately measure and report hedge ineffectiveness. ASU 2017-12 is effective for fiscal years 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.

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## Note 2: Earnings Per Share

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

	Three Months Ended March 31,	
	2018	2017
	(in thousands, except per share data)	
Net income (loss) available to common shareholders	\$ (145,666	) \$ 15,845
Weighted average common shares outstanding - Basic	38,945	38,474
Dilutive effect of stock-based awards	—	741
Weighted average common shares outstanding - Diluted	38,945	39,215
Earnings (loss) per common share - Basic	\$ (3.74	) \$ 0.41
Earnings (loss) per common share - Diluted	\$ (3.74	) \$ 0.40

## 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 and the future compensation cost associated with the stock award. Approximately 1.0 million and 0.2 million stock-based awards were excluded from the calculation of diluted EPS for the three months ended March 31, 2018 and 2017 because they were anti-dilutive. As a result of our net loss for the three months ended March 31, 2018, there was no dilutive effect to weighted average common shares outstanding.

## Note 3: Certain Balance Sheet Components

A summary of accounts receivable from contracts with customers is as follows:

	March 31, December 31,	
	2018	2017
	(in thousands)	
Trade receivables (net of allowance of \$4,774 and \$3,957)	\$448,211	\$ 369,047
Unbilled receivables	33,178	28,982
Total accounts receivable, net	\$481,389	\$ 398,029

Allowance for doubtful accounts activity	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Beginning balance	\$3,957	\$3,320
Provision for doubtful accounts, net	920	303
Accounts written-off	(258 )	(330 )
Effect of change in exchange rates	155	131
Ending balance	\$4,774	\$3,424

Inventories	March 31, December 31,	
	2018	2017
	(in thousands)	
Materials	\$132,990	\$ 126,656

Work in process	8,700	9,863
Finished goods	67,683	57,316
Total inventories	\$ 209,373	\$ 193,835

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	March 31, 2018	December 31, 2017
Property, plant, and equipment, net	(in thousands)	
Machinery and equipment	\$332,055	\$ 310,753
Computers and software	111,227	104,384
Buildings, furniture, and improvements	150,049	135,566
Land	16,638	18,433
Construction in progress, including purchased equipment	41,959	39,946
Total cost	651,928	609,082
Accumulated depreciation	(417,004 )	(408,314 )
Property, plant, and equipment, net	\$234,924	\$ 200,768

	Three Months Ended March 31,
	2018 2017
	(in thousands)
Depreciation expense	\$13,332 \$9,829

## Note 4: Intangible Assets and Liabilities

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

	March 31, 2018			December 31, 2017		
	Gross	Accumulated (Amortization) Net Accretion		Gross	Accumulated (Amortization) Net Accretion	
	(in thousands)					
Intangible Assets						
Core-developed technology	\$531,263	\$ (423,634 )	\$ 107,629	\$429,548	\$ (399,969 )	\$ 29,579
Customer contracts and relationships	400,566	(210,757 )	189,809	258,586	(197,582 )	61,004
Trademarks and trade names	82,337	(68,982 )	13,355	70,056	(66,004 )	4,052
Other	11,664	(11,073 )	591	11,661	(11,068 )	593
Total intangible assets subject to amortization	\$1,025,830	\$ (714,446 )	\$ 311,384	\$769,851	\$ (674,623 )	\$ 95,228
In-process research and development	7,600	—	7,600	—	—	—
Total intangible assets	\$1,033,430	\$ (714,446 )	\$ 318,984	\$769,851	\$ (674,623 )	\$ 95,228
Intangible Liabilities						
Customer contracts and relationships	\$(23,900 )	\$ 1,304	\$(22,596 )	\$—	\$—	\$—

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A summary of intangible assets and liabilities activity is as follows:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Beginning balance, intangible assets, gross	\$769,851	\$669,896
Intangible assets acquired	240,600	—
Effect of change in exchange rates	22,979	16,168
Ending balance, intangible assets, gross	\$1,033,430	\$686,064
Beginning balance, intangible liabilities, gross	\$—	\$—
Intangible liabilities acquired	(23,900 )	—
Effect of change in exchange rates	—	—
Ending balance, intangible liabilities, gross	\$(23,900 )	\$—

On January 5, 2018, we completed our acquisition of SSNI by purchasing 100% of the voting stock. Intangible assets acquired in 2018 are based on the preliminary purchase price allocation relating to this acquisition. Acquired intangible assets include in-process research and development (IPR&D), which is not amortized until such time as the associated development projects are completed. Of these projects, \$6.8 million were completed during the first quarter of 2018 and are included in core-developed technology. The remaining IPR&D is expected to be completed in the next year. Acquired intangible liabilities reflect the present value of the projected cash outflows for an existing contract where remaining costs are expected to exceed projected revenues. Refer to Note 17 for additional information regarding this acquisition.

Estimated future annual amortization (accretion) is as follows:

Year Ending December 31,	Amortization	Accretion	Estimated Annual Amortization, net
	(in thousands)		
2018 (amount remaining at March 31, 2018)	\$58,564	\$(3,913 )	\$ 54,651
2019	72,345	(8,233 )	64,112
2020	52,265	(8,028 )	44,237
2021	36,649	(1,963 )	34,686
2022	26,317	(459 )	25,858
Beyond 2022	65,244	—	65,244
Total intangible assets subject to amortization (accretion)	\$311,384	\$(22,596 )	\$ 288,788

We have recognized \$17.7 million and \$4.5 million of net amortization of intangible assets for the three months ended March 31, 2018 and 2017, respectively, within operating expenses in the Consolidated Statement of Operations. These expenses relate to intangible assets and liabilities acquired as part of a business combination.

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## Note 5: Goodwill

The following table reflects goodwill allocated to each reporting unit:

	Electricity	Gas	Water	Networks	Total Company
	(in thousands)				
Goodwill balance at January 1, 2018					
Goodwill before impairment	\$500,625	\$352,703	\$378,901	\$—	\$1,232,229
Accumulated impairment losses	(386,384 )	—	(290,083 )	—	(676,467 )
Goodwill, net	114,241	352,703	88,818	—	555,762
Goodwill acquired	—	—	—	572,499	572,499
Effect of change in exchange rates	1,031	10,788	2,560	117	14,496
Goodwill balance at March 31, 2018					
Goodwill before impairment	514,057	363,491	393,693	572,616	1,843,857
Accumulated impairment losses	(398,785 )	—	(302,315 )	—	(701,100 )
Goodwill, net	\$115,272	\$363,491	\$91,378	\$572,616	\$1,142,757

## Note 6: Debt

The components of our borrowings were as follows:

	March 31, 2018	December 31, 2017
	(in thousands)	
Credit facility:		
USD denominated term loan	\$650,000	\$ 194,063
Multicurrency revolving line of credit	95,777	125,414
Senior notes	400,000	300,000
Total debt	1,145,777	619,477
Less: current portion of debt	16,250	19,688
Less: unamortized prepaid debt fees - term loan	5,912	629
Less: unamortized prepaid debt fees - senior notes	18,077	5,588
Long-term debt	\$1,105,538	\$ 593,572

## Credit Facility

On January 5, 2018, we entered into a credit agreement providing for committed credit facilities in the amount of \$1.2 billion U.S. dollars (the 2018 credit facility) which amended and restated in its entirety our credit agreement dated June 23, 2015 and replaced committed facilities in the amount of \$725 million. The 2018 credit facility consists of a \$650 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. Both the term loan and the revolver mature on January 5, 2023, and can be repaid without penalty. Amounts repaid on the term loan may not be reborrowed and amounts borrowed under the revolver, during the credit facility term may be repaid and reborrowed until the revolver's maturity, at which time 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 0.18% to 0.35% per annum depending on our total leverage ratio as of the most recently ended fiscal quarter.

The 2018 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 2018 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 their related assets. This includes 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 first-tier foreign subsidiaries. In addition, the obligations of any foreign subsidiary who is a foreign borrower, as defined by the 2018 credit facility, are guaranteed by the foreign subsidiary and by its direct and indirect foreign parents. The 2018 credit facility includes debt



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covenants, which contain certain financial thresholds and place certain restrictions on the incurrence of debt, investments, and the issuance of dividends. We were in compliance with the debt covenants under the 2018 credit facility at March 31, 2018.

Under the 2018 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 (subject to a 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 0.50%, or (iii) one-month LIBOR plus 1.00%. At March 31, 2018, the interest rate for both the term loan and the USD revolver was 3.88%, which includes the LIBOR rate plus a margin of 2.00%. At March 31, 2018, the interest rate for the EUR revolver was 2.00% (the EURIBOR floor rate plus a margin of 2.00%).

**Senior Notes**

On December 22, 2017 and January 19, 2018, we issued \$300 million and \$100 million, respectively, of aggregate principal amount of 5.00% senior notes maturing January 15, 2026 (Notes). The proceeds were used to refinance existing indebtedness related to the acquisition of SSNI, pay related fees and expenses, and for general corporate purposes. Interest on the Notes will be payable semi-annually in arrears on January 15 and July 15, commencing on July 15, 2018. The Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by each of our subsidiaries that guarantee the senior credit facilities.

Prior to maturity we may redeem some or all of the Notes, together with accrued and unpaid interest, if any, plus a "make-whole" premium. On or after January 15, 2021, we may redeem some or all of the Notes at any time at declining redemption prices equal to 102.50% beginning on January 15, 2021, 101.25% beginning on January 15, 2022 and 100.00% beginning on January 15, 2023 and thereafter to the applicable redemption date. In addition, before January 15, 2021, and subject to certain conditions, we may redeem up to 35% of the aggregate principal amount of Notes with the net proceeds of certain equity offerings at 105.00% of the principal amount thereof to the date of redemption; provided that (i) at least 65% of the aggregate principal amount of Notes remains outstanding after such redemption and (ii) the redemption occurs within 60 days of the closing of any such equity offering.

**Debt Maturities**

The amount of required minimum principal payments on our long-term debt in aggregate over the next five years, are as follows:

Year Ending December 31,	Minimum Payments (in thousands)
2018 (amount remaining at March 31, 2018)	\$ 12,188
2019	28,438
2020	44,777
2021	60,937
2022	65,000
2023	534,437
Total minimum payments on debt	\$ 745,777

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## Note 7: Derivative Financial Instruments

As part of our risk management strategy, we use derivative instruments to hedge certain foreign currency and interest rate exposures. Refer to Note 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, 2018	December 31, 2017
Derivatives designated as hedging instruments under ASC 815-20		(in thousands)	
Interest rate swap contracts	Other current assets	\$1,303	\$ 658
Interest rate cap contracts	Other current assets	74	17
Interest rate swap contracts	Other long-term assets	2,226	1,712
Interest rate cap contracts	Other long-term assets	310	179
Derivatives not designated as hedging instruments under ASC 815-20			
Foreign exchange forward contracts	Other current assets	44	41
Interest rate cap contracts	Other current assets	111	25
Interest rate cap contracts	Other long-term assets	464	268
Total asset derivatives		\$4,532	\$ 2,900

## Liability Derivatives

Derivatives not designated as hedging instruments under ASC 815-20

Foreign exchange forward contracts	Other current liabilities	\$ 356	\$ 289
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The changes in accumulated other comprehensive income (loss) (AOCI), net of tax, for our derivative and nonderivative hedging instruments, were as follows:

	2018	2017
	(in thousands)	
Net unrealized gain (loss) on hedging instruments at January 1,	\$(13,414)	\$(14,337)
Unrealized gain (loss) on hedging instruments	1,183	60
Realized loss (gain) reclassified into net income	(14)	232
Net unrealized gain (loss) on hedging instruments at March 31,	\$(12,245)	\$(14,045)

Reclassification of amounts related to hedging instruments are included in interest expense in the Consolidated Statements of Operations for the periods ended March 31, 2018 and 2017. Included in the net unrealized loss on hedging instruments at March 31, 2018 and 2017 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 AOCI until such time when earnings are impacted by a sale or liquidation of the associated foreign operation.

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A summary of the 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 Sheet (in thousands)	Gross Amounts Not Offset in the Consolidated Balance Sheet	Cash Collateral Received	Net Amount
March 31, 2018	\$4,532	\$ (128 )	\$	—\$ 4,404
December 31, 2017	\$2,900	\$ (90 )	\$	—\$ 2,810

Offsetting of Derivative Liabilities	Gross Amounts of Recognized Liabilities Presented in the Consolidated Balance Sheet (in thousands)	Gross Amounts Not Offset in the Consolidated Balance Sheet	Cash Collateral Pledged	Net Amount
March 31, 2018	\$356	\$ (128 )	\$	—\$ 228
December 31, 2017	\$289	\$ (90 )	\$	—\$ 199

Our derivative assets and liabilities subject to netting arrangements consist of foreign exchange forward and interest rate contracts with three counterparties at March 31, 2018 and December 31, 2017. No derivative asset or liability balance with any of our counterparties was individually significant at March 31, 2018 or December 31, 2017. 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 interest rate caps and swaps to reduce the variability of cash flows from increases in the LIBOR based borrowing rates on our floating rate credit facility. These instruments do not protect us from changes to the applicable margin under our credit facility. At March 31, 2018, our LIBOR-based debt balance was \$690.0 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 recognized as a component of other comprehensive income (OCI) and will be recognized in earnings when the hedged item affects earnings. The amounts paid or received on the hedge are recognized as an adjustment to interest expense. The amount of net gains expected to be reclassified into earnings in the next 12 months is \$1.3 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. As of December 31, 2016, due to the accelerated revolver payments from surplus cash, we elected to de-designate two of the interest rate cap contracts as cash flow hedges and discontinued the use of cash flow hedge accounting. The amounts recognized in AOCI from de-designated interest rate cap contracts will continue to be reported in AOCI unless it is not probable that the forecasted transactions will occur. As a result of the discontinuance of cash flow hedge accounting, all subsequent changes in fair value of the de-designated derivative instruments are recognized within interest expense instead of OCI. The amount of net losses expected to be reclassified into earnings for all interest rate cap contracts in the next 12 months is \$0.3 million.

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

Derivatives in ASC 815-20	Amount of Gain (Loss) Recognized in OCI		Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	
	Derivative (Effective Portion)	Location	Amount	Location	Amount	
	2018	2017	2018	2017	2018	2017
	(in thousands)		(in thousands)		(in thousands)	

Three Months Ended  
March 31,

Interest rate swap contracts	\$ 1,247	\$ 181	Interest expense	\$ 88	\$ (335 )	Interest expense	\$ —	\$ —
Interest rate cap contracts	188	(84 )	Interest expense	(70 )	(43 )	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 recognized to other income and expense. We enter into monthly foreign exchange forward contracts, which are not designated for hedge accounting, with the intent to reduce earnings volatility associated with currency exposures. As of March 31, 2018, a total of 57 contracts were offsetting our exposures from the Euro, Saudi Riyal, Indian Rupee, Chinese Yuan, Indonesian Rupiah, and various other currencies, with notional amounts ranging from \$93,000 to \$47.5 million.

The effect of our derivative instruments not designated as hedges on the Consolidated Statements of Operations was as follows:

Derivatives Not Designated as Hedging Instrument under ASC 815-20	Location	Gain (Loss) Recognized on Derivatives in Other Income (Expense) Three Months Ended March 31,	
		2018	2017
		(in thousands)	
Foreign exchange forward contracts	Other income (expense), net	\$(1,523)	\$(1,742)
Interest rate cap contracts	Interest expense	282	(126 )

#### Note 8: Defined Benefit Pension Plans

We sponsor both funded and unfunded defined benefit pension plans offering death and disability, retirement, and special termination benefits for our international employees, primarily in Germany, France, Italy, Indonesia, Brazil, and Spain. The defined benefit obligation is calculated annually by using the projected unit credit method. The measurement date for the pension plans was December 31, 2017.

Amounts recognized on the Consolidated Balance Sheets consist of:

March 31, 2018

December 31, 2017

(in thousands)

Assets

Plan assets in other long-term assets	\$ 1,054	\$ 991
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Liabilities

Current portion of pension benefit obligation in wages and benefits payable	3,291	3,260
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Long-term portion of pension benefit obligation	100,045	95,717
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Pension benefit obligation, net	\$ 102,282	\$ 97,986
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Our asset investment strategy focuses on maintaining a portfolio using primarily insurance funds, which are accounted for as investments and measured at fair value, in order to achieve our long-term investment objectives on a risk adjusted basis. Our general funding policy for these qualified pension plans is to contribute amounts sufficient to satisfy regulatory funding standards of the respective countries for each plan.

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

	Three Months Ended March 31, 2018    2017 (in thousands)	
Service cost	\$1,049	\$928
Interest cost	609	525
Expected return on plan assets	(181 )	(146 )
Amortization of actuarial net loss	403	391
Amortization of unrecognized prior service costs	17	15
Net periodic benefit cost	\$1,897	\$1,713

The components of net periodic benefit cost, other than the service cost component, are included in total other income (expense) on the Consolidated Statements of Operations.

#### Note 9: Stock-Based Compensation

We maintain the Second Amended and Restated 2010 Stock Incentive Plan (Stock Incentive Plan), which allows us to grant stock-based compensation awards, including stock options, restricted stock units, phantom stock, and unrestricted stock units. Under the Stock Incentive Plan, we have 10,473,956 shares of common stock reserved and authorized for issuance subject to stock splits, dividends, and other similar events. At March 31, 2018, 4,215,490 shares were available for grant under the Stock Incentive Plan. We issue new shares of common stock upon the exercise of stock options or when vesting conditions on restricted stock units are fully satisfied. These 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.

As a part of the acquisition of SSNI, we reserved and authorized 730,457 shares of Itron common stock to be issued for certain Silver Spring Network common stock awards that were converted to Itron common stock awards at acquisition date pursuant to the Agreement and Plan of Merger (SSNI Plan). New stock based compensation awards from the SSNI Plan may only be made to previous and newly hired employees of SSNI. The shares were converted from the Silver Spring Networks, Inc. 2012 Equity Incentive Plan, Non-Plan Inducement Stock Options, Non-Plan Inducement Restricted Stock Units and Non-Plan Inducement Performance Stock Units. There is no fungible share provision. As of March 31, 2018, 142,336 shares were available for grant under the SSNI Plan.

We also periodically award phantom stock units, which are settled in cash upon vesting and accounted for as liability-based awards with no impact to the shares available for grant.

In addition, we maintain the Employee Stock Purchase Plan (ESPP), for which approximately 331,993 shares of common stock were available for future issuance at March 31, 2018.

Unrestricted stock and ESPP activity for the three months ended March 31, 2018 and 2017 was not significant.

#### Stock-Based Compensation Expense

Total stock-based compensation expense and the related tax benefit were as follows:

Three Months  
Ended March  
31,  
2018    2017



	(in thousands)	
Stock options	\$831	\$659
Restricted stock units	7,057	4,297
Unrestricted stock awards	207	255
Phantom stock units	690	392
Total stock-based compensation	\$8,785	\$5,603
Related tax benefit	\$1,534	\$1,228

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## Stock Options

A summary of our stock option activity is as follows:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value	Weighted Average Grant Date Fair Value
	(in thousands)		(years)	(in thousands)	
Outstanding, January 1, 2017	959	\$ 45.64	6.6	\$ 19,125	
Granted	121	65.55			\$ 22.01
Exercised	(5 )	35.29		120	
Outstanding, March 31, 2017	1,075	\$ 47.92	6.7	\$ 17,236	
Outstanding, January 1, 2018	956	\$ 47.10	6.3	\$ 21,965	
Converted upon acquisition	42	51.86			\$ 14.86
Granted	101	69.30			\$ 24.83
Exercised	(62 )	40.31		2,104	
Forfeited	(3 )	72.25			
Expired	(7 )	95.96			
Outstanding, March 31, 2018	1,027	\$ 49.49	6.5	\$ 24,051	
Exercisable March 31, 2018	716	\$ 45.96	5.5	\$ 19,725	
Expected to vest, March 31, 2018	308	\$ 57.74	8.9	\$ 4,255	

At March 31, 2018, total unrecognized stock-based compensation expense related to nonvested stock options was \$5.0 million, which is expected to be recognized over a weighted average period of approximately 1.8 years.

The weighted-average assumptions used to estimate the fair value of stock options granted and the resulting weighted average fair value are as follows:

	Three Months Ended March 31,	
	2018	2017
Expected volatility	30.9%	32.7%
Risk-free interest rate	2.8 %	2.0 %
Expected term (years)	6.1	5.5

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## Restricted Stock Units

The following table summarizes restricted stock unit activity:

	Number of Restricted Stock Units (in thousands)	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Outstanding, January 1, 2017	701		
Granted	131	\$ 63.12	
Released	(317)		\$ 12,066
Forfeited	(3)		
Outstanding, March 31, 2017	512		
Outstanding, January 1, 2018	556	\$ 47.68	
Converted upon acquisition	579	69.40	
Granted	136	69.30	
Released	(352)	47.18	\$ 17,231
Forfeited	(28)	68.44	
Outstanding, March 31, 2018	891	63.72	
Vested but not released, March 31, 2018	10		\$ 729
Expected to vest, March 31, 2018	788		\$ 56,369

At March 31, 2018, total unrecognized compensation expense on restricted stock units was \$61.3 million, which is expected to be recognized over a weighted average period of approximately 2.4 years.

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,			
	2018	2017		
Expected volatility	28.0	% 28.0	%	
Risk-free interest rate	2.2	% 1.0	%	
Expected term (years)	2.1	1.7		

Weighted average fair value \$78.56 \$77.78

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## Phantom Stock Units

The following table summarizes phantom stock unit activity:

	Number of Phantom Stock Units (in thousands)	Weighted Average Grant Date Fair Value
Outstanding, January 1, 2017	62	
Granted	32	\$ 65.55
Released	(19 )	
Forfeited	(2 )	
Outstanding, March 31, 2017	73	

Expected to vest, March 31, 2017 73

Outstanding, January 1, 2018	63	\$ 51.88
Converted upon acquisition	21	69.40
Granted	31	69.30
Released	(27 )	50.19
Forfeited	(1 )	69.36
Outstanding, March 31, 2018	87	62.61

Expected to vest, March 31, 2018 85

At March 31, 2018, total unrecognized compensation expense on phantom stock units was \$5.7 million which is expected to be recognized over a weighted average period of approximately 2.2 years. As of March 31, 2018 and December 31, 2017, we have recognized a phantom stock liability of \$0.6 million and \$1.7 million, respectively, within wages and benefits payable in the Consolidated Balance Sheets.

## Note 10: Income Taxes

We determine the interim tax benefit (provision) by applying an estimate of the annual effective tax rate to the year-to-date pretax book income (loss) and adjusting for discrete items during the reporting period, if any. Tax jurisdictions with losses for which tax benefits cannot be realized are excluded. Additionally, for certain tax jurisdictions where a reliable estimate of annual income tax expense or benefit cannot be made, we applied the actual effective tax rate to quarter-to-date income.

Our tax benefit for the three months ended March 31, 2018 of 7% differed from the federal statutory rate of 21% due primarily to unbenefitted losses experienced in jurisdictions with valuation allowances on deferred tax assets as well as the forecasted mix of earnings in domestic and international jurisdictions, a benefit related to excess stock based compensation, and uncertain tax positions.

Our tax expense for the three months ended March 31, 2017 of 36% differed from the federal statutory rate of 35% due to the forecasted mix of earnings in domestic and international jurisdictions, a benefit related to excess stock based compensation, and losses experienced in jurisdictions with valuation allowances on deferred tax assets.

The tax provision for December 31, 2017 included the provisional determination of the impact to our deferred tax positions of the Tax Cuts and Jobs Act. We will continue to review any additional guidance issued by the U.S.

Department of the Treasury, Internal Revenue Service, Financial Accounting Standards Board, or other regulatory bodies and adjust our provisional amount during the measurement period, which should not extend beyond one year from the enactment date of December 22, 2017. For the three months ended March 31, 2018 no changes to these provisional amounts have been recorded.

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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, 2018	2017
	(in thousands)	
Net interest and penalties expense	\$424	\$206

Accrued interest and penalties recognized were as follows:

	March 31, 2018	December 31, 2017
	(in thousands)	
Accrued interest	\$3,155	\$ 2,706
Accrued penalties	2,513	2,426

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, 2018	December 31, 2017
	(in thousands)	
Unrecognized tax benefits related to uncertain tax positions	\$76,120	\$ 56,702
The amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate	74,671	55,312

The increase in unrecognized tax benefits at March 31, 2018 related primarily to \$16.4 million of unrecognized tax benefits recorded through purchase accounting on January 5, 2018 as a result of the acquisition of SSNI.

At March 31, 2018, we are under examination by certain tax authorities for the 2000 to 2015 tax years. The material jurisdictions where we are subject to examination include, among others, the United States, France, Germany, Italy, Brazil and the United Kingdom. No material changes have occurred to previously disclosed assessments. We believe we have appropriately accrued for the expected outcome of all tax matters and do not currently anticipate that the ultimate resolution of these examinations will have a material adverse effect on our financial condition, future results of operations, or liquidity.

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

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## Note 11: Commitments and Contingencies

## Guarantees and Indemnifications

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

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

	March 31, 2018	December 31, 2017
	(in thousands)	
Credit facilities		
Multicurrency revolving line of credit	\$500,000	\$ 500,000
Long-term borrowings	(95,777 )	(125,414 )
Standby LOCs issued and outstanding	(46,359 )	(31,881 )
Net available for additional borrowings under the multi-currency revolving line of credit	\$357,864	\$ 342,705
Net available for additional standby LOCs under sub-facility	253,641	218,119
Unsecured multicurrency revolving lines of credit with various financial institutions		
Multicurrency revolving lines of credit	\$114,160	\$ 110,477
Standby LOCs issued and outstanding	(21,471 )	(21,030 )
Short-term borrowings	(1,776 )	(916 )
Net available for additional borrowings and LOCs	\$90,913	\$ 88,531
Unsecured surety bonds in force	\$52,639	\$ 51,344

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 recognized 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.





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## Warranty

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

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Beginning balance	\$34,862	\$43,302
Assumed liabilities from acquisition	5,742	—
New product warranties	818	2,361
Other adjustments and expirations	4,044	1,682
Claims activity	(4,108 )	(6,351 )
Effect of change in exchange rates	621	542
Ending balance	41,979	41,536
Less: current portion of warranty	26,533	23,500
Long-term warranty	\$15,446	\$18,036

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

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Total warranty expense	\$4,862	\$4,043

## Health Benefits

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

Plan costs were as follows:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Plan costs	\$8,680	\$8,754

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

	March 31/December 31,	
	2018	2017
	(in thousands)	
IBNR accrual	\$2,911	\$ 2,664

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

2018 Projects

On February 22, 2018, our Board of Directors approved a restructuring plan (2018 Projects). The 2018 Projects will include activities that continue our efforts to optimize our global supply chain and manufacturing operations, product development, and sales and marketing organizations. We expect to substantially complete the plan by the end of 2020. Many of the affected employees are represented by unions or works councils, which require consultation, and potential restructuring projects may be subject to

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regulatory approval, both of which could impact the timing of charges, total expected charges, cost recognized, and planned savings in certain jurisdictions.

The total expected restructuring costs, the restructuring costs recognized, and the remaining expected restructuring costs related to the 2018 Projects are as follows:

	Costs		
	Total Expected Costs at March 31, 2018	Recognized During the Three Months Ended March 31, 2018	Expected Remaining Costs to be Recognized at March 31, 2018
	(in thousands)		
Employee severance costs	\$87,993	\$ 87,993	\$ —
Other restructuring costs	16,500	—	16,500
Total	\$104,493	\$ 87,993	\$ 16,500