

ITRON INC /WA/  
Form 10-K  
February 20, 2015

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

FORM 10-K

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

For the fiscal year ended December 31, 2014

OR

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

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

Commission file number 000-22418

ITRON, INC.

(Exact name of registrant as specified in its charter)

Washington

(State of Incorporation)

2111 N Molter Road, Liberty Lake, Washington 99019

(509) 924-9900

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

91-1011792

(I.R.S. Employer Identification Number)

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

|                            |   |
|----------------------------|---|
| Title of each class        | Name of each exchange on which registered |
| Common stock, no par value | NASDAQ Global Select Market               |

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No   
As of June 30, 2014 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the shares of common stock held by non-affiliates of the registrant (based on the closing price for the common stock on the NASDAQ Global Select Market) was \$1,580,109,944.

As of January 31, 2015 there were outstanding 38,274,317 shares of the registrant's common stock, no par value, which is the only class of common stock of the registrant.

**DOCUMENTS INCORPORATED BY REFERENCE**

The information called for by Part III is incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Shareholders of the Company to be held on May 8, 2015.

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

### Certain Forward-Looking Statements

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

## PART I

### ITEM 1: BUSINESS

#### Available Information

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

#### General

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

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

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

The following is a discussion of our major products, our markets, and our operating segments. Refer to Item 7: “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this Annual Report on Form 10-K for specific segment results.

#### Our Business

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

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

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

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

Standard Metering Systems

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

Advanced Metering Systems

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

Smart Metering Systems

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

Bookings and Backlog of Orders

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

| Year Ended        | Annual Bookings<br>(in millions) | Total Backlog | 12-Month Backlog |
|-------------------|----------------------------------|---------------|------------------|
| December 31, 2014 | \$2,385                          | \$1,486       | \$747            |

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|                   |       |       |     |
|-------------------|-------|-------|-----|
| December 31, 2013 | 1,946 | 1,068 | 549 |
| December 31, 2012 | 1,861 | 1,035 | 568 |

Information on bookings by our operating segments is as follows:

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| Year Ended        | Total Bookings<br>(in millions) | Electricity | Gas   | Water |
|-------------------|---------------------------------|-------------|-------|-------|
| December 31, 2014 | \$2,385                         | \$1,074     | \$753 | \$558 |
| December 31, 2013 | 1,946                           | 786         | 552   | 608   |
| December 31, 2012 | 1,861                           | 797         | 560   | 504   |

**Our Operating Segments**

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

**Sales and Distribution**

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

No single customer represented more than 10% of total revenues for the years ended December 31, 2014, 2013, and 2012. Our 10 largest customers in each of the years ended December 31, 2014, 2013, and 2012, accounted for approximately 20%, 28%, and 27% of total revenues, respectively.

**Raw Materials**

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

**Partners**

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

**Product Development**

Our product development is focused on both improving existing technology and developing innovative new technology for electricity, natural gas, water, and heat meters, sensing and control devices, data collection software, communication technologies, data warehousing, and software applications. We invested approximately \$176 million, \$176 million, and \$179 million in product development in 2014, 2013 and 2012, which represented 9%, 9%, and 8% of total revenues, respectively.

**Workforce**

As of December 31, 2014, we had approximately 8,000 people in our workforce, including permanent and temporary employees as well as contractors. We have not experienced significant work stoppages and consider our employee relations to be good.

**Competition**

We provide a broad portfolio of products, solutions, software, and services to electric, gas, and water utility customers globally. Consequently, we operate within a large and complex competitive landscape. Some of our competitors have diversified product portfolios and participate in multiple geographic markets, while others focus on specific regional



markets and/or certain types of products, including some low-cost suppliers based in China and India. Our competitors range from small to large, established companies. Our primary competitors for each operating segment are discussed below.

We believe that our competitive advantage is based on our in-depth knowledge of the utility industries, our capacity to innovate, our ability to provide complete end-to-end integrated solutions (including metering, network communications, data collection systems, meter data management software, and other metering software applications), our established customer

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relationships, and our track record of delivering reliable, accurate, and long-lived products and services. Refer to Item 1A: “Risk Factors” included in this Annual Report on Form 10-K for a discussion of the competitive pressures we face.

### Electricity

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

### Gas

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

### Water

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

### Strategic Alliances

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

### Intellectual Property

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

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

### Environmental Regulations

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

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## EXECUTIVE OFFICERS

Set forth below are the names, ages, and titles of our executive officers as of February 20, 2015.

| Name              | Age | Position   |
|-------------------|-----|--|
| Philip C. Mezey   | 55  | President and Chief Executive Officer                    |
| John W. Holleran  | 60  | Executive Vice President and Chief Operating Officer     |
| W. Mark Schmitz   | 63  | Executive Vice President and Chief Financial Officer     |
| Michel C. Cadieux | 57  | Senior Vice President, Human Resources                   |
| Russell E. Vanos  | 58  | Senior Vice President, Strategy and Business Development |
| Shannon M. Votava | 54  | Vice President, General Counsel and Corporate Secretary  |

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

John W. Holleran is Executive Vice President and Chief Operating Officer. Mr. Holleran has held this position since January 2013. Mr. Holleran joined Itron in January 2007 as Sr. Vice President, General Counsel, and Corporate Secretary. From January 2012 through December 2012, Mr. Holleran served as Itron's Sr. Vice President, Special Projects and Corporate Secretary.

W. Mark Schmitz is Executive Vice President and Chief Financial Officer. Mr. Schmitz was appointed to this role on September 8, 2014. Prior to joining Itron, Mr. Schmitz was Chief Financial Officer of Alghanim Industries from 2009 to 2013. Mr. Schmitz served as the Executive Vice President and Chief Financial Officer of The Goodyear Tire and Rubber Company from 2007 to 2008 and as Vice President and Chief Financial Officer of Tyco International Limited's Fire and Security Segment from 2003 to 2007.

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

Russell E. Vanos is Senior Vice President, Strategy and Business Development. Mr. Vanos has served in this role since January 2013. Mr. Vanos joined Itron in 1980 and since then has held various positions in sales, marketing, and operations. Most recently Mr. Vanos served as Vice President, Global Smart Grid Solutions and Business Development from November 2011 through December 2012. Prior to this role Mr. Vanos served as Vice President and General Manager, Sales and Marketing from January 2011 to November 2011 and as Vice President, Marketing from January 2007 through December 2010.

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

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ITEM 1A: RISK FACTORS

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

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

Utility industry sales cycles can be lengthy and unpredictable.

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

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

Our quarterly results may fluctuate substantially due to several factors.

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

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

We may face product-failure exposure.

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

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

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

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

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

We depend on our ability to develop new competitive products.

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

We face increasing competition.

We face competitive pressures from a variety of companies in each of the markets we serve. Some of our present and potential future competitors have, or may have, substantially greater financial, marketing, technical, or manufacturing resources and, in some cases, have greater name recognition, customer relationships, and experience. Some competitors may enter markets we serve and sell products at lower prices in order to gain or grow market share. Our

competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources to the development, promotion, and sale of their products and services than we can. Some competitors have made, and others may make, strategic acquisitions or establish cooperative relationships among themselves or with third parties that enhance their ability to address the needs of our prospective customers. It is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Other companies may also drive technological innovation and develop products that are equal in quality and performance or superior to our products, which could put pressure on our market position, reduce our overall sales, and require us to invest additional funds in new technology development. In addition, there is a risk that low-cost providers will expand their presence in our markets, improve their quality, or form alliances or cooperative relationships with our competitors, thereby contributing to future price erosion. Some of our products and services may become commoditized, and we may have to adjust the prices of some of our products to stay competitive. Further, some utilities may purchase meters separately from the communication devices. The specifications for the meters would require interchangeability, which could lead to further commoditization of the meter, driving prices lower and reducing margins. Should we fail to compete successfully with current or future competitors, we could experience material adverse effects on our business, financial condition, results of operations, and cash flows.

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Our acquisitions of and investments in third parties have risks.

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

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

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

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

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

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

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



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

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

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

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

We depend on certain key vendors and components.

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

Business interruptions could adversely affect our business.

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

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

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

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

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

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

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

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

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

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

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

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

If our products infringe the intellectual property rights of others, we may be required to indemnify our customers for any damages they suffer. We generally indemnify our customers with respect to infringement by our products of the proprietary rights of third parties. Third parties may assert infringement claims against our customers. These claims may require us to initiate or defend protracted and costly litigation on behalf of our customers, regardless of the merits of these claims. If any of these claims succeed, we may be forced to pay damages on behalf of our customers or may be required to obtain licenses for the products they use. If we cannot obtain all necessary licenses on commercially reasonable terms, our customers may be forced to stop using our products.

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

A significant number of our products use radio spectrum, which are subject to regulation by the Federal Communications Commission (FCC) in the United States. The FCC may adopt changes to the rules for our licensed

and unlicensed frequency bands that are incompatible with our business. In the past, the FCC has adopted changes to the requirements for equipment using radio spectrum, and it is possible that the FCC or the U.S. Congress will adopt additional changes.

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

We depend upon sufficient radio spectrum to be allocated by the FCC for our intended uses. As to the licensed frequencies, there is some risk that there may be insufficient available frequencies in some markets to sustain our planned operations. The unlicensed frequencies are available for a wide variety of uses and may not be entitled to protection from interference by other users who operate in accordance with FCC rules. The unlicensed frequencies are also often the subject of proposals to the FCC requesting

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a change in the rules under which such frequencies may be used. If the unlicensed frequencies become crowded to unacceptable levels, restrictive, or subject to changed rules governing their use, our business could be materially adversely affected.

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

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

We may be unable to adequately protect our intellectual property.

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

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

We sponsor both funded and unfunded defined benefit pension plans for our international employees, primarily in Germany, France, Italy, Indonesia, Brazil, and Spain. Our general funding policy for these qualified pension plans is to contribute amounts sufficient to satisfy regulatory funding standards of the respective countries for each plan.

The determination of pension plan expense, benefit obligation, and future contributions depends heavily on market factors such as the discount rate and the actual return on plan assets. We estimate pension plan expense, benefit obligation, and future contributions to these plans using assumptions with respect to these and other items. Changes to

those assumptions could have a significant effect on future contributions as well as on our annual pension costs and/or result in a significant change to Shareholders' equity.

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

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

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

In the course of our operations, we rely on interconnected technology systems for the operation of our products, managed services on behalf of our customers, accounting and other administrative processes, and compliance with various regulations. There are

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various risks associated with technology systems such as hardware or software failure, communications failure, data distortion or destruction, unauthorized access to data, misuse of proprietary or confidential data, unauthorized control through electronic means, programming mistakes, and other deliberate or inadvertent human errors. In particular, cyber attacks, terrorism, or other malicious acts could damage, destroy, or disrupt these systems. Any failure of technology systems could result in a loss of revenues, an increase in operating expenses, and costs to repair or replace damaged assets. Any of the above could also result in the loss or release of confidential customer information or other proprietary data that could adversely affect our reputation and result in costly litigation. As these potential cyber attacks become more common and sophisticated, we could be required to incur costs to strengthen our systems and respond to emerging concerns.

We may not realize the expected benefits from strategic alliances.

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

We rely on information technology systems.

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

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

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

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

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



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

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

Our credit facility contains other customary covenants, including the requirement to meet specified financial ratios. Our ability to borrow under our credit facility will depend on the satisfaction of these covenants. Events beyond our control can affect our ability to meet those covenants. Our failure to comply with obligations under our borrowing arrangements may result in declaration of an event of default. An event of default, if not cured or waived, may permit acceleration of required payments against such indebtedness. We cannot be certain we will be able to remedy any such defaults. If our required payments are accelerated, we cannot be certain that we will have sufficient funds available to pay the indebtedness or that we will have the ability to raise

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sufficient capital to replace the indebtedness on terms favorable to us or at all. In addition, in the case of an event of default under our secured indebtedness such as our credit facility, the lenders may be permitted to foreclose on our assets securing that indebtedness.

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

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

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

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

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

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

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results, prevent fraud, or maintain investor confidence.

Effective internal controls are necessary for us to provide reliable and accurate financial reports and effectively prevent fraud. We have devoted significant resources and time to comply with the internal control over financial reporting requirements of the Sarbanes-Oxley Act. In addition, Section 404 under the Sarbanes-Oxley Act requires that our auditors attest to the design and operating effectiveness of our controls over financial reporting. Our compliance with the annual internal control report requirement for each fiscal year will depend on the effectiveness of our financial reporting, data systems, and controls across our operating subsidiaries. Furthermore, an important part of our growth strategy has been, and will likely continue to be, the acquisition of complementary businesses, and we expect these systems and controls to become increasingly complex to the extent that we integrate acquisitions and our business grows. Likewise, the complexity of our transactions, systems, and controls may become more difficult to manage. We cannot be certain that these measures will ensure that we design, implement, and maintain adequate controls over our financial processes and reporting in the future, especially for acquisition targets that may not have been required to be in compliance with Section 404 of the Sarbanes-Oxley Act at the date of acquisition. Any failure to implement required new or improved controls, difficulties encountered in their implementation or operation, or difficulties in the assimilation of acquired businesses into our control system could harm our operating results or cause it to fail to meet our financial reporting obligations. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock

and our access to capital.

We are subject to regulatory compliance.

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

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

Our business and our facilities are subject to numerous laws, regulations, and ordinances governing, among other things, the storage, discharge, handling, emission, generation, manufacture, disposal, remediation of, and exposure to toxic or other hazardous

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

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

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

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

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

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## ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

## ITEM 2: PROPERTIES

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

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

| Region        | Product Line                            |                             |  |                             |
|---------------|---|-----------------------------|--|-----------------------------|
|               | Electricity                             | Gas                         | Water                                    | Multiple Product Lines      |
| North America | Oconee, SC (O)                          | Owenton, KY (O)             | None                                     | Waseca, MN - G,W (L)        |
| EMEA          | Chasseneuil, France (O)                 | Argenteuil, France (L)      | Massy, France (L)                        | None                        |
|               | Godollo, Hungary (O)                    | Reims, France (O)           | Macon, France (O)                        |                             |
|               | Atlantis, South Africa <sup>1</sup> (L) | Karlsruhe, Germany (O)      | Haguenau, France (O)                     |                             |
|               |   | Stretford, England (O)      | Oldenburg, Germany (O)                   |                             |
| Asia/Pacific  | None                                    | Wujiang, China (L)          | Suzhou, China (L)<br>Dehradun, India (L) | Bekasi, Indonesia - E,W (O) |
| Latin America | None                                    | Buenos Aires, Argentina (O) | Americana, Brazil (O)                    | None                        |

<sup>1</sup> As a part of our 2014 restructuring projects, we are engaged in consultation with the local works councils to close these facilities in order to reduce costs and improve efficiencies. For additional discussion related to our restructuring projects, see Item 8: "Financial Statements and Supplementary Data, Note 13: Restructuring"

(O) - Manufacturing facility is owned

(L) - Manufacturing facility is leased

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

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

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

## ITEM 3: LEGAL PROCEEDINGS

Please refer to Item 8: "Financial Statements and Supplementary Data, Note 12: Commitments and Contingencies" included in this Annual Report on Form 10-K and our Current Report on Form 8-K dated February 6, 2015. Except as described therein, there were no material pending legal proceedings, as defined by Item 103 of Regulation S-K, at December 31, 2014.

## ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

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## PART II

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

## Market Information for Common Stock

Our common stock is traded on the NASDAQ Global Select Market. The following table reflects the range of high and low common stock sales prices for the four quarters of 2014 and 2013 as reported by the NASDAQ Global Select Market.

|                | 2014    |         | 2013    |         |
|----------------|---------|---------|---------|---------|
|                | High    | Low     | High    | Low     |
| First Quarter  | \$43.14 | \$33.64 | \$47.90 | \$41.50 |
| Second Quarter | \$41.21 | \$33.68 | \$47.00 | \$39.15 |
| Third Quarter  | \$42.88 | \$35.77 | \$43.72 | \$37.16 |
| Fourth Quarter | \$43.35 | \$36.42 | \$45.76 | \$38.79 |

## Performance Graph

The following graph compares the five-year cumulative total return to shareholders on our common stock with the five-year cumulative total return of our peer group of companies used for the year ended December 31, 2014 and the NASDAQ Composite Index.

\* \$100 invested on 12/31/09 in stock or index, including investment of dividends.

Fiscal years ending December 31.

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The above presentation assumes \$100 invested on December 31, 2009 in the common stock of Itron, Inc., the peer group, and the NASDAQ Composite Index, with all dividends reinvested. With respect to companies in the peer group, the returns of each such corporation have been weighted to reflect relative stock market capitalization at the beginning of each annual period plotted. The stock prices shown above for our common stock are historical and not necessarily indicative of future price performance.

Each year, we reassess our peer group to identify global companies that are either direct competitors or have similar industry and business operating characteristics. In 2013, we did not include Silver Spring Networks, Inc. in the cumulative total return graph as there was no impact to the cumulative total return in 2013, given that Silver Spring Networks, Inc. was not publicly traded at the beginning of 2013. Therefore, in the graph above our old peer group includes the following publicly traded companies: Badger Meter, Inc., Echelon Corporation, National Instruments Corporation, and Roper Industries, Inc. Our 2014 new peer group includes the following publicly traded companies: Badger Meter, Inc., Echelon Corporation, National Instruments Corporation, Roper Industries, Inc., and Silver Spring Networks, Inc. During 2014, ESCO Technologies Inc. (ESCO) sold its Aclara business line, which represented ESCO's metering related business. As ESCO is no longer in our line of business, it has been omitted from our peer group and cumulative total return graph above.

Issuer Repurchase of Equity Securities

The table below summarizes information about our purchases of our shares of common stock, based on settlement date, during the quarterly period ended December 31, 2014.

| Period                         | Total Number of Shares Purchased <sup>(1)</sup> | Average Price Paid per Share <sup>(2)</sup> | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands) |
|--------------------------------|---|---|--|---|
| October 1 through October 31   | 80,500  | \$38.20                                     | 80,500   | \$34,549  |
| November 1 through November 30 | 183,313   | 40.77                                       | 183,313  | 27,075  |
| December 1 through December 31 | 336,000   | 41.05                                       | 336,000  | 13,283  |
| Total                          | 599,813   | \$40.58                                     | 599,813  |   |

On February 7, 2014, our Board of Directors authorized a twelve-month repurchase program of up to \$50 million<sup>(1)</sup> of Itron's common stock. Repurchases are made in the open market or in privately negotiated transactions, and in accordance with applicable securities laws. No shares were purchased outside of this plan.

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

Subsequent to December 31, 2014 we repurchased 335,251 shares of our common stock. The average price paid per share was \$39.62. These subsequent repurchases fully utilized the remaining \$13.3 million authorized under the program. Repurchases are made in the open market or in privately negotiated transactions and in accordance with applicable securities laws.

On February 19, 2015, Itron's Board of Directors authorized a new repurchase program of up to \$50 million of our common stock over a 12-month period, beginning February 19, 2015.

Holdings

At January 31, 2015, there were 243 holders of record of our common stock.

Dividends

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

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## ITEM 6: SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data below is derived from our consolidated financial statements, which have been audited by an independent registered public accounting firm. These selected consolidated financial and other data represent portions of our financial statements. You should read this information together with Item 7: “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Item 8: “Financial Statements and Supplementary Data” included in this Annual Report on Form 10-K. Historical results are not necessarily indicative of future performance.

|   | Year Ended December 31, |                     |             |                     |             |
|---|-------------------------|---------------------|-------------|---------------------|-------------|
|   | 2014 <sup>(5)</sup>     | 2013 <sup>(4)</sup> | 2012        | 2011 <sup>(2)</sup> | 2010        |
| (in thousands, except per share data)             |                         |                     |             |                     |             |
| <b>Consolidated Statements of Operations Data</b> |                         |                     |             |                     |             |
| Revenues  | \$1,970,697             | \$1,948,728         | \$2,178,178 | \$2,434,124         | \$2,259,271 |
| Cost of revenues                                  | 1,347,572               | 1,334,195           | 1,463,031   | 1,687,666           | 1,558,596   |
| Gross profit                                      | 623,125                 | 614,533             | 715,147     | 746,458             | 700,675     |
| Operating income (loss)                           | 3,832                   | (135,181 )          | 151,126     | (459,183 )          | 184,197     |
| Net income (loss) attributable to Itron, Inc.     | (22,920 )               | (146,809 )          | 108,275     | (510,157 )          | 104,770     |
| Earnings (loss) per common share - Basic          | \$(0.58 )               | \$(3.74 )           | \$2.73      | \$(12.56 )          | \$2.60      |
| Earnings (loss) per common share - Diluted        | \$(0.58 )               | \$(3.74 )           | \$2.71      | \$(12.56 )          | \$2.56      |
| Weighted average common shares outstanding        |                         |                     |             |                     |             |
| - Basic   | 39,184                  | 39,281              | 39,625      | 40,612              | 40,337      |
| Weighted average common shares outstanding        |                         |                     |             |                     |             |
| - Diluted   | 39,184                  | 39,281              | 39,934      | 40,612              | 40,947      |
| <b>Consolidated Balance Sheets Data</b>           |                         |                     |             |                     |             |
| Working capital <sup>(1)</sup>                    | \$261,911               | \$344,354           | \$353,577   | \$329,632           | \$178,483   |
| Total assets                                      | 1,710,305               | 1,882,511           | 2,089,441   | 2,064,282           | 2,745,797   |
| Total debt  | 323,969                 | 378,750             | 417,500     | 452,502             | 610,941     |
| Total Itron, Inc. shareholders' equity            | 696,940                 | 855,236             | 992,967     | 906,925             | 1,428,295   |
| <b>Other Financial Data</b>                       |                         |                     |             |                     |             |
| Cash provided by operating activities             | \$132,973               | \$105,421           | \$205,090   | \$252,358           | \$254,591   |
| Cash used in investing activities <sup>(3)</sup>  | (41,496 )               | (56,771 )           | (125,445 )  | (78,741 )           | (56,274 )   |
| Cash used in financing activities                 | (91,877 )               | (57,438 )           | (77,528 )   | (209,453 )          | (148,637 )  |
| Capital expenditures                              | (44,495 )               | (60,020 )           | (50,543 )   | (60,076 )           | (62,822 )   |

<sup>(1)</sup> Working capital represents current assets less current liabilities.

During 2011, we incurred a goodwill impairment charge of \$584.8 million. In addition, restructuring projects were

<sup>(2)</sup> approved and commenced to increase efficiency and lower our cost of manufacturing, for which we incurred costs of \$68.1 million in 2011.

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

<sup>(4)</sup> During 2013, we incurred a goodwill impairment charge of \$173.2 million. In addition, we incurred costs of \$35.5 million in 2013 related to restructuring projects to increase efficiency.

(5) During 2014, we incurred costs of \$50.9 million related to restructuring projects to improve operational efficiencies and reduce expenses. Refer to Item 8: "Financial Statements and Supplementary Data, Note 13: Restructuring" included in this Annual Report on Form 10-K for further disclosures regarding the restructuring charges.

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

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

Overview

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

We have three measures of segment performance: revenue, gross profit (margin), and operating income (margin). Intersegment revenues were minimal. Interest income, interest expense, other income (expense), income tax provision (benefit), and certain corporate operating expenses are not allocated to the segments, nor included in the measure of segment profit or loss.

Revenues increased \$22.0 million, or 1%, in 2014, compared with 2013. Revenues were driven higher in 2014 by increases in product shipments in the Gas and Water segments, partially offset by a decline in product volumes in the Electricity segment. Foreign currency translation had an unfavorable impact of \$31.9 million on 2014 revenues. Revenues decreased 11% in 2013, compared with 2012. The 2013 revenue decline was due primarily to the completion of several large OpenWay projects in the Electricity segment in 2012, partially offset by a \$15.2 million increase in revenues in the Water segment.

Total backlog was \$1.5 billion, and twelve-month backlog was \$747.0 million at December 31, 2014.

Total company gross margin increased 10 basis points in 2014, compared with 2013. The primarily flat gross margin performance was the result of favorable product mix in the Water segment, partially offset by less favorable product mix in the Gas segment. Total company gross margin decreased 130 basis points in 2013, compared with 2012. Gross margin decline in 2013 over the prior year was primarily driven by decreased volumes in our Electricity and Gas segments and less favorable product mix within all three segments.

During 2014, we revised our estimate of the cost to complete an OpenWay project in North America. This resulted in a decrease to gross profit of \$15.9 million, which reduced gross margin by 90 basis points for the year ended December 31, 2014. We previously recorded additional costs on this contract in 2013, which decreased gross profit by \$16.5 million and reduced gross margin by 80 basis points for the year December 31, 2013.

We recognized income tax provision (benefit) of \$6.6 million, \$(3.6) million, and \$26.0 million for the years ended December 31, 2014, 2013, and 2012. Our actual tax rate differed from the 35% U.S. federal statutory tax rate due to various items. Our tax expense increased due to an increase in valuation allowances related to deferred tax assets for which we do not anticipate future realization. The following items decreased tax expense: (1) recognition of research and experimentation credits for 2014; (2) earnings of our subsidiaries outside of the U.S. in jurisdictions where our

statutory tax rate is lower than in the U.S.; (3) the benefit of certain interest expense deductions; and (4) benefits of certain acquisition related elections for tax purposes. Our tax provisions for 2013 and 2012 reflect the benefits of lower statutory tax rates on foreign earnings as compared with our U.S. federal statutory rate, foreign interest expense deductions and the benefits of certain acquisition related elections for tax purposes. During 2013, no tax benefit was recorded for the nondeductible portion of the goodwill impairment charge. During 2012, we recognized a benefit related to the release of reserves for uncertain tax positions. For additional discussion related to income taxes, see Item 8: "Financial Statements and Supplementary Data, Note 11: Income Taxes".

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. In connection with the 2014 Projects, we recognized \$55.8 million in restructuring expense, of which \$47.4 million was for severance, \$8.0 million was for asset impairments, and \$401,000 was for other exit costs. We began

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implementing these projects in the fourth quarter of 2014, and we expect to substantially complete these projects by the end of 2016. Upon completion of the 2014 Projects, we expect to achieve annualized savings of \$40 million. 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 implementing the projects at some locations.

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

On March 8, 2013, our Board authorized a 12-month repurchase program of up to \$50 million in shares of our common stock. The March 8, 2013 authorization expired on March 7, 2014. From January 1, 2014 through March 7, 2014, we repurchased 75,203 shares of our common stock, totaling \$2.9 million.

On February 7, 2014, our Board authorized a 12-month repurchase program of up to \$50 million in shares of our common stock, to begin on March 8, 2014, upon the expiration of the previous stock repurchase program. From March 8, 2014 through December 31, 2014, we repurchased 910,990 shares of our common stock, totaling \$36.7 million.

Subsequent to December 31, 2014 we repurchased 335,251 shares of our common stock. The average price paid per share was \$39.62. These subsequent repurchases fully utilized the remaining \$13.3 million authorized under the program. Repurchases are made in the open market or in privately negotiated transactions and in accordance with applicable securities laws.

On February 19, 2015, Itron's Board of Directors authorized a new repurchase program of up to \$50 million of our common stock over a 12-month period, beginning February 19, 2015. Refer to Part II, Item 5: "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" for additional information related to our current share repurchase program.

## Total Company Revenues, Gross Profit and Margin, and Unit Shipments

|              | Year Ended December 31, |          | 2013           |          | 2012           |                |
|--------------|-------------------------|----------|----------------|----------|----------------|----------------|
|              | 2014                    | % Change | (in thousands) | % Change | (in thousands) | (in thousands) |
| Revenues     | \$1,970,697             | 1%       | \$1,948,728    | (11)%    | \$2,178,178    |                |
| Gross Profit | \$623,125               | 1%       | \$614,533      | (14)%    | \$715,147      |                |
| Gross Margin | 31.6                    | %        | 31.5           | %        | 32.8           | %              |

|  | Year Ended December 31, |             |             |
|--|-------------------------|-------------|-------------|
|  | 2014                    | 2013        | 2012        |
|  | (in thousands)          |             |             |
| Revenues by region                     |                         |             |             |
| United States and Canada               | \$899,399               | \$851,295   | \$1,014,739 |
| Europe, Middle East, and Africa (EMEA) | 848,502                 | 858,026     | 878,615     |
| Other                                  | 222,796                 | 239,407     | 284,824     |
| Total revenues                         | \$1,970,697             | \$1,948,728 | \$2,178,178 |



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## Meter and Module Summary

We classify meters into three categories:

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

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

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

|                                   | Year Ended December 31, |        |        |
|-----------------------------------|-------------------------|--------|--------|
|                                   | 2014                    | 2013   | 2012   |
|                                   | (units in thousands)    |        |        |
| Meters                            |                         |        |        |
| Standard                          | 18,740                  | 17,850 | 17,920 |
| Advanced and smart                | 6,090                   | 5,930  | 8,030  |
| Total meters                      | 24,830                  | 23,780 | 25,950 |
| Stand-alone communication modules |                         |        |        |
| Advanced and smart                | 5,770                   | 5,550  | 6,460  |

## Revenues

Revenues increased 1%, or \$22.0 million, in 2014, compared with 2013. Revenues in 2014 were higher, primarily driven by growth in the Gas and Water segments of 5% and 7%, respectively, partially offset by a decline of 5% in the Electricity segment. Changes in currency exchange rates unfavorably impacted revenues by \$31.9 million across all segments. Revenues decreased 11%, or \$229.5 million, in 2013, compared with 2012. Revenues in 2013 were lower, primarily driven by the substantial completion of four of our five largest OpenWay projects in the Electricity segment in 2012 and by \$14.6 million in the unfavorable net translation impact of operations denominated in foreign currencies, partially offset by an increase in Water revenues during the year. A more detailed analysis of these fluctuations is provided in Operating Segment Results.

No single customer represented more than 10% of total revenues for the years ended December 31, 2014, 2013, and 2012. Our 10 largest customers accounted for 20%, 28%, and 27% of total revenues in 2014, 2013, and 2012.

## Gross Margin

Gross margin was 31.6% for 2014, compared with 31.5% in 2013. The increase was driven by more favorable product mix in the Water segment, which was partially offset by a less favorable product mix in the Gas segment. Gross margin was 31.5% in 2013, compared with 32.8% in 2012. The decline was primarily the result of lower volumes in 2013 in both the Electricity and Gas segments, along with a less favorable mix of product sales in 2013 as compared with 2012 for all three segments and a higher warranty expense in the Gas segment. These decreases were partially offset by increased volumes in Water and benefits from our restructuring projects and manufacturing efficiencies. A more detailed analysis of these fluctuations is provided in Operating Segment Results.

During 2014, we revised our estimate of the cost to complete an OpenWay project in North America. This resulted in a decrease to gross profit of \$15.9 million, which reduced gross margin by 90 basis points for the year ended December 31, 2014. We previously recorded additional costs on this contract in 2013, which decreased gross profit by

\$16.5 million and reduced gross margin by 80 basis points for the year December 31, 2013.



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## Operating Segment Results

For a description of our operating segments, refer to Item 8: “Financial Statements and Supplementary Data, Note 16: Segment Information” in this Annual Report on Form 10-K. The following tables and discussion highlight significant changes in trends or components of each operating segment.

|  | Year Ended December 31, |                  | 2013                    | % Change         | 2012                    |                  |                |
|--|-------------------------|------------------|-------------------------|------------------|-------------------------|------------------|----------------|
|  | 2014                    | % Change         |                         |                  |                         | (in thousands)   | (in thousands) |
| Segment Revenues                                     | (in thousands)          |                  | (in thousands)          |                  | (in thousands)          |                  |                |
| Electricity  | \$794,144               | (5)%             | \$836,553               | (18)%            | \$1,024,340             |                  |                |
| Gas  | 599,081                 | 5%               | 570,297                 | (9)%             | 627,193                 |                  |                |
| Water  | 577,472                 | 7%               | 541,878                 | 3%               | 526,645                 |                  |                |
| Total revenues                                       | \$1,970,697             | 1%               | \$1,948,728             | (11)%            | \$2,178,178             |                  |                |
|  | Year Ended December 31, |                  | 2013                    |                  | 2012                    |                  |                |
|  | Gross Profit            | Gross Margin     | Gross Profit            | Gross Margin     | Gross Profit            | Gross Margin     |                |
| Segment Gross Profit and Margin                      | (in thousands)          |                  | (in thousands)          |                  | (in thousands)          |                  |                |
| Electricity  | \$208,476               | 26.3%            | \$218,913               | 26.2%            | \$295,005               | 28.8%            |                |
| Gas  | 211,815                 | 35.4%            | 207,915                 | 36.5%            | 235,391                 | 37.5%            |                |
| Water  | 202,834                 | 35.1%            | 187,705                 | 34.6%            | 184,751                 | 35.1%            |                |
| Total gross profit and margin                        | \$623,125               | 31.6%            | \$614,533               | 31.5%            | \$715,147               | 32.8%            |                |
|  | Year Ended December 31, |                  | 2013                    | % Change         | 2012                    |                  |                |
|  | 2014                    | % Change         | (in thousands)          |                  |                         | (in thousands)   |                |
| Segment Operating Expenses                           | (in thousands)          |                  | (in thousands)          |                  | (in thousands)          |                  |                |
| Electricity  | \$280,952               | (38)%            | \$454,821               | 68%              | \$270,193               |                  |                |
| Gas  | 136,217                 | 10%              | 124,033                 | (1)%             | 124,834                 |                  |                |
| Water  | 131,828                 | 6%               | 124,453                 | (1)%             | 125,541                 |                  |                |
| Corporate unallocated                                | 70,296                  | 51%              | 46,407                  | 7%               | 43,453                  |                  |                |
| Total operating expenses                             | \$619,293               | (17)%            | \$749,714               | 33%              | \$564,021               |                  |                |
|  | Year Ended December 31, |                  | 2013                    |                  | 2012                    |                  |                |
|  | Operating Income (Loss) | Operating Margin | Operating Income (Loss) | Operating Margin | Operating Income (Loss) | Operating Margin |                |
| Segment Operating Income (Loss) and Operating Margin | (in thousands)          |                  | (in thousands)          |                  | (in thousands)          |                  |                |
| Electricity  | \$(72,476)              | (9)%             | \$(235,908)             | (28)%            | \$24,812                | 2%               |                |
| Gas  | 75,598                  | 13%              | 83,882                  | 15%              | 110,557                 | 18%              |                |
| Water  | 71,006                  | 12%              | 63,252                  | 12%              | 59,210                  | 11%              |                |
| Corporate unallocated                                | (70,296)                |                  | (46,407)                |                  | (43,453)                |                  |                |
| Total Company  | \$3,832                 | —%               | \$(135,181)             | (7)%             | \$151,126               | 7%               |                |

Electricity:

Revenues - 2014 vs. 2013

Electricity revenues for 2014 decreased by \$42.4 million, or 5%, compared with 2013 revenues. The decrease was primarily driven by lower product volumes and services in EMEA, resulting in a \$40.8 million decline in revenue. In addition, Latin America had a decline in product revenue of \$12.1 million primarily due to our decision to reduce the manufacture and sale of standard meters in the region as part of our restructuring projects. These decreases were partially offset by \$27.6 million in increased product sales and professional services in North America. The net translation effect of our operations in foreign currencies negatively impacted 2014 revenues by \$14.9 million.

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

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### Revenues - 2013 vs. 2012

Electricity revenues for 2013 decreased by \$187.8 million, or 18%, compared with 2012 revenues. The decrease was primarily driven by \$246.3 million in lower revenue of our five largest OpenWay projects in North America, as four of these projects were substantially completed during 2013. Lower prepayment meter shipments drove a decrease of \$24.8 million in our Asia/Pacific region. These decreases were partially offset by \$81.5 million in increased products and services in North America, apart from the five largest OpenWay projects, as well as by \$27.3 million in increased product shipments and services in EMEA. The net translation effect of our operations in foreign currencies negatively impacted 2013 revenues by \$18.1 million.

No customer represented more than 10% of the Electricity operating segment revenues in 2013, while one customer individually represented 17% of the Electricity operating segment revenues in 2012.

### Gross Margin - 2014 vs. 2013

Gross margin was 26.3% in 2014, compared with 26.2% in 2013. The slight margin improvement was driven by lower warranty costs in Latin America, partially offset by decreased volume in all regions except North America. In 2014, net charges for an OpenWay project in North America were \$15.9 million, which negatively impacted gross margin by 210 basis points. A similar charge was recorded on this project in 2013 for \$16.5 million, which reduced gross margin by 190 basis points.

### Gross Margin - 2013 vs. 2012

Gross margin was 26.2% in 2013, compared with 28.8% in 2012. The lower margin was primarily driven by decreased volume in 2013 and less favorable product mix in all regions. In 2013, net charges for an OpenWay project in North America were \$16.5 million, which negatively impacted gross margin by 190 basis points.

### Operating Expenses - 2014 vs. 2013

Electricity operating expenses decreased by \$173.9 million, or 38%, in 2014, primarily due to the goodwill impairment of \$173.2 million recognized in 2013 and \$10.1 million in reduced product development expense as a result of restructuring activities. These decreases were partially offset by \$8.0 million in higher general and administrative expense, primarily due to a legal settlement related to a contract dispute that resulted in \$14.7 million of litigation expense. Intangible asset amortization expense increased \$5.6 million based on the expected cash flows determined at acquisition. We recognized \$29.7 million in restructuring charges under the 2014 Projects, which was partially offset by an \$8.5 million reduction in 2014 that related to a reassessment of certain restructuring activities under the 2013 restructuring projects (2013 Projects). In 2013, we recognized \$24.1 million in restructuring expense under the 2013 Projects. Operating expenses for sales and marketing, product development, general and administrative, and amortization of intangible assets as a percentage of revenues were 33% in 2014 and 31% in 2013.

### Operating Expenses - 2013 vs. 2012

Electricity operating expenses increased by \$184.6 million or 68%, in 2013 primarily due to the goodwill impairment of \$173.2 million recognized in 2013 for the Electricity reporting unit and \$23.9 million in additional restructuring expenses in 2013. We reduced sales and marketing expense by \$12.1 million as a result of our restructuring projects, offset by \$5.6 million in higher litigation expense within general and administrative expense. Operating expenses for sales and marketing, product development, general and administrative, and amortization of intangible assets as a percentage of revenues were 31% in 2013 and 26% in 2012.

### Gas:

#### Revenues - 2014 vs. 2013

Gas revenues increased by \$28.8 million, or 5%, in 2014, compared with 2013. The increase was driven by \$27.6 million in increased sales in North America and \$9.2 million and \$3.7 million in increased product sales in EMEA and

Latin America, partially offset by lower professional services revenue in EMEA of \$2.2 million. Foreign currency translation had an unfavorable impact of \$9.1 million in 2014.

No single customer represented more than 10% of the Gas operating segment revenues in 2014, 2013, and 2012.

Revenues - 2013 vs. 2012

Gas revenues decreased by \$56.9 million, or 9%, in 2013, compared with 2012. The decrease was driven by \$54.2 million in lower product sales in EMEA and \$18.7 million in lower communication module shipments and lower service revenue in North America, the effect of which was partially offset by \$21.3 million in increased North America gas meter shipments, particularly smart meters.

Gross Margin - 2014 vs. 2013

Gross margin was 35.4% in 2014, compared with 36.5% in 2013. The 110 basis point decline in gross margin was primarily the result of less favorable product mix in EMEA.

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### Gross Margin - 2013 vs. 2012

Gross margin was 36.5% in 2013, compared with 37.5% in 2012. The 100 basis point decline in gross margin was primarily the result of less favorable product mix and higher warranty costs.

### Operating Expenses - 2014 vs. 2013

Gas operating expenses increased by \$12.2 million, or 10%, in 2014. The increase resulted from an increase in restructuring expense of \$5.7 million and an increase in product development costs of \$7.5 million. Operating expenses for sales and marketing, product development, general and administrative, and amortization of intangible assets as a percentage of revenues, were 21% in 2014 and 2013.

### Operating Expenses - 2013 vs. 2012

Gas operating expenses decreased by \$801,000, or 1% in 2013. Lower sales and marketing and product development expenses were partially offset by higher general and administrative expenses. Operating expenses for sales and marketing, product development, general and administrative, and amortization of intangible assets as a percentage of revenues, were 21% in 2013 and 20% in 2012.

### Water:

#### Revenues - 2014 vs. 2013

The increase in revenues of \$35.6 million, or 7%, in 2014 was driven primarily by growth in product sales in EMEA of \$35.2 million, in North America of \$3.3 million, and in Asia/Pacific of \$2.8 million. Latin America experienced growth of \$2.3 million, which included an unfavorable impact from foreign currency translation of \$5.9 million. Services revenue declined \$7.9 million during 2014, with North America contributing \$6.7 million of the total decline due to the completion of a significant project in 2013.

No single customer represented more than 10% of the Water operating segment revenues in 2014, 2013, and 2012.

#### Revenues - 2013 vs. 2012

Revenues increased \$15.2 million, or 3%, in 2013. This increase was driven primarily by growth in projects in North America of \$10.2 million. Latin America experienced growth of \$7.0 million, but was negatively impacted by foreign currency translation of \$4.3 million.

#### Gross Margin - 2014 vs. 2013

Water gross margin increased to 35.1% in 2014, compared with 34.6% in 2013, due to decreases in manufacturing costs globally, as well as lower service revenue in North America, which carries a lower margin.

#### Gross Margin - 2013 vs. 2012

Water gross margin decreased to 34.6% in 2013, compared with 35.1% in 2012, driven predominantly by higher service revenues in North America, which have a lower margin, and partially offset by favorable product mix in EMEA.

#### Operating Expenses - 2014 vs. 2013

In 2014, Water operating expenses were \$131.8 million compared with \$124.5 million in 2013. The increase was a result of a \$5.0 million increase in sales and marketing expense, primarily higher compensation expense related to increased revenues, and a \$3.4 million increase in general and administrative expenses. The overall increase was partially offset by a decrease in intangible asset amortization expense of \$2.2 million. Operating expenses for sales and marketing, product development, general and administrative, and amortization of intangible assets as percentages of revenues were 22% in 2014 and 2013.

Operating Expenses - 2013 vs. 2012

In 2013, Water operating expenses were \$124.5 million, compared with \$125.5 million in 2012. Decreases of \$5.9 million in sales and marketing expense and \$2.1 million in lower amortization of intangible expense were partially offset by increases in product development, general and administrative, and restructuring expenses. Operating expenses for sales and marketing, product development, general and administrative, and amortization of intangible assets as percentages of revenues were 22% in 2013, compared with 24% in 2012.

Corporate unallocated:

Operating expenses not directly associated with an operating segment are classified as "Corporate unallocated." These expenses increased 51% to \$70.3 million in 2014, compared with 2013, primarily due to \$14.5 million in increased restructuring expenses

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in 2014, as well as \$8.9 million in general and administrative expenses - due to increased variable compensation expense and costs associated with our shared services center in Ireland, which was established late in 2013.

Corporate unallocated expenses increased 7% to \$46.4 million in 2013, compared with 2012, primarily due to \$2.7 million in increased restructuring expenses in 2013, as well as \$3.8 million in sales and marketing costs, which are no longer allocated to the operating segments. These increases were partially offset by a decline in general and administrative expenses, including \$3.0 million in acquisition-related expenses incurred in 2012 that did not recur in 2013.

## Operating Expenses

The following table details our total operating expenses in dollars and as a percentage of revenues:

|                                   | Year Ended December 31, |               |                |               |                |               |
|-----------------------------------|-------------------------|---------------|----------------|---------------|----------------|---------------|
|                                   | 2014                    | % of Revenues | 2013           | % of Revenues | 2012           | % of Revenues |
|                                   | (in thousands)          |               | (in thousands) |               | (in thousands) |               |
| Sales and marketing               | \$ 185,239              | 9%            | \$ 180,371     | 9%            | \$ 197,603     | 9%            |
| Product development               | 175,500                 | 9%            | 176,019        | 9%            | 178,653        | 8%            |
| General and administrative        | 163,101                 | 8%            | 142,559        | 7%            | 138,290        | 6%            |
| Amortization of intangible assets | 43,619                  | 2%            | 42,019         | 2%            | 47,810         | 2%            |
| Restructuring expense             | 50,857                  | 3%            | 35,497         | 2%            | 1,665          | —%            |
| Goodwill impairment               | 977                     | —%            | 173,249        | 9%            | —              | —%            |
| Total operating expenses          | \$ 619,293              | 31%           | \$ 749,714     | 38%           | \$ 564,021     | 26%           |

## 2014 vs. 2013

Operating expenses decreased \$130.4 million in 2014, compared with 2013. The 2013 operating expenses included \$173.2 million in goodwill impairment charges associated with the Electricity reporting unit compared with \$1.0 million in 2014. The decline in goodwill impairment was partially offset by a \$15.4 million increase in restructuring expense following the approval of the 2014 Projects. In addition, general and administrative expenses increased by \$20.5 million due to litigation costs and higher variable compensation. Operating expenses for sales and marketing, product development, general and administrative, and amortization of intangible assets represented 29% of revenues in 2014, compared with 28% in 2013.

## 2013 vs. 2012

Operating expenses increased \$185.7 million in 2013, compared with 2012. The 2013 operating expenses included \$173.2 million in goodwill impairment charges associated with the Electricity reporting unit, as well as \$35.5 million in restructuring expenses, which represented the majority of total expected expenses under our 2013 Projects initiated in the third quarter of 2013. Operating expenses for sales and marketing, product development, general and administrative, and amortization of intangible assets represented 28% of revenues in 2013, compared with 26% in 2012. Sales and marketing and product development expenses decreased in 2013 compared with 2012, primarily due to our restructuring activities under the 2011 Projects that were completed in June 2013. In addition, scheduled decreases in intangible asset amortization resulted in \$5.8 million in lower operating expenses. These decreases were partially offset by an increase in general and administrative expenses of \$4.3 million, primarily as a result of higher litigation expense.

## Other Income (Expense)

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

|                                   | Year Ended December 31, |             |             |
|-----------------------------------|-------------------------|-------------|-------------|
|                                   | 2014                    | 2013        | 2012        |
|                                   | (in thousands)          |             |             |
| Interest income                   | \$494                   | \$1,620     | \$952       |
| Interest expense                  | (9,990)                 | ) (9,030    | ) (8,518    |
| Amortization of prepaid debt fees | (1,612                  | ) (1,656    | ) (1,597    |
| Other income (expense), net       | (7,633                  | ) (4,007    | ) (5,744    |
| Total other income (expense)      | \$(18,741               | ) \$(13,073 | ) \$(14,907 |



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**Interest income:** Interest income is generated from our cash and cash equivalents. Interest rates have continued to remain low. Interest income for the year ended December 31, 2013 included interest recognized on certain deposits with governmental entities related to tax contingencies.

**Interest expense:** Interest expense increased from 2013 due to the impact of interest rate swaps, which became effective during the third quarter of 2013, partially offset by a lower principal balance of debt outstanding. The weighted-average debt outstanding was \$340.6 million, \$410.8 million, and \$448.2 million at December 31, 2014, 2013, and 2012, respectively.

**Amortization of prepaid debt fees:** Amortization of prepaid debt fees in 2014 was consistent with the 2013 and 2012 levels. Amortization of prepaid debt fees may fluctuate each year dependent upon the timing of debt payments. When debt is repaid prior to the contractual due date, the related portion of unamortized prepaid debt fees is written-off. Refer to Item 8: "Financial Statements and Supplementary Data, Note 6: Debt" in this Annual Report on Form 10-K for additional details related to our long-term borrowings.

**Other income (expense), net:** Other expenses, net, consist primarily of unrealized and realized foreign currency gains and losses due to transactions denominated in a currency other than the reporting entity's functional currency. Foreign currency losses, net of hedging, were \$5.1 million in 2014, compared with net foreign currency losses of \$3.3 million in 2013 and \$3.8 million in 2012.

## Financial Condition

## Cash Flow Information:

|   | Year Ended December 31, |             |            |
|---|-------------------------|-------------|------------|
|   | 2014                    | 2013        | 2012       |
|   | (in thousands)          |             |            |
| Operating activities                                  | \$ 132,973              | \$ 105,421  | \$ 205,090 |
| Investing activities                                  | (41,496                 | ) (56,771   | ) (125,445 |
| Financing activities                                  | (91,877                 | ) (57,438   | ) (77,528  |
| Effect of exchange rates on cash and cash equivalents | (12,034                 | ) (2,818    | ) 1,208    |
| Increase (decrease) in cash and cash equivalents      | \$(12,434               | ) \$(11,606 | ) \$3,325  |

Cash and cash equivalents at December 31, 2014 were \$112.4 million, compared with \$124.8 million at December 31, 2013. The decrease in cash and cash equivalents was primarily the result of a decrease in net income, exclusive of goodwill impairment, an increase in accounts receivable, and higher payments on debt, partially offset by increases in accounts payable and other current liabilities. Cash and cash equivalents at December 31, 2013 were lower compared with the prior year primarily due to lower net income, partially offset by decreases in business acquisitions and repurchases of common stock in 2013, compared with 2012.

## Operating activities

Net cash provided by operating activities in 2014 was \$27.6 million higher than in 2013. This increase was primarily due to a decrease in accounts payable payments of \$25.0 million due to timing and an increase in other liabilities of \$28.5 million as a result of restructuring activities and litigation accruals recognized at the end of 2014, and a reduction in inventory resulting in \$16.9 million of increased cash flows. These increases were partially offset by the decrease in net income of \$49.2 million, exclusive of the impact of the goodwill impairment charge, and decreased receipts on accounts receivable balances due to invoice timing resulting in a \$30.4 million reduction in cash provided as compared with 2013.

Net cash provided by operating activities in 2013 was \$99.7 million lower, compared with 2012. This decline was primarily due to the decrease in net income of \$81.6 million, exclusive of the impact of the goodwill impairment charge, and an increase in deferred taxes of \$21.0 million.

Investing activities

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

Net cash used in investing activities in 2013 was \$68.7 million lower, compared with 2012. This decrease in investing activities during 2013 was the result of a reduction of \$78.2 million in business acquisition payments. In 2013, business acquisition-related payments consisted of contingent payments related to the 2011 Asais acquisition. Business acquisition-related payments in 2012

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included payments for the acquisition of SmartSynch. The decrease was partially offset by an increase in acquisitions of property, plant, and equipment of \$9.5 million in 2013.

## Financing activities

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

Net cash used in financing activities in 2013 was \$20.1 million lower compared with 2012, primarily as a result of a decrease of \$20.5 million in repurchases of common stock in 2013.

## Effect of exchange rates on cash and cash equivalents

Changes in exchange rates on the cash balances of currencies held in foreign denominations resulted in a decrease of \$12.0 million, a decrease of \$2.8 million, and an increase of \$1.2 million in 2014, 2013, and 2012, respectively. Our foreign currency exposure relates to non-U.S. dollar denominated balances in our international subsidiary operations, the most significant of which is the euro.

## Off-balance sheet arrangements:

We have no off-balance sheet financing agreements or guarantees as defined by Item 303 of Regulation S-K at December 31, 2014 and December 31, 2013 that we believe are reasonably likely to have a current or future effect on our financial condition, results of operations, or cash flows.

## Disclosures about contractual obligations and commitments:

The following table summarizes our known obligations to make future payments pursuant to certain contracts as of December 31, 2014, as well as an estimate of the timing in which these obligations are expected to be satisfied.

|  | Total          | Less than<br>1 year | 1-3<br>years | 3-5<br>years | Beyond<br>5 years |
|--|----------------|---------------------|--------------|--------------|-------------------|
|  | (in thousands) |                     |              |              |                   |
| Credit Facilities <sup>(1)</sup>   |                |                     |              |              |                   |
| USD denominated term loan  | \$238,854      | \$33,567            | \$205,287    | \$—          | \$—               |
| Multicurrency revolving line of credit   | 93,974         | 1,396               | 92,578       | —            | —                 |
| Operating lease obligations <sup>(2)</sup>   | 40,736         | 12,142              | 15,663       | 11,210       | 1,721             |
| Purchase and service commitments <sup>(3)</sup>  | 168,376        | 165,274             | 2,989        | 88           | 25                |
| Other long-term liabilities reflected on the balance sheet under generally accepted accounting principles <sup>(4)</sup> | 88,006         | —                   | 44,848       | 13,602       | 29,556            |
| Total  | \$629,946      | \$212,379           | \$361,365    | \$24,900     | \$31,302          |

Borrowings are disclosed within Item 8: “Financial Statements and Supplementary Data, Note 6: Debt” included in <sup>(1)</sup> this Annual Report on Form 10-K, with the addition of estimated interest expense but not including the amortization of prepaid debt fees.

Operating lease obligations are disclosed in Item 8: “Financial Statements and Supplementary Data, Note 12: Commitments and Contingencies” included in this Annual Report on Form 10-K and do not include common area maintenance charges, real estate taxes, and insurance charges for which we are obligated.

<sup>(3)</sup>

We enter into standard purchase orders in the ordinary course of business that typically obligate us to purchase materials and other items. Purchase orders can vary in terms, which include open-ended agreements that provide for estimated quantities over an extended shipment period, typically up to one year at an established unit cost. Our long-term executory purchase agreements that contain termination clauses have been classified as less than one year, as the commitments are the estimated amounts we would be required to pay at December 31, 2014 if the commitments were canceled.

Other long-term liabilities consist of warranty obligations, estimated pension benefit payments, and other obligations. Estimated pension benefit payments include amounts from 2016-2024. Long-term unrecognized tax<sup>(4)</sup> benefits totaling \$19.9 million (net of pre-payments), which include accrued interest and penalties, are not included in the above contractual obligations and commitments table as we cannot reliably estimate the period of cash settlement with the respective taxing

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authorities. Additionally, because the amount and timing of the future cash outflows are uncertain, deferred revenue totaling \$33.2 million, which includes deferred revenue related to extended warranty guarantees, is not included in the table. For further information on defined benefit pension plans, income taxes, and warranty obligations and deferred revenue for extended warranties, see Item 8: "Financial Statements and Supplementary Data," Notes 8, 11, and 12, respectively, included in this Annual Report on Form 10-K.

### Liquidity and Capital Resources:

Our principal sources of liquidity are cash flows from operations, borrowings, and sales of common stock. Cash flows may fluctuate and are sensitive to many factors including changes in working capital and the timing and magnitude of capital expenditures and payments on debt. Working capital, which represents current assets less current liabilities, was \$261.9 million at December 31, 2014, compared with \$344.4 million at December 31, 2013.

### Borrowings

Our credit facility consists of a \$300 million U.S. dollar term loan and a multicurrency revolving line of credit (the revolver) with a principal amount of up to \$660 million. At December 31, 2014, \$91.5 million was outstanding under the revolver, and \$50.4 million was utilized by outstanding standby letters of credit, resulting in \$518.1 million available for additional borrowings.

For further description of the term loan and the revolver under our credit facility, refer to Item 8: "Financial Statements and Supplementary Data, Note 6: Debt" included in this Annual Report on Form 10-K.

For a description of our letters of credit and performance bonds, and the amounts available for additional borrowings or letters of credit under our lines of credit, including the revolver that is part of our credit facility, refer to Item 8: "Financial Statements and Supplementary Data, Note 12: Commitments and Contingencies" included in this Annual Report on Form 10-K.

### Share Repurchases

On March 8, 2013, our Board authorized a 12-month repurchase program of up to \$50 million in shares of our common stock. The March 8, 2013 authorization expired on March 7, 2014. From January 1, 2014 through March 7, 2014, we repurchased 75,203 shares of our common stock, totaling \$2.9 million.

On February 7, 2014, our Board authorized a 12-month repurchase program of up to \$50 million in shares of our common stock, to begin on March 8, 2014, upon the expiration of the previous stock repurchase program. From March 8, 2014 through December 31, 2014, we repurchased 910,990 shares of our common stock, totaling \$36.7 million.

On February 19, 2015, Itron's Board of Directors authorized a new repurchase program of up to \$50 million of our common stock over a 12-month period, beginning February 19, 2015.

### Restructuring

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

Total expected costs were approximately \$66.7 million as of December 31, 2014. A substantial portion of the total expected restructuring charges was recognized in the fourth quarter of 2014, and \$62.9 million was accrued at

December 31, 2014 under the 2013 and 2014 Projects, of which \$49.1 million is expected to be paid over the next 12 months. We have begun to realize benefits from our restructuring projects during 2014, and we expect to begin recognizing full savings under the 2013 Projects at the beginning of 2016 and the cost savings of the 2014 Projects by the end of 2016. Certain projects are subject to a variety of labor and employment laws, rules, and regulations that could result in a delay in implementing projects at some locations. Real estate market conditions may impact the timing of our ability to sell some of the manufacturing facilities we have designated for closure and disposal. This may delay the completion of the 2014 Projects beyond December 31, 2016. For further details regarding our restructuring activities, refer to Item 8: "Financial Statements and Supplementary Data, Note 13: Restructuring" included in this Annual Report on Form 10-K.

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## Income Tax

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

Our cash income tax payments (refunds) for 2014, 2013, and 2012 were as follows:

|                                     | Year Ended December 31, |          |            |
|-------------------------------------|-------------------------|----------|------------|
|                                     | 2014                    | 2013     | 2012       |
|                                     | (in thousands)          |          |            |
| U.S. federal taxes paid (refunded)  | \$3,300                 | \$(13    | ) \$15,500 |
| State income taxes paid (refunded)  | 438                     | (18      | ) 2,831    |
| Foreign and local income taxes paid | 14,484                  | 18,690   | 22,468     |
| Total income taxes paid             | \$18,222                | \$18,659 | \$40,799   |

Based on current projections, we expect to pay, net of refunds, approximately \$18.3 million in federal taxes, \$1.0 million in state taxes and \$15.7 million in foreign and local income taxes in 2015.

We have not provided U.S. deferred taxes related to the cash in certain foreign subsidiaries because our investment is considered permanent in duration. As of December 31, 2014, there was \$52.5 million of cash and short-term investments held by certain foreign subsidiaries in which we are permanently reinvested for tax purposes. If this cash were repatriated to fund U.S. operations, additional tax costs may be incurred. Tax is one of many factors that we consider in the management of global cash. Included in the determination of the tax costs in repatriating foreign cash into the United States are the amount of earnings and profits in a particular jurisdiction, withholding taxes that would be imposed, and available foreign tax credits. Accordingly, the amount of taxes that we would need to accrue and pay to repatriate foreign cash could vary significantly.

## Other Liquidity Considerations

In several of our consolidated international subsidiaries, we have joint venture partners, who are minority shareholders. Although these entities are not wholly-owned by Itron, Inc., we consolidate them because we have a greater than 50% ownership interest or because we exercise control over the operations. The noncontrolling interest balance in our Consolidated Balance Sheets represents the proportional share of the equity of the joint venture entities, which is attributable to the minority shareholders. Approximately \$33.9 million of our consolidated cash balance at December 31, 2014 resides in our joint venture entities. As a result, the minority shareholders of these entities control their proportional share of this cash balance, and there may be limitations on our ability to repatriate cash to the U.S. from these entities.

For a description of our funded and unfunded non-U.S. defined benefit pension plans and our expected 2015 contributions, refer to Item 8: "Financial Statements and Supplementary Data, Note 8: Defined Benefit Pension Plans" included in this Annual Report on Form 10-K.

At December 31, 2014, we have accrued \$37.9 million of bonus and profit sharing plans expense for the achievement of annual financial and nonfinancial targets, compared with \$15.3 million at December 31, 2013. The 2014 awards will be paid in cash during the first quarter of 2015.

## General Liquidity Overview

We expect to grow through a combination of internal new product development, licensing technology from and to others, distribution agreements, partnering arrangements, and acquisitions of technology or other companies. We expect these activities to be funded with existing cash, cash flow from operations, borrowings, and the sale of common stock or other securities. We believe existing sources of liquidity will be sufficient to fund our existing operations and obligations for the next 12 months and into the foreseeable future, but offer no assurances. Our liquidity could be affected by the stability of the electricity, gas, and water industries, competitive pressures, changes in estimated liabilities for product warranties and/or litigation, future business combinations, capital market fluctuations, international risks, and other factors described under Item 1A: "Risk Factors," as well as Item 7A: "Quantitative and Qualitative Disclosures About Market Risk," both included in this Annual Report on Form 10-K.



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### Contingencies

Refer to Item 8: "Financial Statements and Supplementary Data, Note 12: Commitments and Contingencies" included in this Annual Report on Form 10-K.

### Critical Accounting Estimates

#### Revenue Recognition

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

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

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

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

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

We allocate consideration to each deliverable in an arrangement based on its relative selling price. We determine selling price using VSOE, if it exists, otherwise we use third-party evidence (TPE). We define VSOE as a median price of recent standalone transactions that are priced within a narrow range. TPE is determined based on the prices charged by our competitors for a similar deliverable when sold separately. If neither VSOE nor TPE of selling price exists for a unit of accounting, we use estimated selling price (ESP). The objective of ESP is to determine the price at which we would transact if the product or service were regularly sold by us on a standalone basis. Our determination of ESP involves a weighting of several factors based on the specific facts and circumstances of the arrangement. The factors considered include the cost to produce the deliverable, the anticipated margin on that deliverable, our ongoing pricing strategy and policies, and the characteristics of the varying markets in which the deliverable is sold.

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

### Warranty

We offer standard warranties on our hardware products and large application software products. We accrue the estimated cost of new product warranties based on historical and projected product performance trends and costs during the warranty period. Testing of new products in the development stage helps identify and correct potential warranty issues prior to manufacturing. Quality control efforts during manufacturing reduce our exposure to warranty claims. When testing or quality control efforts fail to detect a fault in one of our products, we may experience an increase in warranty claims. We track warranty claims to identify potential warranty trends. If an unusual trend is noted, an additional warranty accrual would be recorded if a failure event is probable and the cost can be reasonably estimated. When new products are introduced, our process relies on historical averages of similar products until sufficient data are available. As actual experience on new products becomes available, it is used to modify the

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historical averages to ensure the expected warranty costs are within a range of likely outcomes. Management regularly evaluates the sufficiency of the warranty provisions and makes adjustments when necessary. The warranty allowances may fluctuate due to changes in estimates for material, labor, and other costs we may incur to repair or replace projected product failures, and we may incur additional warranty and related expenses in the future with respect to new or established products, which could adversely affect our financial position and results of operations. The long-term warranty balance includes estimated warranty claims beyond one year.

### Restructuring

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

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

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

### Income Taxes

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

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

reduced or current tax planning strategies are not implemented.

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

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

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### Inventories

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

### Goodwill and Intangible Assets

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

Goodwill is assigned to our reporting units based on the expected benefit from the synergies arising from each business combination, determined by using certain financial metrics, including the forecast discounted cash flows associated with each reporting unit. The reporting units are aligned with our reporting segments, effective in the fourth quarter of 2013.

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

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

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

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

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

#### Defined Benefit Pension Plans

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

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

Our general funding policy for these qualified pension plans is to contribute amounts at least sufficient to satisfy funding standards of the respective countries for each plan. Our contributions for both funded and unfunded plans are paid from cash flows from our operations. Refer to Item 8: "Financial Statements and Supplementary Data, Note 8: Defined Benefit Pension Plans" included in this Annual Report on Form 10-K for our expected contributions for 2014.

### Contingencies

A loss contingency is recorded if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. We evaluate, among other factors, the degree of probability of an unfavorable outcome and our ability to make a reasonable estimate of the amount of the ultimate loss. Loss contingencies that we determine to be reasonably possible, but not probable, are disclosed but not recorded. Changes in these factors and related estimates could materially affect our financial position and results of operations. Legal costs to defend against contingent liabilities are expensed as incurred.

### Stock-Based Compensation

We measure and recognize compensation expense for all stock-based awards made to employees and directors, including awards of stock options, stock sold pursuant to our Employee Stock Purchase Plan (ESPP), and the issuance of restricted stock units and unrestricted stock awards, based on estimated fair values. The fair value of stock options is estimated at the date of grant using the Black-Scholes option-pricing model, which includes assumptions for the dividend yield, expected volatility, risk-free interest rate, and expected term. The fair value of restricted stock units with a market condition is estimated at the date of award using a Monte Carlo simulation model, which includes assumptions for the dividend yield, expected volatility, risk-free interest rate and the expected term. In valuing our stock options and restricted stock units with a market condition, significant judgment is required in determining the expected volatility of our common stock and the expected life that individuals will hold their stock options prior to exercising. Expected volatility for stock options is based on the historical and implied volatility of our own common stock while the volatility for our restricted stock units with a market condition is based on the historical volatility of our own stock and the stock for companies comprising the market index within the market condition. The expected life of stock option grants is derived from the historical actual term of option grants and an estimate of future exercises during the remaining contractual period of the option. While volatility and estimated life are assumptions that do not bear the risk of change subsequent to the grant date of stock options, these assumptions may be difficult to measure as they represent future expectations based on historical experience. Further, our expected volatility and expected life may change in the future, which could substantially change the grant-date fair value of future awards of stock options

and ultimately the expense we record. For ESPP awards, the fair value is the difference between the market close price of our common stock on the date of purchase and the discounted purchase price. For restricted stock units without a market condition and unrestricted stock awards, the fair value is the market close price of our common stock on the date of grant. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results and future estimates may differ substantially from our current estimates. We expense stock-based compensation at the date of grant for unrestricted stock awards. For awards with only a service condition, we expense stock-based compensation, adjusted for estimated forfeitures, using the straight-line method over the requisite service period for the entire award. For awards with both performance and service conditions, we expense the stock-based compensation, adjusted for estimated forfeitures, on a straight-line basis over the requisite service period for each separately vesting portion of the award. Excess tax benefits are credited to common stock when the deduction reduces cash taxes payable. When we have tax deductions in excess of the compensation cost, they are classified as financing cash inflows in the Consolidated Statements of Cash Flows.

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



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## ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

**Interest Rate Risk**

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

The table below provides information about our financial instruments that are sensitive to changes in interest rates and the scheduled minimum repayment of principal and estimated cash interest payments over the remaining lives of our debt at December 31, 2014. Weighted average variable rates in the table are based on implied forward rates in the Reuters U.S. dollar yield curve as of December 31, 2014 and our estimated leverage ratio, which determines our additional interest rate margin at December 31, 2014.

|   | 2015           | 2016      | 2017 | 2018 | 2019 | Total     | Fair Value |
|---|----------------|-----------|------|------|------|-----------|------------|
|   | (in thousands) |           |      |      |      |           |            |
| <b>Variable Rate Debt</b>                         |                |           |      |      |      |           |            |
| Principal: U.S. dollar term loan                  | \$30,000       | \$202,500 | \$—  | \$—  | \$—  | \$232,500 | \$231,645  |
| Average interest rate                             | 1.66           | % 2.33    | % —  | % —  | % —  | %         |            |
| Principal: Multicurrency revolving line of credit | \$—            | \$91,469  | \$—  | \$—  | \$—  | \$91,469  | \$91,124   |
| Average interest rate                             | 1.53           | % 1.98    | % —  | % —  | % —  | %         |            |
| <b>Interest rate swap on LIBOR based debt</b>     |                |           |      |      |      |           |            |
| Average interest rate (pay)                       | 1.00           | % 1.00    | % —  | % —  | % —  | %         |            |
| Average interest rate (receive)                   | 0.41           | % 1.08    | % —  | % —  | % —  | %         |            |
| Net/spread  | (0.59          | )% 0.08   | % —  | % —  | % —  | %         |            |

Based on a sensitivity analysis as of December 31, 2014, we estimate that, if market interest rates average one percentage point higher in 2014 than in the table above, our financial results in 2014 would not be materially impacted.

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

**Foreign Currency Exchange Rate Risk**

We conduct business in a number of countries. As a result, over half of our revenues and operating expenses are denominated in foreign currencies, which expose our account balances to movements in foreign currency exchange rates that could have a material effect on our financial results. Our primary foreign currency exposure relates to non-U.S. dollar denominated transactions in our international subsidiary operations, the most significant of which is the euro. Revenues denominated in functional currencies other than the U.S. dollar was 57% of total revenues for the year ended December 31, 2014, compared with 59% for the years ended December 31, 2013 and 2012.

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, foreign 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 517 contracts were entered into during the year ended December 31, 2014), not designated for hedge accounting, with the intent to reduce earnings volatility associated

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with certain of these balances. The notional amounts of the contracts ranged from \$86,000 to \$20.7 million, offsetting our exposures from the euro, British pound, Canadian dollar, Australian dollar, Mexican Peso and various other currencies.

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

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ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
REPORT OF MANAGEMENT

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

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

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

Philip C. Mezey  
President and Chief Executive Officer

W. Mark Schmitz  
Executive Vice President and Chief Financial Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Itron, Inc.

We have audited the accompanying consolidated balance sheets of Itron, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Itron, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Itron, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 20, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP  
Seattle, Washington  
February 20, 2015

Table of ContentsITRON, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Year Ended December 31,               |               |             |
|--|---------------------------------------|---------------|-------------|
|  | 2014                                  | 2013          | 2012        |
|  | (in thousands, except per share data) |               |             |
| Revenues   | \$1,970,697                           | \$1,948,728   | \$2,178,178 |
| Cost of revenues   | 1,347,572                             | 1,334,195     | 1,463,031   |
| Gross profit   | 623,125                               | 614,533       | 715,147     |
| Operating expenses   |                                       |               |             |
| Sales and marketing  | 185,239                               | 180,371       | 197,603     |
| Product development  | 175,500                               | 176,019       | 178,653     |
| General and administrative                                     | 163,101                               | 142,559       | 138,290     |
| Amortization of business acquisition-related intangible assets | 43,619                                | 42,019        | 47,810      |
| Restructuring expense  | 50,857                                | 35,497        | 1,665       |
| Goodwill impairment  | 977                                   | 173,249       | —           |
| Total operating expenses                                       | 619,293                               | 749,714       | 564,021     |
| Operating income (loss)  | 3,832                                 | (135,181)     | ) 151,126   |
| Other income (expense)   |                                       |               |             |
| Interest income  | 494                                   | 1,620         | 952         |
| Interest expense   | (11,602)                              | ) (10,686)    | ) (10,115)  |
| Other income (expense), net                                    | (7,633)                               | ) (4,007)     | ) (5,744)   |
| Total other income (expense)                                   | (18,741)                              | ) (13,073)    | ) (14,907)  |
| Income (loss) before income taxes                              | (14,909)                              | ) (148,254)   | ) 136,219   |
| Income tax (provision) benefit                                 | (6,641)                               | ) 3,664       | (25,995)    |
| Net income (loss)  | (21,550)                              | ) (144,590)   | ) 110,224   |
| Net income attributable to noncontrolling interests            | 1,370                                 | 2,219         | 1,949       |
| Net income (loss) attributable to Itron, Inc.                  | \$(22,920)                            | ) \$(146,809) | ) \$108,275 |
| Earnings (loss) per common share - Basic                       | \$(0.58)                              | ) \$(3.74)    | ) \$2.73    |
| Earnings (loss) per common share - Diluted                     | \$(0.58)                              | ) \$(3.74)    | ) \$2.71    |
| Weighted average common shares outstanding - Basic             | 39,184                                | 39,281        | 39,625      |
| Weighted average common shares outstanding - Diluted           | 39,184                                | 39,281        | 39,934      |

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

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ITRON, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

|  | Year Ended December 31, |              |            |
|--|-------------------------|--------------|------------|
|  | 2014                    | 2013         | 2012       |
|  | (in thousands)          |              |            |
| Net income (loss)  | \$(21,550 )             | \$(144,590 ) | \$ 110,224 |
| Other comprehensive income (loss), net of tax:                                       |                         |              |            |
| Foreign currency translation adjustments   | (90,333 )               | 7,077        | 21,382     |
| Unrealized gains (losses) on hedging instruments:                                    |                         |              |            |
| Net unrealized gain (loss) on derivative instruments, designated as cash flow hedges | (566 )                  | 2            | (1,689 )   |
| Net hedging loss (gain) reclassified into net income (loss)                          | 1,054                   | 431          | —          |
| Pension plan benefit liability adjustment  | (24,947 )               | 5,117        | (16,940 )  |
| Total other comprehensive income (loss), net of tax                                  | (114,792 )              | 12,627       | 2,753      |
| Total comprehensive income (loss), net of tax  | (136,342 )              | (131,963 )   | 112,977    |
| Comprehensive income (loss) attributable to noncontrolling interest, net of tax:     |                         |              |            |
| Net income attributable to noncontrolling interests                                  | 1,370                   | 2,219        | 1,949      |
| Foreign currency translation adjustments   | —                       | (35 )        | (23 )      |
| Amounts attributable to noncontrolling interests                                     | 1,370                   | 2,184        | 1,926      |
| Comprehensive income (loss) attributable to Itron, Inc.                              | \$(137,712 )            | \$(134,147 ) | \$ 111,051 |

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

Table of ContentsITRON, INC.  
CONSOLIDATED BALANCE SHEETS

|   | December 31, 2014<br>(in thousands) | December 31, 2013 |
|---|-------------------------------------|-------------------|
| <b>ASSETS</b>   |                                     |                   |
| Current assets  |                                     |                   |
| Cash and cash equivalents   | \$ 112,371                          | \$ 124,805        |
| Accounts receivable, net  | 348,389                             | 356,709           |
| Inventories   | 154,504                             | 177,467           |
| Deferred tax assets current, net  | 39,115                              | 37,110            |
| Other current assets  | 104,307                             | 103,275           |
| Total current assets  | 758,686                             | 799,366           |
| Property, plant, and equipment, net   |                                     |                   |
| Deferred tax assets noncurrent, net   | 207,789                             | 246,820           |
| Other long-term assets  | 74,598                              | 58,880            |
| Intangible assets, net  | 28,503                              | 33,027            |
| Goodwill  | 139,909                             | 195,840           |
| Total assets  | 500,820                             | 548,578           |
|   | \$ 1,710,305                        | \$ 1,882,511      |
| <b>LIABILITIES AND EQUITY</b>   |                                     |                   |
| Current liabilities   |                                     |                   |
| Accounts payable  | \$ 184,132                          | \$ 199,769        |
| Other current liabilities   | 100,945                             | 70,768            |
| Wages and benefits payable  | 95,248                              | 89,314            |
| Taxes payable   | 21,951                              | 10,700            |
| Current portion of debt   | 30,000                              | 26,250            |
| Current portion of warranty   | 21,063                              | 21,048            |
| Unearned revenue  | 43,436                              | 37,163            |
| Total current liabilities   | 496,775                             | 455,012           |
| Long-term debt  |                                     |                   |
| Long-term warranty  | 293,969                             | 352,500           |
| Pension plan benefit liability  | 15,403                              | 24,098            |
| Deferred tax liabilities noncurrent, net  | 101,432                             | 88,687            |
| Other long-term obligations   | 3,808                               | 7,326             |
| Total liabilities   | 84,437                              | 81,917            |
|   | 995,824                             | 1,009,540         |
| Commitments and contingencies (Note 12)   |                                     |                   |
| Equity  |                                     |                   |
| Preferred stock, no par value, 10 million shares authorized, no shares issued or outstanding              | —                                   | —                 |
| Common stock, no par value, 75 million shares authorized, 38,591 and 39,149 shares issued and outstanding | 1,270,045                           | 1,290,629         |
| Accumulated other comprehensive loss, net   | (136,514                            | ) (21,722         |
| Accumulated deficit   | (436,591                            | ) (413,671        |
| Total Itron, Inc. shareholders' equity  | 696,940                             | 855,236           |



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|                              |              |              |
|------------------------------|--------------|--------------|
| Noncontrolling interests     | 17,541       | 17,735       |
| Total equity                 | 714,481      | 872,971      |
| Total liabilities and equity | \$ 1,710,305 | \$ 1,882,511 |

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

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

|   | Shares   | Amount       | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Total Itron,<br>Inc.<br>Shareholders'<br>Equity | Noncontrolling<br>Interests | Total Equity |
|---|----------|--------------|--|--|---|-----------------------------|--------------|
| Balances at January 1, 2012                   | 40,032   | \$ 1,319,222 | \$ (37,160 )   | \$ (375,137 )                                    | \$ 906,925                                      | \$ 14,620                   | \$ 921,545   |
| Net income                                    |          |              |  | 108,275  | 108,275   | 1,949                       | 110,224      |
| Other comprehensive income (loss), net of tax |          |              | 2,776  |  | 2,776   | (23 )                       | 2,753        |
| Stock issues:                                 |          |              |  |  |   |                             |              |
| Options exercised                             | 54       | 1,188        |  |  | 1,188   |                             | 1,188        |
| Restricted stock awards released              | 275      | —            |  |  | —   |                             | —            |
| Issuance of stock-based compensation awards   | 17       | 769          |  |  | 769   |                             | 769          |
| Employee stock purchase plan                  | 101      | 3,593        |  |  | 3,593   |                             | 3,593        |
| Stock-based compensation expense              |          | 18,743       |  |  | 18,743  |                             | 18,743       |
| Employee stock plans income tax deficiencies  |          | (1,861 )     |  |  | (1,861 )  |                             | (1,861 )     |
| Repurchase of common stock                    | (1,202 ) | (47,441 )    |  |  | (47,441 )                                       |                             | (47,441 )    |
| Balances at December 31, 2012                 | 39,277   | \$ 1,294,213 | \$ (34,384 )   | \$ (266,862 )                                    | \$ 992,967                                      | \$ 16,546                   | \$ 1,009,513 |
| Net income (loss)                             |          |              |  | (146,809 )                                       | (146,809 )                                      | 2,219                       | (144,590 )   |
| Other comprehensive income (loss), net of tax |          |              | 12,662   |  | 12,662  | (35 )                       | 12,627       |
| Distributions to noncontrolling interests     |          |              |  |  |   | (995 )                      | (995 )       |
| Stock issues and repurchases:                 |          |              |  |  |   |                             |              |
| Options exercised                             | 74       | 1,771        |  |  | 1,771   |                             | 1,771        |
| Restricted stock awards released              | 331      | —            |  |  | —   |                             | —            |
| Issuance of stock-based compensation awards   | 18       | 811          |  |  | 811   |                             | 811          |
| Employee stock purchase plan                  | 94       | 3,528        |  |  | 3,528   |                             | 3,528        |
| Stock-based compensation expense              |          | 18,039       |  |  | 18,039  |                             | 18,039       |
|   |          | (756 )       |  |  | (756 )  |                             | (756 )       |

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|   |        |             |               |               |            |           |            |
|---|--------|-------------|---------------|---------------|------------|-----------|------------|
| Employee stock plans<br>income tax deficiencies     |        |             |               |               |            |           |            |
| Repurchase of common<br>stock                       | (645 ) | (26,977 )   |               | (26,977 )     |            | (26,977 ) |            |
| Balances at<br>December 31, 2013                    | 39,149 | \$1,290,629 | \$ (21,722 )  | \$ (413,671 ) | \$ 855,236 | \$ 17,735 | \$872,971  |
| Net income (loss)                                   |        |             |               | (22,920 )     | (22,920 )  | 1,370     | (21,550 )  |
| Other comprehensive<br>income (loss), net of<br>tax |        |             | (114,792 )    |               | (114,792 ) | —         | (114,792 ) |
| Distributions to<br>noncontrolling interests        |        |             |               |               |            | (1,564 )  | (1,564 )   |
| Stock issues and<br>repurchases:                    |        |             |               |               |            |           |            |
| Options exercised                                   | 65     | 1,621       |               |               | 1,621      |           | 1,621      |
| Restricted stock awards<br>released                 | 281    | —           |               |               | —          |           | —          |
| Issuance of stock-based<br>compensation awards      | 21     | 936         |               |               | 936        |           | 936        |
| Employee stock<br>purchase plan                     | 61     | 2,247       |               |               | 2,247      |           | 2,247      |
| Stock-based<br>compensation expense                 |        | 16,924      |               |               | 16,924     |           | 16,924     |
| Employee stock plans<br>income tax deficiencies     |        | (2,647 )    |               |               | (2,647 )   |           | (2,647 )   |
| Repurchase of common<br>stock                       | (986 ) | (39,665 )   |               |               | (39,665 )  |           | (39,665 )  |
| Balances at<br>December 31, 2014                    | 38,591 | \$1,270,045 | \$ (136,514 ) | \$ (436,591 ) | \$ 696,940 | \$ 17,541 | \$714,481  |

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

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ITRON, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Year Ended December 31, |              |             |
|--|-------------------------|--------------|-------------|
|  | 2014                    | 2013         | 2012        |
|  | (in thousands)          |              |             |
| Operating activities   |                         |              |             |
| Net income (loss)  | \$(21,550               | ) \$(144,590 | ) \$110,224 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                         |              |             |
| Depreciation and amortization  | 98,463                  | 98,845       | 109,471     |
| Stock-based compensation   | 17,860                  | 18,850       | 19,512      |
| Amortization of prepaid debt fees  | 1,612                   | 1,657        | 1,597       |
| Deferred taxes, net  | (31,542                 | ) (26,757    | ) (6,775    |
| Goodwill impairment  | 977                     | 173,249      | —           |
| Restructuring expense (recovery), non-cash   | 5,220                   | 1,259        | (4,839      |
| Other adjustments, net   | 914                     | 551          | (189        |
| Changes in operating assets and liabilities, net of acquisitions:                        |                         |              |             |
| Accounts receivable  | (16,789                 | ) 13,652     | 36,300      |
| Inventories  | 6,021                   | (10,861      | ) 28,253    |
| Other current assets   | (9,447                  | ) (4,143     | ) (20,052   |
| Other long-term assets   | 1,582                   | 1,093        | 10,578      |
| Accounts payables, other current liabilities, and taxes payable                          | 55,924                  | (7,702       | ) (47,367   |
| Wages and benefits payable   | 10,334                  | (1,995       | ) (8,967    |
| Unearned revenue   | 9,240                   | (3,274       | ) 12,009    |
| Warranty   | (6,364                  | ) (7,552     | ) (25,919   |
| Other operating, net   | 10,518                  | 3,139        | (8,746      |
| Net cash provided by operating activities  | 132,973                 | 105,421      | 205,090     |
| Investing activities   |                         |              |             |
| Acquisitions of property, plant, and equipment   | (44,495                 | ) (60,020    | ) (50,543   |
| Business acquisitions, net of cash equivalents acquired                                  | —                       | (860         | ) (79,017   |
| Other investing, net   | 2,999                   | 4,109        | 4,115       |
| Net cash used in investing activities  | (41,496                 | ) (56,771    | ) (125,445  |
| Financing activities   |                         |              |             |
| Proceeds from borrowings   | 47,657                  | 35,000       | 80,000      |
| Payments on debt   | (102,438                | ) (73,750    | ) (115,002  |
| Issuance of common stock   | 3,647                   | 5,299        | 4,781       |
| Repurchase of common stock   | (39,665                 | ) (26,977    | ) (47,441   |
| Other financing, net   | (1,078                  | ) 2,990      | 134         |
| Net cash used in financing activities  | (91,877                 | ) (57,438    | ) (77,528   |
| Effect of foreign exchange rate changes on cash and cash equivalents                     | (12,034                 | ) (2,818     | ) 1,208     |
| Increase (decrease) in cash and cash equivalents   | (12,434                 | ) (11,606    | ) 3,325     |
| Cash and cash equivalents at beginning of period   | 124,805                 | 136,411      | 133,086     |
| Cash and cash equivalents at end of period   | \$112,371               | \$124,805    | \$136,411   |

Non-cash transactions:

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|   |         |       |         |
|---|---------|-------|---------|
| Property, plant, and equipment purchased but not yet paid | \$1,155 | \$828 | \$8,843 |
|---|---------|-------|---------|

Supplemental disclosure of cash flow information:

Cash paid during the period for:

|                                      |          |          |          |
|--------------------------------------|----------|----------|----------|
| Income taxes, net                    | \$18,222 | \$18,659 | \$40,799 |
| Interest, net of amounts capitalized | 9,912    | 9,026    | 8,536    |

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

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ITRON, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014

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

Note 1: Summary of Significant Accounting Policies

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

Financial Statement Preparation

The consolidated financial statements presented in this Annual Report include the Consolidated Statements of Operations, Comprehensive Income (Loss), Equity, and Cash Flows for the years ended December 31, 2014, 2013, and 2012 and the Consolidated Balance Sheets as of December 31, 2014 and 2013 of Itron, Inc. and its subsidiaries.

Basis of Consolidation

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

Noncontrolling Interests

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

Business Acquisitions

On May 1, 2012, we completed the acquisition of SmartSynch, Inc. (SmartSynch). SmartSynch was a provider of smart grid solutions that utilize cellular networks for communications.

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded for invoices issued to customers in accordance with our contractual arrangements. Interest and late payment fees are minimal. Unbilled receivables are recorded when revenues are recognized upon product shipment or service delivery and invoicing occurs at a later date. We record an allowance for doubtful accounts representing our estimate of the probable losses in accounts receivable at the date of the balance sheet based on our historical experience of bad debts and our specific review of outstanding receivables. Accounts receivable are written-off against the allowance when we believe an account, or a portion thereof, is no longer collectible.

Inventories

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

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### Derivative Instruments

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

For any derivative designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. For any derivative designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded as a component of other comprehensive income (loss) (OCI) and are recognized in earnings when the hedged item affects earnings. Ineffective portions of cash flow hedges are recognized in other income (expense) in the Consolidated Statements of Operations. For a hedge of a net investment, the effective portion of any unrealized gain or loss from the foreign currency revaluation of the hedging instrument is reported in OCI as a net unrealized gain or loss on derivative instruments. Upon termination of a net investment hedge, the net derivative gain/loss will remain in accumulated OCI until such time when earnings are impacted by a sale or liquidation of the associated operations. Ineffective portions of fair value changes or the changes in fair value of derivative instruments that do not qualify for hedging activities are recognized in other income (expense) in the Consolidated Statements of Operations. We classify cash flows from our derivative programs as cash flows from operating activities in the Consolidated Statements of Cash Flows.

Derivatives are not used for trading or speculative purposes. Our derivatives are with credit worthy multinational commercial banks, with whom we have master netting agreements; however, our derivative positions are not recorded on a net basis in the consolidated balance sheets. There are no credit-risk-related contingent features within our derivative instruments. Refer to Note 7 and Note 14 for further disclosures of our derivative instruments and their impact on OCI.

### Property, Plant, and Equipment

Property, plant, and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 30 years for buildings and improvements and three to ten years for machinery and equipment, computers and software, and furniture. Leasehold improvements are capitalized and depreciated over the term of the applicable lease, including renewable periods if reasonably assured, or over the useful lives, whichever is shorter. Construction in process represents capital expenditures incurred for assets not yet placed in service. Costs related to internally developed software and software purchased for internal uses are capitalized and are amortized over the estimated useful lives of the assets. Repair and maintenance costs are expensed as incurred. We have no major planned maintenance activities.

We review long-lived assets for impairment whenever events or circumstances indicate the carrying amount of an asset group may not be recoverable. Assets held for sale are classified within other current assets in the Consolidated Balance Sheets, are reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. Gains and losses from asset disposals and impairment losses are classified within the Consolidated Statement of Operations according to the use of the asset, except those gains and losses recognized in conjunction with our restructuring activities, which are classified within restructuring expense.

### Prepaid Debt Fees

Prepaid debt fees represent the capitalized direct costs incurred related to the issuance of debt and are recorded as noncurrent assets. These costs are amortized to interest expense over the terms of the respective borrowings, including



contingent maturity or call features, using the effective interest method, or straight-line method when associated with a revolving credit facility. When debt is repaid early, the related portion of unamortized prepaid debt fees is written-off and included in interest expense.

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### Business Combinations

On the date of acquisition, the assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree are recorded at their fair values. The acquiree's results of operations are also included as of the date of acquisition in our consolidated results. Intangible assets that arise from contractual/legal rights, or are capable of being separated, as well as in-process research and development (IPR&D), are measured and recorded at fair value, and amortized over the estimated useful life. IPR&D is not amortized until such time as the associated development projects are completed or terminated. If a development project is completed, the IPR&D is reclassified as a core technology intangible asset and amortized over its estimated useful life. If the development project is terminated, the recorded value of the associated IPR&D is immediately expensed. If practicable, assets acquired and liabilities assumed arising from contingencies are measured and recorded at fair value. If not practicable, such assets and liabilities are measured and recorded when it is probable that a gain or loss has occurred and the amount can be reasonably estimated. The residual balance of the purchase price, after fair value allocations to all identified assets and liabilities, represents goodwill. Acquisition-related costs are expensed as incurred. Restructuring costs associated with an acquisition are generally expensed in periods subsequent to the acquisition date, and changes in deferred tax asset valuation allowances and acquired income tax uncertainties, including penalties and interest, after the measurement period are recognized as a component of the provision for income taxes. Our acquisitions may include contingent consideration, which require us to recognize the fair value of the estimated liability at the time of the acquisition. Subsequent changes in the estimate of the amount to be paid under the contingent consideration arrangement are recognized in the consolidated statements of operations. Cash payments for contingent or deferred consideration are classified within cash flows from investing activities within the consolidated statements of cash flows.

### Goodwill and Intangible Assets

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

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

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

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

#### Contingencies

A loss contingency is recorded if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. We evaluate, among other factors, the degree of probability of an unfavorable outcome and our ability to make a reasonable estimate of the amount of the ultimate loss. Loss contingencies that we determine to be reasonably possible, but not probable, are disclosed but not recorded. Changes in these factors and related estimates could materially affect our financial position and results of operations. Legal costs to defend against contingent liabilities are expensed as incurred.

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### Bonus and Profit Sharing

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

### Warranty

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

### Restructuring

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

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

### Defined Benefit Pension Plans

We sponsor both funded and unfunded defined benefit pension plans for certain international employees. We recognize a liability for the projected benefit obligation in excess of plan assets or an asset for plan assets in excess of the projected benefit obligation. We also recognize the funded status of our defined benefit pension plans on our Consolidated Balance Sheets and recognize as a component of OCI, net of tax, the actuarial gains or losses and prior

service costs or credits, if any, that arise during the period but that are not recognized as components of net periodic benefit cost. If actuarial gains and losses exceed ten percent of the greater of plan assets or plan liabilities, we amortize them over the employees' average future service period.

#### Share Repurchase Plan

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

#### Revenue Recognition

Revenues consist primarily of hardware sales, software license fees, software implementation, project management services, installation, consulting, and post-sale maintenance support. Revenues are recognized when (1) persuasive evidence of an

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arrangement exists, (2) delivery has occurred or services have been rendered, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured.

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

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

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

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

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

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

We also enter into multiple deliverable software arrangements that do not include hardware. For this type of arrangement, revenue recognition is dependent upon the availability of vendor specific objective evidence (VSOE) of fair value for each of the deliverables. The lack of VSOE, or the existence of extended payment terms or other inherent risks, may affect the timing of revenue recognition for multiple deliverable software arrangements.

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

We allocate consideration to each deliverable in an arrangement based on its relative selling price. We determine selling price using VSOE, if it exists, otherwise we use third-party evidence (TPE). We define VSOE as a median price of recent standalone transactions that are priced within a narrow range. TPE is determined based on the prices charged by our competitors for a similar deliverable when sold separately. If neither VSOE nor TPE of selling price exists for a unit of accounting, we use estimated selling price (ESP) to determine the price at which we would transact if the product or service were regularly sold by us on a standalone basis. Our determination of ESP involves a weighting of several factors based on the specific facts and circumstances of the arrangement. The factors considered include the cost to produce the deliverable, the anticipated margin on that deliverable, our ongoing pricing strategy and policies, and the characteristics of the varying markets in which the deliverable is sold.

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

Unearned revenue is recorded when a customer pays for products or services, but the criteria for revenue recognition have not been met as of the balance sheet date. Unearned revenues of \$76.6 million and \$69.8 million at December 31, 2014 and 2013 related primarily to professional services and software associated with our smart metering contracts, extended or noncustomary warranty, and prepaid post-contract support. Deferred costs are recorded for products or services for which ownership (typically defined as title and risk of loss) has transferred to the customer, but the criteria for revenue recognition have not been met as of the balance sheet date. Deferred costs were \$24.9 million and \$23.5 million at December 31, 2014 and 2013 and are recorded within other assets in the Consolidated Balance Sheets.

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

### Product and Software Development Costs

Product and software development costs primarily include employee compensation and third party contracting fees. We do not capitalize product development costs, and we do not generally capitalize software development expenses as the costs incurred are immaterial for the relatively short period of time between technological feasibility and the completion of software development.

### Stock-Based Compensation

We measure and recognize compensation expense for all stock-based awards made to employees and directors, including stock options, stock sold pursuant to our Employee Stock Purchase Plan (ESPP), and the issuance of restricted stock units and unrestricted stock awards, based on estimated fair values. The fair value of stock options is estimated at the date of grant using the Black-Scholes option-pricing model, which includes assumptions for the dividend yield, expected volatility, risk-free interest rate, and expected term. For ESPP awards, the fair value is the difference between the market close price of our common stock on the date of purchase and the discounted purchase price. For performance-based restricted stock units and unrestricted stock awards with no market conditions, the fair value is the market close price of our common stock on the date of grant. For restricted stock units with market conditions, the fair value is estimated at the date of award using a Monte Carlo simulation model, which includes assumptions for dividend yield and expected volatility for our common stock and the common stock for companies within the Russell 3000 index, as well as the risk-free interest rate and expected term of the awards. We expense stock-based compensation at the date of grant for unrestricted stock awards. For awards with only a service condition, we expense stock-based compensation, adjusted for estimated forfeitures, using the straight-line method over the requisite service period for the entire award. For awards with performance and service conditions, if vesting is probable, we expense the stock-based compensation, adjusted for estimated forfeitures, on a straight-line basis over the requisite service period for each separately vesting portion of the award. For awards with a market condition, we expense the fair value over the requisite service period. Excess tax benefits are credited to common stock when the deduction reduces cash taxes payable. When we have tax deductions in excess of the compensation cost, they are classified as financing cash inflows in the Consolidated Statements of Cash Flows.

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



#### Income Taxes

We account for income taxes using the asset and liability method of accounting. Deferred tax assets and liabilities are recognized based upon anticipated future tax consequences, in each of the jurisdictions that we operate, attributable to: (1) the differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases; and (2) net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of our tax liabilities involves applying complex tax regulations in different tax jurisdictions to our tax positions. The effect on deferred tax assets and liabilities of a change in tax legislation and/or rates is recognized in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is not more likely than not that such assets will be realized. We do not record tax liabilities on undistributed earnings of international subsidiaries that are permanently reinvested.

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### Foreign Exchange

Our consolidated financial statements are reported in U.S. dollars. Assets and liabilities of international subsidiaries with non-U.S. dollar functional currencies are translated to U.S. dollars at the exchange rates in effect on the balance sheet date, or the last business day of the period, if applicable. Revenues and expenses for each subsidiary are translated to U.S. dollars using a weighted average rate for the relevant reporting period. Translation adjustments resulting from this process are included, net of tax, in OCI. Gains and losses that arise from exchange rate fluctuations for monetary asset and liability balances that are not denominated in an entity's functional currency are included within other income (expense), net in the Consolidated Statements of Operations. Currency gains and losses of intercompany balances deemed to be long-term in nature or designated as a hedge of the net investment in international subsidiaries are included, net of tax, in OCI. Foreign currency losses, net of hedging, were \$5.1 million in 2014, compared with net foreign currency losses of \$3.3 million in 2013 and \$3.8 million in 2012.

### Fair Value Measurements

For assets and liabilities measured at fair value, the GAAP fair value hierarchy prioritizes the inputs used in different valuation methodologies, assigning the highest priority to unadjusted quoted prices for identical assets and liabilities in actively traded markets (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 2 inputs consist of quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in non-active markets; and model-derived valuations in which significant inputs are corroborated by observable market data either directly or indirectly through correlation or other means. Inputs may include yield curves, volatility, credit risks, and default rates.

### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Due to various factors affecting future costs and operations, actual results could differ materially from these estimates.

### New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers: Topic 606 (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 is effective for us on January 1, 2017 using either the retrospective or modified-retrospective transition method. We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements.

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## Note 2: Earnings (Loss) Per Share

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

|  | Year Ended December 31,               |               |              |
|--|---------------------------------------|---------------|--------------|
|  | 2014                                  | 2013          | 2012         |
|  | (in thousands, except per share data) |               |              |
| Net income (loss) available to common shareholders   | \$ (22,920                            | ) \$ (146,809 | ) \$ 108,275 |
| Weighted average common shares outstanding - Basic   | 39,184                                | 39,281        | 39,625       |
| Dilutive effect of stock-based awards                | —                                     | —             | 309          |
| Weighted average common shares outstanding - Diluted | 39,184                                | 39,281        | 39,934       |
| Earnings (loss) per common share - Basic             | \$ (0.58                              | ) \$ (3.74    | ) \$ 2.73    |
| Earnings (loss) per common share - Diluted           | \$ (0.58                              | ) \$ (3.74    | ) \$ 2.71    |

## 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. As a result of our net losses for 2014 and 2013, there was no dilutive effect to the weighted average common shares outstanding for these years.

Approximately 1.4 million, 1.4 million, and 1.1 million stock-based awards were excluded from the calculation of diluted EPS for the years ended December 31, 2014, 2013, and 2012, respectively, because they were anti-dilutive. These stock-based awards could be dilutive in future periods.

## Note 3: Certain Balance Sheet Components

|   | December 31, 2014 | December 31, 2013 |
|---|-------------------|-------------------|
| Accounts receivable, net                                    | (in thousands)    |                   |
| Trade receivables (net of allowance of \$6,195 and \$8,368) | \$312,302         | \$328,240         |
| Unbilled receivables  | 36,087            | 28,469            |
| Total accounts receivable, net                              | \$348,389         | \$356,709         |

At December 31, 2014 and 2013, \$4.7 million and \$3.2 million were recorded within trade receivables as billed but not yet paid by customers in accordance with contract retainage provisions. At December 31, 2014 and 2013, contract retainage amounts that were unbilled and classified as unbilled receivables were \$4.0 million and \$4.3 million. These contract retainage amounts within trade receivables and unbilled receivables are expected to be collected within the following 12 months.

At December 31, 2014 and 2013, long-term unbilled receivables totaled \$4.3 million and \$4.7 million. These long-term unbilled receivables are classified within other long-term assets, as collection is not anticipated within the following 12 months. We had no long-term billed contract retainage receivables at December 31, 2014, as we expect to collect all contract retainage receivables within the following 12 months.

| Allowance for doubtful account activity | Year Ended December 31, |      |
|---|-------------------------|------|
|   | 2014                    | 2013 |
|   | (in thousands)          |      |

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|                                      |         |         |   |
|--------------------------------------|---------|---------|---|
| Beginning balance                    | \$8,368 | \$7,372 |   |
| Provision for doubtful accounts, net | 308     | 1,740   |   |
| Accounts written-off                 | (1,955  | ) (636  | ) |
| Effects of change in exchange rates  | (526    | ) (108  | ) |
| Ending balance                       | \$6,195 | \$8,368 |   |

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| Inventories       | December 31, 2014<br>(in thousands) | December 31, 2013 |
|-------------------|-------------------------------------|-------------------|
| Materials         | \$90,557                            | \$102,596         |
| Work in process   | 8,991                               | 13,770            |
| Finished goods    | 54,956                              | 61,101            |
| Total inventories | \$154,504                           | \$177,467         |

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

Consigned inventory is held at third-party locations; however, we retain title to the inventory until purchased by the third-party. Consigned inventory, consisting of raw materials and finished goods, was \$2.5 million and \$6.4 million at December 31, 2014 and 2013, respectively.

| Property, plant, and equipment, net                     | December 31, 2014<br>(in thousands) | December 31, 2013 |
|---|-------------------------------------|-------------------|
| Machinery and equipment                                 | \$287,448                           | \$309,525         |
| Computers and software                                  | 100,212                             | 99,654            |
| Buildings, furniture, and improvements                  | 134,461                             | 145,926           |
| Land  | 21,186                              | 24,005            |
| Construction in progress, including purchased equipment | 21,007                              | 14,257            |
| Total cost  | 564,314                             | 593,367           |
| Accumulated depreciation                                | (356,525)                           | (346,547)         |
| Property, plant, and equipment, net                     | \$207,789                           | \$246,820         |

| Depreciation expense | Year Ended December 31, |          |          |
|----------------------|-------------------------|----------|----------|
|                      | 2014                    | 2013     | 2012     |
|                      | (in thousands)          |          |          |
| Depreciation expense | \$54,759                | \$56,826 | \$61,661 |

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## Note 4: Intangible Assets

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

|   | December 31, 2014 |                          |            | December 31, 2013 |                          |            |
|---|-------------------|--------------------------|------------|-------------------|--------------------------|------------|
|   | Gross Assets      | Accumulated Amortization | Net        | Gross Assets      | Accumulated Amortization | Net        |
|   | (in thousands)    |                          |            |                   |                          |            |
| Core-developed technology                       | \$405,434         | \$(359,500)              | ) \$45,934 | \$428,890         | \$(356,017)              | ) \$72,873 |
| Customer contracts and relationships            | 262,930           | (172,755)                | ) 90,175   | 291,185           | (173,952)                | ) 117,233  |
| Trademarks and trade names                      | 68,205            | (64,905)                 | ) 3,300    | 73,117            | (67,449)                 | ) 5,668    |
| Other   | 11,579            | (11,079)                 | ) 500      | 11,089            | (11,023)                 | ) 66       |
| Total intangible assets subject to amortization | 748,148           | (608,239)                | ) 139,909  | 804,281           | (608,441)                | ) 195,840  |

A summary of the intangible asset account activity is as follows:

|   | Year Ended December 31, |           |
|---|-------------------------|-----------|
|   | 2014                    | 2013      |
|   | (in thousands)          |           |
| Beginning balance, intangible assets, gross | \$804,281               | \$802,540 |
| Intangible assets acquired                  | 1,453                   | (1,500)   |
| Effect of change in exchange rates          | (57,586)                | ) 3,241   |
| Ending balance, intangible assets, gross    | \$748,148               | \$804,281 |

Intangible assets acquired during 2014 consist of purchased technology and purchased software licenses to be sold to others. Amortization expense associated with these intangible assets is classified within Cost of revenues in the Consolidated Statements of Operations.

For the year ended December 31, 2013, the adjustment of \$1.5 million to intangible assets acquired is associated with the correction of an error for a long-term revenue contract from the SmartSynch acquisition, which occurred on May 1, 2012. During the second quarter of 2013, we finalized the purchase price allocation related to this acquisition and recorded certain adjustments that are reflected as Intangible assets acquired in the table above. These adjustments primarily affected the fair value calculation of certain accrued liabilities associated with specific contracts. Among these adjustments was the correction of an error associated with a long-term revenue contract acquired from SmartSynch. In May 2013, we determined that certain manufacturing costs were not reflected in the model used to value this contract at acquisition. Once these costs were properly added to the total cost and profitability estimates, we determined the total contract would result in a loss over the contract term. Previously, we had recognized a customer relationship intangible asset of \$1.5 million associated with this contract, with amortization scheduled to begin in 2014 based on the contract's original projected cash flow. Since the contract is in an overall loss position, we determined that the intangible asset had no value. We reduced the value of this intangible asset to zero with a corresponding adjustment to goodwill.

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

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A summary of intangible asset amortization expense is as follows:

| Amortization expense | Year Ended December 31, |          |          |
|----------------------|-------------------------|----------|----------|
|                      | 2014                    | 2013     | 2012     |
|                      | (in thousands)          |          |          |
| Amortization expense | \$43,704                | \$42,019 | \$47,810 |

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Estimated future annual amortization expense is as follows:

| Years ending December 31,                       | Estimated Annual Amortization<br>(in thousands) |
|---|---|
| 2015  | \$33,562  |
| 2016  | 26,522  |
| 2017  | 19,485  |
| 2018  | 13,571  |
| 2019  | 10,501  |
| Beyond 2019                                     | 36,268  |
| Total intangible assets subject to amortization | \$139,909                                       |
| Note 5: Goodwill                                |   |

The following table reflects goodwill allocated to each reporting segment at December 31, 2014 and 2013:

|                                       | Electricity<br>(in thousands) | Gas       | Water     | Total Company |
|---------------------------------------|-------------------------------|-----------|-----------|---------------|
| Goodwill balance at January 1, 2013   |                               |           |           |               |
| Goodwill before impairment            | \$475,711                     | \$383,743 | \$414,394 | \$1,273,848   |
| Accumulated impairment losses         | (249,502)                     | ) —       | (323,330) | ) (572,832)   |
| Goodwill, net                         | 226,209                       | 383,743   | 91,064    | 701,016       |
| Goodwill balance at December 31, 2013 |                               |           |           |               |
| Goodwill before impairment            | 493,610                       | 394,878   | 429,783   | 1,318,271     |
| Accumulated impairment losses         | (433,378)                     | ) —       | (336,315) | ) (769,693)   |
| Goodwill, net                         | 60,232                        | 394,878   | 93,468    | 548,578       |
| Goodwill balance at December 31, 2014 |                               |           |           |               |
| Goodwill before impairment            | 449,668                       | 359,485   | 382,655   | 1,191,808     |
| Accumulated impairment losses         | (393,981)                     | ) —       | (297,007) | ) (690,988)   |
| Goodwill, net                         | \$55,687                      | \$359,485 | \$85,648  | \$500,820     |

In both 2014 and 2013, we tested the Gas and Water reporting units, in conjunction with our annual goodwill impairment testing. We used the qualitative assessment methodology, as we determined it was more likely than not that the fair values of these reporting units exceeded their respective carrying values. As a result, we did not need to perform the quantitative impairment test for the Gas and Water reporting units, and no goodwill impairments were recognized.



In 2014, as a result of the impairment recognized in 2013, we concluded that it was not more likely than not that the fair value of the Electricity reporting unit exceeded its carrying value, and we therefore performed a quantitative analysis of this reporting unit. No goodwill impairment was required to be recognized as the result of this quantitative analysis.

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

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During our 2013 annual goodwill impairment test, we determined that the carrying value of the Electricity reporting unit exceeded its fair value, primarily due to delays in global smart grid projects and lower volumes and pricing pressures in certain regions in Europe and Asia/Pacific. The revised forecast for the Electricity business drove a decrease in the fair value of the reporting unit. As a result, we performed the second step of the goodwill impairment test for the Electricity reporting unit, which indicated a goodwill impairment of \$173.2 million. This charge was recorded during the fourth quarter of 2013. Upon finalizing our 2013 goodwill analysis late in the year-end reporting process, we determined \$977,000 of additional goodwill impairment expense should have been recognized. In accordance with relevant accounting guidance, we evaluated the materiality of the error from a qualitative and quantitative perspective. Based on such evaluation, we concluded that recognizing the incremental goodwill impairment during the three months ended March 31, 2014 would not be material, quantitatively or qualitatively, to our results of operations for the three months ended March 31, 2014 nor to our full year results of operations for 2014 and would not have had a material impact on our results for the year ended December 31, 2013.

During the second quarter of 2013, we finalized the purchase price allocation related to the SmartSynch acquisition, which was completed on May 1, 2012, and recorded certain adjustments that are reflected in the Adjustments of previous acquisitions line above. These adjustments primarily affected the fair value calculation of certain accrued liabilities associated with specific contracts. Among these adjustments is the correction of an error associated with a long-term revenue contract acquired from SmartSynch. In May 2013, we determined that certain manufacturing costs were not reflected in the model used to value this contract at acquisition. Once these costs were properly added to the total cost and profitability estimates, we determined the total contract would result in a loss of \$2.4 million over the contract term. Therefore, we recognized a liability for this expected loss on the contract and made a corresponding adjustment to goodwill. Further, we had previously recognized a customer relationship intangible asset of \$1.5 million associated with this contract, with amortization scheduled to begin in 2014 based on the contract's original projected cash flow. Since the contract is in an overall loss position, we determined that the intangible asset had no value. We reduced the value of this intangible asset to zero with a corresponding adjustment to goodwill.

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

Note 6: Debt

The components of our borrowings are as follows:

|  | December 31, 2014<br>(in thousands) | December 31, 2013 |
|--|-------------------------------------|-------------------|
| Credit Facilities                      |                                     |                   |
| USD denominated term loan              | \$232,500                           | \$258,750         |
| Multicurrency revolving line of credit | 91,469                              | 120,000           |
| Total debt                             | 323,969                             | 378,750           |
| Less: Current portion of debt          | 30,000                              | 26,250            |
| Long-term debt                         | \$293,969                           | \$352,500         |

#### Credit Facilities

In August 2011, we entered into a senior secured credit facility (2011 credit facility). The 2011 credit facility consists of a \$300 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 \$660 million. Both the term loan and the revolver mature on August 8, 2016, and amounts borrowed under the revolver are classified as long-term. Amounts borrowed under the revolver 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 0.20% to 0.40% 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 2011 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 2011 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 2011 credit facility, are guaranteed by the foreign subsidiary and by its direct and indirect foreign parents. The 2011 credit facility includes debt covenants, which contain certain financial thresholds and place certain restrictions

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on the incurrence of debt, investments, and the issuance of dividends. We were in compliance with the debt covenants under the 2011 credit facility at December 31, 2014.

Scheduled principal repayments for the term loan are due quarterly in the amount of \$7.5 million through June 2016, and the remainder due at maturity on August 8, 2016. The term loan may be repaid early in whole or in part, subject to certain minimum thresholds, without penalty.

Required minimum principal payments on our outstanding credit facilities are as follows:

|                                | Minimum Payments<br>(in thousands) |
|--------------------------------|------------------------------------|
| 2015                           | \$30,000                           |
| 2016                           | 293,969                            |
| 2017                           | —                                  |
| 2018                           | —                                  |
| 2019                           | —                                  |
| Total minimum payments on debt | \$323,969                          |

Under the 2011 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, 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 December 31, 2014, the interest rate for both the term loan and the USD revolver was 1.42% (the LIBOR rate plus a margin of 1.25%), and the interest rate for the EUR revolver was 1.27% (the EURIBOR rate plus a margin of 1.25%).

Total credit facility repayments were as follows:

|  | Year Ended December 31, |          |           |
|--|-------------------------|----------|-----------|
|  | 2014                    | 2013     | 2012      |
|  | (in thousands)          |          |           |
| 2011 credit facility term loan   | \$26,250                | \$18,750 | \$15,002  |
| 2011 credit facility multicurrency revolving line of credit <sup>(1)</sup> | 76,188                  | 55,000   | 100,000   |
| Total credit facility repayments   | \$102,438               | \$73,750 | \$115,002 |

<sup>(1)</sup> We borrowed \$47.7 million, \$35.0 million and \$80.0 million under the multicurrency revolving line of credit during 2014, 2013 and 2012, respectively.

At December 31, 2014, \$91.5 million was outstanding under the 2011 credit facility revolver, and \$50.4 million was utilized by outstanding standby letters of credit, resulting in \$518.1 million available for additional borrowings.

At December 31, 2014 and 2013, unamortized prepaid debt fees were as follows:

|                               | December 31, 2014 | December 31, 2013 |
|-------------------------------|-------------------|-------------------|
|                               | (in thousands)    |                   |
| Unamortized prepaid debt fees | \$2,298           | \$3,810           |

Note 7: Derivative Financial Instruments

As part of our risk management strategy, we use derivative instruments to hedge certain foreign currency and interest rate exposures. Refer to Note 1, Note 14, and Note 15 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,

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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 are as follows:

|  |                             | Fair Value           |                      |
|--|-----------------------------|----------------------|----------------------|
|  |                             | December 31,<br>2014 | December 31,<br>2013 |
|  |                             | (in thousands)       |                      |
| Asset Derivatives  |                             |                      |                      |
| Derivatives designated as hedging instruments under ASC 815-20     |                             |                      |                      |
| Interest rate swap contracts                                       | Other long-term assets      | \$75                 | \$—                  |
| Derivatives not designated as hedging instruments under ASC 815-20 |                             |                      |                      |
| Foreign exchange forward contracts                                 | Other current assets        | 107                  | 41                   |
| Total asset derivatives  |                             | \$182                | \$41                 |
| Liability Derivatives  |                             |                      |                      |
| Derivatives designated as hedging instruments under ASC 815-20     |                             |                      |                      |
| Interest rate swap contracts                                       | Other current liabilities   | \$1,317              | \$1,557              |
| Interest rate swap contracts                                       | Other long-term obligations | —                    | 474                  |
| Derivatives not designated as hedging instruments under ASC 815-20 |                             |                      |                      |
| Foreign exchange forward contracts                                 | Other current liabilities   | 236                  | 145                  |
| Total liability derivatives  |                             | \$1,553              | \$2,176              |

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

|   | 2014           | 2013       |
|---|----------------|------------|
|   | (in thousands) |            |
| Net unrealized gain (loss) on hedging instruments at January 1,   | \$(15,636)     | \$(16,069) |
| Unrealized gain (loss) on derivative instruments                  | (566)          | 2          |
| Realized (gains) losses reclassified into net income (loss)       | 1,054          | 431        |
| Net unrealized gain (loss) on hedging instruments at December 31, | \$(15,148)     | \$(15,636) |

Included in the net unrealized loss on hedging instruments at December 31, 2014 and 2013 is a loss of \$14.4 million, net of tax, related to our nonderivative net investment hedge, which terminated in 2011. This loss on our net investment hedge will remain in accumulated OCI until such time when earnings are impacted by a sale or liquidation of the associated foreign operation.

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

## Offsetting of Derivative Assets

Gross Amounts Not  
Offset in the Consolidated Balance  
Sheets

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|                   | Gross Amounts of<br>Recognized Assets<br>Presented in<br>the Consolidated<br>Balance Sheets<br>(in thousands) | Derivative<br>Financial<br>Instruments | Cash Collateral<br>Received | Net Amount |
|-------------------|---|--|-----------------------------|------------|
| December 31, 2014 | \$182   | \$(182                                 | ) \$—                       | \$—        |
| December 31, 2013 | \$41  | \$(40                                  | ) \$—                       | \$1        |

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## Offsetting of Derivative Liabilities

|                   | Gross Amounts of<br>Recognized<br>Liabilities<br>Presented in<br>the Consolidated<br>Balance Sheets<br>(in thousands) | Derivative<br>Financial<br>Instruments | Gross Amounts Not<br>Offset in the Consolidated Balance<br>Sheets<br><br>Cash Collateral<br>Pledged | Net Amount |
|-------------------|---|--|---|------------|
| December 31, 2014 | \$1,553   | \$(182                                 | ) \$—   | \$1,371    |
| December 31, 2013 | \$2,176   | \$(40                                  | ) \$—   | \$2,136    |

Our derivative assets and liabilities consist of foreign exchange forward and interest rate swap contracts with eight counterparties at December 31, 2014 and seven counterparties at December 31, 2013. No derivative asset or liability balance with any of our counterparties was individually significant at December 31, 2014 or 2013. Our derivative contracts with each of these counterparties exist under agreements that provide for the net settlement of all contracts through a single payment in a single currency in the event of default. We have no pledges of cash collateral against our obligations nor have we received pledges of cash collateral from our counterparties under the associated derivative contracts.

## Cash Flow Hedges

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

In May 2012, we entered into six forward starting pay-fixed receive one-month LIBOR interest rate swaps. The interest rate swaps convert \$200 million of our LIBOR based debt from a floating LIBOR interest rate to a fixed interest rate of 1.00% (excluding the applicable margin on the debt) and are effective July 31, 2013 to August 8, 2016. 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 \$1.3 million. At December 31, 2014, our LIBOR-based debt balance was \$292.5 million.

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

The before-tax effect of our cash flow derivative instruments on the Consolidated Balance Sheets and the Consolidated Statements of Operations for the years ended December 31 are as follows:

| Derivatives in<br>ASC 815-20<br>Cash Flow | Amount of Gain (Loss)<br>Recognized<br>in OCI on Derivative | Gain (Loss) Reclassified from Accumulated<br>OCI into Income (Effective Portion)<br>Location Amount | Gain (Loss) Recognized in Income on<br>Derivative (Ineffective Portion)<br>Location Amount |
|---|---|---|--|
|---|---|---|--|



| Hedging Relationships        | (Effective Portion)    |         |            |                  |                        |        |      |                  |                        |      |      |
|------------------------------|------------------------|---------|------------|------------------|------------------------|--------|------|------------------|------------------------|------|------|
|                              | 2014<br>(in thousands) | 2013    | 2012       |                  | 2014<br>(in thousands) | 2013   | 2012 |                  | 2014<br>(in thousands) | 2013 | 2012 |
| Interest rate swap contracts | \$ (915)               | \$ (3 ) | \$ (2,725) | Interest expense | \$ (1,704 )            | \$ 697 | \$ — | 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 517 contracts were entered into during the year ended December 31, 2014), 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 \$86,000 to \$20.7 million, offsetting our exposures from the euro, British pound, Canadian dollar, Australian dollar, Mexican Peso and various other currencies.

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The effect of our foreign exchange forward derivative instruments on the Consolidated Statements of Operations for the years ended December 31 is as follows:

| Derivatives Not Designated as<br>Hedging Instrument under ASC 815-20 | Gain (Loss) Recognized on Derivatives in Other<br>Income (Expense) |           |           |
|--|--|-----------|-----------|
|  | 2014   | 2013      | 2012      |
|  | (in thousands)   |           |           |
| Foreign exchange forward contracts                                   | \$ (5,248  | ) \$ (145 | ) \$ (422 |
| Note 8: Defined Benefit Pension Plans                                |  |           | )         |

We sponsor both funded and unfunded defined benefit pension plans for our international employees, primarily in Germany, France, Italy, Indonesia, Brazil, and Spain, offering death and disability, retirement, and special termination benefits. The defined benefit obligation is calculated annually by using the projected unit credit method. The measurement date for the pension plans was December 31, 2014.

Our 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. Our contributions for both funded and unfunded plans are paid from cash flows from our operations. We contributed \$375,000 and \$436,000 to the defined benefit pension plans for the years ended December 31, 2014 and 2013, respectively. The timing of when contributions are made can vary by plan and from year to year. For 2015, assuming that actual plan asset returns are consistent with our expected rate of return, and that interest rates remain constant, we expect to contribute approximately \$426,000 to our defined benefit pension plans.

The following tables summarize the benefit obligation, plan assets, funded status of the defined benefit plans, amounts recognized in the Consolidated Balance Sheets and amounts recognized in accumulated other comprehensive income (AOCI) at December 31, 2014 and 2013:

|  | Year Ended December 31, |            |
|--|-------------------------|------------|
|  | 2014                    | 2013       |
|  | (in thousands)          |            |
| Change in benefit obligation:                    |                         |            |
| Benefit obligation at January 1,                 | \$ 102,662              | \$ 101,766 |
| Service cost                                     | 3,559                   | 4,205      |
| Interest cost                                    | 3,476                   | 3,355      |
| Actuarial (gain) loss                            | 25,838                  | (6,160     |
| Benefits paid                                    | (5,519                  | ) (5,369   |
| Foreign currency exchange rate changes           | (13,921                 | ) 2,698    |
| Other  | 83                      | 2,167      |
| Benefit obligation at December 31,               | \$ 116,178              | \$ 102,662 |
| Change in plan assets:                           |                         |            |
| Fair value of plan assets at January 1,          | \$ 11,680               | \$ 8,561   |
| Actual return on plan assets                     | 494                     | 119        |
| Company contributions                            | 375                     | 436        |
| Benefits paid                                    | (433                    | ) (537     |
| Foreign currency exchange rate changes           | (1,355                  | ) (267     |
| Other  | —                       | 3,368      |
| Fair value of plan assets at December 31,        | 10,761                  | 11,680     |
| Net pension plan benefit liability at fair value | \$ 105,417              | \$ 90,982  |

The weighted average discount rate used to measure our benefit obligations, which is based on published bond indexes, decreased by 140 basis points from December 31, 2013 to December 31, 2014, driving a \$25.8 million actuarial loss during 2014, which is recognized in OCI. The significant actuarial weighted average assumptions are discussed in greater detail below.

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Our defined benefit pension plans are denominated in the functional currencies of the respective countries in which the plans are sponsored; therefore, the balances increase or decrease, with a corresponding change in OCI, due to changes in foreign currency exchange rates. Amounts recognized on the Consolidated Balance Sheets consist of:

|   | At December 31, |          |
|---|-----------------|----------|
|   | 2014            | 2013     |
|   | (in thousands)  |          |
| Assets  |                 |          |
| Plan assets in other long-term assets                                   | \$567           | \$1,426  |
| Liabilities   |                 |          |
| Current portion of pension plan liability in wages and benefits payable | 4,552           | 3,721    |
| Long-term portion of pension plan liability                             | 101,432         | 88,687   |
| Net pension plan benefit liability                                      | \$105,417       | \$90,982 |

Amounts in accumulated other comprehensive income (pre-tax) that have not yet been recognized as components of net periodic benefit costs consist of:

|   | At December 31, |          |
|---|-----------------|----------|
|   | 2014            | 2013     |
|   | (in thousands)  |          |
| Net actuarial loss  | \$38,462        | \$13,262 |
| Net prior service cost                                    | 1,203           | 1,133    |
| Amount included in accumulated other comprehensive income | \$39,665        | \$14,395 |

Amounts recognized in OCI (pre-tax) are as follows:

|   | Year Ended December 31, |           |            |
|---|-------------------------|-----------|------------|
|   | 2014                    | 2013      | 2012       |
|   | (in thousands)          |           |            |
| Net actuarial (gain) loss                 | \$25,838                | \$(5,881) | ) \$24,492 |
| Settlement/curtailment loss               | (55)                    | ) (325)   | ) (13)     |
| Plan asset (gain) loss                    | 129                     | 516       | 108        |
| Amortization of net actuarial gain (loss) | (572)                   | ) (926)   | ) (161)    |
| Amortization of prior service cost        | (138)                   | ) (70)    | ) (68)     |
| Other                                     | 68                      | (658)     | ) —        |
| Other comprehensive (income) loss         | \$25,270                | \$(7,344) | ) \$24,358 |

If actuarial gains and losses exceed ten percent of the greater of plan assets or plan liabilities, we amortize them over the employees' average future service period. The estimated net actuarial loss and prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2015 is \$2.2 million.

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

|   | Year Ended December 31, |         |         |   |
|---|-------------------------|---------|---------|---|
|   | 2014                    | 2013    | 2012    |   |
|   | (in thousands)          |         |         |   |
| Service cost                              | \$3,559                 | \$4,205 | \$2,700 |   |
| Interest cost                             | 3,476                   | 3,355   | 3,625   |   |
| Expected return on plan assets            | (619                    | ) (635  | ) (331  | ) |
| Amortization of prior service costs       | 138                     | 70      | 68      |   |
| Amortization of actuarial net (gain) loss | 572                     | 926     | 161     |   |
| Settlements and other                     | 55                      | (493    | ) 97    |   |
| Net periodic benefit cost                 | \$7,181                 | \$7,428 | \$6,320 |   |

The significant actuarial weighted average assumptions used in determining the benefit obligations and net periodic benefit cost for our benefit plans are as follows:

|   | At and For The Year Ended December 31, |        |        |   |
|---|--|--------|--------|---|
|   | 2014                                   | 2013   | 2012   |   |
| Actuarial assumptions used to determine benefit obligations at end of period:     |  |        |        |   |
| Discount rate   | 2.36                                   | % 3.76 | % 3.36 | % |
| Expected annual rate of compensation increase                                     | 3.37                                   | % 3.33 | % 3.41 | % |
| Actuarial assumptions used to determine net periodic benefit cost for the period: |  |        |        |   |
| Discount rate   | 3.76                                   | % 3.36 | % 5.51 | % |
| Expected rate of return on plan assets  | 5.40                                   | % 3.63 | % 4.08 | % |
| Expected annual rate of compensation increase                                     | 3.33                                   | % 3.41 | % 3.38 | % |

We determine a discount rate for our plans based on the estimated duration of each plan's liabilities. For our euro denominated defined benefit pension plans, which represent 94% of our benefit obligation, we use two discount rates, with consideration of the duration of the plans, using a hypothetical yield curve developed from euro-denominated AA-rated corporate bond issues, partially weighted for market value, with minimum amounts outstanding of €500 million for bonds with less than 10 years to maturity and €50 million for bonds with 10 or more years to maturity, and excluding the highest and lowest yielding 10% of bonds within each maturity group. The discount rates used, depending on the duration of the plans, were 1.50% and 2.00%. As a result of the 140 basis point decrease in the weighted average discount rate used to measure our benefit obligations, the actuarial loss, which is recognized in OCI, was \$25.8 million in 2014.

Our expected rate of return on plan assets is derived from a study of actual historic returns achieved and anticipated future long-term performance of plan assets, specific to plan investment asset category. While the study primarily gives consideration to recent insurers' performance and historical returns, the assumption represents a long-term prospective return.

The total accumulated benefit obligation for our defined benefit pension plans was \$104.1 million and \$93.3 million at December 31, 2014 and 2013, respectively.

We have one plan in which the fair value of plan assets exceeds the plan's accumulated benefit obligation.



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The total obligation and fair value of plan assets for plans with accumulated benefit obligations exceeding the fair value of plan assets are as follows:

|                                | At December 31,<br>2014 | 2013     |
|--------------------------------|-------------------------|----------|
|                                | (in thousands)          |          |
| Projected benefit obligation   | \$ 114,150              | \$99,694 |
| Accumulated benefit obligation | 102,146                 | 90,803   |
| Fair value of plan assets      | 8,166                   | 7,286    |

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.

The fair values of our plan investments by asset category as of December 31, 2014, and 2013 are as follows:

|                                 | Total          | Quoted Prices in Active<br>Markets for Identical<br>Assets<br>(Level 1) | Significant<br>Unobservable Inputs<br>(Level 3) |
|---------------------------------|----------------|---|---|
|                                 | (in thousands) |   |   |
| 2014                            |                |   |   |
| Cash                            | \$726          | \$726   | \$—   |
| Insurance funds                 | 7,440          | —   | 7,440   |
| Other securities                | 2,595          | —   | 2,595   |
| Total fair value of plan assets | \$ 10,761      | \$726   | \$ 10,035                                       |
| 2013                            |                |   |   |
| Cash                            | \$846          | \$846   | \$—   |
| Insurance funds                 | 8,260          | —   | 8,260   |
| Other securities                | \$2,574        | \$—   | \$2,574   |
| Total fair value of plan assets | \$ 11,680      | \$846   | \$ 10,834                                       |

As the plan assets are not significant to our total company assets, no further breakdown is provided.

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The following tables present a reconciliation of Level 3 assets held during the years ended December 31, 2014 and 2013.

|                  | Balance at<br>January 1,<br>2014 | Net Realized<br>and Unrealized<br>Gains/(Losses) | Net<br>Purchases,<br>Issuances,<br>Settlements,<br>and Other | Net Transfers<br>Into/(Out of)<br>Level 3 | Effect of<br>Foreign<br>Currency | Balance at<br>December 31,<br>2014 |
|------------------|----------------------------------|--|--|---|----------------------------------|------------------------------------|
|                  | (in thousands)                   |  |  |   |                                  |                                    |
| Insurance funds  | \$8,260                          | \$ 133   | \$25   | \$—                                       | \$(978)                          | ) \$7,440                          |
| Other securities | 2,574                            | 320  | (106)  | ) 172                                     | (365)                            | ) 2,595                            |
| Total            | \$10,834                         | \$ 453   | \$(81)   | ) \$172                                   | \$(1,343)                        | ) \$10,035                         |

|                  | Balance at<br>January 1,<br>2013 | Net Realized<br>and Unrealized<br>Gains/(Losses) | Net<br>Purchases,<br>Issuances,<br>Settlements,<br>and Other | Net Transfers<br>Into/(Out of)<br>Level 3 | Effect of<br>Foreign<br>Currency | Balance at<br>December 31,<br>2013 |
|------------------|----------------------------------|--|--|---|----------------------------------|------------------------------------|
|                  | (in thousands)                   |  |  |   |                                  |                                    |
| Insurance funds  | \$7,658                          | \$ 178   | \$105  | \$—                                       | \$319                            | \$8,260                            |
| Other securities | —                                | (70)   | ) 3,050  | —   | (406)                            | ) 2,574                            |
| Total            | \$7,658                          | \$ 108   | \$3,155  | \$—                                       | \$(87)                           | ) \$10,834                         |

Annual benefit payments, including amounts to be paid from our assets for unfunded plans, and reflecting expected future service, as appropriate, are expected to be paid as follows:

| Year Ending December 31, | Estimated Annual Benefit<br>Payments<br>(in thousands) |
|--------------------------|--|
| 2015                     | \$4,603  |
| 2016                     | 3,285  |
| 2017                     | 3,754  |
| 2018                     | 3,960  |
| 2019                     | 4,122  |
| 2020 - 2024              | 27,180   |

## Note 9: Stock-Based Compensation

We record stock-based compensation expense for awards of stock options, stock sold pursuant to our ESPP, and the issuance of restricted stock units and unrestricted stock awards. We expense stock-based compensation primarily using the straight-line method over the requisite service period. For the years ended December 31, stock-based compensation expense and the related tax benefit were as follows:

|                           | 2014<br>(in thousands) | 2013    | 2012    |
|---------------------------|------------------------|---------|---------|
| Stock options             | \$2,333                | \$2,074 | \$1,547 |
| Restricted stock units    | 14,591                 | 15,475  | 16,583  |
| Unrestricted stock awards | 936                    | 811     | 769     |
| ESPP                      | —                      | 490     | 613     |



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|                                |          |          |          |
|--------------------------------|----------|----------|----------|
| Total stock-based compensation | \$17,860 | \$18,850 | \$19,512 |
| Related tax benefit            | \$4,994  | \$5,152  | \$5,377  |

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

Subject to stock splits, dividends, and other similar events, 7,473,956 shares of common stock are reserved and authorized for issuance under our 2010 Stock Incentive Plan (Stock Incentive Plan). Awards consist of stock options, restricted stock units, and unrestricted stock awards. At December 31, 2014, 3,680,607 shares were available for grant under the Stock Incentive Plan. The Stock Incentive Plan shares are subject to a fungible share provision such that, with respect to grants made after December 31, 2009, 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 stock appreciation right.

**Stock Options**

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

|                         | Year Ended December 31, |        |        |   |
|-------------------------|-------------------------|--------|--------|---|
|                         | 2014                    | 2013   | 2012   |   |
| Dividend yield          | —                       | —      | —      |   |
| Expected volatility     | 39.3                    | % 38.1 | % 42.1 | % |
| Risk-free interest rate | 1.7                     | % 1.0  | % 0.8  | % |
| Expected term (years)   | 5.5                     | 5.5    | 5.1    |   |

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

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A summary of our stock option activity for the years ended December 31 is as follows:

|                                     | Shares<br>(in thousands) | Weighted<br>Average Exercise<br>Price per Share | Weighted Average<br>Remaining<br>Contractual Life<br>(years) | Aggregate<br>Intrinsic Value <sup>(1)</sup><br>(in thousands) | Weighted<br>Average Grant<br>Date Fair Value |
|-------------------------------------|--------------------------|---|--|---|--|
| Outstanding, January 1, 2012        | 1,109                    | \$ 55.97  | 4.5  | \$ 2,323  |  |
| Granted                             | 196                      | 43.27   |  |   | \$ 16.51                                     |
| Exercised                           | (54 )                    | 21.91   |  | 1,078   |  |
| Expired                             | (114 )                   | 69.37   |  |   |  |
| Outstanding, December 31, 2012      | 1,137                    | \$ 54.06  | 4.8  | \$ 3,815  |  |
| Granted                             | 129                      | \$ 42.76  |  |   | \$ 15.44                                     |
| Exercised                           | (74 )                    | 23.87   |  | \$ 1,377  |  |
| Expired                             | (12 )                    | 49.04   |  |   |  |
| Outstanding, December 31, 2013      | 1,180                    | \$ 54.79  | 4.6  | \$ 1,300  |  |
| Granted                             | 160                      | \$ 35.65  |  |   | \$ 13.65                                     |
| Exercised                           | (67 )                    | 28.03   |  | \$ 826  |  |
| Forfeited                           | (7 )                     | 44.06   |  |   |  |
| Expired                             | (143 )                   | 68.97   |  |   |  |
| Outstanding, December 31, 2014      | 1,123                    | \$ 51.90  | 4.4  | \$ 1,676  |  |
| Exercisable, December 31, 2014      | 819                      | \$ 56.65  | 3.2  | \$ 569  |  |
| Expected to vest, December 31, 2014 | 296                      | \$ 39.12  | 7.7  | \$ 1,074  |  |

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 <sup>(1)</sup> market value of Itron's stock exceeded the exercise price of the outstanding in-the-money options before applicable income taxes, based on our closing stock price on the last business day of the period. The aggregate intrinsic value of stock options exercised during the period is calculated based on our stock price at the date of exercise.

As of December 31, 2014, total unrecognized stock-based compensation expense related to nonvested stock options was approximately \$2.8 million, which is expected to be recognized over a weighted average period of approximately 1.6 years.

#### Restricted Stock Units

Certain employees, senior management, and members of our 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.

Prior to 2013, the performance-based restricted stock units issued under the Long-Term Performance Restricted Stock Unit Award Agreement (Performance Award Agreement) were determined based on the attainment of certain performance goals after the end of the one-year performance period. During the year, if management determined that it was probable that the targets would be achieved, compensation expense, net of forfeitures, was recognized on a straight-line basis over the annual performance and subsequent vesting period for each separately vesting portion of the award. Performance awards typically vested and were released in three equal installments at the end of each year following attainment of the performance goals. For U.S. participants who retire during the vesting period, unvested restricted stock units immediately vest at the date of retirement. For the 2012 performance awards, no awards became eligible for vesting as minimum performance thresholds for the 2012 performance year were not met.

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

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(the market condition). Compensation expense, net of forfeitures, is recognized on a straight-line basis, and the 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 2-year and 3-year 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. For the 2-year awards granted under the 2013 performance award, 14,433 restricted stock units became eligible for distribution at December 31, 2014.

For 2014, the performance-based restricted stock units to be issued are determined based on the same performance and market conditions as the 2013 awards, but the performance period is 3-years. No awards became eligible for distribution since the performance period had not concluded as of December 31, 2014.

Due to the presence of the TSR multiplier market condition, we utilize a Monte Carlo valuation model to determine the fair value of the awards at the grant date. This pricing model uses multiple simulations to evaluate the probability of our achievement of various stock price levels to determine our expected TSR performance ranking. The weighted-average assumptions used to estimate the fair value of performance-based restricted stock units granted and the resulting weighted average fair-value are as follows:

|                             | Year Ended December 31, 2014 | Year Ended December 31, 2013 |   |
|-----------------------------|------------------------------|------------------------------|---|
| Dividend yield              | —                            | —                            |   |
| Expected volatility         | 32.3                         | % 39.1                       | % |
| Risk-free interest rate     | 0.4                          | % 0.3                        | % |
| Expected term (years)       | 2.0                          | 2.5                          |   |
| Weighted-average fair value | \$35.15                      | \$45.03                      |   |

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

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The following table summarizes restricted stock unit activity for the years ended December 31:

|  | Number of<br>Restricted Stock Units<br>(in thousands) | Weighted<br>Average Grant<br>Date Fair Value | Aggregate<br>Intrinsic Value <sup>(1)</sup><br>(in thousands) |
|--|---|--|---|
| Outstanding, January 1, 2012               | 625   |  |   |
| Granted                                    | 464   | \$47.21                                      |   |
| Released                                   | (275)   | )  | \$16,855  |
| Forfeited                                  | (40)  | )  |   |
| Outstanding, December 31, 2012             | 774   |  |   |
| Granted                                    | 255   | \$42.51                                      |   |
| Released                                   | (331)   | )  | \$17,983  |
| Forfeited                                  | (40)  | )  |   |
| Outstanding, December 31, 2013             | 658   |  |   |
| Granted <sup>(2)</sup>                     | 350   | \$35.74                                      |   |
| Released                                   | (291)   | )  | \$14,402  |
| Forfeited                                  | (35)  | )  |   |
| Outstanding, December 31, 2014             | 682   |  |   |
| Vested but not released, December 31, 2014 | 19  |  | \$821   |
| Expected to vest, December 31, 2014        | 571   |  | \$24,130  |

<sup>(1)</sup> 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.

<sup>(2)</sup> Restricted stock units include 14,433 shares for the 2-year award under the 2013 Performance Award Agreement, which are eligible for distribution at December 31, 2014.

At December 31, 2014, unrecognized compensation expense on restricted stock units was \$14.5 million, which is expected to be recognized over a weighted average period of approximately 1.7 years.

#### Unrestricted Stock Awards

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

The following table summarizes unrestricted stock award activity for the years ended December 31:

|  | 2014<br>(in thousands, except per share data) | 2013    | 2012    |
|--|---|---------|---------|
| Shares of unrestricted stock granted             | 24  | 18      | 19      |
| Weighted average grant date fair value per share | \$39.06                                       | \$44.12 | \$41.43 |

#### 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 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. Effective October 1, 2013, we changed the terms of the ESPP to reduce the discount from 15% to 5% from the fair market value of the stock at the end of each fiscal quarter. As a result of this change, the ESPP will no longer be considered compensatory, and no compensation expense will be recognized for future sales of our common stock to employees. Prior to October 1, 2013, the plan was considered compensatory.

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The following table summarizes ESPP activity for the years ended December 31:

|   | 2014                                  | 2013   | 2012   |
|---|---------------------------------------|--------|--------|
|   | (in thousands, except per share data) |        |        |
| Shares of stock sold to employees <sup>(1)</sup>          | 61                                    | 94     | 101    |
| Weighted average fair value per ESPP award <sup>(2)</sup> | \$—                                   | \$6.61 | \$6.29 |

(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.

(2) Relating to awards associated with the offering periods during the years ended December 31. Effective October 1, 2013, the ESPP is no longer compensatory and therefore the 2013 weighted average fair value per award is for the nine months ended September 30, 2013.

At December 31, 2014, all compensation cost associated with the ESPP had been recognized. There were approximately 445,000 shares of common stock available for future issuance under the ESPP at December 31, 2014.  
Note 10: Defined Contribution, Bonus, and Profit Sharing Plans

Defined Contribution Plans

In the United States, United Kingdom, Brazil, and certain other countries, we make contributions to defined contribution plans. For our U.S. employee savings plan, which represents a majority of our contribution expense, we provide a 50% match on the first 6% of the employee salary deferral, subject to statutory limitations. For our international defined contribution plans, we provide various levels of contributions, based on salary, subject to stipulated or statutory limitations. The expense for our defined contribution plans was as follows:

|                                    | Year Ended December 31, |         |         |
|------------------------------------|-------------------------|---------|---------|
|                                    | 2014                    | 2013    | 2012    |
|                                    | (in thousands)          |         |         |
| Defined contribution plans expense | \$7,097                 | \$7,392 | \$7,551 |

Bonus and Profit Sharing Plans and Awards

We have employee bonus and profit sharing plans in which many of our employees participate, as well as an award program, which allows for recognition of individual employees' achievements. The bonus and profit sharing plans provide award amounts for the achievement of annual performance and financial targets. Actual bonus and profit sharing award amounts are determined at the end of the year if the performance and financial targets are met. As the bonuses are being earned during the year, we estimate a compensation accrual each quarter based on the progress towards achieving the goals, the estimated financial forecast for the year, and the probability of achieving results. Bonus and profit sharing plans and award expense was as follows:

|  | Year Ended December 31, |          |          |
|--|-------------------------|----------|----------|
|  | 2014                    | 2013     | 2012     |
|  | (in thousands)          |          |          |
| Bonus and profit sharing plans and award expense | \$37,850                | \$15,745 | \$25,297 |



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## Note 11: Income Taxes

The following table summarizes the provision (benefit) for U.S. federal, state, and foreign taxes on income from continuing operations:

|  | Year Ended December 31, |           |            |
|--|-------------------------|-----------|------------|
|  | 2014                    | 2013      | 2012       |
|  | (in thousands)          |           |            |
| Current:                                   |                         |           |            |
| Federal                                    | \$17,248                | \$145     | \$11,935   |
| State and local                            | 730                     | 1,089     | 1,387      |
| Foreign                                    | 20,205                  | 21,860    | 19,448     |
| Total current                              | 38,183                  | 23,094    | 32,770     |
| Deferred:                                  |                         |           |            |
| Federal                                    | (78,901                 | ) (16,413 | ) 12,195   |
| State and local                            | (682                    | ) (2,472  | ) 468      |
| Foreign                                    | (52,610                 | ) (25,872 | ) (32,293  |
| Total deferred                             | (132,193                | ) (44,757 | ) (19,630  |
| Change in valuation allowance              | 100,651                 | 17,999    | 12,855     |
| Total provision (benefit) for income taxes | \$6,641                 | \$(3,664  | ) \$25,995 |

A reconciliation of income taxes at the U.S. federal statutory rate of 35% to the consolidated actual tax rate is as follows:

|   | Year Ended December 31, |              |             |
|---|-------------------------|--------------|-------------|
|   | 2014                    | 2013         | 2012        |
|   | (in thousands)          |              |             |
| Income (loss) before income taxes                           |                         |              |             |
| Domestic  | \$92,933                | \$19,016     | \$167,299   |
| Foreign   | (107,842                | ) (167,270   | ) (31,080   |
| Total income (loss) before income taxes                     | \$(14,909               | ) \$(148,254 | ) \$136,219 |
| Expected federal income tax provision (benefit)             | \$(5,218                | ) \$(51,889  | ) \$47,677  |
| Goodwill impairment   | 119                     | 49,730       | (1,905      |
| Change in valuation allowance                               | 100,651                 | 17,999       | 12,855      |
| Stock-based compensation                                    | 1,255                   | 1,598        | 1,787       |
| Foreign earnings <sup>(1)</sup>                             | (30,417                 | ) (15,655    | ) (36,536   |
| Tax credits   | (91,148                 | ) (10,352    | ) (2,174    |
| Uncertain tax positions, including interest and penalties   | 974                     | 1,360        | (2,740      |
| Change in tax rates   | (20                     | ) 1,442      | 174         |
| State income tax provision (benefit), net of federal effect | (984                    | ) (2,291     | ) 1,242     |
| U.S. tax provision on foreign earnings                      | 31,309                  | (245         | ) 2,370     |
| Domestic production activities deduction                    | (2,312                  | ) (146       | ) (2,612    |
| Local foreign taxes   | 2,295                   | 3,212        | 3,635       |
| Other, net  | 137                     | 1,573        | 2,222       |

|  |         |          |            |
|--|---------|----------|------------|
| Total provision (benefit) for income taxes | \$6,641 | \$(3,664 | ) \$25,995 |
|--|---------|----------|------------|

(1) Foreign earnings for all jurisdictions are classified as a single reconciling item to be consistent with the current year presentation.

Our tax provision as a percentage of loss before tax was 44.5% for 2014. Our actual tax rate differed from the 35% U.S. federal statutory tax rate due to various items. Our tax expense increased due to an increase in valuation allowances related to deferred tax assets for which we do not anticipate future realization. The following items decreased the tax provision: (1) recognition of

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research and experimentation credits for 2014; (2) earnings of our subsidiaries outside of the U.S. in jurisdictions where our statutory tax rate is lower than in the U.S.; (3) the benefit of certain interest expense deductions; and (4) benefits of certain acquisition related elections for tax purposes.

Our tax provisions for 2013 and 2012 reflect the benefits of lower statutory tax rates on foreign earnings as compared with our U.S. federal statutory rate, foreign interest expense deductions and the benefits of certain acquisition related elections for tax purposes. During 2013, no tax benefit was recorded for the nondeductible portion of the goodwill impairment charge. During 2012, we recognized a benefit related to the release of reserve for uncertain tax positions.

Deferred tax assets and liabilities consist of the following:

|   | At December 31,<br>2014 | 2013       |   |
|---|-------------------------|------------|---|
|   | (in thousands)          |            |   |
| Deferred tax assets                                   |                         |            |   |
| Loss carryforwards <sup>(1)</sup>                     | \$ 188,607              | \$ 174,360 |   |
| Tax credits <sup>(2)</sup>                            | 81,903                  | 16,073     |   |
| Accrued expenses                                      | 54,393                  | 40,593     |   |
| Pension plan benefits expense                         | 19,679                  | 13,464     |   |
| Warranty reserves                                     | 19,141                  | 16,704     |   |
| Depreciation and amortization                         | 19,111                  | 16,770     |   |
| Equity compensation                                   | 10,039                  | 9,908      |   |
| Inventory valuation                                   | 4,420                   | 2,942      |   |
| Other deferred tax assets, net                        | 8,968                   | 9,858      |   |
| Total deferred tax assets                             | 406,261                 | 300,672    |   |
| Valuation allowance                                   | (256,619)               | (161,026)  | ) |
| Total deferred tax assets, net of valuation allowance | 149,642                 | 139,646    |   |
| Deferred tax liabilities                              |                         |            |   |
| Depreciation and amortization                         | (37,061)                | (50,606)   | ) |
| Tax effect of accumulated translation                 | (568)                   | (1,551)    | ) |
| Other deferred tax liabilities, net                   | (2,299)                 | (2,883)    | ) |
| Total deferred tax liabilities                        | (39,928)                | (55,040)   | ) |
| Net deferred tax assets                               | \$ 109,714              | \$ 84,606  |   |

For tax return purposes at December 31, 2014, we had U.S. federal loss carryforwards of \$19.8 million that expire during the years 2020 and 2021. At December 31, 2014, we have net operating loss carryforwards in Luxembourg of \$441.3 million that can be carried forward indefinitely, offset by a full valuation allowance. The remaining (1) portion of the loss carryforwards are composed primarily of losses in various other foreign jurisdictions. The majority of these losses can be carried forward indefinitely. At December 31, 2014, there was a valuation allowance of \$256.6 million primarily associated with foreign loss carryforwards and foreign tax credit carryforwards (discussed below).

For tax return purposes at December 31, 2014, we had: (1) U.S. general business credits of \$18.2 million, which (2) begin to expire in 2022; (2) U.S. alternative minimum tax credits of \$2.5 million that can be carried forward indefinitely; and (3) U.S. foreign tax credits of \$75.4 million, which begin to expire in 2019. At December 31, 2014, there was a valuation allowance of \$58.5 million associated with foreign tax credit carryforward.

We record valuation allowances to reduce deferred tax assets to the extent we believe it is more likely than not that a portion of such assets will not be realized. In making such determinations, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and our ability to carry back losses to prior years. We are required to make assumptions and judgments about potential outcomes that lie outside management's control. Our most sensitive and critical factors are the projection, source, and character of future taxable income. Although realization is not assured, management believes it is more likely than not that deferred tax assets, net of valuation allowance, will be realized.

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The amount of deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward periods are reduced or current tax planning strategies are not implemented.

Our deferred tax assets at December 31, 2014 do not include the tax effect on \$55.2 million of excess tax benefits from employee stock plan exercises. Common stock will be increased by \$20.4 million when such excess tax benefits reduce cash taxes payable.

We do not provide U.S. deferred taxes on temporary differences related to our foreign investments that are considered permanent in duration. These temporary differences consist primarily of undistributed foreign earnings of \$31.4 million and \$22.5 million at December 31, 2014 and 2013, respectively. Foreign taxes have been provided on these undistributed foreign earnings. We have not computed the unrecognized deferred income tax liability on these temporary differences. There are many assumptions that must be considered to calculate the liability, thereby making it impractical to compute at this time.

We are subject to income tax in the United States and numerous foreign jurisdictions. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when we believe that certain positions might be challenged despite our belief that our tax return positions are fully supportable. We adjust these reserves in light of changing facts and circumstances, such as the outcome of tax audits. The provision for income taxes includes the impact of reserve positions and changes to reserves that are considered appropriate.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

|   |          |   |
|---|----------|---|
| Unrecognized tax benefits at January 1, 2012          | \$28,482 |   |
| Gross increase to positions in prior years            | 299      |   |
| Gross decrease to positions in prior years            | (51)     | ) |
| Gross increases to current period tax positions       | 3,347    |   |
| Audit settlements                                     | (27)     | ) |
| Decrease related to lapsing of statute of limitations | (5,769)  | ) |
| Effect of change in exchange rates                    | 152      |   |
| Unrecognized tax benefits at December 31, 2012        | \$26,433 |   |
| Gross increase to positions in prior years            | 2,154    |   |
| Gross decrease to positions in prior years            | (536)    | ) |
| Gross increases to current period tax positions       | 1,670    |   |
| Audit settlements                                     | —        |   |
| Decrease related to lapsing of statute of limitations | (817)    | ) |
| Effect of change in exchange rates                    | (289)    | ) |
| Unrecognized tax benefits at December 31, 2013        | \$28,615 |   |
| Gross increase to positions in prior years            | 2,749    |   |
| Gross decrease to positions in prior years            | (1,641)  | ) |
| Gross increases to current period tax positions       | 3,008    |   |
| Audit settlements                                     | —        |   |
| Decrease related to lapsing of statute of limitations | (1,715)  | ) |
| Effect of change in exchange rates                    | (2,870)  | ) |

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|  |   |          |          |
|--|---|----------|----------|
| Unrecognized tax benefits at December 31, 2014   |   |          | \$28,146 |
|  | At December 31,<br>2014<br>(in thousands) | 2013     | 2012     |
| The amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate | \$26,980                                  | \$27,694 | \$25,852 |

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We classify interest expense and penalties related to unrecognized tax benefits and interest income on tax overpayments as components of income tax expense. The net interest and penalties expense (benefit) recognized is as follows:

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2014                    | 2013      | 2012      |
|  | (in thousands)          |           |           |
| Net interest and penalties expense (benefit) | \$ (76                  | ) \$ (898 | ) \$ (414 |
|  |                         |           | )         |
|  | At December 31,         |           |           |
|  | 2014                    |           | 2013      |
|  | (in thousands)          |           |           |
| Accrued interest                             | \$ 1,755                |           | \$ 2,078  |
| Accrued penalties                            | 2,671                   |           | 3,075     |

At December 31, 2014, we are under examination by certain tax authorities for the 2000 to 2012 tax years. The material jurisdictions where we are subject to examination for the 2000 to 2012 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.

We file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. We are subject to income tax examination by tax authorities in our major tax jurisdictions as follows:

| Tax Jurisdiction | Years Subject to Audit |
|------------------|------------------------|
| U.S. federal     | Subsequent to 1999     |
| France           | Subsequent to 2009     |
| Germany          | Subsequent to 2007     |
| Brazil           | Subsequent to 2008     |
| United Kingdom   | Subsequent to 2011     |
| Italy            | Subsequent to 2007     |

Note 12: Commitments and Contingencies

## Commitments

Operating lease rental expense for factories, service and distribution locations, offices, and equipment was as follows:

|                | Year Ended December 31, |           |           |
|----------------|-------------------------|-----------|-----------|
|                | 2014                    | 2013      | 2012      |
|                | (in thousands)          |           |           |
| Rental expense | \$ 19,178               | \$ 18,662 | \$ 17,877 |





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Future minimum lease payments at December 31, 2014, under noncancelable operating leases with initial or remaining terms in excess of one year are as follows:

|                               | Minimum Payments<br>(in thousands) |
|-------------------------------|------------------------------------|
| 2015                          | \$12,142                           |
| 2016                          | 8,564                              |
| 2017                          | 7,099                              |
| 2018                          | 6,630                              |
| 2019                          | 4,580                              |
| Beyond 2019                   | 1,721                              |
| Future minimum lease payments | \$40,736                           |

Rent expense is recognized straight-line over the lease term, including renewal periods if reasonably assured. We lease most of our sales and distribution locations and administrative offices. Our leases typically contain renewal options similar to the original terms with lease payments that increase based on the consumer price index.

#### Guarantees and Indemnifications

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

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

|   | December 31, 2014 | December 31, 2013 |
|---|-------------------|-------------------|
|   | (in thousands)    |                   |
| Credit facilities <sup>(1)</sup>  |                   |                   |
| Multicurrency revolving line of credit  | \$660,000         | \$660,000         |
| Long-term borrowings  | (91,469           | ) (120,000        |
| Standby LOCs issued and outstanding   | (50,399           | ) (49,491         |
| Net available for additional borrowings and LOCs                                      | \$518,132         | \$490,509         |
| Unsecured multicurrency revolving lines of credit with various financial institutions |                   |                   |
| Multicurrency revolving line of credit  | \$106,855         | \$115,269         |
| Standby LOCs issued and outstanding   | (28,636           | ) (31,714         |
| Short-term borrowings <sup>(2)</sup>  | (4,282            | ) (4,252          |
| Net available for additional borrowings and LOCs                                      | \$73,937          | \$79,303          |
| Unsecured surety bonds in force   | \$116,306         | \$186,446         |

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

(2) Short-term borrowings are included in "Other current liabilities" on the Consolidated Balance Sheets.

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

We generally provide an indemnification related to the infringement of any patent, copyright, trademark, or other intellectual property right on software or equipment within our sales contracts, which indemnifies the customer from and pays the resulting costs, damages, and attorney's fees awarded against a customer with respect to such a claim provided that (a) the customer promptly notifies us in writing of the claim and (b) 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.

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### Legal Matters

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

In 2010 and 2011, Transdata Incorporated (Transdata) filed lawsuits against four of our customers, CenterPoint Energy (CenterPoint), TriCounty Electric Cooperative, Inc. (Tri-County), San Diego Gas & Electric Company (San Diego), and Texas-New Mexico Power Company (TNMP), as well as several other utilities, alleging infringement of three patents owned by Transdata related to the use of an antenna in a meter. Pursuant to our contractual obligations with our customers, we agreed, subject to certain exceptions, to indemnify and defend them in these lawsuits. The complaints seek unspecified damages as well as injunctive relief. CenterPoint, Tri-County, San Diego, and TNMP have denied all of the substantive allegations and filed counterclaims seeking a declaratory judgment that the patents are invalid and not infringed. In December 2011, the Judicial Panel on Multi-District Litigation consolidated all of these cases in the Western District of Oklahoma for pretrial proceedings. On April 17, 2011, the Oklahoma court stayed the litigation pending the resolution of re-examination proceedings in the United States Patent and Trademark Office (U.S. PTO). The U.S. PTO has issued re-examination certificates confirming the patentability of the original claims and allowing certain new claims added by Transdata. The parties conducted a claim construction hearing on February 5, 2013 on one claim term -- "electric meter circuitry." After initially adopting the defendants' proposed construction of the term, the Court granted Transdata's motion for reconsideration by order of June 25, 2013 and has adopted Transdata's proposed construction. On October 1, 2013, the Court issued an order construing other claim terms. Fact discovery closed on June 29, 2014. Opening and rebuttal expert reports have been served, and expert depositions have been taken. Both sides have also filed summary judgment motions. In addition, new requests for re-examination have been filed, and all Transdata claims contained in all three patents currently stand as rejected by the U.S. PTO in the re-examinations. Petitions for inter partes review have also been filed, but there has not yet been a decision on those petitions. No trials are scheduled. We do not believe this matter will have a material adverse effect on our business or financial condition, although an unfavorable outcome could have a material adverse effect on our results of operations for the period in which such a loss is recognized.

Itron and its subsidiaries are parties to various employment-related proceedings in jurisdictions where 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.

In a series of cases, approximately 300 former employees of Itron Sistemas e Tecnologia Ltda. (Itron Brazil), the majority of whose employment contracts were terminated in 2011, have sued Itron Brazil seeking payment of overtime and salary differential and alleging that the assumption of the employment relationship by Itron Brazil constituted illegal outsourcing under Brazilian law. In 2008, Itron Brazil entered into an agreement to provide installation and maintenance services to one of its customers and, to perform such services, hired over 800 employees of the previous provider of such services. In 2011, Itron Brazil determined to terminate the contract with its customer, which led to the termination of approximately 870 employees. Under applicable statutes of limitation, most additional employee claims must have been brought prior to October 31, 2013. Itron Brazil intends to vigorously defend these cases, but the ultimate outcome of the cases cannot be determined at this time.

On October 31, 2013, we received a claim from one of our customers relating to alleged defects in meters sold to this customer since the year 2000. The customer asserts that it should be compensated for product and other related costs. Itron has engaged the customer in discussions to determine the factual basis for the claim. Since the discussions and related analysis are at an early stage, Itron is not yet able to estimate a potential range of loss. Currently, we do not

believe that the outcome of this matter will have a material adverse effect on our business or financial condition, although an unfavorable outcome could have a material adverse effect on our results of operations for the period in which such a loss is recognized.

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

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## Warranty

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

|   | Year Ended December 31, |           |
|---|-------------------------|-----------|
|   | 2014                    | 2013      |
|   | (in thousands)          |           |
| Beginning balance                       | \$45,146                | \$53,605  |
| New product warranties                  | 6,441                   | 5,561     |
| Other changes/adjustments to warranties | 3,729                   | 10,343    |
| Claims activity                         | (16,568                 | ) (23,593 |
| Effect of change in exchange rates      | (2,282                  | ) (770    |
| Ending balance                          | 36,466                  | 45,146    |
| Less: current portion of warranty       | 21,063                  | 21,048    |
| Long-term warranty                      | \$15,403                | \$24,098  |

Total warranty expense is classified within cost of revenues and consists of new product warranties issued, costs related to extended warranty contracts, and other changes and adjustments to warranties. Warranty expense for the years ended December 31 is as follows:

|                        | Year Ended December 31, |          |          |
|------------------------|-------------------------|----------|----------|
|                        | 2014                    | 2013     | 2012     |
|                        | (in thousands)          |          |          |
| Total warranty expense | \$10,170                | \$15,904 | \$13,186 |

Warranty expense decreased \$5.7 million during the year ended December 31, 2014 compared with the prior year primarily due to a \$4.0 million reduction in special warranty due to a change in estimate as a result of the resolution of a claim with a customer. Warranty expense increased \$2.7 million during the year ended December 31, 2013 compared with the prior year primarily as a result of an increased provision due to the identification of battery and firmware issues for a customer.

## Extended Warranty

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

|   | Year Ended December 31, |          |
|---|-------------------------|----------|
|   | 2014                    | 2013     |
|   | (in thousands)          |          |
| Beginning balance   | \$33,528                | \$31,960 |
| Unearned revenue for new extended warranties  | 3,529                   | 4,039    |
| Unearned revenue recognized   | (2,655                  | ) (2,210 |
| Effect of change in exchange rates  | (264                    | ) (261   |
| Ending balance  | 34,138                  | 33,528   |
| Less: current portion of unearned revenue for extended warranty                     | 2,759                   | 2,385    |
| Long-term unearned revenue for extended warranty within Other long-term obligations | \$31,379                | \$31,143 |

## 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).

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Plan costs are as follows:

|            | Year Ended December 31, |          |          |
|------------|-------------------------|----------|----------|
|            | 2014<br>(in thousands)  | 2013     | 2012     |
| Plan costs | \$23,206                | \$22,324 | \$26,755 |

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

|              | December 31, 2014<br>(in thousands) | December 31, 2013 |
|--------------|-------------------------------------|-------------------|
| IBNR accrual | \$1,924                             | \$2,206           |

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 13: Restructuring

#### 2014 Projects

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

We began implementing these projects in the fourth quarter of 2014, and we expect to substantially complete these projects by the end of 2016. 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 implementing the projects at some locations.

The total expected restructuring costs, the restructuring costs recognized during the year ended December 31, 2014, and the remaining expected restructuring costs as of December 31, 2014 are as follows:

|                           | Total Expected Costs at<br>December 31, 2014<br>(in thousands) | Costs Recognized During<br>the Year Ended December<br>31, 2014 | Remaining Costs to be<br>Recognized at December<br>31, 2014 |
|---------------------------|--|--|---|
| Employee severance costs  | \$47,447   | \$47,447   | \$—   |
| Asset impairments         | 7,952  | 7,952  | —   |
| Other restructuring costs | 11,254   | 401  | 10,853  |
| Total                     | \$66,653   | \$55,800   | \$10,853  |
| Segments:                 |  |  |   |
| Electricity               | \$39,730   | \$29,660   | \$10,070  |
| Gas                       | 12,455   | 12,185   | 270   |
| Water                     | 1,145  | 1,106  | 39  |
| Corporate unallocated     | 13,323   | 12,849   | 474   |
| Total                     | \$66,653   | \$55,800   | \$10,853  |





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## 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 middle of 2015 and begin recognizing full savings in 2016. While project activities are expected to continue through June 2015, no further costs are expected to be recognized. In connection with the 2013 Projects, we sold a Gas manufacturing facility in China for a gain of \$2.7 million during the fourth quarter of 2014, which is included in the Asset impairments line below.

The total expected restructuring costs, the costs recognized in prior periods, the restructuring costs recognized during the year ended December 31, 2014, and the remaining expected restructuring costs as of December 31, 2014 were as follows:

|                           | Total Expected Costs<br>at<br>December 31, 2014 | Costs Recognized<br>in Prior Periods | Costs Recognized<br>During the<br>Year Ended<br>December 31, 2014 | Remaining Costs to<br>be Recognized at<br>December 31, 2014 |
|---------------------------|---|--------------------------------------|---|---|
|                           | (in thousands)                                  |                                      |   |   |
| Employee severance costs  | \$23,691  | \$29,186                             | \$(5,495)   | ) \$—   |
| Asset impairments         | (1,500)   | ) 1,232                              | (2,732)   | ) —   |
| Other restructuring costs | 3,965   | 681                                  | 3,284   | —   |
| Total                     | \$26,156  | \$31,099                             | \$(4,943)   | ) \$—   |
| Segments:                 |   |                                      |   |   |
| Electricity               | \$15,512  | \$24,056                             | \$(8,544)   | ) \$—   |
| Gas                       | 1,375   | 4,369                                | (2,994)   | ) —   |
| Water                     | 3,130   | 1,957                                | 1,173   | —   |
| Corporate unallocated     | 6,139   | 717                                  | 5,422   | —   |
| Total                     | \$26,156  | \$31,099                             | \$(4,943)   | ) \$—   |

The following table summarizes the activity within the restructuring related balance sheet accounts, for the 2014 and 2013 Projects, during the year ended December 31, 2014:

|                                       | Accrued<br>Employee<br>Severance | Asset<br>Impairments &<br>Net (Gain) Loss<br>on Sale or<br>Disposal | Other Accrued<br>Costs | Total      |
|---------------------------------------|----------------------------------|---|------------------------|------------|
|                                       | (in thousands)                   |   |                        |            |
| Beginning balance, January 1, 2014    | \$32,709                         | \$—   | \$3,632                | \$36,341   |
| Costs incurred and charged to expense | 41,952                           | 5,220   | 3,685                  | 50,857     |
| Cash payments                         | (12,732)                         | ) —   | (3,581)                | ) (16,313) |
| Non-cash items                        | —                                | (5,220)   | ) —                    | ) (5,220)  |
| Effect of change in exchange rates    | (2,596)                          | ) —   | (210)                  | ) (2,806)  |
| Ending balance, December 31, 2014     | \$59,333                         | \$—   | \$3,526                | \$62,859   |

Other restructuring costs include expenses for employee relocation, professional fees associated with employee severance, 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.

The current portions of the restructuring related liability balances were \$49.1 million and \$30.3 million as of December 31, 2014 and 2013, respectively. 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 related balances were \$13.8 million and \$6.0 million

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as of December 31, 2014 and 2013, respectively. The long-term portion of the restructuring liability is classified within "Other long-term obligations" on the Consolidated Balance Sheets.

Asset impairments are determined at the asset group level. Assets held for sale are classified within other current assets and are reported at the lower of the carrying amount or the fair value, less costs to sell, and are no longer depreciated or amortized.

Asset impairments under the 2014 Projects include:

• Impairment of \$3.0 million on the land and buildings at one manufacturing site designated as an asset group and classified as held and used;

• Impairments of \$4.6 million for machinery and equipment; and

• Impairments of \$0.4 million for other property, plant, and equipment.

The following table includes long-lived assets held and used that were measured at fair value on a nonrecurring basis as of December 31, 2014 and 2013, and the related recognized losses for the years ended December 31, 2014 and 2013:

|                                 | Net Carrying Value<br>(in thousands) | Fair Value<br>Measurement (Level 3) | Total Loss Recognized |
|---------------------------------|--------------------------------------|-------------------------------------|-----------------------|
| 2014                            |                                      |                                     |                       |
| Long-lived assets held and used | \$1,930                              | \$1,930                             | \$7,952               |
| 2013                            |                                      |                                     |                       |
| Long-lived assets held and used | \$—                                  | \$—                                 | \$—                   |

The fair values of the asset group included in long-lived assets held and used were determined based primarily on their appraised fair value.

Note 14: 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 will be entitled to be paid a preferential amount per share to be determined by our Board of Directors prior to any payment to holders of common stock. There was no preferred stock issued or outstanding at December 31, 2014, 2013, and 2012.

#### Stock Repurchase Plan

On March 8, 2013, our Board authorized a 12-month repurchase program of up to \$50 million in shares of our common stock. The March 8, 2013 authorization expired on March 7, 2014. From January 1, 2014 through March 7, 2014, we repurchased 75,203 shares of our common stock, totaling \$2.9 million.

On February 7, 2014, our Board authorized a 12-month repurchase program of up to \$50 million in shares of our common stock, to begin on March 8, 2014, upon the expiration of the previous stock repurchase program. From March 8, 2014 through December 31, 2014, we repurchased 910,990 shares of our common stock, totaling \$36.7 million.

Subsequent to December 31, 2014 we repurchased 335,251 shares of our common stock. The average price paid per share was \$39.62. These subsequent repurchases fully utilized the remaining \$13.3 million authorized under the

program. Repurchases are made in the open market or in privately negotiated transactions and in accordance with applicable securities laws.

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## Other Comprehensive Income (Loss)

Other comprehensive income (loss) is reflected as a net increase (decrease) to shareholders' equity and is not reflected in our results of operations. The changes in the components of accumulated other comprehensive income (loss), net of tax, were as follows:

|  | Foreign<br>Currency<br>Translation<br>Adjustments | Net<br>Unrealized<br>Gain (Loss)<br>on Derivative<br>Instruments | Net<br>Unrealized<br>Gain (Loss)<br>on<br>Nonderivative<br>Instruments | Pension Plan<br>Benefit<br>Liability<br>Adjustments | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|--|---|--|--|---|--|
|  | (in thousands)                                    |  |  |   |  |
| Balances at January 1, 2012                      | \$ (24,718 )                                      | \$ —   | \$ (14,380 )   | \$ 1,938  | \$ (37,160 )   |
| OCI before reclassifications                     | 21,405  | (1,689 )   | —  | (16,772 )   | 2,944  |
| Amounts reclassified from AOCI                   | —   | —  | —  | (168 )  | (168 )   |
| Current period other comprehensive income (loss) | 21,405  | (1,689 )   | —  | (16,940 )   | 2,776  |
| Balances at December 31, 2012                    | \$ (3,313 )                                       | \$ (1,689 )  | \$ (14,380 )   | \$ (15,002 )  | \$ (34,384 )   |
| OCI before reclassifications                     | 7,112   | 2  | —  | 6,496   | 13,610   |
| Amounts reclassified from AOCI                   | —   | 431  | —  | (1,379 )  | (948 )   |
| Current period other comprehensive income (loss) | 7,112   | 433  | —  | 5,117   | 12,662   |
| Balances at December 31, 2013                    | \$ 3,799  | \$ (1,256 )  | \$ (14,380 )   | \$ (9,885 )   | \$ (21,722 )   |
| OCI before reclassifications                     | (90,333 )   | (566 )   | —  | (24,192 )   | (115,091 )   |
| Amounts reclassified from AOCI                   | —   | 1,054  | —  | (755 )  | 299  |
| Current period other comprehensive income (loss) | (90,333 )   | 488  | —  | (24,947 )   | (114,792 )   |
| Balances at December 31, 2014                    | \$ (86,534 )                                      | \$ (768 )  | \$ (14,380 )   | \$ (34,832 )  | \$ (136,514 )  |

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

|   | Year Ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2014                    | 2013      | 2012      |
|   | (in thousands)          |           |           |
| Before-tax amount   |                         |           |           |
| Foreign currency translation adjustment   | \$ (90,365 )            | \$ 8,126  | \$ 28,002 |
| Net unrealized gain (loss) on derivative instruments designated as cash flow hedges | (915 )                  | (3 )      | (2,725 )  |
| Net hedging (gain) loss reclassified into net income (loss)                         | 1,704                   | 697       | —         |
| Pension plan benefits liability adjustment  | (25,270 )               | 7,344     | (24,358 ) |
| Total other comprehensive income (loss), before tax                                 | (114,846 )              | 16,164    | 919       |
| Tax (provision) benefit   |                         |           |           |
| Foreign currency translation adjustment   | 32                      | (1,014 )  | (6,597 )  |
| Net unrealized gain (loss) on derivative instruments designated as cash flow hedges | 349                     | 5         | 1,036     |
| Net hedging (gain) loss reclassified into net income (loss)                         | (650 )                  | (266 )    | —         |
| Pension plan benefits liability adjustment  | 323                     | (2,227 )  | 7,418     |
| Total other comprehensive income (loss) tax (provision) benefit                     | 54                      | (3,502 )  | 1,857     |
| Net-of-tax amount   |                         |           |           |
| Foreign currency translation adjustment   | (90,333 )               | 7,112     | 21,405    |
| Net unrealized gain (loss) on derivative instruments designated as cash flow hedges | (566 )                  | 2         | (1,689 )  |
| Net hedging (gain) loss reclassified into net income (loss)                         | 1,054                   | 431       | —         |
| Pension plan benefits liability adjustment  | (24,947 )               | 5,117     | (16,940 ) |
| Total other comprehensive income (loss), net of tax                                 | \$ (114,792 )           | \$ 12,662 | \$ 2,776  |

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

|  | Amount Reclassified from AOCI <sup>(1)</sup> |            |          | Affected Line Item in the<br>Income Statement |
|--|--|------------|----------|---|
|  | Year Ended December 31,                      |            |          |   |
|  | 2014   | 2013       | 2012     |   |
|  | (in thousands)                               |            |          |   |
| Amortization of defined benefit pension items      |  |            |          |   |
| Prior-service costs                                | \$(138 )                                     | \$(70 )    | \$(68 )  | ) (2)   |
| Actuarial gains (losses)                           | (572 )                                       | (926 )     | (161 )   | ) (2)   |
| Loss on settlement                                 | (55 )  | (325 )     | (13 )    | ) (2)   |
| Other  | —  | (658 )     | —        | ) (2)   |
| Total, before tax                                  | (765 )                                       | (1,979 )   | (242 )   | ) Income before income taxes                  |
| Tax benefit (provision)                            | 10   | 600        | 74       | ) Income tax provision                        |
| Total, net of tax                                  | (755 )                                       | (1,379 )   | (168 )   | ) Net income                                  |
| Total reclassifications for the period, net of tax | \$(755 )                                     | \$(1,379 ) | \$(168 ) | ) Net income                                  |

- (1) Amounts in parenthesis indicate debits to the 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.

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## Note 15: Fair Values of Financial Instruments

The fair values at December 31, 2014 and 2013 do not reflect subsequent changes in the economy, interest rates, tax rates, and other variables that may affect the determination of fair value.

|  | December 31, 2014 |                | December 31, 2013 |            |
|--|-------------------|----------------|-------------------|------------|
|  | Carrying Amount   | Fair Value     | Carrying Amount   | Fair Value |
|  |                   | (in thousands) |                   |            |
| <b>Assets</b>                          |                   |                |                   |            |
| Cash and cash equivalents              | \$ 112,371        | \$ 112,371     | \$ 124,805        | \$ 124,805 |
| Foreign exchange forwards              | 107               | 107            | 41                | 41         |
| Interest rate swaps                    | 75                | 75             | —                 | —          |
| <b>Liabilities</b>                     |                   |                |                   |            |
| <b>Credit facility</b>                 |                   |                |                   |            |
| USD denominated term loan              | \$ 232,500        | \$ 231,645     | \$ 258,750        | \$ 258,011 |
| Multicurrency revolving line of credit | 91,469            | 91,124         | 120,000           | 119,609    |
| Interest rate swaps                    | 1,317             | 1,317          | 2,031             | 2,031      |
| Foreign exchange forwards              | 236               | 236            | 145               | 145        |

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 value 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 determined 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.

## Note 16: 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 measures of segment performance: revenue, gross profit (margin), and operating income (margin). Our operating segments have distinct products, and, therefore, intersegment revenues are minimal. Corporate operating expenses, interest income, interest expense, other income (expense), and income tax provision (benefit) are not allocated to the segments nor are 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.





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## 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; 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.   |

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

|                                   | Year Ended December 31, |             |             |
|-----------------------------------|-------------------------|-------------|-------------|
|                                   | 2014                    | 2013        | 2012        |
|                                   | (in thousands)          |             |             |
| Revenues                          |                         |             |             |
| Electricity                       | \$794,144               | \$836,553   | \$1,024,340 |
| Gas                               | 599,081                 | 570,297     | 627,193     |
| Water                             | 577,472                 | 541,878     | 526,645     |
| Total Company                     | \$1,970,697             | \$1,948,728 | \$2,178,178 |
| Gross profit                      |                         |             |             |
| Electricity                       | \$208,476               | \$218,913   | \$295,005   |
| Gas                               | 211,815                 | 207,915     | 235,391     |
| Water                             | 202,834                 | 187,705     | 184,751     |
| Total Company                     | \$623,125               | \$614,533   | \$715,147   |
| Operating income (loss)           |                         |             |             |
| Electricity                       | \$(72,476)              | \$(235,908) | \$24,812    |
| Gas                               | 75,598                  | 83,882      | 110,557     |
| Water                             | 71,006                  | 63,252      | 59,210      |
| Corporate unallocated             | (70,296)                | (46,407)    | (43,453)    |
| Total Company                     | 3,832                   | (135,181)   | 151,126     |
| Total other income (expense)      | (18,741)                | (13,073)    | (14,907)    |
| Income (loss) before income taxes | \$(14,909)              | \$(148,254) | \$136,219   |

For the years ended December 31, 2014 and 2013, no single customer represented more than 10% of total Company or the Electricity, Gas or Water operating segment revenues.

For the year ended December 31, 2012, no single customer represented more than 10% of total Company or the Gas or Water operating segment revenues, and one customer accounted for 17% of the Electricity operating segment revenues.

During 2014, in our Electricity segment, we revised our estimate of the cost to complete an OpenWay project in North America. This resulted in a decrease to gross profit of \$15.9 million, which decreased basic and diluted earnings per share by \$0.25 for the year ended December 31, 2014. We previously recorded additional costs on this contract in 2013, which decreased gross profit by \$16.5 million and decreased basic and diluted earnings per share by \$0.26 for the year December 31, 2013. The per share amounts are shown net of tax.

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Revenues by region were as follows:

|  | Year Ended December 31, |             |             |
|--|-------------------------|-------------|-------------|
|  | 2014                    | 2013        | 2012        |
|  | (in thousands)          |             |             |
| United States and Canada               | \$899,399               | \$851,295   | \$1,014,739 |
| Europe, Middle East, and Africa (EMEA) | 848,502                 | 858,026     | 878,615     |
| Other                                  | 222,796                 | 239,407     | 284,824     |
| Total revenues                         | \$1,970,697             | \$1,948,728 | \$2,178,178 |

Property, plant, and equipment, net, by geographic area were as follows:

|   | At December 31, |           |
|---|-----------------|-----------|
|   | 2014            | 2013      |
|   | (in thousands)  |           |
| United States                             | \$76,130        | \$87,954  |
| Outside United States                     | 131,659         | 158,866   |
| Total property, plant, and equipment, net | \$207,789       | \$246,820 |

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

|                       | Year Ended December 31, |          |           |
|-----------------------|-------------------------|----------|-----------|
|                       | 2014                    | 2013     | 2012      |
|                       | (in thousands)          |          |           |
| Electricity           | \$47,886                | \$46,535 | \$52,113  |
| Gas                   | 26,031                  | 27,266   | 29,968    |
| Water                 | 24,259                  | 24,797   | 27,324    |
| Corporate Unallocated | 287                     | 247      | 66        |
| Total Company         | \$98,463                | \$98,845 | \$109,471 |

Note 17: Quarterly Results (Unaudited)

|   | First Quarter  | Second Quarter | Third Quarter | Fourth Quarter | Total Year  |
|---|--|----------------|---------------|----------------|-------------|
|   | (in thousands, except per common share and stock price data) |                |               |                |             |
| 2014  |  |                |               |                |             |
| Statement of operations data:                 |  |                |               |                |             |
| Revenues                                      | \$474,795  | \$489,353      | \$496,454     | \$510,095      | \$1,970,697 |
| Gross profit                                  | 154,535  | 163,041        | 150,762       | 154,787        | 623,125     |
| Net income (loss) attributable to Itron, Inc. | (254 )   | 19,259         | 7,308         | (49,233 )      | (22,920 )   |
| Earnings (loss) per common share - Basic      | \$(0.01 )  | \$0.49         | \$0.19        | \$(1.25 )      | \$(0.58 )   |
| Earnings (loss) per common share - Diluted    | \$(0.01 )  | \$0.49         | \$0.19        | \$(1.25 )      | \$(0.58 )   |
| 2013  |  |                |               |                |             |
| Statement of operations data:                 |  |                |               |                |             |
| Revenues                                      | \$447,536  | \$482,175      | \$495,491     | \$523,526      | \$1,948,728 |
| Gross profit                                  | 140,123  | 159,588        | 150,084       | 164,738        | 614,533     |

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|   |        |        |         |   |          |   |          |   |
|---|--------|--------|---------|---|----------|---|----------|---|
| Net income (loss) attributable to Itron, Inc. | 2,570  | 12,399 | (7,348  | ) | (154,430 | ) | (146,809 | ) |
| Earnings (loss) per common share - Basic      | \$0.07 | \$0.31 | \$(0.19 | ) | \$(3.93  | ) | \$(3.74  | ) |
| Earnings (loss) per common share - Diluted    | \$0.06 | \$0.31 | \$(0.19 | ) | \$(3.93  | ) | \$(3.74  | ) |

During the fourth quarter of 2013, we incurred a goodwill impairment charge of \$173.2 million. In addition, we incurred costs of \$31.1 million in the third quarter of 2013 related to restructuring projects approved in 2013. Further, in 2014, new restructuring

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projects were approved to increase efficiency and lower our cost of manufacturing, for which we incurred costs of \$55.8 million in the fourth quarter of 2014.

Note 18: Subsequent Events

Stock Repurchases

On February 19, 2015, Itron's Board of Directors authorized a new repurchase program of up to \$50 million of our common stock over a 12-month period, beginning February 19, 2015. Repurchases are made in the open market or in privately negotiated transactions and in accordance with applicable securities laws.

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ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no disagreements with our independent accountants on accounting and financial disclosure matters within the three year period ended December 31, 2014, or in any period subsequent to such date, through the date of this report.

ITEM 9A: CONTROLS AND PROCEDURES

(i) Evaluation of disclosure controls and procedures.

An evaluation was performed under the supervision and with the participation of our Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e)) under the Securities Exchange Act of 1934 as amended. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that as of December 31, 2014, the Company's disclosure controls and procedures were effective to 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.

(ii) Internal Control Over Financial Reporting.

Management's Annual Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control— Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on our evaluation under the 2013 Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report that is included in this Annual Report on Form 10-K.

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

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

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

There have been no other changes in our internal control over financial reporting during the three months ended December 31, 2014 that materially affected, or are reasonably likely to materially affect, internal control over

financial reporting.

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(c) Report of Independent Registered Public Accounting Firm.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Itron, Inc.

We have audited Itron, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Itron, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Itron, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Itron, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for each of the three years in the period ended December 31, 2014 of Itron, Inc. and our report dated February 20, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Seattle, Washington  
February 20, 2015

**ITEM 9B: OTHER INFORMATION**

No information was required to be disclosed in a report on Form 8-K during the fourth quarter of 2014 that was not reported.

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**PART III**

**ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The section entitled “Proposal 1 – Election of Directors” appearing in our Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2015 (the 2015 Proxy Statement) sets forth certain information with regard to our directors as required by Item 401 of Regulation S-K and is incorporated herein by reference.

Certain information with respect to persons who are or may be deemed to be executive officers of Itron, Inc. as required by Item 401 of Regulation S-K is set forth under the caption “Management” in Part I of this Annual Report on Form 10-K.

The section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” appearing in the 2015 Proxy Statement sets forth certain information as required by Item 405 of Regulation S-K and is incorporated herein by reference.

The section entitled “Corporate Governance” appearing in the 2015 Proxy Statement sets forth certain information with respect to the Registrant’s code of conduct and ethics as required by Item 406 of Regulation S-K and is incorporated herein by reference. Our code of conduct and ethics can be accessed on our website, at [www.itron.com](http://www.itron.com) under the Investors section.

There were no material changes to the procedures by which security holders may recommend nominees to Itron's board of directors during 2015, as set forth by Item 407(c)(3) of Regulation S-K.

The section entitled “Corporate Governance” appearing in the 2015 Proxy Statement sets forth certain information regarding the Audit/Finance Committee, including the members of the Committee and the Audit/Finance Committee financial experts, as set forth by Item 407(d)(4) and (d)(5) of Regulation S-K and is incorporated herein by reference.

**ITEM 11: EXECUTIVE COMPENSATION**

The sections entitled “Compensation of Directors” and “Executive Compensation” appearing in the 2015 Proxy Statement set forth certain information with respect to the compensation of directors and management of Itron as required by Item 402 of Regulation S-K and are incorporated herein by reference.

The section entitled “Corporate Governance” appearing in the 2015 Proxy Statement sets forth certain information regarding members of the Compensation Committee required by Item 407(e)(4) of Regulation S-K and is incorporated herein by reference.

The section entitled “Compensation Committee Report” appearing in the 2015 Proxy Statement sets forth certain information required by Item 407(e)(5) of Regulation S-K and is incorporated herein by reference.

**ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The section entitled “Equity Compensation Plan Information” appearing in the 2015 Proxy Statement sets forth certain information required by Item 201(d) of Regulation S-K and is incorporated herein by reference.

The section entitled “Security Ownership of Certain Beneficial Owners and Management” appearing in the 2015 Proxy Statement sets forth certain information with respect to the ownership of our common stock as required by Item 403 of Regulation S-K and is incorporated herein by reference.

**ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The section entitled “Corporate Governance” appearing in the 2015 Proxy Statement sets forth certain information required by Item 404 of Regulation S-K and is incorporated herein by reference.

The section entitled “Corporate Governance” appearing in the 2015 Proxy Statement sets forth certain information with respect to director independence as required by Item 407(a) of Regulation S-K and is incorporated herein by reference.

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ITEM 14: PRINCIPAL ACCOUNTING FEES AND SERVICES

The section entitled “Independent Registered Public Accounting Firm’s Audit Fees and Services” appearing in the 2015 Proxy Statement sets forth certain information with respect to the principal accounting fees and services and the Audit/Finance Committee’s policy on pre-approval of audit and permissible non-audit services performed by our independent auditors as required by Item 9(e) of Schedule 14A and is incorporated herein by reference.

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## PART IV

## ITEM 15: EXHIBITS, FINANCIAL STATEMENT SCHEDULE

## (a) (1) Financial Statements:

The financial statements required by this item are submitted in Item 8 of this Annual Report on Form 10-K.

## (a) (2) Financial Statement Schedule:

## Schedule II: Valuation and Qualifying Accounts

Financial Statement Schedules not listed above have been omitted because of the absence of conditions under which they are required or because the required information is included in the Consolidated Financial Statements or the Notes thereto.

## (a) (3) Exhibits:

| Exhibit Number | Description of Exhibits  |
|----------------|--|
| 3.1            | Amended and Restated Articles of Incorporation of Itron, Inc. (Filed as Exhibit 3.1 to Itron, Inc.'s Annual Report on Form 10-K, filed on March 27, 2003)  |
| 3.2            | Amended and Restated Bylaws of Itron, Inc. (Filed as Exhibit 3.2 to Itron, Inc.'s Current Report on Form 8-K, filed on September 7, 2011)  |
| 4.1            | Credit Agreement dated August 5, 2011 among Itron, Inc. and a syndicate of banks led by Wells Fargo Bank, National Association, JPMorgan Chase Bank, N.A., and J.P. Morgan Europe Limited. (Filed as Exhibit 4.1 to Itron, Inc.'s Current Report on Form 8-K, filed on August 8, 2011) |
| 4.2            | Security Agreement dated August 5, 2011 among Itron, Inc. and Wells Fargo Bank, National Association. (Filed as Exhibit 4.2 to Itron, Inc.'s Current Report on Form 8-K, filed on August 8, 2011)  |
| 10.1*          | Form of Amended and Restated Change in Control Severance Agreement for Executive Officers. (Filed as Exhibit 10.1 to Itron, Inc.'s Annual Report on Form 10-K, filed on February 22, 2013)   |
| 10.2*          | Schedule of certain executive officers who are parties to Change in Control Severance Agreements with Itron, Inc. (filed with this report)   |
| 10.3*          | First Amendment to Change in Control Agreement between Itron, Inc. and Marcel Regnier. (Filed as Exhibit 10.2 to Itron, Inc.'s Current Report on Form 8-K, filed on April 2, 2012)   |
| 10.4*          | Employee Agreement between Itron Holding France and Marcel Regnier. (Filed as Exhibit 10.1 to Itron, Inc.'s Current Report on Form 8-K, filed on April 2, 2012)  |
| 10.5*          | Form of Indemnification Agreements between Itron, Inc. and certain directors and officers. (Filed as Exhibit 10.9 to Itron, Inc.'s Annual Report on Form 10-K, filed on March 30, 2000)  |
| 10.6*          | Schedule of directors and executive officers who are parties to Indemnification Agreements with Itron, Inc. (filed with this report)   |
| 10.7           |  |

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Amended and Restated 2000 Stock Incentive Plan. (Filed as Appendix A to Itron, Inc.'s Proxy Statement for the 2007 Annual Meeting of Shareholders, filed on March 26, 2007)

10.8

Amended and Restated 2010 Stock Incentive Plan. (Filed as Appendix A to Itron, Inc.'s Proxy Statement for the 2014 Annual Meeting of Shareholders, filed on March 13, 2014)

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| Exhibit Number | Description of Exhibits  |
|----------------|--|
| 10.9*          | Rules of Itron Inc.'s Amended and Restated 2010 Stock Incentive Plan for the grant of Restricted Stock Unit (RSU's) to participants in France. (Filed as Exhibit 10.6 to Itron Inc.'s Quarterly Report on Form 10-Q, filed on August 8, 2014)  |
| 10.10*         | Executive Management Incentive Plan. (Filed as Appendix B to Itron, Inc.'s Proxy Statement for the 2010 Annual Meeting of Shareholders, filed on March 17, 2010)   |
| 10.11          | Terms of the Amended and Restated Equity Grant Program for Nonemployee Directors under the Itron, Inc. Amended and Restated 2000 Stock Incentive Plan. (Filed as Exhibit 10.4 to Itron, Inc.'s Annual Report on Form 10-K, filed on February 26, 2008)   |
| 10.12          | Form of Non-Qualified Stock Option Grant Notice and Agreement for Nonemployee Directors under the Itron, Inc. Amended and Restated 2000 Stock Incentive Plan. (Filed as Exhibit 10.9 to Itron, Inc.'s Annual Report on Form 10-K, filed on February 26, 2009)  |
| 10.13*         | Form of Stock Option Grant Notice and Agreement for use in connection with both incentive and non-qualified stock options granted under Itron, Inc.'s Amended and Restated 2000 Stock Incentive Plan. (Filed as Exhibit 10.6 to Itron, Inc.'s Current Report on Form 8-K, filed on February 18, 2010)                  |
| 10.14*         | Form of RSU Award Notice and Agreement for U.S. Participants for use in connection with the Company's Long-Term Performance Plan (LTPP) and issued under Itron, Inc.'s Amended and Restated 2000 Stock Incentive Plan. (Filed as Exhibit 10.1 to Itron, Inc.'s Current Report on Form 8-K, filed on February 18, 2010) |
| 10.15*         | Form of RSU Award Notice and Agreement for International Participants (excluding France) for use in connection with the Company's LTPP and issued under Itron, Inc.'s Amended and Restated 2000 Stock Incentive Plan. (Filed as Exhibit 10.2 to Itron, Inc.'s Current Report on Form 8-K, filed on February 18, 2010)  |
| 10.16*         | Form of RSU Award Notice and Agreement for Participants in France for use in connection with Itron, Inc.'s LTPP and issued under Itron, Inc.'s Amended and Restated 2000 Stock Incentive Plan. (Filed as Exhibit 10.3 to Itron, Inc.'s Current Report on Form 8-K, filed on February 18, 2010)                         |
| 10.17*         | Form of RSU Award Notice and Agreement for all Participants (excluding France) for use in connection with Itron, Inc.'s Amended and Restated 2000 Stock Incentive Plan. (Filed as Exhibit 10.4 to Itron, Inc.'s Current Report on Form 8-K, filed on February 18, 2010)  |
| 10.18*         | Form of RSU Award Notice and Agreement for Participants in France for use in connection with Itron, Inc.'s Amended and Restated 2000 Stock Incentive Plan. (Filed as Exhibit 10.5 to Itron, Inc.'s Current Report on Form 8-K, filed on February 18, 2010)   |
| 10.19*         | Form of Long Term Performance RSU Award Notice and Agreement for U.S. Participants for use in connection with Itron, Inc.'s Amended and Restated 2010 Stock Incentive Plan. (Filed as Exhibit 10.4 to Itron, Inc.'s Quarterly Report on Form 10-Q, filed on August 6, 2014)  |
| 10.20*         |  |

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Form of Long Term Performance RSU Award Notice and Agreement for International Participants (excluding France) for use in connection with Itron, Inc.'s Amended and Restated 2010 Stock Incentive Plan. (Filed as Exhibit 10.19 to Itron, Inc.'s Annual Report on Form 10-K, filed on February 25, 2011)

10.21\* Form of Long Term Performance RSU Award Notice and Agreement for Participants in France for use in connection with Itron, Inc.'s Amended and Restated 2010 Stock Incentive Plan. (Filed as Exhibit 10.5 to Itron, Inc.'s Quarterly Report on Form 10-Q, filed on August 6, 2014)

10.22\* Form of RSU Award Notice and Agreement for all Participants (excluding France) for use in connection with Itron, Inc.'s Amended and Restated 2010 Stock Incentive Plan. (Filed as Exhibit 10.2 to Itron, Inc.'s Quarterly Report on Form 10-Q, filed on August 6, 2014)



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| Exhibit Number | Description of Exhibits  |
|----------------|--|
| 10.23*         | Form of RSU Award Notice and Agreement for Participants in France for use in connection with Itron, Inc.'s Amended and Restated 2010 Stock Incentive Plan. (Filed as Exhibit 10.3 to Itron, Inc.'s Quarterly Report on Form 10-Q, filed on August 6, 2014)   |
| 10.24*         | Form of RSU Award Notice and Agreement for Non-employee Directors for use in connection with Itron, Inc.'s Amended and Restated 2010 Stock Incentive Plan. (Filed as Exhibit 10.3 to Itron, Inc.'s Quarterly Report on Form 10-Q, filed on May 3, 2013)  |
| 10.25*         | Form of Stock Option Grant Notice and Agreement for use in connection with both incentive and non-qualified stock options granted under Itron, Inc.'s Amended and Restated 2010 Stock Incentive Plan. (Filed as Exhibit 10.1 to Itron, Inc.'s Quarterly Report on Form 10-Q, filed on August 6, 2014 - File No. 22418) |
| 10.26*         | Executive Deferred Compensation Plan. (Filed as Exhibit 10.1 to Itron, Inc.'s Quarterly Report on Form 10-Q, filed on November 1, 2011)  |
| 10.27          | Amended and Restated 2002 Employee Stock Purchase Plan. (Filed as Exhibit 10.20 to Itron's Annual Report on Form 10-K, filed on February 26, 2009)   |
| 10.28          | Stock Option Plan for Nonemployee Directors. (Filed as Exhibit 10.11 to Itron, Inc.'s Registration Statement on Form S-1 dated July 22, 1992)  |
| 10.29*         | Offer Letter, dated as of November 16, 2012, between Itron, Inc. and Philip C. Mezey. (Filed as Exhibit 10.1 to Itron, Inc.'s Current Report on Form 8-K, filed on November 19, 2012)  |
| 10.30*         | Offer Letter, dated as of November 16, 2012, between Itron, Inc. and John W. Holleran. (Filed as Exhibit 10.2 to Itron, Inc.'s Current Report on Form 8-K, filed on November 19, 2012)   |
| 21.1           | Subsidiaries of Itron, Inc. (filed with this report)   |
| 23.1           | Consent of Ernst & Young LLP Independent Registered Public Accounting Firm. (filed with this report)   |
| 31.1           | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed with this report)  |
| 31.2           | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed with this report)  |
| 32.1           | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished with this report)  |
| 101.INS        | XBRL Instance Document. (submitted electronically with this report in accordance with the provisions of Regulation S-T)  |
| 101.SCH        | XBRL Taxonomy Extension Schema. (submitted electronically with this report in accordance with the provisions of Regulation S-T)  |
| 101.CAL        |  |

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XBRL Taxonomy Extension Calculation Linkbase. (submitted electronically with this report in accordance with the provisions of Regulation S-T)

101.DEF XBRL Taxonomy Extension Definition Linkbase. (submitted electronically with this report in accordance with the provisions of Regulation S-T)

101.LAB XBRL Taxonomy Extension Label Linkbase. (submitted electronically with this report in accordance with the provisions of Regulation S-T)

101.PRE XBRL Taxonomy Extension Presentation Linkbase. (submitted electronically with this report in accordance with the provisions of Regulation S-T)

\* Management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Liberty Lake, State of Washington, on the 20th day of February, 2014.

ITRON, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 20th day of February, 2014.

| Signatures   | Title  |
|--|--|
| /s/ PHILIP C. MEZEY<br>Philip C. Mezey                 | President and Chief Executive Officer (Principal Executive Officer),<br>Director                     |
| /s/ W. MARK SCHMITZ<br>W. Mark Schmitz                 | Executive Vice President and Chief Financial Officer (Principal<br>Financial and Accounting Officer) |
| /s/ KIRBY A. DYESS<br>Kirby A. Dyess                   | Director   |
| /s/ JON E. ELIASSEN<br>Jon E. Eliassen                 | Chairman of the Board  |
| /s/ CHARLES H. GAYLORD, JR.<br>Charles H. Gaylord, Jr. | Director   |
| /s/ THOMAS S. GLANVILLE<br>Thomas S. Glanville         | Director   |
| /s/ SHARON L. NELSON<br>Sharon L. Nelson               | Director   |
| /s/ DANIEL S. PELINO<br>Daniel S. Pelino               | Director   |
| /s/ GARY E. PRUITT<br>Gary E. Pruitt                   | Director   |
| /s/ GRAHAM M. WILSON<br>Graham M. Wilson               | Director   |
| /s/ LYNDA L. ZIEGLER<br>Lynda L. Ziegler               | Director   |



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## SCHEDULE II: VALUATION AND QUALIFYING ACCOUNTS

| Description                             | Balance at<br>Beginning of<br>Period | Other<br>Adjustments | Additions<br>Charged to<br>Costs and<br>Expenses | Balance at<br>End of Period,<br>Noncurrent |
|---|--------------------------------------|----------------------|--|--|
|   | (in thousands)                       |                      |  |  |
| Year ended December 31, 2014:           |                                      |                      |  |  |
| Deferred tax assets valuation allowance | \$ 161,026                           | \$(5,058             | ) \$ 100,651                                     | \$ 256,619                                 |
| Year ended December 31, 2013:           |                                      |                      |  |  |
| Deferred tax assets valuation allowance | \$ 138,910                           | \$ 4,117             | \$ 17,999  | \$ 161,026                                 |
| Year ended December 31, 2012:           |                                      |                      |  |  |
| Deferred tax assets valuation allowance | \$ 124,244                           | \$ 1,811             | \$ 12,855  | \$ 138,910                                 |