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ITRON INC /WA/  
Form 10-Q/A  
March 11, 2002

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

FORM 10-Q/A

(mark one)

AMENDMENT NO.1 TO QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from to

Commission file number 0-22418

ITRON, INC.

(Exact name of registrant as specified in its charter)

Washington  
(State of Incorporation)

91-1011792  
(I.R.S. Employer Identification Number)

2818 North Sullivan Road  
Spokane, Washington 99216-1897  
(509) 924-9900

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

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

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The number of shares outstanding of the registrant's common stock as of April  
30, 2001 was 15,505,712.

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This amendment on Form 10-Q of Itron, Inc. incorporates certain revisions to  
historical financial data and related descriptions but is not intended to update  
other information presented in this report as originally filed, except where  
specifically noted. The amendment reflects the restatement of the Registrant's  
condensed consolidated financial statements for the three months ended March 31,  
2001 and 2000 included in its Form 10-Q for the three months ended March 31,  
2001 and 2000, filed on May 15, 2001, related to its accounting for certain  
outsourcing contracts under which the Company retains title to the related

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equipment. See Note 8 to our condensed consolidated financial statements for further discussion of the matter.

Itron, Inc.

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## Part 1: FINANCIAL INFORMATION

### Item 1: FINANCIAL STATEMENTS (UNAUDITED)

ITRON, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND  
COMPREHENSIVE INCOME (LOSS) (AS RESTATED)

(Unaudited, in thousands, except per share data)	Three months ended 2001
Revenues	-----
Sales	\$ 37,232
Service	10,239
	-----
Total revenues	47,471
	-----
Cost of revenues	
Sales	21,521
Service	7,269
	-----
Total cost of revenues	28,790
	-----
Gross profit	18,681
Operating expenses	
Sales and marketing	5,585
Product development	5,739
General and administrative	3,275
Amortization of intangibles	366
Restructurings	-
	-----
Total operating expenses	14,965
	-----
Operating income	3,716
Other income (expense)	
Equity in affiliates	23
Interest and other, net	(1,294)
	-----
Total other income (expense)	(1,271)
	-----
Income before income taxes and extraordinary item	2,445
Income tax (provision) benefit	(956)
	-----
Income before extraordinary item and cumulative effect of a change in accounting principle	1,489
Extraordinary gain on early extinguishment of debt, net of income taxes of \$570	-
Cumulative effect of a change in accounting principle, net of income taxes of \$1,581	-
	-----
Net income (loss)	\$ 1,489
	=====
Other comprehensive income, net of tax:	
Foreign currency translation adjustments	24
Unrealized holding gains	7

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Other comprehensive income	----- 31 -----
Comprehensive income (loss)	\$ 1,520 =====

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ITRON, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND  
COMPREHENSIVE INCOME (LOSS) (AS RESTATED)  
(continued)

(Unaudited, in thousands, except per share data)	Three months ended March 31,	
	2001	2000
	-----	-----
Earnings per share		
Basic		
Income before extraordinary item	\$ .10	\$ .02
Extraordinary item	-	.07
Cumulative effect	-	(.17)
	-----	-----
Basic net income (loss) per share	\$ .10	\$ (.08)
	=====	=====
Diluted		
Income before extraordinary item	\$ .09	\$ .02
Extraordinary item	-	.07
Cumulative effect	-	(.17)
	-----	-----
Diluted net income (loss) per share	\$ .09	\$ (.08)
	=====	=====
Average number of shares outstanding		
Basic	15,383	15,033
Diluted	15,690	15,378

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

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ITRON, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)

ASSETS

March 31,  
2001  
(As Restated)

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Current assets		
Cash and cash equivalents	\$	14,812
Short-term investments		8,278
Accounts receivable, net		36,373
Inventories, net		18,282
Deferred income taxes		3,946
Other		1,802
		-----
Total current assets		83,493
Property, plant and equipment, net		24,080
Equipment used in outsourcing, net		13,823
Intangible assets, net		12,294
Restricted cash		5,100
Deferred income taxes		27,318
Other		4,790
		-----
Total assets	\$	170,898
		=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$	27,708
Wages and benefits payable		4,665
Mortgage notes and leases payable		246
Deferred revenue		8,150
		-----
Total current liabilities		40,769
		-----
Convertible subordinated debt		53,459
Mortgage notes and leases payable		5,026
Project financing		6,528
Warranty and other obligations		11,152
		-----
Total liabilities		116,934
		-----
Shareholders' equity		
Common stock		110,082
Accumulated other comprehensive loss		(1,809)
Accumulated deficit		(54,309)
		-----
Total shareholders' equity		53,964
		-----
Total liabilities and shareholders' equity	\$	170,898
		=====

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

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(Unaudited, in thousands)	Three months 2001 -----
<b>OPERATING ACTIVITIES</b>	
Net income (loss)	\$ 1,489
Noncash charges (credits) to income:	
Depreciation and amortization	2,634
Deferred income tax provision	875
Equity in affiliates, net	(23)
Extraordinary gain on early extinguishment of debt	-
Cumulative effect of a change in accounting principle	-
Loss on equipment sale or disposal	-
Changes in operating accounts:	
Accounts receivable	13,486
Inventories	(1,086)
Accounts payable and accrued expenses	(2,549)
Wages and benefits payable	(4,579)
Deferred revenue	(875)
Other, net	(80)
	-----
Cash provided by operating activities	9,292
<b>INVESTING ACTIVITIES</b>	
Purchase of short-term investments	(8,278)
Reclassification of restricted cash balance	(5,100)
Acquisition of property, plant and equipment	(671)
Equipment used in outsourcing	(1)
Proceeds from sale of equipment used in outsourcing, net	-
Proceeds from sale of business interest	-
Investment in affiliates	(1,000)
Other, net	(796)
	-----
Cash provided (used) by investing activities	(15,846)
<b>FINANCING ACTIVITIES</b>	
Change in short-term borrowings, net	-
Payments on project financing, net	(143)
Convertible subordinated debt repurchase	-
Issuance of common stock	352
Other, net	(59)
	-----
Cash provided (used) by financing activities	150
	-----
Increase (decrease) in cash and cash equivalents	(6,404)
Cash and cash equivalents at beginning of period	21,216
	-----
Cash and cash equivalents at end of period	\$ 14,812 =====

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

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS March 31, 2001 and 2000 (Unaudited)

### Note 1: Basis of Presentation

The consolidated financial statements presented in this Form 10-Q/A are unaudited and reflect, in the opinion of management, all normal recurring adjustments necessary for a fair presentation of operations for the three-month periods ended March 31, 2001 and 2000. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim results. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes included in our Form 10-K/A for the year ended December 31, 2000, as filed with the Securities and Exchange Commission on March 1, 2002. The results of operations for the three month period ended March 31, 2001 are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period.

During the fourth quarter of 2000, the Company implemented SEC Staff Accounting Bulletin No. 101 (SAB 101), which outlines the Staff's views on revenue recognition. As a result, we have changed our revenue recognition for certain transactions related to customer acceptance and F.O.B destination shipments. The implementation has been accounted for as a cumulative change in accounting principle in 2000. We restated our financial results for the first quarter of 2000 to conform revenue recognition to the requirements of SAB 101.

In addition, subsequent to the issuance of our consolidated financial statements for the year ended December 31, 2000, we changed our revenue recognition practice retroactively to January 1, 2000 for our two outsourcing contracts under which we retain title to the related equipment. See Note 8.

We have invested in short-term securities in 2001 and account for these investments in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. We consider our short-term securities to be available-for-sale and, in accordance with SFAS No., 115, the securities are reported at fair value, with unrealized gains and losses excluded from earnings and recorded net of deferred taxes directly to stockholders' equity as accumulated other comprehensive income.

### Note 2: Earnings Per Share and Capital Structure

(in thousands)

	Three months ended March 31,	
	2001	2000
Weighted average shares outstanding	15,383	15,033
Effect of dilutive securities	307	345
Weighted average shares outstanding assuming conversion	15,690	15,378

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We have granted options to purchase common stock to directors, employees and other key personnel at fair market value on the date of grant. The dilutive effect of these options is included for purposes of calculating diluted earnings per share using the "treasury stock" method. We also have subordinated convertible notes outstanding with conversion prices of \$9.65, representing 1,554K shares, and \$23.70, representing an additional 1,623K shares. These notes are not included in the above calculation as the notes are anti-dilutive in both periods when using the "if converted" method. The actual average market price of stock used to calculate dilutive shares in the first quarter was \$6.95. The market price of our stock as of April 30, 2001 was \$14.80 and would result in dilutive shares, from both options and subordinated convertible notes outstanding, increasing to 18,471K shares in this calculation.

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### Note 3: Balance Sheet Components

(in thousands)	March 31, 2001	Dece
	-----	-----
Accounts Receivable		
Trade (net of allowance for doubtful accounts of \$1,125 and \$1,144)	\$ 29,343	\$
Unbilled revenue	7,030	
	-----	-----
Total accounts receivable	\$ 36,373	\$
	=====	=====
Inventories, net		
Material	\$ 5,083	\$
Work in process	637	
Finished goods	11,425	
	-----	-----
Total manufacturing inventories	17,145	
Service inventories	1,137	
	-----	-----
Total inventories	\$ 18,282	\$
	=====	=====

### Note 4: Segment Information

We are internally organized around six strategic business units ("SBUs") focused on the customer segments that we serve. These SBUs are Electric Systems, Natural Gas Systems, Water & Public Power Systems, Energy Information Systems ("EIS"), International Systems, and Client Services.

Revenues for Electric, Natural Gas, and Water & Public Power Systems include hardware, custom and licensed software, project management, installation and support activities, and outsourcing services, where we own and operate, or simply operate, systems for a periodic fee. Client Services revenues include post-sale support activities, primarily for our Electric, Natural Gas, and Water & Public Power Systems SBUs. EIS has two main areas of focus: advanced software solutions for commercial and industrial users of energy; and advanced software systems for financial settlements, load analysis and billing for wholesale energy markets. EIS also provides consulting services in these areas as well.



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Revenues for EIS and International generally include all of the above types of revenues. Inter-segment revenues are immaterial.

Management has three primary measures for each of our operating segments: revenue, gross profit, and operating income. Of these three measures, operating income is our primary profit and loss measure. It is defined as operating income after the allocation of basic services (such as floor space and communication expense), excluding the allocation of corporate product development, marketing, miscellaneous manufacturing and certain other corporate expenses. Operating income is calculated as revenue, less direct costs associated with that revenue, less operating expenses directly incurred by the segment and less the allocations mentioned above. Operating expenses directly associated with each segment may include sales, marketing, development, or administrative expenses. Corporate consists of operating expenses not allocated to the other segments. Certain amounts in the 2000 financial statements have been reclassified to conform with the 2001 presentation, including all amounts related to Client Services, which was newly formed, effective January 1, 2001.

Segment revenues and operating results for the comparable quarters are detailed below.

	Three months ended March 31, (in thousands)						
	Electric	Natural Gas	Water & PP	EIS	Internat'l	Client Services	Corpo
	-----	-----	-----	-----	-----	-----	-----
2001							
Revenues	\$ 12,748	\$ 7,277	\$ 6,908	\$ 4,998	\$ 8,264	\$ 7,276	\$
Cost of sales	6,579	3,211	3,518	2,403	5,734	5,989	1
	-----	-----	-----	-----	-----	-----	-----
Gross profit	6,169	4,066	3,390	2,595	2,530	1,287	(1
	-----	-----	-----	-----	-----	-----	-----
Operating exp.	1,021	618	737	1,338	1,497	99	9
	-----	-----	-----	-----	-----	-----	-----
Operating income/(loss)	\$ 5,148	\$ 3,448	\$ 2,653	\$ 1,257	\$ 1,033	\$ 1,188	\$ (11
	=====	=====	=====	=====	=====	=====	=====

	Three months ended March 31, (in thousands)						
	Electric	Natural Gas	Water & PP	EIS	Internat'l	Client Services	Corporate
	-----	-----	-----	-----	-----	-----	-----
2000							
Revenues	\$ 10,294	\$ 10,300	\$ 10,368	\$ 5,247	\$ 3,017	\$ 7,699	\$ -
Cost of sales	4,495	4,470	5,404	2,708	1,588	7,688	3,266
	-----	-----	-----	-----	-----	-----	-----
Gross profit	5,799	5,830	4,964	2,539	1,429	11	(3,266)
	-----	-----	-----	-----	-----	-----	-----
Operating exp	944	669	689	1,484	1,613	228	10,476
	-----	-----	-----	-----	-----	-----	-----

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Operating income/(loss)	\$ 4,855	\$ 5,161	\$ 4,275	\$ 1,055	\$ (184)	\$ (217)	\$ (13,742)
	=====	=====	=====	=====	=====	=====	=====

Note 5: Restructuring

We recorded charges totaling \$16.3 million in 1999 for restructuring activities that have improved efficiencies and reduced costs. Our restructuring actions included the consolidation of high volume manufacturing to our plant in Minnesota, a reduction of products and software platforms supported by the Company, consolidation of product development locations, and a reduction in activities in Europe not related to our core business. The majority of our restructuring charges were related to a reduction in force of approximately 300 people of which approximately 50% were in manufacturing, 25% in product development and the remainder throughout the Company. Twenty-five percent of the reductions were management positions. The remaining charges relate to impairment of equipment and estimated future lease payments for abandoned facilities. There were no additional charges recorded in 2000 or 2001. Restructuring reserve balance adjustments and payments for the first three months of 2001 are detailed below (in thousands):

	Cash/ Non-Cash	Reserve Balance 12/31/00	Reserve Balance Adjustments	Payments	Res Bal 3/3
	-----	-----	-----	-----	-----
Severance and related charges	Cash	\$ 159	\$ -	\$ 43	\$
Consolidation of facilities	Cash	2,616	-	323	2
Totals		\$2,775	\$ -	\$ 366	\$2
		=====	=====	=====	=====

The reserve balance for severance and related charges is expected to be fully utilized in 2001. The adequacy of facility consolidation reserves is dependent on our ability to successfully sublease vacant space, which is leased pursuant to a non-cancelable operating lease through 2006.

Note 6: Contingencies

We maintain performance and bid bonds for certain customers. The performance bonds usually cover the installation phase of a contract and may on occasion cover the operations and maintenance phase of outsourcing contracts. The value of the bonds in force were \$47.9 million and \$25.0 million at March 31, 2001 and 2000, respectively. Additionally, we have standby letters of credit to guarantee our performance under certain contracts. The outstanding amounts of standby letters of credit were \$11.8 million and \$11.3 million at March 31, 2001 and 2000, respectively.

We are a party to various lawsuits and claims, both as plaintiff and defendant, and have contingent liabilities arising from the conduct of business, none of which, in the opinion of management, is expected to have a material effect on our financial position or results of operations. We believe we have made adequate provisions for such contingent liabilities. In addition, we are both a plaintiff and a defendant in litigation concerning potential patent infringement. While the ultimate outcome and its impact on our financial statements is undeterminable at this time, if we do not prevail or reach a favorable settlement in this case, the impact could have a material adverse affect on our financial condition.

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We have a long-term outsourcing contract with Southern California Edison ("SCE") in which we own, operate and maintain a Mobile Automated Meter Reading System for approximately 360,000 of their meters, and sell meter reading data to them. At March 31, 2001, we had trade and contracts receivable totaling \$421,000 from SCE and net capitalized equipment related to this contract of \$9.7 million. In January 2001, in response to the California energy market situation, SCE announced it was suspending payments on certain debt and purchased power obligations. SCE has not notified us of any intention to suspend payments on our contract and has continued to make timely monthly payments. If SCE were to suspend payments to us, we believe the outsourcing contract provides us with the right to cease operations, which cessation would mean SCE would not have meter reading data to use in billing approximately 360,000 customers unless

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they were to hire more costly manual meter readers. However, if SCE were to enter into bankruptcy proceedings, such action could result in a full or partial write-off of the assets and receivables. No loss contingency for this uncertainty has been accrued in the financial statements as management believes that events resulting in a full or partial write-off of assets related to SCE are not probable.

### Note 7: Impact of New Accounting Standards

#### SFAS No. 133

Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. We adopted SFAS 133 effective January 1, 2001. The adoption of SFAS 133 did not have a significant impact on the financial position, results of operations, or cash flows of the Company.

### Note 8: Restatement

During February 2002, subsequent to the issuance of the Company's financial statements for the three months ended March 31, 2001, the Company determined that in our adoption of SAB 101 we should have adopted service contract accounting for certain of our outsourcing contracts where we retain title to the related equipment. Accordingly, the Company changed its method of accounting for these contracts from the percentage of completion method under SOP 81-1 to service contract accounting. As a result, the accompanying consolidated financial statements for the three months ended March 31, 2001 and 2000 have been restated to give effect to the changes as of January 1, 2000. A summary of the significant effects of the restatement is as follows:

	2001	
	As previously Reported	As Restated
	-----	-----
At March 31, 2001:		
Accounts receivable, net	\$ 36,215	\$ 36,373
Current portion of long-term contracts receivable	3,250	-

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Equipment used in outsourcing, net	9,507	13,823	
Long-term contracts receivable	2,754	-	
Deferred income taxes	26,091	27,318	
Deferred revenue	7,675	8,150	
Warranty and other obligations	9,928	11,152	
Accumulated deficit	\$ (52,308)	\$ (54,309)	

For the three months ended March 31:

Service revenues	\$ 10,246	\$ 10,239	\$ 11,9
Service cost of revenues	7,194	7,269	8,7
Income tax (provision) benefit	(986)	(956)	(6
Income before extraordinary item and cumulative effect of change in accounting principle	1,540	1,489	1,0
Cumulative effect of change in accounting principle			(1,6
Net income (loss)	\$ 1,540	\$ 1,489	\$ 4

Basic

Income before extraordinary item			.
Cumulative effect			(.
Basic net income (loss) per share)			.

Diluted

Income before extraordinary item	.10	.09	.
Cumulative effect			(.
Diluted net income (loss) per share	.10	.09	.

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### Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations presented below reflects certain restatements to our previously reported results of operations for these periods. See Note 8 to the condensed consolidated financial statements for a discussion of this matter. Also, as discussed in Note 4 to the condensed consolidated financial statements, we realigned our business segments in 2001. Information for the quarter ended March 31, 2000 has been reclassified to conform to the 2001 presentation.

#### OVERVIEW

Itron is a leading provider of data collection and management solutions for electric, gas and water utilities throughout the world. Itron technology is used by more than 2,000 utilities in over 45 countries around the world to collect data from 275 million electric, gas and water meters. Of those, more than 650 customers are using our radio and telephone-based technology to automatically collect and process information from over 18 million meters. In addition, our technology is being used by a number of the newly created wholesale energy markets in the U.S. and Canada to provide critical billing and settlement systems for deregulated markets. Our systems touch more than \$200 billion in energy and water transactions every year in North America alone.

Only 11% of the electric, gas and water meters in North America are read using automated meter data collection and communication systems from all suppliers. While we are aggressively pursuing numerous opportunities remaining for advanced metering and billing systems by penetrating beyond 11%, we also intend to use our core technology and industry knowledge to move beyond meter reading into other opportunities for optimizing the delivery and use of energy and water.

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We design, develop, manufacture, market, install and service hardware, software and integrated systems. Sales include hardware, custom and licensed software, consulting, project management, and installation and sales support activities. Services include post-sale maintenance support and outsourcing services where we own and operate, or simply operate systems for a periodic fee.

We currently derive the majority of our revenues from sales of products and services to utilities. However, our business may increasingly consist of sales to other energy and water industry participants such as energy service providers, end user customers, wholesale power markets, and others.

### RESULTS OF OPERATIONS

The following tables show our revenue and percent change from the prior year by sales or service and by segment.

Revenues (\$'s in millions)	Three months ended March 31,		
	2001	2000	Increase (Decrease)
Sales	\$ 37.2	\$ 36.6	2%
Service	10.3	10.3	0%
<b>Total revenues</b>	<b>\$ 47.5</b>	<b>\$ 46.9</b>	<b>1%</b>

Segment Revenues (\$'s in millions)	Three months ended March 31,		
	2001	2000	Increase (Decrease)
Electric	\$ 12.7	\$ 10.3	23%
Natural Gas	7.3	10.3	(29%)
Water & Public Power	6.9	10.4	(34%)
Energy Information Systems	5.0	5.2	(4%)
International	8.3	3.0	177%
Client Services	7.3	7.7	(5%)
<b>Total revenues</b>	<b>\$ 47.5</b>	<b>\$ 46.9</b>	<b>1%</b>

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Revenues of \$47.5 million for the quarter were up slightly from revenues of \$46.9 million in the first quarter of last year. Included in last year's first quarter service revenues were \$1.8 million in outsourcing revenues related to our Duquesne Light Company fixed network project, that we sold at the end of the first quarter of 2000. No customer represented more than 10% of total revenue during the first quarter of this year or last year.

Electric revenues were higher primarily as a result of a mobile automated meter reading system order from a large electric utility. This customer accounted for 32% of Electric revenues during the first quarter of 2001. We have a multi-year contract with this utility through next year.

Natural Gas Systems revenue declined in the first quarter primarily due to completion of large contracts in 2000. We expect that revenues in this segment will be at a lower level in 2001 than we experienced last year.

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Water and Public Power revenues were lower in the first quarter of 2001 due to a large project active in the first quarter of 2000 that was completed. Our water business is expected to grow through the rest of the year.

Revenues in our Energy Information Systems segment decreased slightly from the first quarter last year. Revenues in this segment can fluctuate on a quarterly basis due primarily to customized development work for wholesale energy systems. We expect to see growth in this unit for the year.

International revenues increased 177% over the first quarter of 2000 due to significant handheld sales to customers in Japan. Sales to these customers were approximately one half of the International segment's revenue in the first quarter of 2001, and sales to these customers will continue into the second quarter of 2001, but at a reduced level.

Client Services segment revenues decreased 5% in the first quarter of 2001 compared with the first quarter of 2000 due to the aforementioned sale of our Duquesne Light Company project. Partially offsetting the Duquesne revenue loss were increased revenues from hardware maintenance contracts, time and material maintenance, and software maintenance contracts during the first quarter of 2001.

We do not place any particular significance on the quarter-to-quarter variations in SBU revenue, and expect the year's revenue in aggregate to show growth relative to last year in the range of 10% to 15%.

Gross Margin  (as a % of corresponding revenue)	Three months ended March 31,		
	2001	2000	Increase (Decrease)
Electric	48%	56%	(8%)
Natural Gas	56%	57%	(1%)
Water & Public Power	49%	48%	1%
Energy Information Systems	52%	48%	4%
International	31%	47%	(16%)
Client Services	18%	0%	18%
Corporate /(1)/	(3%)	(7%)	4%
	-----	-----	
Total gross margin	39%	37%	2%
	=====	=====	

(1) Percent of total company revenue.

Total gross margin was 39% for the first quarter, up from 37% a year ago. We continue to realize increased domestic manufacturing efficiencies due in part to higher production volumes, a benefit from having substantially spun-off our low-volume manufacturing operations, and a continued attentiveness to margins and pricing.

Gross margin for the Electric segment decreased 8% and the Natural Gas segment decreased 1% due to a change in the mix of customers and products from the first quarter of 2000 to 2001.

The gross margin in the Water and Public Power segment was slightly higher in the first quarter of 2001 than in the first quarter of 2000 due to a slightly lower average cost on the mix of water products shipped in 2001. Average selling prices in this segment can also vary with changes in relative sales between our direct sales force and our indirect channel, which is comprised of outside distributors.

EIS segment revenue is primarily related to custom software development activities and licenses. Gross margins can vary from period to period depending on the mix of license revenues versus custom development activities. The gross margin in the first quarter of 2001 was positively impacted by a higher percentage of license revenues compared to the first quarter of 2000.

The decline in the 2001 International gross margin is the result of the large sale of handheld equipment to customers in Japan at lower margins.

In the Client Services segment, gross margin increased by 18% in 2001 compared with the first quarter of 2000. As discussed under revenues above, we had a substantial amount of revenue at a very low margin in the 2000 quarter, related to our outsourcing contract with Duquesne Light, that was absent in the 2001 quarter.

The favorable impact of unallocated Corporate cost of sales on total gross margin in 2001, compared to 2000, is primarily due to efficiencies gained through the consolidation of our domestic manufacturing facilities. In addition, unallocated Corporate cost of sales in the first quarter of 2000 was higher than 2001 because production volumes were higher in 2001 which resulted in the absorption of more manufacturing costs in excess of standard costs in 2001 compared to 2000.

Operating Expenses (\$'s in millions)	Three months ended March 31,		
	2001	2000	Increase (Decrease)
Sales and marketing	\$ 5.6	\$ 5.1	9%
Product development	5.7	6.2	(7%)
General and administrative	3.3	4.5	(27%)
Amortization of intangibles	0.4	0.5	(21%)
Restructurings	-	(0.2)	100%
Total operating expenses	\$ 15.0	\$ 16.1	(7%)

Sales and Marketing expenses were 11.8% of revenues in the first quarter of 2001, compared to 10.9% in the first quarter of the prior year. The increase year to year was due to investments in marketing programs and systems, primarily a new eCRM (internet-based Customer Relationship Management) system.

Product development expenses decreased 7% from the first quarter of the prior year to \$5.7 million, driven by the absence of personnel and other costs present a year ago, which were phased out during the first and second quarters of 2000 as part of our restructuring.

The 27% decrease in general and administrative costs was due primarily to the favorable negotiation of a new communications contract, reduced legal fees for patent and FCC matters, and the absence of other charges present a year ago that were phased out in conjunction with our restructuring.

Other Income (Expense) (\$'s in millions)	Three months ended March 31,		
	2001	2000	Increase Decrease
Equity in affiliates /(1)/	\$ -	\$ 0.5	(95%)

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Interest and other, net	(1.3)	(1.2)	(6%)
	-----	-----	
Total other income (expense)	\$ (1.3)	\$ (0.7)	(77%)
	=====	=====	

(1) \$23,168 in 2001

Equity in affiliates was higher in 2000 due to shipments for a large water contract through a marketing joint venture in which we have a 50% ownership interest. Also in 2000, we realized a \$150,000 net gain on the sale of an interest in a partially owned venture.

Interest and other increased slightly year to year. Net interest expense was \$1.1 million in the first quarter of 2001 compared with \$1.6 million in 2000. The 31.3% decrease in 2001 was due primarily to a reduction of subordinated debt outstanding and an increase in invested cash. The reduction in subordinated debt resulted from a debt repurchase transaction in the first quarter of 2000. Other expenses increased \$490,000 in the first quarter of 2001 compared to the

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first quarter of 2000. This is due primarily to the absence of a gain from the sale of a company forming part of our International SBU.

Income Taxes

The effective income tax rate is 39% in 2001 compared with 38% in 2000. Our effective income tax rate can vary from period to period because of fluctuations in foreign operating results, changes in valuation allowances for deferred tax assets, new or revised tax legislation, and changes in the level of business performed in differing domestic tax jurisdictions.

Extraordinary Item - Gain on Early Retirement of Debt

In the first quarter of 2000 we repurchased \$3.8 million principal amount of subordinated debt for \$2.1 million in cash. The gain on this early retirement of debt, net of expenses and income taxes, was \$1.0 million.

Cumulative effect of a Change in Accounting Principle

During the fourth quarter of 2000, the Company implemented SEC Staff Accounting Bulletin No. 101 (SAB 101), which outlines the Staff's views on revenue recognition. As a result, we have changed our revenue recognition for certain transactions related to customer acceptance and F.O.B. destination shipments. The implementation has been accounted for as a cumulative change in accounting principle in 2000. We restated our financial results for the first quarter of 2000 to conform revenue recognition to the requirements of SAB 101.

In addition, subsequent to the issuance of our consolidated financial statements for the year ended December 31, 2000, we changed our revenue recognition practice retroactively to January 1, 2000 for our two outsourcing contracts under which we retain title to the related equipment. See Note 8 to the condensed consolidated financial statements.

FINANCIAL CONDITION

Cash Flow Information

Three months ended March 31,

(\$'s in millions)

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Increase



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	2001 ----	2000 ----	Decrease -----
Operating activities	\$ 9.2	\$ 7.8	18%
Investing activities	(15.8)	28.4	(156%)
Financing activities	0.2	(1.7)	112%
	-----	-----	
Increase (decrease) in cash	\$ (6.4)	\$ 34.5	(119%)
	=====	=====	

### Operating activities:

Cash flow from operating activities was 18% higher in the first quarter of 2001 compared to the first quarter last year. This is due primarily to collections of receivables from shipments that occurred late in the prior quarter. Operating cash flow for 2001 is expected to be roughly twice last year's normalized cash flow which was \$13.1 million excluding cash used in 2000 for restructuring.

### Investing activities:

The primary investing activity in the first quarter of 2001 was the purchase of \$8.3 million of investments with maturities not more than 13 months, to obtain higher interest yields. In addition we made investments of \$500,000 each in two private companies. One company is a provider of meter reading services to energy service providers and end user customers, and the other is in the early stages of developing an in-home gateway communication technology. In the first quarter of 2000 we received \$32 million from the sale of our network project at Duquesne Light Company to an affiliate of Duquesne. Finally, we reclassified \$5.1 million into restricted cash for a collateralized letter of credit that has been outstanding since March 2000.

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### Financing activities:

Financing activities in the first quarter of 2000 included a \$2.1 million repurchase and retirement of subordinated debt. No comparably significant financing transaction occurred during the first quarter of 2001.

At March 31, 2001, we had \$23.1 million in cash, cash equivalents, and short-term investments. We also had \$5.1 million of restricted cash that secures a \$5.0 million letter of credit related to a long-term services contract. We believe existing cash resources and available borrowings under our credit facility are more than adequate to meet our operating cash needs through 2001 and 2002.

We have \$53.5 million of convertible subordinated debentures that mature in March 2004, \$15.0 million of which have a conversion price of \$9.65 and are callable in April 2002 without premiums. The remaining \$38.5 million of notes have a conversion price of \$23.70 and have been callable with declining premiums since March 2000. The company anticipates that it will have sufficient cash generated from operations to repurchase the notes at maturity if they are not converted earlier.

### Business Outlook

The following statements are based on management's current expectations. These statements are forward-looking, and are made as of the date of the Form 10-Q filed May 15, 2001. Actual results may differ materially due to a number of risks and uncertainties. Itron undertakes no obligation to update publicly or revise any forward-looking statements.

We expect that revenues in 2001 will be 10% to 15% higher than in 2000, and net income after tax is expected to grow by at least 30%. Second quarter revenues

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are expected to be up 5% to 10% from the first quarter. We expect our operating margin will improve throughout 2001 based on additional improvements in gross margins offset partially by slightly higher investments in product development.

### Certain Forward-Looking Statements

When included in this discussion, the words "expects," "intends," "anticipates," "plans," "projects" and "estimates," and similar expressions are intended to identify forward-looking statements. Such statements are inherently subject to a variety of risks and uncertainties that could cause our actual results to differ materially from those reflected in such forward-looking statements. Such risks and uncertainties include, among others, the rate of customer demand for our products, forecast future revenues and costs on long-term contracts, changes in law and regulation (including FCC licensing actions), changes in the utility regulatory environment, delays or difficulties in introducing new products and acceptance of those products, ability to obtain project financing in amounts necessary to fund future outsourcing agreements, our ability to accurately forecast future revenues and costs on long-term contracts, increased competition and various other matters, many of which are beyond our control. These forward-looking statements speak only as of the date of the 10-Q filed May 15, 2001. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change on the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. For a more complete description of these and other risks, see "Certain Risk Factors" included in our Annual Report on Form 10-K/A for the year ended December 31, 2000.

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### Item 3: QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

**Foreign Currency Exchange Rate Risk:** As a global concern, we conduct business in a number of foreign countries and therefore face exposure to adverse movements in foreign currency exchange rates. Total International revenue approximates 10% of total revenue. As we currently do not use derivative instruments to manage foreign currency exchange rate risk, the consolidated results of operations in U.S. Dollars are subject to fluctuation as foreign exchange rates change. In addition, our foreign currency exchange rate exposures may change over time as business practices evolve and could have a material impact on our financial results.

Our primary exposure relates to non-dollar denominated sales, cost of sales and operating expenses in our subsidiary operations in France, the United Kingdom, and Australia, which means we are subject to changes in the consolidated results of operations expressed in U.S. Dollars. Other international business, consisting primarily of shipments from the U.S. to international distributors and customers in the Pacific Rim and Latin America, is predominantly denominated in U.S. Dollars, which reduces our exposure to fluctuations in foreign currency exchange rates. There has been and there may continue to be large period-to-period fluctuations in the relative portions of International revenue that are denominated in foreign currencies versus the U.S. Dollar.

Risk-sensitive financial instruments in the form of inter-company trade receivables are mostly denominated in U.S. Dollars, while inter-company notes are denominated in local foreign currencies. As foreign currency exchange rates change, inter-company trade receivables impact current earnings, while inter-company notes are re-valued and result in translation gains or losses that are reported in the comprehensive income portion of shareholders equity in our balance sheet.

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Because our earnings are affected by fluctuations in the value of the U.S. dollar as compared to foreign currencies, we have performed a sensitivity analysis assuming a hypothetical 10% strengthening in the value of the dollar relative to the currencies in which our transactions are denominated. As of March 31, 2001, the analysis indicated that such market movements would not have had a material effect on our consolidated results of operations or on the fair value of any risk-sensitive financial instruments. The model assumes a parallel shift in the foreign currency exchange rates. Exchange rates rarely move in the same direction. The assumption that exchange rates change in a parallel fashion may overstate or understate the impact of changing exchange rates on assets and liabilities denominated in a foreign currency. Consequently, the actual effects on operations in the future may differ materially from results of the analysis for the first quarter. We may, in the future, experience greater fluctuations in U.S. dollar earnings from fluctuations in foreign currency exchange rates. We will continue to monitor and assess the impact of currency fluctuations and will seek to institute hedging alternatives as business dictates.

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### Part 2: Other Information

#### Item 1: Legal Proceedings

##### Benghiat Patent Litigation

On April 3, 1999, we served Ralph Benghiat, an individual, with a complaint seeking a declaratory judgment that a patent owned by Benghiat is invalid and not infringed by Itron's handheld meter reading devices. Benghiat has filed a counterclaim alleging patent infringement by the same devices. Both lawsuits were filed in the United States District Court for the District of Minnesota (Civil Case No. 99-cv-501). On April 2, 2001, the district court denied the motions for summary judgment filed by Itron. A tentative trial date has been set for June 18, 2001. While we believe that our products do not infringe the Benghiat patent, there can be no assurance that we will prevail in this matter, in which case a decision or settlement of this case may have a material adverse effect on our financial condition. If we do prevail, there can be no assurance that legal costs incurred in connection therewith will not have a material adverse effect on our financial condition.

There have been no significant changes to any other legal proceedings in which we are currently involved. See our annual report on Form 10-K/A for the year ended December 31, 2000, as filed with the Securities and Exchange Commission on March 1, 2002, for a complete list of active issues.

#### Item 6: Exhibits and Reports on Form 8-K

- a) No exhibits were filed this quarter
- b) No 8-Ks were filed this quarter

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SIGNATURE

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

ITRON, INC.  
(Registrant)

By: /s/ David G Remington

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David G. Remington  
Vice President and  
Chief Financial Officer  
(Authorized Officer and Principal  
Financial Officer)

Date: March 11, 2002

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