

---

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

---

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2017

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)

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

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

---

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
	(Do not check if a smaller reporting company)	Emerging growth company	<input type="checkbox"/>

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

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

As of March 31, 2017 there were outstanding 38,648,567 shares of the registrant's common stock, no par value, which is the only class of common stock of the registrant.

---

---

**Itron, Inc.**  
**Table of Contents**

	<u>Page</u>
<b><u>PART I: FINANCIAL INFORMATION</u></b>	
Item 1: <a href="#">Financial Statements (Unaudited)</a>	
<a href="#">Consolidated Statements of Operations</a>	<a href="#">1</a>
<a href="#">Consolidated Statements of Comprehensive Income (Loss)</a>	<a href="#">2</a>
<a href="#">Consolidated Balance Sheets</a>	<a href="#">3</a>
<a href="#">Consolidated Statements of Cash Flows</a>	<a href="#">4</a>
<a href="#">Notes to Condensed Consolidated Financial Statements</a>	<a href="#">5</a>
Item 2: <a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">26</a>
Item 3: <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">41</a>
Item 4: <a href="#">Controls and Procedures</a>	<a href="#">42</a>
<b><u>PART II: OTHER INFORMATION</u></b>	
Item 1: <a href="#">Legal Proceedings</a>	<a href="#">43</a>
Item 1A: <a href="#">Risk Factors</a>	<a href="#">43</a>
Item 2: <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">43</a>
Item 5: <a href="#">Other Information</a>	<a href="#">43</a>
Item 6: <a href="#">Exhibits</a>	<a href="#">44</a>
<b><u>SIGNATURE</u></b>	<a href="#">45</a>

## PART I: FINANCIAL INFORMATION

## Item 1: Financial Statements (Unaudited)

**ITRON, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	Three Months Ended March 31,	
	2017	2016
(in thousands, except per share data)		
Revenues	\$ 477,592	\$ 497,590
Cost of revenues	320,367	334,387
Gross profit	157,225	163,203
Operating expenses		
Sales and marketing	41,468	40,767
Product development	40,868	45,346
General and administrative	37,246	45,069
Amortization of intangible assets	4,549	6,210
Restructuring	3,052	2,237
Total operating expenses	127,183	139,629
Operating income	30,042	23,574
Other income (expense)		
Interest income	269	271
Interest expense	(2,674)	(2,918)
Other income (expense), net	(2,576)	(1,517)
Total other income (expense)	(4,981)	(4,164)
Income before income taxes	25,061	19,410
Income tax provision	(9,047)	(8,626)
Net income	16,014	10,784
Net income attributable to noncontrolling interests	169	695
Net income attributable to Itron, Inc.	\$ 15,845	\$ 10,089
Earnings per common share - Basic	\$ 0.41	\$ 0.27
Earnings per common share - Diluted	\$ 0.40	\$ 0.26
Weighted average common shares outstanding - Basic	38,474	38,059
Weighted average common shares outstanding - Diluted	39,215	38,376

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in thousands)</b>	
Net income	\$ 16,014	\$ 10,784
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	15,016	10,106
Net unrealized gain (loss) on derivative instruments, designated as cash flow hedges	292	(2,606)
Pension benefit obligation adjustment	401	(318)
Total other comprehensive income (loss), net of tax	<u>15,709</u>	<u>7,182</u>
Total comprehensive income, net of tax	<u>31,723</u>	<u>17,966</u>
Comprehensive income attributable to noncontrolling interests, net of tax	169	695
Comprehensive income attributable to Itron, Inc.	<u>\$ 31,554</u>	<u>\$ 17,271</u>

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

**ITRON, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

ASSETS	March 31, 2017	December 31, 2016
	(in thousands)	
Current assets		
Cash and cash equivalents	\$ 187,928	\$ 133,565
Accounts receivable, net	344,411	351,506
Inventories	178,060	163,049
Other current assets	95,424	84,346
Total current assets	805,823	732,466
Property, plant, and equipment, net	178,647	176,458
Deferred tax assets, net	106,896	94,113
Other long-term assets	50,166	50,129
Intangible assets, net	69,485	72,151
Goodwill	462,906	452,494
Total assets	\$ 1,673,923	\$ 1,577,811
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Accounts payable	\$ 194,012	\$ 172,711
Other current liabilities	46,359	43,625
Wages and benefits payable	82,010	82,346
Taxes payable	18,736	10,451
Current portion of debt	15,469	14,063
Current portion of warranty	23,500	24,874
Unearned revenue	84,705	64,976
Total current liabilities	464,791	413,046
Long-term debt	288,266	290,460
Long-term warranty	18,036	18,428
Pension benefit obligation	87,663	84,498
Deferred tax liabilities, net	3,214	3,073
Other long-term obligations	109,346	117,953
Total liabilities	971,316	927,458
Commitments and contingencies (Note 11)		
Equity		
Preferred stock, no par value, 10 million shares authorized, no shares issued or outstanding	—	—
Common stock, no par value, 75 million shares authorized, 38,649 and 38,317 shares issued and outstanding	1,276,298	1,270,467
Accumulated other comprehensive loss, net	(213,618)	(229,327)
Accumulated deficit	(379,326)	(409,536)
Total Itron, Inc. shareholders' equity	683,354	631,604
Noncontrolling interests	19,253	18,749
Total equity	702,607	650,353
Total liabilities and equity	\$ 1,673,923	\$ 1,577,811

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in thousands)</b>	
<b>Operating activities</b>		
Net income	\$ 16,014	\$ 10,784
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,378	16,674
Stock-based compensation	5,211	3,900
Amortization of prepaid debt fees	266	276
Deferred taxes, net	882	4,507
Restructuring, non-cash	—	1,114
Other adjustments, net	946	66
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	13,119	(33,308)
Inventories	(11,274)	3,244
Other current assets	(11,169)	(5,457)
Other long-term assets	646	2,945
Accounts payable, other current liabilities, and taxes payable	28,277	10,161
Wages and benefits payable	(1,796)	9,349
Unearned revenue	14,020	14,343
Warranty	(2,303)	(4,045)
Other operating, net	(3,960)	(748)
Net cash provided by operating activities	<u>63,257</u>	<u>33,805</u>
<b>Investing activities</b>		
Acquisitions of property, plant, and equipment	(9,122)	(8,791)
Other investing, net	(78)	558
Net cash used in investing activities	<u>(9,200)</u>	<u>(8,233)</u>
<b>Financing activities</b>		
Payments on debt	(2,813)	(23,406)
Issuance of common stock	405	660
Other financing, net	155	(2,289)
Net cash provided used in financing activities	<u>(2,253)</u>	<u>(25,035)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	2,559	1,060
Increase in cash and cash equivalents	54,363	1,597
Cash and cash equivalents at beginning of period	133,565	131,018
Cash and cash equivalents at end of period	<u>\$ 187,928</u>	<u>\$ 132,615</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Income taxes, net	\$ 1,224	\$ 3,680
Interest, net of amounts capitalized	2,422	2,624

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

**ITRON, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2017**  
**(UNAUDITED)**

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

**Note 1: Summary of Significant Accounting Policies**

*Financial Statement Preparation*

The condensed consolidated financial statements presented in this Quarterly Report on Form 10-Q are unaudited and reflect entries necessary for the fair presentation of the Consolidated Statements of Operations and the Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2017 and 2016, the Consolidated Balance Sheets as of March 31, 2017 and December 31, 2016, and the Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2016 of Itron, Inc. and its subsidiaries. All entries required for the fair presentation of the financial statements are of a normal recurring nature, except as disclosed. The results of operations for the three months ended March 31, 2017 are not necessarily indicative of the results expected for the full year or for any other period.

Certain information and notes normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) regarding interim results. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes included in our 2016 Annual Report on Form 10-K filed with the SEC on March 1, 2017. There have been no significant changes in financial statement preparation or significant accounting policies since December 31, 2016 with the exception of the adoption of Accounting Standards Update (ASU) 2016-09 as discussed below.

*New Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers: Topic 606* (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, which deferred the effective date for implementation of ASU 2014-09 by one year and is now effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted but not earlier than the original effective date. In March 2016, the FASB issued ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* (ASU 2016-08), which clarifies the implementation guidance of principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, *Identifying Performance Obligations and Licensing* (ASU 2016-10), which clarifies the identification of performance obligations and licensing implementation guidance. In May 2016, the FASB issued ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients* (ASU 2016-12), to improve guidance on assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The effective date and transition requirements in ASU 2016-08, ASU 2016-10, and ASU 2016-12 are the same as the effective date and transition requirements of ASU 2015-14.

The revenue guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). We currently anticipate adopting the standard effective January 1, 2018 using the cumulative catch-up transition method, and therefore, will recognize the cumulative effect of initially applying the revenue standard as an adjustment to the opening balance of retained earnings in the period of initial application. We currently believe the most significant impact relates to our accounting for software and software-related elements, and the increased financial statement disclosures, but are continuing to evaluate the effect that the updated standard will have on our consolidated results of operations, financial position, cash flows, and related financial statement disclosures.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330) - Simplifying the Measurement of Inventory* (ASU 2015-11). The amendments in ASU 2015-11 apply to inventory measured using first-in, first-out (FIFO) or average cost and will require entities to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the normal course of business, minus the cost of completion, disposal and transportation. Replacement cost and net realizable value less a normal profit margin will no longer be considered. We adopted this standard on January 1, 2017 and it did not materially impact our consolidated results of operations, financial position, cash flows, and related financial statement disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as

operating leases. The new standard also will result in enhanced quantitative and qualitative disclosures, including significant judgments made by management, to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing leases. The standard requires modified retrospective adoption and will be effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. We are currently assessing the impact of adoption on our consolidated results of operations, financial position, cash flows, and related financial statement disclosures.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting (Topic 718)* (ASU 2016-09), which simplifies several areas within Topic 718. These include income tax consequences, classification of awards as either equity or liabilities, forfeitures, and classification on the statement of cash flows. The amendments in this ASU becomes effective on a modified retrospective basis for accounting for income tax benefits recognized and forfeitures, retrospectively for accounting related to the presentation of employee taxes paid, prospectively for accounting related to recognition of excess tax benefits, and either prospectively or retrospectively for accounting related to presentation of excess employee tax benefits for annual periods, and interim periods within those annual periods, beginning after December 15, 2016.

We adopted this standard effective January 1, 2017 using a modified retrospective transition method. We recognized a \$14.6 million one-time reduction in accumulated deficit and increase in deferred tax assets related to cumulative unrecognized excess tax benefits. All future excess tax benefits and tax deficiencies will be recognized prospectively as income tax provision or benefit in the Consolidated Statement of Operations, and as an operating activity on the Consolidated Statement of Cash Flows. We also recognized a \$0.2 million one-time increase in accumulated deficit and common stock related to our policy election to prospectively recognize forfeitures as they occur.

In January 2017, the FASB issued ASU 2017-01, *Clarifying the Definition of a Business* (ASU 2017-01), which narrows the definition of a business and provides a framework that gives entities a basis for making reasonable judgments about whether a transaction involves an asset or a business. ASU 2017-01 states that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. If this initial test is not met, a set cannot be considered a business unless it includes an input and a substantive process that together significantly contribute to the ability to create output. ASU 2017-01 is effective for fiscal years beginning after December 15, 2019 with early adoption permitted. We adopted this standard on January 1, 2017, and it did not materially impact our consolidated results of operations, financial position, cash flows, and related financial statement disclosures.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment* (ASU 2017-04), which simplifies the measurement of goodwill impairment by removing step two of the goodwill impairment test that requires the determination of the fair value of individual assets and liabilities of a reporting unit. ASU 2017-04 requires goodwill impairment to be measured as the amount by which a reporting unit's carrying value exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019 with early adoption permitted for interim or annual goodwill impairment tests performed after January 1, 2017. We adopted this standard on January 1, 2017, and it did not materially impact our consolidated results of operations, financial position, cash flows, and related financial statement disclosures.

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

**Note 2: Earnings Per Share**

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

	Three Months Ended March 31,	
	2017	2016
(in thousands, except per share data)		
Net income available to common shareholders	\$ 15,845	\$ 10,089
Weighted average common shares outstanding - Basic	38,474	38,059
Dilutive effect of stock-based awards	741	317
Weighted average common shares outstanding - Diluted	39,215	38,376
Earnings per common share - Basic	\$ 0.41	\$ 0.27
Earnings per common share - Diluted	\$ 0.40	\$ 0.26

**Stock-based Awards**

For stock-based awards, the dilutive effect is calculated using the treasury stock method. Under this method, the dilutive effect is computed as if the awards were exercised at the beginning of the period (or at time of issuance, if later) and assumes the related proceeds were used to repurchase common stock at the average market price during the period. Related proceeds include the amount the employee must pay upon exercise and the future compensation cost associated with the stock award. Approximately 0.2 million and 1.2 million stock-based awards were excluded from the calculation of diluted EPS for the three months ended March 31, 2017 and 2016 because they were anti-dilutive. These stock-based awards could be dilutive in future periods.

**Note 3: Certain Balance Sheet Components**
**Accounts receivable, net**

	March 31, 2017	December 31, 2016
	(in thousands)	
Trade receivables (net of allowance of \$3,424 and \$3,320)	\$ 307,065	\$ 299,870
Unbilled receivables	37,346	51,636
Total accounts receivable, net	\$ 344,411	\$ 351,506

**Allowance for doubtful accounts activity**

	Three Months Ended March 31,	
	2017	2016
(in thousands)		
Beginning balance	\$ 3,320	\$ 5,949
Provision (release) for doubtful accounts, net	303	(8)
Accounts written-off	(330)	(1,478)
Effect of change in exchange rates	131	78
Ending balance	\$ 3,424	\$ 4,541

**Inventories**

	March 31, 2017	December 31, 2016
	(in thousands)	
Materials	\$ 111,832	\$ 103,274
Work in process	10,573	7,925
Finished goods	55,655	51,850
Total inventories	\$ 178,060	\$ 163,049

*Property, plant, and equipment, net*

	March 31, 2017		December 31, 2016	
	(in thousands)			
Machinery and equipment	\$	287,378	\$	279,746
Computers and software		101,648		98,125
Buildings, furniture, and improvements		125,383		122,680
Land		17,604		17,179
Construction in progress, including purchased equipment		29,612		29,358
Total cost		561,625		547,088
Accumulated depreciation		(382,978)		(370,630)
Property, plant, and equipment, net	\$	178,647	\$	176,458

*Depreciation expense*

	Three Months Ended March 31,			
	2017		2016	
	(in thousands)			
Depreciation expense	\$	9,829	\$	10,464

**Note 4: Intangible Assets**

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

	March 31, 2017			December 31, 2016		
	Gross Assets	Accumulated Amortization	Net	Gross Assets	Accumulated Amortization	Net
	(in thousands)					
Core-developed technology	\$ 381,788	\$ (365,766)	\$ 16,022	\$ 372,568	\$ (354,878)	\$ 17,690
Customer contracts and relationships	230,382	(176,960)	53,422	224,467	(170,056)	54,411
Trademarks and trade names	62,817	(62,802)	15	61,785	(61,766)	19
Other	11,077	(11,051)	26	11,076	(11,045)	31
Total intangible assets	\$ 686,064	\$ (616,579)	\$ 69,485	\$ 669,896	\$ (597,745)	\$ 72,151

A summary of intangible asset activity is as follows:

	Three Months Ended March 31,			
	2017		2016	
	(in thousands)			
Beginning balance, intangible assets, gross	\$	669,896	\$	702,507
Effect of change in exchange rates		16,168		6,474
Ending balance, intangible assets, gross	\$	686,064	\$	708,981

Estimated future annual amortization expense is as follows:

Year Ending December 31,	Estimated Annual Amortization
	(in thousands)
2017 (amount remaining at March 31, 2017)	\$ 13,709
2018	12,673
2019	9,935
2020	8,077
2021	7,031
Beyond 2021	18,060
Total intangible assets subject to amortization	\$ 69,485

**Note 5: Goodwill**

The following table reflects goodwill allocated to each reporting unit:

	Electricity	Gas	Water	Total Company
	(in thousands)			
Balances at January 1, 2017				
Goodwill before impairment	\$ 400,299	\$ 319,913	\$ 334,505	\$ 1,054,717
Accumulated impairment losses	(348,926)	—	(253,297)	(602,223)
Goodwill, net	51,373	319,913	81,208	452,494
Effect of change in exchange rates	776	7,774	1,862	10,412
Balances at March 31, 2017				
Goodwill before impairment	409,960	327,687	345,042	1,082,689
Accumulated impairment losses	(357,811)	—	(261,972)	(619,783)
Goodwill, net	\$ 52,149	\$ 327,687	\$ 83,070	\$ 462,906

**Note 6: Debt**

The components of our borrowings were as follows:

	March 31, 2017	December 31, 2016
	(in thousands)	
Credit facility:		
USD denominated term loan	\$ 205,313	\$ 208,125
Multicurrency revolving line of credit	99,125	97,167
Total debt	304,438	305,292
Less: current portion of debt	15,469	14,063
Less: unamortized prepaid debt fees - term loan	703	769
Long-term debt less unamortized prepaid debt fees - term loan	\$ 288,266	\$ 290,460

*Credit Facility*

On June 23, 2015, we entered into an amended and restated credit agreement providing for committed credit facilities in the amount of \$725 million U.S. dollars (the 2015 credit facility). The 2015 credit facility consists of a \$225 million U.S. dollar term loan (the term loan) and a multicurrency revolving line of credit (the revolver) with a principal amount of up to \$500 million. The revolver also contains a \$250 million standby letter of credit sub-facility and a \$50 million swingline sub-facility (available for immediate cash needs at a higher interest rate). Both the term loan and the revolver mature on June 23, 2020, and amounts borrowed under the revolver are classified as long-term and, during the credit facility term, may be repaid and reborrowed until the revolver's maturity, at which time the revolver will terminate, and all outstanding loans, together with all accrued and unpaid interest, must be repaid. Amounts not borrowed under the revolver are subject to a commitment fee, which is paid in arrears on the last day of each fiscal quarter, ranging from 0.18% to 0.30% per annum depending on our total leverage ratio as of the most recently ended fiscal quarter. Amounts repaid on the term loan may not be reborrowed. The 2015 credit facility permits us and certain of our foreign subsidiaries to borrow in U.S. dollars, euros, British pounds, or, with lender approval, other currencies readily convertible into U.S. dollars. All obligations under the 2015 credit facility are guaranteed by Itron, Inc. and material U.S. domestic subsidiaries and are secured by a pledge of substantially all of the assets of Itron, Inc. and material U.S. domestic subsidiaries, including a pledge of 100% of the capital stock of material U.S. domestic subsidiaries and up to 66% of the voting stock (100% of the non-voting stock) of their first-tier foreign subsidiaries. In addition, the obligations of any foreign subsidiary who is a foreign borrower, as defined by the 2015 credit facility, are guaranteed by the foreign subsidiary and by its direct and indirect foreign parents.

Under the 2015 credit facility, we elect applicable market interest rates for both the term loan and any outstanding revolving loans. We also pay an applicable margin, which is based on our total leverage ratio (as defined in the credit agreement). The applicable rates per annum may be based on either: (1) the LIBOR rate or EURIBOR rate (floor of 0%), plus an applicable margin, or (2) the Alternate Base Rate, plus an applicable margin. The Alternate Base Rate election is equal to the greatest of three rates: (i) the prime rate, (ii) the Federal Reserve effective rate plus 1/2 of 1%, or (iii) one month LIBOR plus 1%. At March 31, 2017 and December 31, 2016, the interest rate for both the term loan and the USD revolver was 2.24% and 2.02%, respectively, which includes the LIBOR rate plus a margin of 1.25%. At March 31, 2017 and December 31, 2016, the interest rate for the EUR revolver was 1.25% (the EURIBOR floor rate plus a margin of 1.25%).

At March 31, 2017, \$99.1 million was outstanding under the 2015 credit facility revolver, and \$29.2 million was utilized by outstanding standby letters of credit, resulting in \$371.7 million available for additional borrowings or standby letters of credit. At March 31, 2017, \$220.8 million was available for additional standby letters of credit under the letter of credit sub-facility and no amounts were outstanding under the swingline sub-facility.

## Note 7: Derivative Financial Instruments

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

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

The fair values of our derivative instruments were as follows:

Asset Derivatives	Balance Sheet Location	Fair Value	
		March 31, 2017	December 31, 2016
<b>Derivatives designated as hedging instruments under ASC 815-20</b>		<b>(in thousands)</b>	
Interest rate cap contracts	Other current assets	\$ 5	\$ 3
Interest rate swap contracts	Other long-term assets	1,922	1,830
Interest rate cap contracts	Other long-term assets	290	376
<b>Derivatives not designated as hedging instruments under ASC 815-20</b>			
Foreign exchange forward contracts	Other current assets	137	169
Interest rate cap contracts	Other current assets	7	4
Interest rate cap contracts	Other long-term assets	434	563
<b>Total asset derivatives</b>		<b>\$ 2,795</b>	<b>\$ 2,945</b>
<b>Liability Derivatives</b>			
<b>Derivatives designated as hedging instruments under ASC 815-20</b>			
Interest rate swap contracts	Other current liabilities	\$ 509	\$ 934
<b>Derivatives not designated as hedging instruments under ASC 815-20</b>			
Foreign exchange forward contracts	Other current liabilities	337	449
<b>Total liability derivatives</b>		<b>\$ 846</b>	<b>\$ 1,383</b>

The changes in accumulated other comprehensive income (loss) (AOCI), net of tax, for our derivative and nonderivative hedging instruments, were as follows:

	2017	2016
	(in thousands)	
Net unrealized loss on hedging instruments at January 1,	\$ (14,337)	\$ (14,062)
Unrealized gain (loss) on hedging instruments	60	(2,782)
Realized losses reclassified into net income	232	176
Net unrealized loss on hedging instruments at March 31,	<b>\$ (14,045)</b>	<b>\$ (16,668)</b>

Reclassification of amounts related to hedging instruments are included in interest expense in the Consolidated Statements of Operations for the periods ended March 31, 2017 and 2016. Included in the net unrealized loss on hedging instruments at March 31, 2017 and 2016 is a loss of \$14.4 million, net of tax, related to our nonderivative net investment hedge, which terminated in 2011. This loss on our net investment hedge will remain in AOCI until such time when earnings are impacted by a sale or liquidation of the associated foreign operation.

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

<i>Offsetting of Derivative Assets</i>	Gross Amounts of Recognized Assets Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets			Net Amount
		Derivative Financial Instruments		Cash Collateral Received	
		(in thousands)			
March 31, 2017	\$ 2,795	\$ (687)	\$ —	\$ 2,108	
December 31, 2016	\$ 2,945	\$ (1,322)	\$ —	\$ 1,623	

<i>Offsetting of Derivative Liabilities</i>	Gross Amounts of Recognized Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets			Net Amount
		Derivative Financial Instruments		Cash Collateral Pledged	
		(in thousands)			
March 31, 2017	\$ 846	\$ (687)	\$ —	\$ 159	
December 31, 2016	\$ 1,383	\$ (1,322)	\$ —	\$ 61	

Our derivative assets and liabilities subject to netting arrangements consist of foreign exchange forward and interest rate contracts with three counterparties at March 31, 2017 and December 31, 2016. No derivative asset or liability balance with any of our counterparties was individually significant at March 31, 2017 or December 31, 2016. Our derivative contracts with each of these counterparties exist under agreements that provide for the net settlement of all contracts through a single payment in a single currency in the event of default. We have no pledges of cash collateral against our obligations nor have we received pledges of cash collateral from our counterparties under the associated derivative contracts.

#### *Cash Flow Hedges*

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

In May 2012, we entered into six interest rate swaps, which were effective July 31, 2013 and expired on August 8, 2016, to convert \$200 million of our LIBOR based debt from a floating LIBOR interest rate to a fixed interest rate of 1.00% (excluding the applicable margin on the debt). The cash flow hedges were 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 were recognized as a component of other comprehensive income (loss) (OCI) and recognized in earnings when the hedged item affected earnings. The amounts paid on the hedges were recognized as adjustments to interest expense.

In October 2015, we entered into an interest rate swap, which is effective from August 31, 2016 to June 23, 2020, and converts \$214 million of our LIBOR based debt from a floating LIBOR interest rate to a fixed interest rate of 1.42% (excluding the applicable margin on the debt). The notional balance will amortize to maturity at the same rate as required minimum payments on our term loan. The cash flow hedge is expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk through the term of the hedge. Consequently, effective changes in the fair value of the interest rate swap is recognized as a component of OCI and will be recognized in earnings when the hedged item affects earnings. The amounts paid or received on the hedge will be recognized as an adjustment to interest expense. The amount of net losses expected to be reclassified into earnings in the next 12 months is \$0.5 million. At March 31, 2017, our LIBOR-based debt balance was \$245.3 million.

In November 2015, we entered into three interest rate cap contracts with a total notional amount of \$100 million at a cost of \$1.7 million. The interest rate cap contracts expire on June 23, 2020 and were entered into in order to limit our interest rate exposure on \$100 million of our variable LIBOR based debt up to 2.00%. In the event LIBOR is higher than 2.00%, we will pay interest at the capped rate of 2.00% with respect to the \$100 million notional amount of such agreements. The interest rate cap contracts do not include the effect of the applicable margin. As of December 31, 2016, due to the accelerated revolver payments from surplus

cash, we elected to de-designate two of the interest rate cap contracts as cash flow hedges and discontinued the use of cash flow hedge accounting. The amounts recognized in AOCI from de-designated interest rate cap contracts will continue to be reported in AOCI unless it is not probable that the forecasted transactions will occur. As a result of the discontinuance of cash flow hedge accounting, all subsequent changes in fair value of the de-designated derivative instruments are recognized within interest expense instead of OCI. The amount of net losses expected to be reclassified into earnings for all interest rate cap contracts in the next 12 months is \$0.2 million.

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

Derivatives in ASC 815-20 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)		
			Location	Amount		Location	Amount	
	2017	2016		2017	2016		2017	2016
	(in thousands)			(in thousands)			(in thousands)	
<b>Three Months Ended March 31,</b>								
Interest rate swap contracts	\$ 181	\$ (3,779)	Interest expense	\$ (335)	\$ (286)	Interest expense	\$ —	\$ —
Interest rate cap contracts	(84)	(734)	Interest expense	(43)	—	Interest expense	—	—

#### Derivatives Not Designated as Hedging Relationships

We are also exposed to foreign exchange risk when we enter into non-functional currency transactions, both intercompany and third party. At each period-end, non-functional currency monetary assets and liabilities are revalued with the change recognized to other income and expense. We enter into monthly foreign exchange forward contracts, which are not designated for hedge accounting, with the intent to reduce earnings volatility associated with currency exposures. As of March 31, 2017, a total of 49 contracts were offsetting our exposures from the euro, Saudi Riyal, Indian Rupee, Chinese Yuan, Indonesian Rupiah, and various other currencies, with notional amounts ranging from \$167,000 to \$45.3 million.

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

Derivatives Not Designated as Hedging Instrument under ASC 815-20	Location	Gain (Loss) Recognized on Derivatives in Other Income (Expense)	
		Three Months Ended March 31,	
		2017	2016
		(in thousands)	
Foreign exchange forward contracts	Other income (expense), net	\$ (1,742)	\$ (855)
Interest rate cap contracts	Interest expense	(126)	—

#### Note 8: Defined Benefit Pension Plans

We sponsor both funded and unfunded defined benefit pension plans offering death and disability, retirement, and special termination benefits for our international employees, primarily in Germany, France, Italy, Indonesia, Brazil, and Spain. The defined benefit obligation is calculated annually by using the projected unit credit method. The measurement date for the pension plans was December 31, 2016.

Amounts recognized on the Consolidated Balance Sheets consist of:

	March 31, 2017	December 31, 2016
	(in thousands)	
<b>Assets</b>		
Plan assets in other long-term assets	\$ 702	\$ 654
<b>Liabilities</b>		
Current portion of pension benefit obligation in wages and benefits payable	3,281	3,202
Long-term portion of pension benefit obligation	87,663	84,498
<b>Pension benefit obligation, net</b>	<b>\$ 90,242</b>	<b>\$ 87,046</b>

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in thousands)</b>	
Service cost	\$ 928	\$ 986
Interest cost	525	633
Expected return on plan assets	(146)	(126)
Settlements and other	—	(3)
Amortization of actuarial net loss	391	327
Amortization of unrecognized prior service costs	15	15
Net periodic benefit cost	<u>\$ 1,713</u>	<u>\$ 1,832</u>

### **Note 9: Stock-Based Compensation**

We maintain the Amended and Restated 2010 Stock Incentive Plan (Stock Incentive Plan), which allows us to grant equity-based compensation awards, including stock options, restricted stock units, phantom stock, and unrestricted stock units. Under the Stock Incentive Plan, we have 7,473,956 shares of common stock reserved and authorized for issuance subject to stock splits, dividends, and other similar events. At March 31, 2017, 1,608,588 shares were available for grant under the Stock Incentive Plan. We issue new shares of common stock upon the exercise of stock options or when vesting conditions on restricted stock units are fully satisfied. These shares are subject to a fungible share provision such that the authorized share reserve is reduced by (i) one share for every one share subject to a stock option or share appreciation right granted under the Plan and (ii) 1.7 shares for every one share of common stock that was subject to an award other than an option or share appreciation right.

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

In addition, we maintain the Employee Stock Purchase Plan (ESPP), for which approximately 365,000 shares of common stock were available for future issuance at March 31, 2017.

Unrestricted stock and ESPP activity for the quarters ended March 31, 2017 and 2016 was not significant.

#### *Stock-Based Compensation Expense*

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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in thousands)</b>	
Stock options	\$ 659	\$ 554
Restricted stock units	4,297	3,096
Unrestricted stock awards	255	250
Phantom stock units	392	76
Total stock-based compensation	<u>\$ 5,603</u>	<u>\$ 3,976</u>
Related tax benefit	<u>\$ 1,228</u>	<u>\$ 1,208</u>

### Stock Options

A summary of our stock option activity is as follows:

	Shares (in thousands)	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)	Weighted Average Grant Date Fair Value
Outstanding, January 1, 2016	1,180	\$ 48.31	5.7	\$ 405	
Granted	185	40.04			\$ 13.15
Exercised	(12)	35.29		73	
Forfeited	(35)	35.29			
Expired	(1)	48.51			
Outstanding, March 31, 2016	<u>1,317</u>	<u>\$ 47.61</u>	<u>5.5</u>	<u>\$ 2,859</u>	
Outstanding, January 1, 2017	959	\$ 45.64	6.6	\$ 19,125	
Granted	121	65.55			\$ 22.01
Exercised	(5)	35.29		120	
Forfeited	—	—			
Expired	—	—			
Outstanding, March 31, 2017	<u>1,075</u>	<u>\$ 47.92</u>	<u>6.7</u>	<u>\$ 17,236</u>	
Exercisable March 31, 2017	<u>707</u>	<u>\$ 48.34</u>	<u>5.5</u>	<u>\$ 11,657</u>	
Expected to vest, March 31, 2017	<u>368</u>	<u>\$ 47.13</u>	<u>9.0</u>	<u>\$ 5,579</u>	

At March 31, 2017, total unrecognized stock-based compensation expense related to nonvested stock options was \$5.1 million, which is expected to be recognized over a weighted average period of approximately 2.0 years.

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

	Three Months Ended March 31,	
	2017	2016
Expected volatility	32.7%	33.5%
Risk-free interest rate	2.0%	1.3%
Expected term (years)	5.5	5.5
Weighted average fair value	\$ 22.01	\$ 13.15

*Restricted Stock Units*

The following table summarizes restricted stock unit activity:

	Number of Restricted Stock Units (in thousands)	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Outstanding, January 1, 2016	756		
Granted	172	\$ 40.02	
Released	(262)		\$ 10,098
Forfeited	(30)		
Outstanding, March 31, 2016	<u>636</u>		
Outstanding, January 1, 2017	701	\$ 38.04	
Granted	131	63.12	
Released	(317)	38.13	\$ 12,066
Forfeited	(3)	35.68	
Outstanding, March 31, 2017	<u>512</u>	44.45	
Vested but not released, March 31, 2017	<u>6</u>		<u>\$ 374</u>
Expected to vest, March 31, 2017	<u>410</u>		<u>\$ 24,894</u>

At March 31, 2017, total unrecognized compensation expense on restricted stock units was \$35.5 million, which is expected to be recognized over a weighted average period of approximately 2.1 years.

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

	Three Months Ended March 31,	
	2017	2016
Expected volatility	28.0%	30.0%
Risk-free interest rate	1.0%	0.7%
Expected term (years)	1.7	1.8
Weighted average fair value	\$ 77.78	\$ 44.77

### Phantom Stock Units

The following table summarizes phantom stock unit activity:

	Number of Phantom Stock Units		Weighted Average Grant Date Fair Value
	(in thousands)		
Outstanding, January 1, 2016	—		
Granted	61	\$	41.72
Forfeited	—		
Outstanding, March 31, 2016	61		
Expected to vest, March 31, 2016	53		
Outstanding, January 1, 2017	62	\$	40.11
Granted	32		65.55
Released	(19)		40.05
Forfeited	(2)		40.05
Outstanding, March 31, 2017	73		51.40
Expected to vest, March 31, 2017	73		

At March 31, 2017, total unrecognized compensation expense on phantom stock units was \$4.2 million, which is expected to be recognized over a weighted average period of approximately 2.4 years. We have recognized a phantom stock liability of \$0.2 million within wages and benefits payable in the Consolidated Balance Sheets as of March 31, 2017.

### Note 10: Income Taxes

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

Excess tax benefits and tax deficiencies resulting from employee share-based payments have been recognized as income tax provision or benefit in the 2017 Consolidated Statement of Operations pursuant to implementing ASU 2016-09 (see Note 1).

Our tax expense for the three months ended March 31, 2017 differed from the federal statutory rate of 35% due to the forecasted mix of earnings in domestic and international jurisdictions, a benefit related to excess tax benefits under ASU 2016-09, and losses experienced in jurisdictions with valuation allowances on deferred tax assets.

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

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

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Net interest and penalties expense	\$ 206	\$ 99

Accrued interest and penalties recognized were as follows:

	<b>March 31, 2017</b>		<b>December 31, 2016</b>
	<b>(in thousands)</b>		
Accrued interest	\$	2,730	\$ 2,473
Accrued penalties		2,432	2,329

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

	<b>March 31, 2017</b>		<b>December 31, 2016</b>
	<b>(in thousands)</b>		
Unrecognized tax benefits related to uncertain tax positions	\$	59,358	\$ 57,626
The amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate		58,101	56,411

At March 31, 2017, we are under examination by certain tax authorities for the 2000 to 2015 tax years. The material jurisdictions under examination include, among others, the United States, France, Germany, Italy, Brazil and the United Kingdom. No material changes have occurred to previously disclosed assessments. We believe we have appropriately accrued for the expected outcome of all tax matters and do not currently anticipate that the ultimate resolution of these examinations will have a material adverse effect on our financial condition, future results of operations, or liquidity.

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

**Note 11: Commitments and Contingencies***Guarantees and Indemnifications*

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

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

	March 31, 2017	December 31, 2016
	(in thousands)	
Credit facilities		
Multicurrency revolving line of credit	\$ 500,000	\$ 500,000
Long-term borrowings	(99,125)	(97,167)
Standby LOCs issued and outstanding	(29,205)	(46,103)
Net available for additional borrowings under the multi-currency revolving line of credit	\$ 371,670	\$ 356,730
Net available for additional standby LOCs under sub-facility	220,795	203,897
Unsecured multicurrency revolving lines of credit with various financial institutions		
Multicurrency revolving lines of credit	\$ 93,230	\$ 91,809
Standby LOCs issued and outstanding	(21,332)	(21,734)
Short-term borrowings	(235)	(69)
Net available for additional borrowings and LOCs	\$ 71,663	\$ 70,006
Unsecured surety bonds in force	\$ 48,080	\$ 48,221

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

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

*Legal Matters*

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

### Warranty

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

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Beginning balance	\$ 43,302	\$ 54,512
New product warranties	2,361	2,404
Other adjustments and expirations	1,682	1,034
Claims activity	(6,351)	(7,390)
Effect of change in exchange rates	542	182
Ending balance	41,536	50,742
Less: current portion of warranty	23,500	32,244
Long-term warranty	\$ 18,036	\$ 18,498

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

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Total warranty expense	\$ 4,043	\$ 3,438

### Unearned Revenue Related to Extended Warranty

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

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Beginning balance	\$ 31,549	\$ 33,654
Unearned revenue for new extended warranties	322	581
Unearned revenue recognized	(1,005)	(857)
Effect of change in exchange rates	32	120
Ending balance	30,898	33,498
Less: current portion of unearned revenue for extended warranty	4,304	3,750
Long-term unearned revenue for extended warranty within other long-term obligations	\$ 26,594	\$ 29,748

### Health Benefits

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

Plan costs were as follows:

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Plan costs	\$ 8,754	\$ 6,774

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

	March 31, 2017	December 31, 2016
	(in thousands)	
IBNR accrual	\$ 2,488	\$ 2,441

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

## Note 12: Restructuring

### 2016 Projects

On September 1, 2016, we announced projects (2016 Projects) to restructure various company activities in order to improve operational efficiencies, reduce expenses and improve competitiveness. We expect to close or consolidate several facilities and reduce our global workforce as a result of the restructuring.

The 2016 Projects began during the three months ended September 30, 2016, and we expect to substantially complete the 2016 Projects by the end of 2018. Many of the affected employees are represented by unions or works councils, which requires consultation, and potential restructuring projects may be subject to regulatory approval, both of which could impact the timing of charges, total expected charges, cost recognized, and planned savings in certain jurisdictions.

The total expected restructuring costs, the restructuring costs recognized during the three months ended March 31, 2017, and the remaining expected restructuring costs as of March 31, 2017 related to the 2016 Projects are as follows:

	Total Expected Costs at March 31, 2017	Costs Recognized in Prior Periods	Costs Recognized During the Three Months Ended March 31, 2017	Expected Remaining Costs to be Recognized at March 31, 2017
	(in thousands)			
Employee severance costs	\$ 45,502	\$ 39,686	\$ 1,316	\$ 4,500
Asset impairments & net loss on sale or disposal	7,219	7,219	—	—
Other restructuring costs	15,125	889	1,736	12,500
Total	<u>\$ 67,846</u>	<u>\$ 47,794</u>	<u>\$ 3,052</u>	<u>\$ 17,000</u>
<i>Segments:</i>				
Electricity	\$ 10,151	\$ 8,827	\$ (176)	\$ 1,500
Gas	33,552	23,968	1,084	8,500
Water	20,579	13,061	1,018	6,500
Corporate unallocated	3,564	1,938	1,126	500
Total	<u>\$ 67,846</u>	<u>\$ 47,794</u>	<u>\$ 3,052</u>	<u>\$ 17,000</u>

### 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. We began implementing these projects in the fourth quarter of 2014, and substantially completed them in the third quarter of 2016. Project activities will continue through the fourth quarter of 2017; however, no further costs are expected to be recognized related to the 2014 Projects.

The 2014 Projects resulted in \$48.5 million of restructuring expense, which was recognized from the fourth quarter of 2014 through the third quarter of 2016.

The following table summarizes the activity within the restructuring related balance sheet accounts for the 2016 and 2014 Projects during the three months ended March 31, 2017:

	Accrued Employee Severance	Asset Impairments & Net Loss on Sale or Disposal	Other Accrued Costs	Total
(in thousands)				
Beginning balance, January 1, 2017	\$ 45,368	\$ —	\$ 2,602	\$ 47,970
Costs charged to expense	1,316	—	1,736	3,052
Cash payments	(3,291)	—	(1,558)	(4,849)
Non-cash items	—	—	—	—
Effect of change in exchange rates	1,193	—	2	1,195
Ending balance, March 31, 2017	<u>\$ 44,586</u>	<u>\$ —</u>	<u>\$ 2,782</u>	<u>\$ 47,368</u>

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

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

The current restructuring liabilities were \$31.0 million and \$26.2 million as of March 31, 2017 and December 31, 2016. The current restructuring liabilities are classified within other current liabilities on the Consolidated Balance Sheets. The long-term restructuring liabilities balances were \$16.4 million and \$21.8 million as of March 31, 2017 and December 31, 2016. The long-term restructuring liabilities are classified within other long-term obligations on the Consolidated Balance Sheets, and include facility exit costs and severance accruals.

### Note 13: Shareholders' Equity

#### Preferred Stock

We have authorized the issuance of 10 million shares of preferred stock with no par value. In the event of a liquidation, dissolution, or winding up of the affairs of the corporation, whether voluntary or involuntary, the holders of any outstanding preferred stock would be entitled to be paid a preferential amount per share to be determined by the Board of Directors prior to any payment to holders of common stock. There was no preferred stock issued or outstanding at March 31, 2017 and December 31, 2016.

#### Stock Repurchase Authorization

On February 23, 2017, Itron's Board of Directors authorized the Company to repurchase up to \$50 million of our common stock over a 12-month period, beginning February 23, 2017. We repurchased no shares of common stock during the three months ended March 31, 2017.

*Other Comprehensive Income (Loss)*

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

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
<b>Before-tax amount</b>		
Foreign currency translation adjustment	\$ 15,066	\$ 10,458
Net unrealized gain (loss) on derivative instruments designated as cash flow hedges	97	(4,513)
Net hedging loss reclassified into net income	378	286
Net unrealized gain (loss) on defined benefit plans	—	(113)
Net defined benefit plan gain (loss) reclassified to net income	406	(342)
<b>Total other comprehensive income (loss), before tax</b>	<b>15,947</b>	<b>5,776</b>
<b>Tax (provision) benefit</b>		
Foreign currency translation adjustment	(50)	(352)
Net unrealized gain (loss) on derivative instruments designated as cash flow hedges	(37)	1,731
Net hedging loss reclassified into net income	(146)	(110)
Net unrealized gain (loss) on defined benefit plans	—	34
Net defined benefit plan gain (loss) reclassified to net income	(5)	103
<b>Total other comprehensive income (loss) tax benefit</b>	<b>(238)</b>	<b>1,406</b>
<b>Net-of-tax amount</b>		
Foreign currency translation adjustment	15,016	10,106
Net unrealized gain (loss) on derivative instruments designated as cash flow hedges	60	(2,782)
Net hedging loss reclassified into net income	232	176
Net unrealized gain (loss) on defined benefit plans	—	(79)
Net defined benefit plan gain (loss) reclassified to net income	401	(239)
<b>Total other comprehensive income (loss), net of tax</b>	<b>\$ 15,709</b>	<b>\$ 7,182</b>

The changes in the components of AOCI, net of tax, were as follows:

	Foreign Currency Translation Adjustments	Net Unrealized Gain (Loss) on Derivative Instruments	Net Unrealized Gain (Loss) on Nonderivative Instruments	Pension Benefit Obligation Adjustments	Total
	(in thousands)				
Balances at January 1, 2016	\$ (158,009)	\$ 318	\$ (14,380)	\$ (28,536)	\$ (200,607)
OCI before reclassifications	10,106	(2,782)	—	(79)	7,245
Amounts reclassified from AOCI	—	176	—	(239)	(63)
Total other comprehensive income (loss)	10,106	(2,606)	—	(318)	7,182
Balances at March 31, 2016	<u>\$ (147,903)</u>	<u>\$ (2,288)</u>	<u>\$ (14,380)</u>	<u>\$ (28,854)</u>	<u>\$ (193,425)</u>
Balances at January 1, 2017	\$ (182,986)	\$ 43	\$ (14,380)	\$ (32,004)	\$ (229,327)
OCI before reclassifications	15,016	60	—	—	15,076
Amounts reclassified from AOCI	—	232	—	401	633
Total other comprehensive income (loss)	15,016	292	—	401	15,709
Balances at March 31, 2017	<u>\$ (167,970)</u>	<u>\$ 335</u>	<u>\$ (14,380)</u>	<u>\$ (31,603)</u>	<u>\$ (213,618)</u>

**Note 14: Fair Values of Financial Instruments**

The following table presents the fair values of our financial instruments:

	March 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in thousands)				
<b>Assets</b>				
Cash and cash equivalents	\$ 187,928	\$ 187,928	\$ 133,565	\$ 133,565
Foreign exchange forwards	137	137	169	169
Interest rate swaps	1,922	1,922	1,830	1,830
Interest rate caps	736	736	946	946
<b>Liabilities</b>				
<b>Credit facility</b>				
USD denominated term loan	\$ 205,313	\$ 202,913	\$ 208,125	\$ 205,676
Multicurrency revolving line of credit	99,125	97,780	97,167	95,906
Interest rate swaps	509	509	934	934
Foreign exchange forwards	337	337	449	449

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

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

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

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

The fair values at March 31, 2017 and December 31, 2016 do not reflect subsequent changes in the economy, interest rates, tax rates, and other variables that may affect the determination of fair value.

**Note 15: Segment Information**

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

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

**Segment Products**

<i>Electricity</i>	Standard electricity (electromechanical and electronic) meters; smart metering solutions that include one or several of the following: smart electricity meters; smart electricity communication modules; prepayment systems, including smart key, keypad, and smart card communication technologies; smart 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.
<i>Gas</i>	Standard gas meters; smart metering solutions that include one or several of the following: smart gas meters; smart gas communication modules; prepayment systems, including smart key, keypad, and smart card communication technologies; smart 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.
<i>Water</i>	Standard water and heat meters; smart metering solutions that include one or several of the following: smart water meters and communication modules; smart heat meters; smart 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:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>(in thousands)</b>		
<b>Revenues</b>		
Electricity	\$ 238,751	\$ 217,295
Gas	124,211	139,256
Water	114,630	141,039
Total Company	<u>\$ 477,592</u>	<u>\$ 497,590</u>
<b>Gross profit</b>		
Electricity	\$ 67,192	\$ 64,586
Gas	50,504	48,577
Water	39,529	50,040
Total Company	<u>\$ 157,225</u>	<u>\$ 163,203</u>
<b>Operating income (loss)</b>		
Electricity	\$ 16,862	\$ 10,632
Gas	21,256	16,299
Water	8,735	18,076
Corporate unallocated	(16,811)	(21,433)
Total Company	<u>30,042</u>	<u>23,574</u>
Total other income (expense)	(4,981)	(4,164)
Income before income taxes	<u>\$ 25,061</u>	<u>\$ 19,410</u>

For the three months ended March 31, 2017 and 2016, one customer represented 18% and 13%, respectively, of total Electricity segment revenues. For the three months ended March 31, 2017 and 2016, no single customer represented more than 10% of the Gas or Water operating segment revenues, or total company revenues.

Revenues by region were as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>(in thousands)</b>		
United States and Canada	\$ 269,097	\$ 262,037
Europe, Middle East, and Africa	162,815	195,710
Other <sup>(1)</sup>	45,680	39,843
Total revenues	<u>\$ 477,592</u>	<u>\$ 497,590</u>

<sup>(1)</sup> The Other region includes our operations in Latin America and Asia Pacific.

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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>(in thousands)</b>		
Electricity	\$ 5,311	\$ 7,262
Gas	4,244	4,921
Water	3,959	4,382
Corporate unallocated	864	109
Total Company	<u>\$ 14,378</u>	<u>\$ 16,674</u>

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

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes included in this report and with our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission (SEC) on March 1, 2017.

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

### Certain Forward-Looking Statements

*This document contains forward-looking statements concerning our operations, financial performance, revenues, earnings growth, liquidity, restructuring, and other items. This document reflects our current plans and expectations and is based on information currently available as of the date of this Quarterly Report on Form 10-Q. When we use the words "expect," "intend," "anticipate," "believe," "plan," "project," "estimate," "future," "objective," "may," "will," "will continue," and similar expressions, they are intended to identify forward-looking statements. Forward-looking statements rely on a number of assumptions and estimates. Although we believe that these assumptions and estimates are reasonable, any of these assumptions and estimates could prove to be inaccurate and the forward looking statements based on them could be incorrect and cause our actual results to vary materially from expected results. Our operations involve risks and uncertainties which could materially affect our results of operations and whether the forward looking statements ultimately prove to be correct. These risks and uncertainties include 1) the rate and timing of customer demand for our products, 2) failure to meet performance or delivery milestones in customer contracts, 3) changes in estimated liabilities for product warranties and/or litigation, 4) rescheduling or cancellations of current customer orders and commitments, 5) our dependence on customers' acceptance of new products and their performance, 6) competition, 7) changes in foreign currency exchange rates and interest rates, 8) changes in domestic and international laws and regulations, 9) international business risks, 10) future business combinations, 11) key personnel are critical to the success of our business, 12) our own and our customers' or suppliers' access to and cost of capital, and 13) other factors. For a more complete description of these and other risks, refer to Item 1A: "Risk Factors" included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which was filed with the SEC on March 1, 2017 and our other reports on file with the SEC. We do not undertake any obligation to update or revise any forward looking statement in this document.*

### Overview

We are a technology company, offering end-to-end solutions to enhance productivity and efficiency, primarily focused on utilities and municipalities around to globe. Our solutions generally include robust industrial grade networks, smart meters, meter data management software, and knowledge application solutions, which bring additional value to the customer. 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 maintain responsiveness to the market.

We have three measures of segment performance: revenues, gross profit (margin), and operating income (margin). Intersegment revenues are minimal. Certain operating expenses are allocated to the operating segments based upon internally established allocation methodologies. Interest income, interest expense, other income (expense), income tax provision, and certain corporate operating expenses are neither allocated to the segments nor included in the measures of segment performance.

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

In our discussions of the operating results below, we sometimes refer to the impact of foreign currency exchange rate fluctuations, which are references to the differences between the foreign currency exchange rates we use to convert operating results from local currencies into U.S. dollars for reporting purposes. We also use the term “constant currency,” which represents results adjusted to exclude foreign currency exchange rate impacts. We calculate the constant currency change as the difference between the current period results translated using the current period currency exchange rates and the comparable prior period’s results restated using current period currency exchange rates. We believe the reconciliations of changes in constant currency provide useful supplementary information to investors in light of fluctuations in foreign currency exchange rates.

Refer to the *Non-GAAP Measures* section below on pages 38-40 for information about these non-GAAP measures and the detailed reconciliation of items that impacted free cash flow, non-GAAP operating expense, non-GAAP operating income, non-GAAP net income, adjusted EBITDA, and non-GAAP diluted EPS in the presented periods.

### **Total Company Highlights and Unit Shipments**

*Highlights and significant developments for the three months ended March 31, 2017*

- Revenues were \$477.6 million compared with \$497.6 million in the same period last year, a decrease of \$20.0 million, or 4%.
- Gross margin was 32.9% compared with 32.8% in the same period last year.
- Operating expenses decreased \$12.4 million, or 9%, compared with the same period last year.
- Net income attributable to Itron, Inc. was \$15.8 million compared with \$10.1 million in the same period last year.
- Adjusted EBITDA improved to \$45.1 million, an increase of \$4.8 million compared with the same period last year.
- GAAP diluted EPS increased by \$0.14 to \$0.40 compared with the same period last year.
- Non-GAAP diluted EPS improved by \$0.13 to \$0.57 compared with the same period last year.

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

	<b>Three Months Ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>% Change</b>
<b>(in thousands, except margin and per share data)</b>			
<b>GAAP</b>			
Revenues	\$ 477,592	\$ 497,590	(4)%
Gross profit	157,225	163,203	(4)%
Operating expenses	127,183	139,629	(9)%
Operating income	30,042	23,574	27%
Other income (expense)	(4,981)	(4,164)	20%
Income tax provision	(9,047)	(8,626)	5%
Net income attributable to Itron, Inc.	15,845	10,089	57%
<b>Non-GAAP<sup>(1)</sup></b>			
Non-GAAP operating expenses	\$ 119,249	\$ 131,179	(9)%
Non-GAAP operating income	37,976	32,024	19%
Non-GAAP net income attributable to Itron, Inc.	22,186	16,831	32%
Adjusted EBITDA	45,060	40,276	12%
<b>GAAP Margins and Earnings Per Share</b>			
Gross margin	32.9%	32.8%	
Operating margin	6.3%	4.7%	
Basic EPS	\$ 0.41	\$ 0.27	
Diluted EPS	0.40	0.26	
<b>Non-GAAP Earnings Per Share<sup>(1)</sup></b>			
Non-GAAP diluted EPS	\$ 0.57	\$ 0.44	

<sup>(1)</sup> These measures exclude certain expenses that we do not believe are indicative of our core operating results. See pages 38-40 for information about these non-GAAP measures and reconciliations to the most comparable GAAP measures.

#### *Meter and Module Summary*

We classify meters into two categories:

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

In addition, 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:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>(units in thousands)</b>		
<b>Meters</b>		
Standard	4,010	4,370
Smart	2,440	2,190
Total meters	6,450	6,560
<b>Stand-alone communication modules</b>		
Smart	1,400	1,460

## Results of Operations

### Revenue and Gross Margin

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

	Three Months Ended March 31,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change <sup>(1)</sup>	Total Change
	2017	2016			
(in thousands)					
<b>Total Company</b>					
Revenues	\$ 477,592	\$ 497,590	\$ (5,285)	\$ (14,713)	\$ (19,998)
Gross profit	157,225	163,203	(2,276)	(3,702)	(5,978)

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

#### Revenues

Revenues decreased \$20.0 million, or 4%, for the three months ended March 31, 2017, compared with the same period in 2016. Revenues in the Electricity segment increased by \$21.5 million, while revenues decreased in the Gas and Water segments \$15.0 million and \$26.4 million, respectively, for the three months ended March 31, 2017 compared with the same period in 2016. The total change in revenues for the three months ended March 31, 2017 were unfavorably impacted by \$5.3 million due to the effect of changes in foreign currency exchange rates.

No customer represented more than 10% of total revenues for the three months ended March 31, 2017 and 2016. Our 10 largest customers accounted for 33% and 29% of total revenues during the three months ended March 31, 2017 and 2016, respectively.

#### Gross Margin

Gross margin for the first quarter of 2017 was 32.9%, compared with 32.8% for the same period in 2016. The increased gross margin was primarily driven by improved product mix.

### Operating Expenses

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

	Three Months Ended March 31,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change <sup>(1)</sup>	Total Change
	2017	2016			
(in thousands)					
<b>Total Company</b>					
Sales and marketing	\$ 41,468	\$ 40,767	\$ (331)	\$ 1,032	\$ 701
Product development	40,868	45,346	(614)	(3,864)	(4,478)
General and administrative	37,246	45,069	549	(8,372)	(7,823)
Amortization of intangible assets	4,549	6,210	(164)	(1,497)	(1,661)
Restructuring	3,052	2,237	(195)	1,010	815
Total Operating expenses	\$ 127,183	\$ 139,629	\$ (755)	\$ (11,691)	\$ (12,446)

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

Operating expenses decreased \$12.4 million for the three months ended March 31, 2017 as compared with the same period in 2016. The decrease was primarily due to operational efficiencies related to restructuring, and lower general and administrative expenses resulting from higher legal and professional services fees incurred in 2016.

**Other Income (Expense)**

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

	<b>Three Months Ended March 31,</b>		<b>% Change</b>
	<b>2017</b>	<b>2016</b>	
	<b>(in thousands)</b>		
Interest income	\$ 269	\$ 271	(1)%
Interest expense	(2,408)	(2,642)	(9)%
Amortization of prepaid debt fees	(266)	(276)	(4)%
Other income (expense), net	(2,576)	(1,517)	70%
Total other income (expense)	<u>\$ (4,981)</u>	<u>\$ (4,164)</u>	20%

Total other income (expense) for the three months ended March 31, 2017 was a net expense of \$5.0 million compared with \$4.2 million in the same period in 2016. The change in other income (expense), net, for the three months ended March 31, 2017 as compared with the same period in 2016 was a result of fluctuations in the recognized foreign currency exchange gains and losses due to balances denominated in a currency other than the reporting entity's functional currency.

**Income Tax Provision**

For the three months ended March 31, 2017, our income tax provision was \$9.0 million compared with \$8.6 million for the same period in 2016. Our tax rate for the three months ended March 31, 2017 of 36% differed from the federal statutory rate of 35% due to the forecasted mix of earnings in domestic and international jurisdictions, a benefit related to excess tax benefits under ASU 2016-09, and losses experienced in jurisdictions with valuation allowances on deferred tax assets. Our tax rate for the three months ended March 31, 2016 of 44% differed from the federal statutory rate of 35% due to the forecasted mix of earnings in domestic and international jurisdictions and losses experienced in jurisdictions with valuation allowances on deferred tax assets.

## Operating Segment Results

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

	Three Months Ended March 31,			% Change
	2017	2016		
<b>Segment Revenues</b>				
	(in thousands)			
Electricity	\$ 238,751	\$ 217,295		10%
Gas	124,211	139,256		(11)%
Water	114,630	141,039		(19)%
Total revenues	\$ 477,592	\$ 497,590		(4)%
<b>Segment Gross Profit and Margin</b>				
	2017		2016	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin
	(in thousands)		(in thousands)	
Electricity	\$ 67,192	28.1%	\$ 64,586	29.7%
Gas	50,504	40.7%	48,577	34.9%
Water	39,529	34.5%	50,040	35.5%
Total gross profit and margin	\$ 157,225	32.9%	\$ 163,203	32.8%
<b>Segment Operating Expenses</b>				
	2017		2016	
	Operating Income (Loss)	Operating Margin	Operating Income (Loss)	Operating Margin
	(in thousands)		(in thousands)	
Electricity	\$ 50,330	7.1%	\$ 53,954	4.9%
Gas	29,248	17.1%	32,278	11.7%
Water	30,794	7.6%	31,964	12.8%
Corporate unallocated	16,811		21,433	
Total operating expenses	\$ 127,183	6.3%	\$ 139,629	4.7%
<b>Segment Operating Income (Loss) and Operating Margin</b>				
	2017		2016	
	Operating Income (Loss)	Operating Margin	Operating Income (Loss)	Operating Margin
	(in thousands)		(in thousands)	
Electricity	\$ 16,862	7.1%	\$ 10,632	4.9%
Gas	21,256	17.1%	16,299	11.7%
Water	8,735	7.6%	18,076	12.8%
Corporate unallocated	(16,811)		(21,433)	
Total Company	\$ 30,042	6.3%	\$ 23,574	4.7%

## Electricity

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

	Three Months Ended March 31,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change <sup>(1)</sup>	Total Change
	2017	2016			
(in thousands)					
<b>Electricity Segment</b>					
Revenues	\$ 238,751	\$ 217,295	\$ (1,300)	\$ 22,756	\$ 21,456
Gross profit	67,192	64,586	(1,041)	3,647	2,606
Operating expenses	50,330	53,954	(336)	(3,288)	(3,624)

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

### Revenues - Three months ended March 31, 2017 vs. Three months ended March 31, 2016

Revenues increased \$21.5 million, or 10%, for the three months ended March 31, 2017, compared with the same period in 2016. This increase was primarily driven by increased product revenues in our North America and Asia/Pacific regions.

For the three months ended March 31, 2017 and 2016, one customer represented 18% and 13%, respectively, of total Electricity segment revenues.

### Gross Margin - Three months ended March 31, 2017 vs. Three months ended March 31, 2016

Gross margin was 28.1% for the three months ended March 31, 2017, compared with 29.7% for the same period in 2016. The 160 basis point decrease over the prior year was primarily the result of unfavorable product mix.

### Operating Expenses - Three months ended March 31, 2017 vs. Three months ended March 31, 2016

Operating expenses decreased \$3.6 million, or 7%, for the three months ended March 31, 2017, compared with the same period in 2016. Amortization of intangible assets, product development, restructuring, general and administrative, and sales and marketing expenses all decreased in the current period compared with the prior period.

## Gas

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

	Three Months Ended March 31,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change <sup>(1)</sup>	Total Change
	2017	2016			
(in thousands)					
<b>Gas Segment</b>					
Revenues	\$ 124,211	\$ 139,256	\$ (1,394)	\$ (13,651)	\$ (15,045)
Gross profit	50,504	48,577	(188)	2,115	1,927
Operating expenses	29,248	32,278	(530)	(2,500)	(3,030)

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

### Revenues - Three months ended March 31, 2017 vs. Three months ended March 31, 2016

Revenues decreased \$15.0 million, or 11%, for the three months ended March 31, 2017 compared with the same period in 2016. This was primarily due to decreases in product revenues in our North America and Europe, Middle East, and Africa (EMEA) regions due to the completion of significant projects in the prior year.

No single customer represented more than 10% of the Gas operating segment revenues for the three months ended March 31, 2017 and 2016.

*Gross Margin - Three months ended March 31, 2017 vs. Three months ended March 31, 2016*

Gross margin was 40.7% for the three months ended March 31, 2017, compared with 34.9% for the same period in 2016. The 580 basis point increase was related to favorable product mix in the current period.

*Operating Expenses - Three months ended March 31, 2017 vs. Three months ended March 31, 2016*

Operating expenses decreased \$3.0 million, or 9%, for the three months ended March 31, 2017, compared with the same period in 2016. The decrease was primarily due to reduced product development costs.

**Water**

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

	Three Months Ended March 31,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change <sup>(1)</sup>	Total Change
	2017	2016			
(in thousands)					
<b>Water Segment</b>					
Revenues	\$ 114,630	\$ 141,039	\$ (2,591)	\$ (23,818)	\$ (26,409)
Gross profit	39,529	50,040	(1,047)	(9,464)	(10,511)
Operating expenses	30,794	31,964	(319)	(851)	(1,170)

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

*Revenues - Three months ended March 31, 2017 vs. Three months ended March 31, 2016*

Revenues decreased \$26.4 million, or 19%, for the three months ended March 31, 2017, compared with the first quarter of 2016. This was primarily due to lower product revenues in North America and EMEA following the completion of significant projects in 2016.

No single customer represented more than 10% of the Water operating segment revenues for the three months ended March 31, 2017 and 2016.

*Gross Margin - Three months ended March 31, 2017 vs. Three months ended March 31, 2016*

During the first quarter of 2017 gross margin decreased to 34.5%, compared with 35.5% in 2016. The decrease in gross margin was driven by unfavorable product mix and lower volumes in EMEA and North America.

*Operating Expenses - Three months ended March 31, 2017 vs. Three months ended March 31, 2016*

Operating expenses for the three months ended March 31, 2017 decreased by \$1.2 million, or 4%, compared with the first quarter of 2016. The decrease was primarily due to reduced product development costs, as well as lower amortization of intangible assets and general and administrative expenses.

**Corporate unallocated**

*Corporate Unallocated Expenses - Three months ended March 31, 2017 vs. Three months ended March 31, 2016*

Operating expenses not directly associated with an operating segment are classified as "Corporate unallocated." These expenses decreased by \$4.6 million, or 22%, for the three months ended March 31, 2017 compared with the same period in 2016. The decrease was primarily due to lower professional service fees associated with audit, accounting, and legal services as compared with the same period in 2016.

**Bookings and Backlog of Orders**

Bookings for a reported period represent customer contracts and purchase orders received during the period that have met certain conditions, such as regulatory and/or contractual approval. Total backlog represents committed but undelivered products and

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

Quarter Ended	Quarterly Bookings	Ending Total Backlog	Ending 12-Month Backlog
(in millions)			
March 31, 2017	\$ 424	\$ 1,605	\$ 819
December 31, 2016	653	1,652	761
September 30, 2016	670	1,511	731
June 30, 2016	349	1,345	688
March 31, 2016	394	1,504	785

Information on bookings by our operating segments is as follows:

Quarter Ended	Total Bookings	Electricity	Gas	Water
(in millions)				
March 31, 2017	\$ 424	\$ 174	\$ 125	\$ 125
December 31, 2016	653	387	141	125
September 30, 2016	670	372	176	122
June 30, 2016	349	109	114	126
March 31, 2016	394	145	137	112

## Financial Condition

### Cash Flow Information:

	Three Months Ended March 31,	
	2017	2016
(in thousands)		
Operating activities	\$ 63,257	\$ 33,805
Investing activities	(9,200)	(8,233)
Financing activities	(2,253)	(25,035)
Effect of exchange rates on cash and cash equivalents	2,559	1,060
Increase in cash and cash equivalents	\$ 54,363	\$ 1,597

Cash and cash equivalents was \$187.9 million at March 31, 2017, compared with \$133.6 million at December 31, 2016.

#### Operating activities

Cash provided by operating activities during the three months ended March 31, 2017 was \$63.3 million compared with \$33.8 million during the same period in 2016. The increase in cash provided was primarily due to changes in operating assets and liabilities. These adjustments include a \$46.4 million increased source of cash related to timing of cash receipts. This was partially offset by a \$14.5 million increased use of cash related to inventory caused by a modest buildup in North America and \$11.1 million for higher variable compensation payments in 2017.

#### Investing activities

Cash used by investing activities during the three months ended March 31, 2017 was \$1.0 million higher compared with the same period in 2016.

*Financing activities*

Net cash used by financing activities during the three months ended March 31, 2017 was \$2.3 million, compared with \$25.0 million for the same period in 2016. The decreased use of cash by financing activities is primarily a result of repaying \$2.7 million of borrowings in the three months ended March 31, 2017, compared with \$25.9 million during the same period in 2016.

*Effect of exchange rates on cash and cash equivalents*

The effect of exchange rates on the cash balances of currencies held in foreign denominations for the three months ended March 31, 2017 was an increase of \$2.6 million, compared with an increase of \$1.1 million for the same period in 2016.

*Free cash flow (Non-GAAP)*

To supplement our Consolidated Statements of Cash Flows presented on a GAAP basis, we use the non-GAAP measure of free cash flow to analyze cash flows generated from our operations. The presentation of non-GAAP free cash flow is not meant to be considered in isolation or as an alternative to net income as an indicator of our performance, or as an alternative to cash flows provided by operating activities as a measure of liquidity. We calculate free cash flows, using amounts from our Consolidated Statements of Cash Flows, as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in thousands)</b>	
Net cash provided by operating activities	\$ 63,257	\$ 33,805
Acquisitions of property, plant, and equipment	(9,122)	(8,791)
Free cash flow	\$ 54,135	\$ 25,014

Free cash flow increased primarily as a result of higher cash provided by operating activities. See the cash flow discussion of operating activities above.

**Off-balance sheet arrangements:**

We have no off-balance sheet financing agreements or guarantees as defined by Item 303 of Regulation S-K at March 31, 2017 and December 31, 2016 that we believe are reasonably likely to have a current or future effect on our financial condition, results of operations, or cash flows.

**Liquidity and Capital Resources:**

Our principal sources of liquidity are cash flows from operations, borrowings, and sales of common stock. Cash flows may fluctuate and are sensitive to many factors including changes in working capital and the timing and magnitude of capital expenditures and payments of debt. Working capital, which represents current assets less current liabilities, was \$341.0 million at March 31, 2017, compared with \$319.4 million at December 31, 2016.

*Borrowings*

Our credit facility consists of a \$225 million U.S. dollar term loan and a multicurrency revolving line of credit (the revolver) with a principal amount of up to \$500 million. The revolver also contains a \$250 million letter of credit sub-facility and a \$50 million swingline sub-facility (available for immediate cash needs at a higher interest rate). At March 31, 2017, \$99.1 million was outstanding under the revolver, and \$371.7 million was available for additional borrowings or standby letters of credit. At March 31, 2017, \$29.2 million was utilized by outstanding standby letters of credit, resulting in \$220.8 million available for additional letters of credit.

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

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

*Restructuring*

We expect pre-tax restructuring charges associated with the 2016 Projects of approximately \$68 million, with expected annualized savings of approximately \$40 million upon completion.

As of March 31, 2017, \$47.4 million was accrued for the restructuring projects, of which \$31.0 million is expected to be paid over the next 12 months. We also expect to recognize approximately \$17 million in future restructuring costs which will result in cash expenditures.

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

#### *Stock Repurchases*

On February 23, 2017, Itron's Board of Directors authorized the Company to repurchase up to \$50 million of our common stock over a 12-month period, beginning February 23, 2017. Any repurchases will be made in the open market or in privately negotiated transactions and in accordance with applicable securities laws. Repurchases are subject to the Company's alternative uses of capital as well as financial, market, and industry conditions. We repurchased no shares of common stock during the three months ended March 31, 2017.

#### *Other Liquidity Considerations*

We have tax credits and net operating loss carryforwards in various jurisdictions that are available to reduce cash taxes. However, utilization of tax credits and net operating losses are limited in certain jurisdictions. Based on current projections, we expect to pay, net of refunds, approximately \$7 million in state taxes, \$22 million in U.S federal taxes, and \$13 million in local and foreign taxes during 2017. For a discussion of our tax provision and unrecognized tax benefits, see Item 1: “Financial Statements, Note 10: Income Taxes.”

At March 31, 2017, we are under examination by certain tax authorities for the 2000 to 2015 tax years. The material jurisdictions under examination include, among others, the United States, France, Germany, Italy, Brazil, and the United Kingdom. No material changes have occurred to previously disclosed assessments. We believe we have appropriately accrued for the expected outcome of all tax matters and do not currently anticipate that the ultimate resolution of these examinations will have a material adverse effect on our financial condition, future results of operations, or liquidity.

We have not provided for U.S. deferred taxes related to the cash in certain foreign subsidiaries because our investment is considered permanent in duration. As of March 31, 2017, there was \$43.8 million of cash and short-term investments held by certain foreign subsidiaries in which we are permanently reinvested for tax purposes. If this cash were repatriated to fund U.S. operations, additional tax costs may be required. Tax is one of the many factors that we consider in the management of global cash. Included in the determination of the tax costs in repatriating foreign cash into the United States are the amount of earnings and profits in a particular jurisdiction, withholding taxes that would be imposed, and available foreign tax credits. Accordingly, the amount of taxes that we would need to accrue and pay to repatriate foreign cash could vary significantly.

In several of our consolidated international subsidiaries, we have joint venture partners, who are minority shareholders. Although these entities are not wholly-owned by Itron, Inc., we consolidate them because we have a greater than 50% ownership interest and/or because we exercise control over the operations. The noncontrolling interest balance in our Consolidated Balance Sheets represents the proportional share of the equity of the joint venture entities, which is attributable to the minority shareholders. At March 31, 2017, \$21.7 million of our consolidated cash balance is held in our joint venture entities. As a result, the minority shareholders of these entities have rights to their proportional share of this cash balance, and there may be limitations on our ability to repatriate cash to the United States from these entities.

#### *General Liquidity Overview*

We expect to grow through a combination of internal new product development, licensing technology from and to others, distribution agreements, partnering arrangements, and acquisitions of technology or other companies. We expect these activities to be funded with existing cash, cash flow from operations, borrowings, or the sale of common stock or other securities. We believe existing sources of liquidity will be sufficient to fund our existing operations and obligations for the next 12 months and into the foreseeable future, but offer no assurances. Our liquidity could be affected by the stability of the electricity, gas, and water industries, competitive pressures, changes in estimated liabilities for product warranties and/or litigation, future business combinations, capital market fluctuations, international risks, and other factors described under “Risk Factors” within Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which was filed with the SEC on March 1, 2017, as well as “Quantitative and Qualitative Disclosures About Market Risk” within Item 3 of Part I included in this Quarterly Report on Form 10-Q.

#### **Contingencies**

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

**Critical Accounting Estimates and Policies**

The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material effect on our consolidated financial statements and thus actual results could differ from the amounts reported and disclosed herein. Our critical accounting policies that require the use of estimates and assumptions were discussed in detail in the 2016 Annual Report on Form 10-K and have not changed materially from that discussion.

## Non-GAAP Measures

Our consolidated financial statements are prepared in accordance with GAAP, which we supplement with certain non-GAAP financial information. These non-GAAP measures should not be considered in isolation or as a substitute for the related GAAP measures, and other companies may define such measures differently. We encourage investors to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure. These non-GAAP measures exclude the impact of certain expenses that we do not believe are indicative of our core operating results. We use these non-GAAP financial measures for financial and operational decision making and/or as a means for determining executive compensation. These non-GAAP financial measures facilitate management's internal comparisons to our historical performance as well as comparisons to our competitors' operating results. Our executive compensation plans exclude non-cash charges related to amortization of intangibles and certain discrete cash and non-cash charges such as purchase accounting adjustments, restructuring charges or goodwill impairment charges. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods. We believe these non-GAAP financial measures are useful to investors because they provide greater transparency with respect to key metrics used by management in its financial and operational decision making and because they are used by our institutional investors and the analyst community to analyze the health of our business.

Non-GAAP operating expenses and non-GAAP operating income – We define non-GAAP operating expenses as operating expenses excluding certain expenses related to the amortization of intangible assets, restructuring, acquisitions and goodwill impairment. We define non-GAAP operating income as operating income excluding the expenses related to the amortization of intangible assets, restructuring, acquisitions and goodwill impairment. We consider these non-GAAP financial measures to be useful metrics for management and investors because they exclude the effect of expenses that are related to previous acquisitions and restructuring projects. By excluding these expenses, we believe that it is easier for management and investors to compare our financial results over multiple periods and analyze trends in our operations. For example, in certain periods expenses related to amortization of intangible assets may decrease, which would improve GAAP operating margins, yet the improvement in GAAP operating margins due to this lower expense is not necessarily reflective of an improvement in our core business. There are some limitations related to the use of non-GAAP operating expenses and non-GAAP operating income versus operating expenses and operating income calculated in accordance with GAAP. We compensate for these limitations by providing specific information about the GAAP amounts excluded from non-GAAP operating expense and non-GAAP operating income and evaluating non-GAAP operating expense and non-GAAP operating income together with GAAP operating expense and GAAP operating income.

Non-GAAP net income and non-GAAP diluted EPS – We define non-GAAP net income as net income attributable to Itron, Inc. excluding the expenses associated with amortization of intangible assets, restructuring, acquisitions, goodwill impairment, amortization of debt placement fees, and the tax effect of excluding these expenses. We define non-GAAP diluted EPS as non-GAAP net income divided by the weighted average shares, on a diluted basis, outstanding during each period. We consider these financial measures to be useful metrics for management and investors for the same reasons that we use non-GAAP operating income. The same limitations described above regarding our use of non-GAAP operating income apply to our use of non-GAAP net income and non-GAAP diluted EPS. We compensate for these limitations by providing specific information regarding the GAAP amounts excluded from these non-GAAP measures and evaluating non-GAAP net income and non-GAAP diluted EPS together with GAAP net income attributable to Itron, Inc. and GAAP diluted EPS.

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

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

Constant currency – We refer to the impact of foreign currency exchange rate fluctuations in our discussions of financial results, which references the differences between the foreign currency exchange rates used to translate operating results from local currencies into U.S. dollars for financial reporting purposes. We also use the term “constant currency,” which represents financial results adjusted to exclude changes in foreign currency exchange rates as compared with the rates in the comparable prior year

period. We calculate the constant currency change as the difference between the current period results and the comparable prior period's results restated using current period foreign currency exchange rates.

## Reconciliation of GAAP Measures to Non-GAAP Measures

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

TOTAL COMPANY RECONCILIATIONS	Three Months Ended March 31,	
	2017	2016
	(in thousands, except per share data)	
<b>NON-GAAP OPERATING EXPENSES</b>		
GAAP operating expenses	\$ 127,183	\$ 139,629
Amortization of intangible assets	(4,549)	(6,210)
Restructuring	(3,052)	(2,237)
Acquisition-related expenses	(333)	(3)
Non-GAAP operating expenses	<u>\$ 119,249</u>	<u>\$ 131,179</u>
<b>NON-GAAP OPERATING INCOME</b>		
GAAP operating income	\$ 30,042	\$ 23,574
Amortization of intangible assets	4,549	6,210
Restructuring	3,052	2,237
Acquisition-related expenses	333	3
Non-GAAP operating income	<u>\$ 37,976</u>	<u>\$ 32,024</u>
<b>NON-GAAP NET INCOME &amp; DILUTED EPS</b>		
GAAP net income attributable to Itron, Inc.	\$ 15,845	\$ 10,089
Amortization of intangible assets	4,549	6,210
Amortization of debt placement fees	241	247
Restructuring	3,052	2,237
Acquisition-related expenses	333	3
Income tax effect of non-GAAP adjustments <sup>(1)</sup>	(1,834)	(1,955)
Non-GAAP net income attributable to Itron, Inc.	<u>\$ 22,186</u>	<u>\$ 16,831</u>
Non-GAAP diluted EPS	<u>\$ 0.57</u>	<u>\$ 0.44</u>
Weighted average common shares outstanding - Diluted	<u>39,215</u>	<u>38,376</u>
<b>ADJUSTED EBITDA</b>		
GAAP net income attributable to Itron, Inc.	\$ 15,845	\$ 10,089
Interest income	(269)	(271)
Interest expense	2,674	2,918
Income tax provision	9,047	8,626
Depreciation and amortization	14,378	16,674
Restructuring	3,052	2,237
Acquisition-related expenses	333	3
Adjusted EBITDA	<u>\$ 45,060</u>	<u>\$ 40,276</u>
<b>FREE CASH FLOW</b>		
Net cash provided by operating activities	\$ 63,257	\$ 33,805
Acquisitions of property, plant, and equipment	(9,122)	(8,791)
Free Cash Flow	<u>\$ 54,135</u>	<u>\$ 25,014</u>

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

## SEGMENT RECONCILIATIONS

	Three Months Ended March 31,	
	2017	2016
(in thousands)		
<b>NON-GAAP OPERATING INCOME - ELECTRICITY</b>		
Electricity - GAAP operating income	\$ 16,862	\$ 10,632
Amortization of intangible assets	2,362	3,250
Restructuring	(176)	528
Acquisition-related expenses	—	3
Electricity - Non-GAAP operating income	<u>\$ 19,048</u>	<u>\$ 14,413</u>
<b>NON-GAAP OPERATING INCOME - GAS</b>		
Gas - GAAP operating income	\$ 21,256	\$ 16,299
Amortization of intangible assets	1,277	1,619
Restructuring	1,084	1,264
Gas - Non-GAAP operating income	<u>\$ 23,617</u>	<u>\$ 19,182</u>
<b>NON-GAAP OPERATING INCOME - WATER</b>		
Water - GAAP operating income	\$ 8,735	\$ 18,076
Amortization of intangible assets	910	1,341
Restructuring	1,018	(64)
Water - Non-GAAP operating income	<u>\$ 10,663</u>	<u>\$ 19,353</u>
<b>NON-GAAP OPERATING INCOME - CORPORATE UNALLOCATED</b>		
Corporate unallocated - GAAP operating loss	\$ (16,811)	\$ (21,433)
Restructuring	1,126	509
Acquisition-related expenses	333	—
Corporate unallocated - Non-GAAP operating loss	<u>\$ (15,352)</u>	<u>\$ (20,924)</u>

### Item 3: Quantitative and Qualitative Disclosures about Market Risk

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

#### Interest Rate Risk

We are exposed to interest rate risk through our variable rate debt instruments. In October 2015, we entered into an interest rate swap, which is effective from August 31, 2016 to June 23, 2020, and converts \$214 million of our LIBOR-based debt from a floating LIBOR interest rate to a fixed interest rate of 1.42% (excluding the applicable margin on the debt). The notional balance will amortize to maturity at the same rate as required minimum payments on our term loan. At March 31, 2017, our LIBOR-based debt balance was \$245.3 million.

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

The table below provides information about our financial instruments that are sensitive to changes in interest rates and the scheduled minimum repayment of principal and the weighted average interest rates at March 31, 2017. Weighted average variable rates in the table are based on implied forward rates in the Reuters U.S. dollar yield curve as of March 31, 2017 and our estimated leverage ratio, which determines our additional interest rate margin at March 31, 2017.

	2017	2018	2019	2020	2021	Total	Fair Value
(in thousands)							
<i>Variable Rate Debt</i>							
Principal: U.S. dollar term loan	\$ 11,250	\$ 19,688	\$ 22,500	\$ 151,875	\$ —	\$ 205,313	\$ 202,913
Average interest rate	2.49 %	2.95%	3.27%	3.40%	—%		
Principal: Multicurrency revolving line of credit	\$ —	\$ —	\$ —	\$ 99,125	\$ —	\$ 99,125	\$ 97,780
Average interest rate	1.75 %	1.94%	2.06%	2.12%	—%		
<i>Interest rate swap on LIBOR-based debt</i>							
Average interest rate (pay)	1.42 %	1.42%	1.42%	1.42%	—%		
Average interest rate (receive)	1.24 %	1.70%	2.02%	2.16%	—%		
Net/Spread	(0.18)%	0.28%	0.60%	0.74%	—%		

Based on a sensitivity analysis as of March 31, 2017, we estimate that, if market interest rates average one percentage point higher in 2017 than in the table above, our financial results in 2017 would not be materially impacted.

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

#### Foreign Currency Exchange Rate Risk

We conduct business in a number of countries. As a result, approximately half of our revenues and operating expenses are denominated in foreign currencies, which expose our account balances to movements in foreign currency exchange rates that could have a material effect on our financial results. Our primary foreign currency exposure relates to non-U.S. dollar denominated transactions in our international subsidiary operations, the most significant of which is the euro. Revenues denominated in functional currencies other than the U.S. dollar were 47% of total revenues for the three months ended March 31, 2017 compared with 50% for the same respective period in 2016.

We are also exposed to foreign exchange risk when we enter into non-functional currency transactions, both intercompany and third party. At each period-end, non-functional currency monetary assets and liabilities are revalued with the change recognized

to other income and expense. We enter into monthly foreign exchange forward contracts, which are not designated for hedge accounting, with the intent to reduce earnings volatility associated with currency exposures. As of March 31, 2017, a total of 49 contracts were offsetting our exposures from the euro, Saudi Riyal, Indian Rupee, Chinese Yuan, Indonesian Rupiah, and various other currencies, with notional amounts ranging from \$167,000 to \$45.3 million. Based on a sensitivity analysis as of March 31, 2017, we estimate that, if foreign currency exchange rates average ten percentage points higher in 2017 for these financial instruments, our financial results in 2017 would not be materially impacted.

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

#### **Item 4: Controls and Procedures**

##### *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 March 31, 2017, 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.

##### *Changes in internal controls over financial reporting*

In the ordinary course of business, we review our system of internal control over financial reporting and make changes to our applications and processes to improve such controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient applications and automating manual processes. We are currently upgrading our global enterprise resource software applications at certain of 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 to the shared services center in a staged approach. The transition to 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.

Except for these changes, there have been no other changes in our internal control over financial reporting during the three months ended March 31, 2017 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

**PART II: OTHER INFORMATION**

**Item 1: Legal Proceedings**

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

**Item 1A: Risk Factors**

There were no material changes to risk factors during the first quarter of 2017 from those previously disclosed in Item 1A: “Risk Factors” of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which was filed with the SEC on March 1, 2017.

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

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

**Item 5: Other Information**

(a) No information was required to be disclosed in a report on Form 8-K during the first quarter of 2017 that was not reported.

(b) Not applicable.

**Item 6: Exhibits**

<b>Exhibit Number</b>	<b>Description of Exhibits</b>
10.1*	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 with this report)
10.2*	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 with this report)
10.3*	Form of RSU Award Notice and Agreement for all Participants for use in connection with Itron, Inc.'s Amended and Restated 2010 Stock Incentive Plan. (filed with this report)
12.1	Computation of Ratio of Earnings to Fixed Charges. (filed with this report)
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
*	Management contract or compensatory plan arrangement.

**SIGNATURE**

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

ITRON, INC.

May 3, 2017

By:

/s/ ROBERT H.A. FARROW

\_\_\_\_\_  
**Date**

\_\_\_\_\_  
**Robert H.A. Farrow**  
**Interim Chief Financial Officer**

**ITRON, INC.**  
**AMENDED AND RESTATED 2010 STOCK INCENTIVE PLAN**  
**STOCK OPTION GRANT NOTICE**

---

Itron, Inc. (the "Company") hereby grants to Participant an option (the "Option") to purchase shares of the Company's common stock.

**Participant:** <<Name>> <<SSN>>  
**Grant Date:** <<Grant Date>>  
**Number of Shares Subject to Option:** <<Option Granted>>  
**Grant Price (per Share):** <<Grant Price>>  
**Option Expiration Date:** <<Expiration Date>>

**Type of Option:** <<Incentive Stock Option>>  
<<Nonqualified Stock Option>>

**Vesting and Exercisability Schedule:** 33-1/3% of the Option will vest and become exercisable on the one-year anniversary of the Grant Date. An additional 33-1/3% of the Option will vest and become exercisable each year thereafter so that the entire Option will be fully vested and exercisable three years from the Grant Date.

**Additional Terms:** The Option is subject to all the terms and conditions set forth in this Stock Option Grant Notice (this "Grant Notice"), the Stock Option Agreement (including Appendix A), and the Company's Amended and Restated 2010 Stock Incentive Plan (the "Plan"), which are attached to and incorporated into this Grant Notice in their entirety.

<<Name>>

I accept the Option subject to the terms and conditions stated herein.

<<electronically signed>>

**Attachments:**

1. Stock Option Agreement (including Appendix A)
2. Amended and Restated 2010 Stock Incentive Plan
3. Plan Prospectus

**ITRON, INC.**  
**AMENDED AND RESTATED 2010 STOCK INCENTIVE PLAN**

**STOCK OPTION AGREEMENT**

Pursuant to your Stock Option Grant Notice (the "Grant Notice") and this Stock Option Agreement, including Appendix A, Itron, Inc. (the "Company") has granted you an Option (the "Option") under its Amended and Restated 2010 Stock Incentive Plan (the "Plan") to purchase the number of shares of the Company's common stock (the "Shares") indicated in your Grant Notice at the price (the "Grant Price") indicated in your Grant Notice. Capitalized terms not expressly defined in this Stock Option Agreement or the Grant Notice have the same definitions as in the Plan. All references to this Stock Option Agreement include Attachment A which is made a part of this Stock Option Agreement for all purposes.

The details of the Option are as follows:

1. **Vesting and Exercisability.** Subject to the limitations contained herein, the Option will vest and become exercisable as provided in your Grant Notice.
2. **Securities Law Compliance.** At the present time, the Company has an effective registration statement on file with the U.S. Securities and Exchange Commission with respect to the Shares. The Company intends to maintain this registration but has no obligation to do so. In the event that such registration ceases to be effective, you will not be able to exercise the Option unless exemptions from registration under U.S. federal and state (and, where applicable, foreign) securities laws are available, which exemptions from registration are very limited and might be unavailable. The exercise of the Option must also comply with other applicable laws and regulations governing the Option, and you may not exercise the Option if the Company determines that such exercise would not be in material compliance with such laws and regulations. In addition, you agree not to sell any of the Shares received under this Option at a time when applicable laws or Company policies prohibit a sale.
3. **Type of Option.** Your Grant Notice specifies the type of Option granted to you, which may be an Incentive Stock Option or a Nonqualified Stock Option, or both. Of the total number of options granted to you, the number of Incentive Stock Options shall be determined in accordance with the limits set forth in the Internal Revenue Code ("Code") and related regulations. Incentive Stock Options are governed by the Code and related regulations as described below:
  - (a) **Incentive Stock Option Qualification.** If all or a portion of the Option is intended to qualify as an Incentive Stock Option under U.S. federal income tax law, the Company does not represent or guarantee that the Option qualifies as such.

If the aggregate Fair Market Value (determined as of the Grant Date) of the Shares subject to the Option and all other Incentive Stock Options you hold that first become exercisable during any calendar year exceeds \$100,000, any excess portion will be

treated as a Nonqualified Stock Option, unless the rules and regulations governing the \$100,000 limit for Incentive Stock Options are amended. A portion of the Option may be treated as a Nonqualified Stock Option if certain events cause exercisability of the Option to accelerate.

- (b) Notice of Disqualifying Disposition. To obtain certain tax benefits afforded to Incentive Stock Options, you must hold the Shares issued upon the exercise of the Option for two years after the Grant Date and one year after the date of exercise. You may be subject to the alternative minimum tax at the time of exercise.

***By accepting the Incentive Stock Option, you agree to promptly notify the Company if you dispose of any of the Shares within one year from the date you exercise all or part of your Option, or within two years from the Grant Date.***

**The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan or your acquisition or sale of the Shares underlying the Option. You are hereby advised to consult with your own personal tax, legal and financial advisors regarding your participation in the Plan before taking any action related to the Plan. You acknowledge that you have either consulted with competent advisors independent of the Company to obtain advice concerning the receipt of the Option and the acquisition or disposition of any Shares to be issued pursuant to the exercise of the Option in light of your specific situation or had the opportunity to consult with such advisors but chose not to do so.**

4. **Method of Exercise.** You may exercise the Option upon notice and payment of the Grant Price by any of the following methods, unless disallowed by law:

- (a) broker assisted exercise; or
- (b) Shares already owned by you.

You may elect to receive the proceeds of the exercise in either cash or Shares; *provided, however*, that if your Option is an Incentive Stock Option and you take the proceeds of its exercise in cash, you may not receive the benefit of the intended tax treatment of your Incentive Stock Option, as explained above in Section 3(b).

5. **Term of Option.** This Option shall expire ten years from the Grant Date thereof, but shall be subject to earlier termination as follows:

- (a) Unvested Options. In the event you cease to be an employee of the Company or a Related Corporation for any reason other than Retirement, death or Disability or Change in Control, the unvested portion of the Option shall terminate immediately.
  - (i) Retirement. In the event you cease to be an employee of the Company or a Related Corporation due to Retirement after the second anniversary of the Grant Date but before the Option is fully vested, the unvested portion of the Option will

continue to vest as provided for in the Grant Notice until the Option is fully vested, provided that if you breach any of the covenants set forth in Appendix A to this Stock Option Agreement after your Retirement, the unvested portion of the Option will terminate immediately. For the purposes of this Section 5, "Retirement" means your voluntary termination of employment after the date on which you have reached (i) the age of 55 and have a total of at least 10 years of continuous employment with the Company and/or a Related Corporation or (ii) the age of 60 and have a total of at least 5 years of continuous employment with the Company and/or a Related Corporation; provided however, in either case, you must provide advance written notice to the Company at least 90 days prior to the termination of your employment unless otherwise agreed to in writing by the Company. For the avoidance of doubt, if your employment terminates due to Retirement before the second anniversary of the Grant Date, any unvested portion of the Option will be automatically forfeited.

(ii) Death or Disability. In the event of your death or Disability while an employee of the Company or a Related Corporation, the unvested portion of the Option will immediately vest in full and become exercisable.

(iii) Change in Control. In the event of a Change in Control Transaction, the Option will be subject to any change in control severance agreement or other agreement providing for change in control provisions between you and the Company (a "CIC Agreement"). If you are not party to a CIC Agreement, the provisions of this Section 5(a)(iii) shall apply.

**(A)** In the event of a Change in Control Transaction in which (i) your Option is not assumed, substituted for, or converted into an award of the acquiring or surviving corporation (or a publicly-traded parent thereof) in a manner which prevents dilution of your rights under the Option or (ii) the acquiring or surviving corporation (or parent thereof) is not publicly-traded, any unvested portion of the Option shall become immediately and fully vested and exercisable as of the date of the Change in Control Transaction.

**(B)** In the event of a Change in Control Transaction in which your Option is assumed, substituted for, or converted into an award of the acquiring or surviving public corporation (or a publicly-traded parent thereof) and your employment is terminated within twenty-four (24) months following such Change in Control Transaction, other than (1) by the Company for Cause, (2) by reason of Retirement, death or Disability (which shall be governed by Section 5(a)(i) or (ii) as applicable), or (3) by you without Good Reason, any unvested portion of your Option shall become immediately and fully vested and exercisable as of the date of your termination of employment.

(C) Definitions - For purposes of this Agreement, the following capitalized terms shall have the meanings set forth below:

- (1) “Base Salary” shall mean your annual base salary immediately prior to a Change in Control Transaction, as such salary may be increased from time to time (in which case such increased amount shall be the Base Salary for purposes hereof), but without giving effect to any reduction thereto.
- (2) “Beneficial Owner” shall have the meaning set forth in Rule 13d-3 under the Exchange Act.
- (3) “Cause” for termination of your employment by the Company or your employer, if different (the “**Employer**”) shall mean (i) your willful and continued failure (other than any such failure resulting from (A) your incapacity due to physical or mental illness, (B) any such actual or anticipated failure after the issuance by you of a notice of termination in a form prescribed by the Company for Good Reason or (C) the Employer’s active or passive obstruction of the performance of your duties and responsibilities) to perform substantially the duties and responsibilities of your position with the Employer after a written demand for substantial performance is delivered to you by the Employer, which demand specifically identifies the manner in which the Employer believes that you have not substantially performed such duties or responsibilities; (ii) your conviction by a court of competent jurisdiction for felony criminal conduct (or the equivalent under applicable local law); or (iii) your willful engaging in fraud or dishonesty which is injurious to the Company and/or the Employer or its reputation, monetarily or otherwise. No act, or failure to act, on your part shall be deemed “willful” unless committed, or omitted by you in bad faith and without reasonable belief that your act or failure to act was in, or not opposed to, the best interest of the Company and/or the Employer.
- (4) “Good Reason” for termination of your employment by you shall mean the occurrence (without your express written consent) after any Change in Control Transaction of any one of the following acts by the Company or the Employer, or failures by the Company or the Employer to act, unless, in the case of any act or failure to act described in

subsection (i), (ii), (iii), (iv) or (v) below, such act or failure to act is corrected prior to the date of your termination specified in a notice of termination in a form prescribed by the Company given in respect thereof: (i) an adverse change in your status or position(s) with the Employer as in effect immediately prior to the Change in Control Transaction, including, without limitation, any adverse change in your status or position as a result of a diminution of your duties or responsibilities (other than, if applicable, any such change directly and solely attributable to the fact that the Company is no longer publicly owned) or the assignment to you of any duties or responsibilities which are inconsistent with such status or position(s), or any removal of you from, or any failure to reappoint or reelect you to, such position(s); (ii) a reduction in your Base Salary; (iii) a reduction in your annual bonus opportunity or long term incentive opportunity, as compared to the year immediately preceding the year in which the Change in Control Transaction occurs; (iv) the failure to continue to provide welfare, pension and fringe benefits which are in each case, in the aggregate, substantially similar to those provided to you immediately prior to Change in Control Transaction; or (v) the Employer requiring you to be based at an office that is greater than 50 miles from where your office is located immediately prior to the Change in Control Transaction except for required travel on the Employer's business to an extent substantially consistent with the business travel obligations which you undertook on behalf of the Employer prior to the Change in Control Transaction. Notwithstanding the foregoing, the events described in clauses (ii), (iii) or (iv) above shall not constitute Good Reason hereunder to the extent they are as a result of across-the-board reductions of the applicable compensation element following the Change in Control Transaction which are equally applicable to all similarly situated employees of the surviving corporation and its affiliates. Your right to terminate your employment for Good Reason shall not be affected by your incapacity due to physical or mental illness. In order for Good Reason to exist hereunder, you must provide notice to the Company of the existence of the condition or circumstance described above within 90 days of the initial existence of the condition or circumstance (or, if later, within 90 days of becoming aware of such condition or circumstance), and the Employer must have failed to cure such condition within 30

days of the receipt of such notice. Subject to the preceding sentence, your continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

- (5) “Person” shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities or (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(b) Vested Options.

(i) Termination of Employment. In the event you cease to be an employee of the Company or a Related Corporation for any reason other than death, Disability, Retirement or Cause, the vested portion of the Option shall remain exercisable until the earlier of (A) 90 days after the date you cease to be an employee of the Company or a Related Corporation or (B) the date on which the Option expires by its terms.

(ii) Death or Disability. In the event of your death or Disability while an employee of the Company or a Related Corporation, the vested portion of the Option (including any portion of the Option that vests in the event of your death or Disability while an employee of the Company or a Related Corporation, as described in Section 5(a) above) shall remain exercisable until the date on which the Option expires by its terms. Upon death, the vested and exercisable portion of the Option may be exercised by the personal representative of your estate, the person(s) to whom your rights under the Option have passed by will or the applicable laws of descent and distribution, or the beneficiary you have designated pursuant to the Plan.

(iii) Retirement. In the event you cease to be an employee of the Company or a Related Corporation due to Retirement, the vested portion of the Option shall remain exercisable until the date on which the Option expires by its terms.

(iv) Cause. The unvested and vested portion of the Option will be automatically forfeited at the time the Company first notifies you of your termination of employment for Cause, unless the Plan Administrator determines otherwise. If your employment relationship is suspended pending an investigation of whether you will be terminated for Cause, all your rights under the Option likewise will be suspended during the period of investigation. If any facts that would constitute termination for

Cause are discovered after your termination of employment, any Option you then hold may be immediately terminated by the Plan Administrator.

**Notwithstanding anything to the contrary contained herein, if your Option is an Incentive Stock Option and assuming it does not otherwise expire by its terms, to qualify for the beneficial tax treatment afforded Incentive Stock Options, your Option must be exercised within (i) three months after termination of employment for reasons other than death or Disability, and (ii) one year after termination of employment due to death or Disability.**

**It is your responsibility to be aware of the date the Option terminates and/or the date that favorable tax treatment ends.**

6. **Limited Transferability.** During your lifetime only you can exercise the Option. The Option shall not be sold, transferred, assigned, encumbered, pledged or otherwise disposed of, whether voluntarily or by operation of law, other than pursuant to a beneficiary designation in accordance with the following sentence. You may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to exercise the vested portion of the Option that was not exercised during your lifetime. Each such designation shall revoke all of your prior designations, shall be in a form prescribed by the Company, and will be effective only when completed in accordance with any instructions provided by the Company during your lifetime. In the absence of any such designation, the vested portion of the Option that has not been exercised during your lifetime shall be exercisable by your estate.

#### 7. **Withholding Taxes.**

(a) Regardless of any action the Company (or your employer, if different) takes with respect to any and all income or withholding tax (including federal, state, local and non-U.S. tax), social insurance, payroll tax or other tax-related items related to your participation in the Plan and legally applicable to you ("Tax-Related Items"), you acknowledge that the ultimate liability for all Tax-Related Items is and remains your responsibility and may exceed the amount, if any, actually withheld by the Company. You further acknowledge that the Company (a) makes no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Option, including the grant, vesting or exercise of the Option, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends; and (b) does not commit to and is under no obligation to structure the terms of the grant or any aspect of this Option to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you have become subject to tax in more than one jurisdiction between the Grant Date and the date of any taxable or tax withholding event, as applicable, you acknowledge that the Company may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Prior to any relevant taxable or tax withholding event, as applicable, you shall pay or make adequate arrangements satisfactory to the Company to satisfy all Tax-Related Items. In this regard, you authorize the Company or its agent, at the Company's discretion, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following methods:

(i) withholding from wages or other cash compensation otherwise payable to you by the Company or your employer (if different), and/or

(ii) withholding from the proceeds of the sale of Shares acquired upon exercise of the Option, either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization); and/or

(iii) withholding in Shares to be issued upon exercise of the Option, provided, however, that if you are a Section 16 officer of the Company under the Exchange Act, then the Plan Administrator (as constituted to satisfy Rule 16b-3 of the Exchange Act) shall establish the method of withholding from the alternatives herein and, if the Plan Administrator does not exercise its discretion prior to the Tax-Related Items withholding event, then the method of withholding set forth in Section 7(b)(iii) shall apply.

(c) Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates, including maximum applicable rates, in which case you will receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent in Shares. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, you will be deemed to have been issued the full number of Shares subject to the exercised portion of the Option, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan.

(d) The Company may refuse to honor the exercise and refuse to deliver the Shares if you fail to comply with your obligations in connection with the Tax-Related Items as described in this section.

8. **Section 409A.** The Company reserves the right, to the extent the Company deems necessary or advisable in its sole discretion, to unilaterally amend or modify the Plan, this Stock Option Agreement or the Grant Notice or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Plan Administrator determines are necessary or appropriate to ensure that this Option qualifies for exemption from, or complies with the requirements of, Section 409A of the Code; provided, however, that the Company makes no representation that the Option will be exempt from or will comply with, Section 409A of the Code, and makes no undertaking to preclude Section 409A of the Code from applying to the Option or to ensure that it complies with Section 409A of the Code.

9. **Option Not an Employment or Service Contract.** Nothing in the Plan or any award under the Plan will be deemed to be an employment contract or limit in any way the right of the Company to terminate your employment at any time, with or without cause.

10. **Successors and Assigns.** This Stock Option Agreement will inure to the benefit of the successors and assigns of the Company and be binding upon you and your heirs, executors, administrators, successors and assigns.

11. **Data Privacy.** You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in the Grant Notice by and among, as applicable, the Company and its Related Corporations and any stock plan service provider, including any designated broker, that may assist the Company with the Plan (presently or in the future) for the exclusive purpose of implementing, administering and managing your participation in the Plan.

12. **Electronic Delivery and Participation.** The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

13. **Imposition of Other Requirements.** If you relocate to another country, any special terms and conditions applicable to stock options granted in such country will apply to you, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons.

In addition, the Company reserves the right to impose other requirements on the Option and any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

14. **Governing Law and Choice of Venue.** The Option and the provisions of this Stock Option Agreement will be construed and administered in accordance with and governed by the laws of the State of Washington without giving effect to such state's principles of conflict of laws. For the purposes of litigating any dispute that arises under this grant of this Stock Option Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the State of Washington and agree that such litigation shall be conducted in the courts of Spokane County, Washington, or the federal courts for the United States for the Eastern District of Washington, where this grant is made and/or to be performed.

15. **Severability.** The provisions of this Stock Option Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

16. **Notice.** Any notice required or permitted hereunder shall be made in writing and sent to the following address:

Itron, Inc.  
Attn. General Counsel  
2111 N. Molter Road  
Liberty Lake, WA USA 99019

## APPENDIX A

### Restrictive Covenants

(a) **Confidential Information.** The person entering into the Agreement with the Company (the “**Participant**”) shall hold in a fiduciary capacity for the benefit of the Company and its Subsidiaries (collectively, the “**Affiliated Group**”), all secret or confidential information, knowledge or data relating to the Affiliated Group and its businesses (including, without limitation, any proprietary and not publicly available information concerning any processes, methods, trade secrets, research or secret data, costs, names of users or purchasers of their respective products or services, business methods, operating procedures or programs or methods of promotion and sale) that the Participant obtains during the Participant’s employment that is not public knowledge (other than as a result of the Participant’s violation of this Section (a)) (“**Confidential Information**”). The Participant shall not communicate, divulge or disseminate Confidential Information at any time during or after the Participant’s employment, except with the prior written consent of the Company, or as otherwise required by law or legal process or as may be required in the course of the Participant performing his or her duties and responsibilities with the Affiliated Group; provided, however, that no Company policies or practices, including the sections addressing confidentiality obligations, is intended to or shall limit, prevent, impede or interfere in any way with an employee's right, without prior notice to the Company, to provide information to the government, participate in investigations, testify in proceedings regarding the Company's past or future conduct, or engage in any activities protected under whistle blower statutes. Pursuant to the Defend Trade Secrets Act of 2016, an employee shall not be held criminally, or civilly, liable under any Federal or State Trade secret law for the disclosure of a trade secret that is made in confidence either directly or indirectly to a Federal, State, or local government official, or an attorney, for the sole purpose of reporting, or investigating, a violation of law. Moreover, employees may disclose trade secrets in a complaint, or other document, filed in a lawsuit, or other proceeding, if such filing is made under seal. Finally, an employee who files a lawsuit alleging retaliation by the company for reporting a suspected violation of the law may disclose the trade secret to the attorney of the employee and use the trade secret in the court proceeding, if the employee: files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order. Upon his or her termination of employment for any reason, the Participant shall promptly return to the Company all records, files, memoranda, correspondence, notebooks, notes, reports, customer lists, drawings, plans, documents, and other documents and the like relating to the business of the Affiliated Group or containing any trade secrets relating to the Affiliated Group or that the Participant uses, prepares or comes into contact with during the course of the Participant’s employment with the Affiliated Group, and all keys, credit cards and passes, and such materials shall remain the sole property of the Affiliated

Group. The Participant agrees to execute any standard-form confidentiality agreements with the Company that the Company in the future generally enters into with similarly situated employees.

(b) **Non-Recruitment of Affiliated Group Employees.** The Participant acknowledges that employees are a significant part of the goodwill of the Affiliated Group, such as, without limitation, their relationships and contacts with customers and suppliers as well as the training and knowledge they receive from the Affiliated Group in the course of their employment. The Participant shall not, at any time during the Non-solicitation Period (as defined below), without the prior written consent of the Company, directly or indirectly, solicit, recruit, or employ (whether as an employee, officer, agent, consultant or independent contractor) any person who is or was at any time during the previous 12 months, an employee, representative, officer or director of any member of the Affiliated Group. Further, during the Non-solicitation Period, the Participant shall not take any action that could reasonably be expected to have the effect of directly encouraging or inducing any person to cease their relationship with any member of the Affiliated Group for any reason. A general employment advertisement by an entity of which the Participant is a part will not constitute solicitation or recruitment. The “**Non-solicitation Period**” shall mean the period from the Date of Grant through the first anniversary of the Participant’s termination of employment.

(c) **Non-Competition – Solicitation of Business.** Participant recognizes and agrees that the Affiliated Group has provided Confidential Information to Participant and has an interest in protecting this information from disclosure. Participant further understands that the goodwill of the Affiliated Group is an interest worthy of protection. For the protection of these and other interests, during the Non-competition Period (as defined below), the Participant shall not, either directly or indirectly, compete with the business of the Affiliated Group by (i) becoming an officer, agent, employee, partner or director of any other corporation, partnership or other entity, or otherwise render services to or assist or hold an interest (except as a less than 3-percent shareholder of a publicly traded corporation or as a less than 5-percent shareholder of a corporation that is not publicly traded) in any Competitive Business (as defined below), or (ii) soliciting, servicing, or accepting the business of (A) any active customer of any member of the Affiliated Group, or (B) any person or entity who is or was at any time during the previous twelve months a customer of any member of the Affiliated Group, provided that such business is competitive with any significant business of any member of the Affiliated Group. “**Competitive Business**” shall mean any person or entity (including any joint venture, partnership, firm, corporation, or limited liability company) that conducts a business that is competitive with any business of the Affiliated Group as of the date of termination (or any business that is being actively pursued as of the date of termination by the Affiliated Group). The Affiliated Group designs, manufactures, sells and licenses its products and technology worldwide. In addition, Competitive Businesses, as defined above, are not tied or limited to any specific geographic location. Accordingly, the scope of this Non-Competition provision is

worldwide. The “**Non-competition Period**” shall mean the period from the Date of Grant through the first anniversary of the date of termination of the Participant’s employment.

(d) **Remedies.** The Participant acknowledges and agrees that the terms of this Appendix A: (i) are reasonable in geographic and temporal scope, (ii) are necessary to protect legitimate proprietary and business interests of the Affiliated Group in, inter alia, customer relationships and confidential information. The Participant further acknowledges and agrees that the Participant’s breach of the provisions of this Appendix A will cause the Affiliated Group irreparable harm, which cannot be adequately compensated by money damages. The Participant consents and agrees that the forfeiture provisions contained in the Agreement are reasonable remedies in the event the Participant commits any such breach. If any of the provisions of this Appendix A are determined to be wholly or partially unenforceable, the Participant hereby agrees that Appendix A or any provision hereof may be reformed so that it is enforceable to the maximum extent permitted by law. If any of the provisions of this Appendix A are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the Affiliated Group’s right to enforce any such covenant in any other jurisdiction.

**ITRON, INC.  
AMENDED AND RESTATED 2010 STOCK INCENTIVE PLAN**

**LONG TERM PERFORMANCE  
RESTRICTED STOCK UNIT AWARD NOTICE  
FOR U.S. PARTICIPANTS**

Itron, Inc. (the “*Company*”) hereby grants to Participant a performance restricted stock unit award (the “*Award*”). The Award is subject to all the terms and conditions set forth in this Long Term Performance Restricted Stock Unit Award Notice (the “*Award Notice*”), the Long Term Performance Restricted Stock Unit Award Agreement, including Appendices A and B (the “*Agreement*”), and the Itron, Inc. Amended and Restated 2010 Stock Incentive Plan (the “*Plan*”), all of which are incorporated into the Award Notice in their entirety.

**Participant:** «First\_Name» «Last\_Name»

**Grant Date:** «Grant Date»

**Performance Period:** January 1, 20\_\_ to December 31, 20\_\_ (“*Performance Period*”)

**Number of Long-Term Performance Restricted Stock Units (“PSUs”):** The actual number of PSUs that vest shall be determined based on the attainment of the performance goals specified in Appendix A, as assessed by the Plan Administrator as soon as reasonably practicable after the end of the Performance Period.

The aggregate target number of PSUs for the Performance Period is «# of Units» (the “*Target PSUs*”).

**Additional Terms/Acknowledgement:** This Award is subject to all the terms and conditions set forth in this Award Notice, the Agreement and the Plan which are attached to and incorporated into this Award Notice in their entirety.

«First\_Name» «Last\_Name»

I accept this Award subject to the terms and conditions stated herein.

«Electronically Signed»

Attachments:

1. Long-Term Performance Restricted Stock Unit Award Agreement, including Appendices A and B
2. Amended and Restated 2010 Stock Incentive Plan
3. Plan Prospectus

**ITRON, INC.**  
**AMENDED AND RESTATED 2010 STOCK INCENTIVE PLAN**

**LONG TERM PERFORMANCE**  
**RESTRICTED STOCK UNIT AWARD AGREEMENT**  
**FOR U.S. PARTICIPANTS**

Pursuant to your Long Term Performance Restricted Stock Unit Award Notice (the “**Award Notice**”) and this Long Term Performance Restricted Stock Unit Award Agreement, including Appendices A and B (this “**Agreement**”), Itron, Inc. (the “**Company**”) has granted you a performance restricted stock unit award (the “**Award**”) under its Amended and Restated 2010 Stock Incentive Plan (the “**Plan**”). Capitalized terms not expressly defined in this Agreement but defined in the Plan shall have the same definitions as in the Plan, as applicable.

The details of the Award are as follows:

**1. Number of Units Subject to Award**

This Award is a performance-based award, the vesting of which is based on the attainment of the performance goals set by the Plan Administrator at the beginning of the performance period set forth in the Award Notice ( the “**Performance Period**”) and at the beginning of each Annual EPS Performance Period (as defined in Appendix A), in accordance with the requirements of Section 162(m) of the Code in the case of any Award that is intended to constitute “qualified-performance-based compensation” within the meaning of Section 162(m) (4)(C) of the Code. The performance goals are set forth in Appendix A (or will be communicated to you as described in Appendix A) and the aggregate target number of PSUs for the Performance Period (the “**Target PSUs**”) is set forth in the Award Notice and in Appendix A.

**2. Vesting**

The Award will vest to the extent the performance goals set forth in Appendix A are attained for the Performance Period, as determined by the Plan Administrator. The Plan Administrator shall determine as soon as reasonably practicable, but in any event within sixty (60) days, after the end of the Performance Period, the attainment level of the performance goals. One share of Common Stock will be issuable for each PSU that vests. PSUs that have vested are referred to herein as “**Vested PSUs.**” PSUs that have not vested and remain subject to forfeiture are referred to herein as “**Unvested PSUs.**” The Unvested and Vested PSUs are collectively referred to herein as the “**PSUs.**” Except as provided in Section 3 below, the Award will terminate and the Unvested PSUs will be forfeited upon termination of your employment for any reason.

**3. Termination of Employment; Change in Control Transaction**

**3.1 Retirement, Death and Disability**

(a) If your employment terminates during the Performance Period but after the second anniversary of the Grant Date by reason of Retirement, you will become eligible to receive

that number of PSUs that vest based on the actual attainment of the performance goals as assessed after the end of the Performance Period and such PSUs shall be settled in accordance with Section 4 below, provided that if you breach any of the covenants set forth in Appendix B to this Agreement after your Retirement, the Unvested PSUs will be forfeited immediately. For purposes of this Agreement, "Retirement" means your voluntary termination of employment after the date on which you have reached (i) the age of 55 and have a total of at least 10 years of continuous employment with the Company and/or a Related Corporation or (ii) the age of 60 and have a total of at least 5 years of continuous employment with the Company and/or a Related Corporation; provided however, in either case, you must provide advance written notice to the Company at least 90 days prior to the termination of your employment unless otherwise agreed to in writing by the Company. For the avoidance of doubt, if your employment terminates due to Retirement before the second anniversary of the Grant Date, all Unvested PSUs will be automatically forfeited.

(b) If your employment terminates during the Performance Period by reason of death or Disability, you will become eligible to receive that number of PSUs that vest based on the actual attainment of the performance goals as assessed after the Performance Period ending in the year of death or Disability, and such PSUs shall be settled in accordance with Section 4 below.

### **3.2 Change in Control Transaction**

(a) In the event of a Change in Control Transaction, the PSUs will be subject to any change in control severance agreement or other agreement providing for change in control provisions between you and the Company (a "**CIC Agreement**"). If you are not party to a CIC Agreement, the provisions of this Section 3.2 shall apply.

(b) In the event of a Change in Control Transaction in which (i) the Unvested PSUs are not assumed, substituted for, or converted into an award of the acquiring or surviving corporation (or a publicly-traded parent thereof) in a manner which prevents dilution of your rights under the Award or (ii) the acquiring or surviving corporation (or parent thereof) is not publicly-traded, the Unvested PSUs shall vest with respect to a number of PSUs equal to the greater of the (A) number of Target PSUs or (B) the number of PSUs based on the actual level of performance attained for the year in which the Change in Control Transaction occurs (as determined by the Plan Administrator if the Plan Administrator concludes that such performance may be determined as of the date of the Change in Control Transaction).

(c) In the event of a Change in Control Transaction in which your Unvested PSUs are assumed, substituted for, or converted into an award of the acquiring or surviving public corporation (or a publicly-traded parent thereof) and your employment is terminated within twenty-four (24) months following such Change in Control Transaction and prior to settlement of the PSUs, other than (i) for Cause, (ii) by reason of Retirement, death or Disability (which shall be governed by Section 3.1), or (iii) by you without Good Reason, the Unvested PSUs shall vest with respect to a number of PSUs equal to the greater of the (A) Target Number of PSUs or (B) the number of PSUs based on the actual level of performance attained for the year in which your termination occurs (as determined by the Plan Administrator if the Plan Administrator concludes that such performance may be determined as of the date of your termination).

(d) Definitions - For purposes of this Agreement, the following capitalized terms shall have the meanings set forth below:

(i) “**Base Salary**” shall mean your annual base salary immediately prior to a Change in Control Transaction, as such salary may be increased from time to time (in which case such increased amount shall be the Base Salary for purposes hereof), but without giving effect to any reduction thereto.

(ii) “**Beneficial Owner**” shall have the meaning set forth in Rule 13d-3 under the Exchange Act.

(iii) “**Cause**” for termination of your employment by the Company or your employer, if different (the “**Employer**”) shall mean (A) your willful and continued failure (other than any such failure resulting from (1) your incapacity due to physical or mental illness, (2) any such actual or anticipated failure after the issuance of a notice of termination in a form prescribed by the Company by you for Good Reason or (3) the Employer's active or passive obstruction of the performance of your duties and responsibilities) to perform substantially the duties and responsibilities of your position with the Employer after a written demand for substantial performance is delivered to you by the Employer, which demand specifically identifies the manner in which the Employer believes that you have not substantially performed such duties or responsibilities; (B) your conviction by a court of competent jurisdiction for felony criminal conduct (or the equivalent under applicable local law); or (C) your willful engaging in fraud or dishonesty which is injurious to the Company and/or the Employer or its reputation, monetarily or otherwise. No act, or failure to act, on your part shall be deemed “willful” unless committed, or omitted by you in bad faith and without reasonable belief that your act or failure to act was in, or not opposed to, the best interest of the Company and/or the Employer.

(iv) “**Good Reason**” for termination of your employment by you shall mean the occurrence (without your express written consent) after any Change in Control Transaction of any one of the following acts by the Company or the Employer, or failures by the Company or the Employer to act, unless, in the case of any act or failure to act described in subsection (A), (B), (C), (D) or (E) below, such act or failure to act is corrected prior to the date of your termination specified in a notice of termination in a form prescribed by the Company given in respect thereof:

(A) an adverse change in your status or position(s) with the Employer as in effect immediately prior to the Change in Control Transaction, including, without limitation, any adverse change in your status or position as a result of a diminution of your duties or responsibilities (other than, if applicable, any such change directly and solely attributable to the fact that the Company is no longer publicly owned) or the assignment to you of any duties or responsibilities which are inconsistent with such status or position(s), or any removal of you from, or any failure to reappoint or reelect you to, such position(s);

(B) a reduction in your Base Salary;

(C) a reduction in your annual bonus opportunity or long term incentive opportunity, as compared to the year immediately preceding the year in which the Change in Control Transaction occurs;

(D) the failure to continue to provide welfare, pension and fringe benefits which are in each case, in the aggregate, substantially similar to those provided to you immediately prior to Change in Control Transaction;

(E) the Employer requiring you to be based at an office that is greater than 50 miles from where your office is located immediately prior to the Change in Control Transaction except for required travel on the Employer's business to an extent substantially consistent with the business travel obligations which you undertook on behalf of the Employer prior to the Change in Control Transaction; or

Notwithstanding the foregoing, the events described in clauses (B), (C) or (D) above shall not constitute Good Reason hereunder to the extent they are as a result of across-the-board reductions of the applicable compensation element following the Change in Control Transaction which are equally applicable to all similarly situated employees of the surviving corporation and its affiliates. Your right to terminate your employment for Good Reason shall not be affected by your incapacity due to physical or mental illness. In order for Good Reason to exist hereunder, you must provide notice to the Company of the existence of the condition or circumstance described above within 90 days of the initial existence of the condition or circumstance (or, if later, within 90 days of becoming aware of such condition or circumstance), and the Employer must have failed to cure such condition within 30 days of the receipt of such notice. Subject to the preceding sentence, your continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

(v) “**Person**” shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (A) the Company or any of its subsidiaries, (B) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its affiliates, (C) an underwriter temporarily holding securities pursuant to an offering of such securities or (D) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

#### **4. Settlement of Vested Units.**

Vested PSUs shall be settled on the earliest to occur of (a) a date within 60 days following the end of the Performance Period, (b) a date within 30 days following the termination of your employment following a Change in Control Transaction pursuant to Section 3.2(c) above, or (c) the date of a Change in Control Transaction pursuant to Section 3.2(b) above that constitutes a “change in control event” within the meaning of U.S. Treasury Regulation Section 1.409A-3(i)(5).

## 5. Securities Law Compliance

5.1 You represent and warrant that you (a) have been furnished with a copy of the prospectus for the Plan and all information which you deem necessary to evaluate the merits and risks of receipt of the Award, (b) have had the opportunity to ask questions and receive answers concerning the information received about the Award and the Company, and (c) have been given the opportunity to obtain any additional information you deem necessary to verify the accuracy of any information obtained concerning the Award and the Company.

5.2 You hereby agree that you will in no event sell or distribute all or any part of the shares of Common Stock that you receive pursuant to settlement of this Award (the “*Shares*”) unless (a) there is an effective registration statement under the U.S. Securities Act of 1933, as amended (the “*Securities Act*”) and any applicable state and foreign securities laws covering any such transaction involving the Shares or (b) the Company receives an opinion of your legal counsel (concurring with legal counsel for the Company) stating that such transaction is exempt from registration or the Company otherwise satisfies itself that such transaction is exempt from registration. You understand that the Company has no obligation to you to register the Shares with the U.S. Securities and Exchange Commission or any foreign securities regulator and has not represented to you that it will so register the Shares.

5.3 You confirm that you have been advised, prior to your receipt of the Shares, that neither the offering of the Shares nor any offering materials have been reviewed by any regulator under the Securities Act or any other applicable securities act (the “*Acts*”) and that the Shares cannot be resold unless they are registered under the Acts or unless an exemption from such registration is available.

5.4 You hereby agree to indemnify the Company and hold it harmless from and against any loss, claim or liability, including attorneys’ fees or legal expenses, incurred by the Company as a result of any breach by you of, or any inaccuracy in, any representation, warranty or statement made by you in this Agreement or the breach by you of any terms or conditions of this Agreement.

## 6. Transfer Restrictions

PSUs shall not be sold, transferred, assigned, encumbered, pledged or otherwise disposed of, whether voluntarily or by operation of law, other than pursuant to a beneficiary designation in accordance with the following sentence. You may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under this Agreement is to be paid in case you do not receive any or all such benefit during your lifetime. Each such designation shall revoke all of your prior designations, shall be in a form prescribed by the Company, and will be effective only when completed in accordance with any instructions provided by the Company during your lifetime. In the absence of any such designation, benefits remaining unpaid to you during your lifetime shall be paid to your estate.

## 7. No Rights as Shareholder

You shall not have voting or other rights as a shareholder of the Company with respect to the PSUs.

## 8. Book Entry Registration of Shares

The Company will issue the Shares by registering the Shares in book entry form with the Company's transfer agent in your name and the applicable restrictions will be noted in the records of the Company's transfer agent and in the book entry system.

## 9. Responsibility for Taxes

**9.1** Regardless of any action the Company or the Employer take with respect to any and all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you ("**Tax-Related Items**"), you acknowledge that the ultimate liability for all Tax-Related Items is and remains your responsibility and may exceed the amount actually withheld by the Company and/or the Employer. You further acknowledge that the Company and the Employer (a) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including, but not limited to, the granting or vesting of the Award, the settlement of Vested PSUs, the issuance of Shares upon settlement of the Vested PSUs, the subsequent sale of Shares acquired upon settlement of the Vested PSUs and the receipt of any dividends; and (b) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you have become subject to Tax-Related Items in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, as applicable, you acknowledge that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

**9.2** Prior to any relevant taxable or tax withholding event, as applicable, you will pay or make adequate arrangements satisfactory to the Company and or the Employer to satisfy all Tax-Related Items.

(a) In this regard, you hereby irrevocably appoint Fidelity or any stock plan service provider or brokerage firm designated by the Company for such purpose (the "**Agent**") as your Agent, and authorize the Agent, to:

- (i) Sell on the open market at the then prevailing market price(s), on your behalf, as soon as practicable on or after the settlement date for any Vested Unit, a number of Shares (rounded up to the next whole number) sufficient to generate proceeds to cover the Tax-Related Items and all applicable fees and commissions due to, or required to be collected by, the Agent;
- (ii) Remit directly to the Company the cash amount necessary to cover the Tax-Related Items;

- (iii) Retain the amount required to cover all applicable fees and commissions due to, or required to be collected by, the Agent, relating directly to the sale of Shares referred to in clause (i) above; and
- (iv) Remit any remaining funds to you.

(b) If the sale of Shares required by Section 9.2(a)(i) above is prohibited by a legal, contractual or regulatory restriction, is otherwise impossible as described in the 10b5-1 Plan set forth in Section 9.3 below, or if the obligation for withholding of Tax-Related Items arises at a time other than the settlement of the Vested PSUs, then in addition to the withholding mechanism described in Section 9.2(a), you authorize the Company and/or the Employer, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by:

- (i) requiring you to pay to the Company or the Employer any amount of the Tax-Related Items; and/or
- (ii) withholding any amount of the Tax-Related Items from your wages or other cash compensation paid to you by the Company and/or the Employer; and/or
- (iii) withholding in Shares to be issued upon settlement of the Vested PSUs provided, however, that if you are a Section 16 officer of the Company under the Exchange Act, then the Plan Administrator (as constituted to satisfy Rule 16b-3 of the Exchange Act) shall establish any alternative method of withholding as may be required from the alternatives (i) – (iii) herein and, if the Plan Administrator does not exercise its discretion prior to the Tax-Related Items withholding event, then the method of withholding set forth in alternative (iii) shall apply.

(c) Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates, including maximum applicable rates, in which case you will receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent amount in Shares. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, you will be deemed to have been issued the full number of Shares subject to the Vested PSUs notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan. The Company may refuse to issue or deliver Shares to you if you fail to comply with your obligations in connection with the Tax-Related Items.

**9.3** You acknowledge that the authorization and instruction to the Agent set forth in Section 9.2(a)(i) above to sell Shares to cover the Tax-Related Items is intended to comply with the requirements of Rule 10b5-1(c)(1)(i)(B) under the Exchange Act and to be interpreted to comply with the requirements of Rule 10b5-1(c) under the Exchange Act (regarding trading of the Company's securities on the basis of material nonpublic information) (a "**10b5-1 Plan**"). This

10b5-1 Plan is being adopted to permit you to sell a number of Shares issued upon settlement of Vested PSUs sufficient to pay the Tax-Related Items.

You acknowledge that the broker is under no obligation to arrange for the sale of Shares at any particular price. You further acknowledge that you will be responsible for all brokerage fees and other costs of sale, and you agree to indemnify and hold the Company harmless from any losses, costs, damages, or expenses relating to any such sale. You acknowledge that it may not be possible to sell Shares during the term of this 10b5-1 Plan due to (a) a legal or contractual restriction applicable to you or to the broker, (b) a market disruption, (c) rules governing order execution priority on the NASDAQ or other exchange where the Shares may be traded, (d) a sale effected pursuant to this 10b5-1 Plan that fails to comply (or in the reasonable opinion of the Agent's counsel is likely not to comply) with the Securities Act, or (e) if the Company determines that sales may not be effected under this 10b5-1 Plan. In the event of the Agent's inability to sell Shares, you will continue to be responsible for the Tax-Related Items.

You hereby agree to execute and deliver to the Agent any other agreements or documents as the Agent reasonably deems necessary or appropriate to carry out the purposes and intent of the 10b5-1 Plan. You acknowledge that this 10b5-1 Plan is subject to the terms of any policy adopted now or hereafter by the Company governing the adoption of 10b5-1 plans. The Agent is a third party beneficiary of Section 9.2(a)(i) and this 10b5-1 Plan.

## **10. Nature of Grant**

In accepting the grant, you acknowledge, understand and agree that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;

(b) the grant of the Award is voluntary and occasional and does not create any contractual or other right to receive future grants of performance restricted stock units, or benefits in lieu of performance restricted stock units, even if performance restricted stock units have been granted in the past;

(c) all decisions with respect to future grants of performance restricted stock units, if any, will be at the sole discretion of the Company;

(d) the grant of the Award and your participation in the Plan shall not create a right to employment or be interpreted as forming an employment or service contract with the Employer, the Company or any Related Corporation and shall not interfere with the ability of the Employer, the Company or any Related Corporation to terminate your employment or service relationship (if any);

(e) you are voluntarily participating in the Plan;

(f) the Award and the Shares subject to the Award are not intended to replace any pension rights or compensation;

(g) the Award and the Shares subject to the Award, and the income and value of same, are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

(h) the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;

(i) no claim or entitlement to compensation or damages shall arise from forfeiture of the Award resulting from your ceasing to provide employment or other services to the Company or the Employer (for any reason whatsoever, and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where you are employed or the terms of your employment agreement, if any) and, in consideration of the grant of the Award to which you are otherwise not entitled, you irrevocably agree never to institute any claim against the Company, any Related Corporation or the Employer, waive the ability, if any, to bring any such claim and release the Company, any Related Corporation and the Employer from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, you will be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claims;

(j) for purposes of the Award, your employment will be considered terminated as of the date you cease to actively provide services to the Company or a Related Corporation; further, in the event of termination of your employment or other services (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where you are employed or the terms of your employment agreement, if any), unless otherwise provided in this Agreement or determined by the Company, your right to vest in the Award, if any, will terminate effective as of the date that you are no longer actively providing services and will not be extended by any notice period (*e.g.*, active service would not include any contractual notice period or any period of “garden leave” or similar period mandated under employment laws in the jurisdiction where you are employed or the terms of your employment agreement, if any); the Company’s Chief Executive Officer shall have the exclusive discretion to determine when you are no longer actively providing services for purposes of the Award (including whether or not you may still be considered to be providing services while on an approved leave of absence); and

(k) unless otherwise provided in the Plan or by the Company in its discretion, the Award and the benefits evidenced by this Agreement do not create any entitlement to have the Award or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the shares of the Company.

## **11. No Advice Regarding Grant**

The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan or your acquisition or sale of the

underlying Shares. You are hereby advised to consult with your own personal tax, legal and financial advisors regarding your participation in the Plan before taking any action related to the Plan. You acknowledge that you have either consulted with competent advisors independent of the Company to obtain advice concerning the receipt of the Award and the acquisition or disposition of any Shares to be issued pursuant to the Award in light of your specific situation or had the opportunity to consult with such advisors but chose not to do so.

## **12. Data Privacy**

***You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this Agreement and any other Award materials by and among, as applicable, the Employer, the Company and its Related Corporations for the exclusive purpose of implementing, administering and managing your participation in the Plan.***

***You understand that the Company and the Employer may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all Awards or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in your favor, for the exclusive purpose of implementing, administering and managing the Plan (“Data”).***

***You understand that Data will be transferred to Fidelity or such other stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan. You understand that the recipients of Data may be located in the United States or elsewhere, and that the recipients’ country (e.g., the United States) may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of Data by contacting your local human resources representative. You authorize the Company, Fidelity and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer Data, in electronic or other form, for the sole purpose of implementing, administering and managing your participation in the Plan. You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing your local human resources representative. Further, you understand that you are providing the consents herein on a purely voluntary basis. If you do not consent, your employment status or service and career with the Employer will not be adversely affected; the only adverse consequence of refusing or withdrawing your consent is that the Company would not be able to grant you the Award or other equity awards or administer or maintain such awards. Therefore, you understand that refusing or withdrawing your consent may affect your ability to participate in the Plan. For more***

*information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.*

### **13. Electronic Delivery and Participation**

The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

### **14. Language**

If you have received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different from the English version, the English version will control.

### **15. General Provisions**

**15.1 Successors and Assigns.** The provisions of this Agreement will inure to the benefit of the successors and assigns of the Company and be binding upon you and your heirs, executors, administrators, successors and assigns.

#### **15.2 Section 409A.**

(a) For purposes of U.S. taxpayers, the PSUs and the settlement of the PSUs are intended to comply with Section 409A of the Code, and this Agreement will be interpreted, operated and administered in a manner that is consistent with this intent. In furtherance of this intent, the Plan Administrator may, at any time and without your consent, modify the terms of the Award as it determines appropriate to comply with the requirements of Section 409A of the Code and the related U.S. Department of Treasury guidance or to mitigate any additional tax, interest and/or penalties that may apply under Section 409A of the Code if compliance is not practicable. The Company makes no representation or covenant to ensure that the PSUs, settlement of the PSUs or other payment hereunder are compliant with Section 409A of the Code and neither the Company nor any of its affiliates shall under any circumstances have any liability to you or any other party if the settlement of the PSUs or other payment hereunder that is intended to be compliant with Section 409A of the Code is not compliant or for any action taken by the Plan Administrator with respect thereto.

(b) Notwithstanding anything in this Agreement to the contrary, any PSUs that become vested under this Agreement by reason of a termination of employment and that constitute an item of non-qualified deferred compensation subject to Section 409A of the Code shall not be settled unless you experience a “separation from service” within the meaning of Section 409A of the Code (a “**Separation from Service**”) and such PSUs shall be settled within 90 days of a Separation from Service; provided, however, that if you are a “specified employee” within the meaning of Section 409A of the Code as of the date of the Separation from Service (as determined according

to the methodology established by the Company as in effect on the date of your termination of employment), such PSUs shall instead be settled on the first business day that is after the earlier of (i) the date that is six months following the date of the Separation from Service or (ii) the date of your death, to the extent such delayed payment is otherwise required in order to avoid a prohibited distribution under Section 409A(a)(2) of the Code, or any successor provision thereto.

**15.3 Governing Law and Choice of Venue.** The Award and the provisions of this Agreement will be construed and administered in accordance with and governed by the laws of the State of Washington without giving effect to such state's principles of conflict of laws. For the purposes of litigating any dispute that arises under this grant of this Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the State of Washington and agree that such litigation shall be conducted in the courts of Spokane County, Washington, or the federal courts for the United States for the Eastern District of Washington, where this grant is made and/or to be performed.

**15.4 Severability.** The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

**15.5 Notice.** Any notice required or permitted hereunder shall be made in writing and sent to the following address:

Itron, Inc.  
Attn. General Counsel  
2111 N. Molter Road  
Liberty Lake, WA USA 99019

## **16. Intentionally Omitted**

## **17. Imposition of Other Requirements**

The Company reserves the right to impose other requirements on your participation in the Plan, on the Award and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

## **18. Waiver**

You acknowledge that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by you or any other Participant.

## 19. Repayment/Clawback/Recovery

If Participant is subject to the Company's Incentive Repayment Policy (the "**Repayment Policy**") at any time between the Grant Date and the date the PSUs are settled, any Shares, payment or benefit made under the Award shall be subject to repayment in accordance with the provisions of the Repayment Policy. In addition, any Shares, payment or benefit made under the Award will be subject to recoupment in accordance with any clawback policy that the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law.

## APPENDIX A

### ITRON, INC. AMENDED AND RESTATED 2010 STOCK INCENTIVE PLAN

#### LONG TERM PERFORMANCE RESTRICTED STOCK UNIT AWARD NOTICE

Appendix A sets forth the performance goals for the performance restricted stock unit award (the “**Award**”) under the Itron, Inc. Amended and Restated 2010 Stock Incentive Plan (the “**Plan**”) evidenced by the Long Term Performance Restricted Stock Unit Award Agreement (the “**Agreement**”) to which it is attached. Capitalized terms not expressly defined in this Appendix A but defined in the Plan or the Agreement shall have the same definitions as in the Plan and/or the Agreement, as applicable. Please refer to the schedule that is attached to Appendix A for supplemental information explaining the operation of the performance goals applicable to the Award.

The aggregate target number of PSUs for the Performance Period is: «# of Units» (the “**Target PSUs**”).

The actual number of PSUs that shall vest is based on the level of attainment of a combination of the following two performance goals: non-GAAP Earnings Per Share (“**EPS**”) of the Company as calculated for purposes of the Company’s earnings release as described in the Company’s public filings and Total Shareholder Return (“**TSR**”) of the Company during the Performance Period as further described below.

The total number of PSUs that is eligible to vest under this Award is between 0% - 200% of the Target PSUs based on attainment of the EPS performance goal and the TSR performance goal. The total number of PSUs that will actually vest will be equal to the sum of (i) the EPS-Based Vested PSUs, plus (ii) the product of (x) the TSR Performance Goal Multiplier, multiplied by (y) the EPS-Based Vested PSUs (as these terms are defined and further described below).

Any PSUs that vest shall be settled in accordance with Section 4 of the Agreement.

#### **EPS Performance Goal:**

A number of PSUs that is equal to between 0% - 160% of the Target PSUs is eligible to vest based on the attainment of EPS performance goals in accordance with the following terms:

An annual “**EPS Performance Goal**” (including “**Threshold Goal**” and “**Maximum Goal**”) shall be established at the beginning of each year for each of the calendar years contained in the Performance Periods (each, an “**Annual EPS Performance Period**”). Immediately following the end of each Annual EPS Performance Period, the Plan Administrator shall assess the attainment level of the Company’s EPS against the annual EPS Performance Goal corresponding to the Annual EPS Performance Period and assign a percentage of attainment of between 0% - 160% (with attainment between the Threshold Goal and Maximum Goal subject to interpolation). The number of PSUs that is eligible to vest at the end of the Performance Period based on the attainment of the

EPS Performance Goal shall be equal to the product of (a) the average of the attainment level of the EPS Performance Goal for each of the Annual EPS Performance Periods contained in the Performance Period (expressed as a percentage), multiplied by (b) the portion of the Target PSUs for the Performance Period (the “**EPS-Based Vested PSUs**”).

No PSUs will become eligible for vesting if the Company’s EPS is below the Threshold Goal.

**TSR Performance Goal Multiplier:**

The number of PSUs that is eligible to vest may be greater or less than the number of EPS-Based Vested PSUs depending on the level of attainment of Company TSR performance relative to the TSR attained by companies comprising the Russell 3000 Index (such increase or decrease to the number of PSUs eligible to vest, the “**TSR Performance Goal Multiplier**,” and the index, the “**Peer Group TSR**”). For purposes of calculating the Company’s TSR, the value of the Common Stock on the first day of the Performance Period shall be deemed to be the average of the closing price of the Common Stock for the 20 trading days ending on the first trading day of the Performance Period and the value of the Common Stock for the last day of the Performance Period shall be deemed to be the average of the closing price of the Common Stock for the 20 trading days ending on the last trading day of the Performance Period. The TSR Performance Goal Multiplier shall be between 0.75 and 1.25, as determined in accordance with the following schedule:

- If Company TSR is at or below the 25% percentile of the Peer Group TSR, the TSR Performance Goal Multiplier shall be equal to 0.75.
- If Company TSR is at the 50% percentile of the Peer Group TSR, the TSR Performance Goal Multiplier shall be equal to 1.
- If Company TSR is at or above the 75th percentile of the Peer Group TSR, the TSR Performance Goal Multiplier shall be equal to 1.25.
- If Company TSR is above the 25<sup>th</sup> or below the 75<sup>th</sup> percentile of the Peer Group TSR, the attainment between the goals shall be subject to interpolation.

If the Award is intended to constitute “qualified performance-based compensation,” within the meaning of Section 162(m) (4)(C) of the Code, the Plan Administrator shall determine and certify the actual level of attainment of the performance goals and the number of PSUs that become eligible for vesting in accordance with the requirements of Section 162(m) of the Code. The performance goals shall be adjusted per the 2014 Long-Term Performance Plan Guidelines, as approved by the Plan Administrator, provided that the Plan Administrator may also adjust the performance goals in a manner that would result in a decrease to the number of PSUs that would otherwise become eligible for vesting. Further, in determining the number of PSUs that become eligible for vesting, the Plan Administrator has the discretion to reduce (including to zero), but not increase, the number of PSUs that would otherwise become eligible for vesting.

## APPENDIX B

### Restrictive Covenants

(a) **Confidential Information.** The person entering into the Agreement with the Company (the “**Participant**”) shall hold in a fiduciary capacity for the benefit of the Company and its Subsidiaries (collectively, the “**Affiliated Group**”), all secret or confidential information, knowledge or data relating to the Affiliated Group and its businesses (including, without limitation, any proprietary and not publicly available information concerning any processes, methods, trade secrets, research or secret data, costs, names of users or purchasers of their respective products or services, business methods, operating procedures or programs or methods of promotion and sale) that the Participant obtains during the Participant’s employment that is not public knowledge (other than as a result of the Participant’s violation of this Section (a)) (“**Confidential Information**”). The Participant shall not communicate, divulge or disseminate Confidential Information at any time during or after the Participant’s employment, except with the prior written consent of the Company, or as otherwise required by law or legal process, or as may be required in the course of the Participant performing his or her duties and responsibilities with the Affiliated Group; provided, however, that no Company policies or practices, including the sections addressing confidentiality obligations, is intended to or shall limit, prevent, impede or interfere in any way with an employee's right, without prior notice to the Company, to provide information to the government, participate in investigations, testify in proceedings regarding the Company's past or future conduct, or engage in any activities protected under whistle blower statutes. Pursuant to the Defend Trade Secrets Act of 2016, an employee shall not be held criminally, or civilly, liable under any Federal or State Trade secret law for the disclosure of a trade secret that is made in confidence either directly or indirectly to a Federal, State, or local government official, or an attorney, for the sole purpose of reporting, or investigating, a violation of law. Moreover, employees may disclose trade secrets in a complaint, or other document, filed in a lawsuit, or other proceeding, if such filing is made under seal. Finally, an employee who files a lawsuit alleging retaliation by the company for reporting a suspected violation of the law may disclose the trade secret to the attorney of the employee and use the trade secret in the court proceeding, if the employee: files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order. Upon his or her termination of employment for any reason, the Participant shall promptly return to the Company all records, files, memoranda, correspondence, notebooks, notes, reports, customer lists, drawings, plans, documents, and other documents and the like relating to the business of the Affiliated Group or containing any trade secrets relating to the Affiliated Group or that the Participant uses, prepares or comes into contact with during the course of the Participant’s employment with the Affiliated Group, and all keys, credit cards and passes, and such materials shall remain the sole property of the Affiliated

Group. The Participant agrees to execute any standard-form confidentiality agreements with the Company that the Company in the future generally enters into with similarly situated employees.

(b) **Non-Recruitment of Affiliated Group Employees.** The Participant acknowledges that employees are a significant part of the goodwill of the Affiliated Group, such as, without limitation, their relationships and contacts with customers and suppliers as well as the training and knowledge they receive from the Affiliated Group in the course of their employment. The Participant shall not, at any time during the Non-solicitation Period (as defined below), without the prior written consent of the Company, directly or indirectly, solicit, recruit, or employ (whether as an employee, officer, agent, consultant or independent contractor) any person who is or was at any time during the previous 12 months, an employee, representative, officer or director of any member of the Affiliated Group. Further, during the Non-solicitation Period, the Participant shall not take any action that could reasonably be expected to have the effect of directly encouraging or inducing any person to cease their relationship with any member of the Affiliated Group for any reason. A general employment advertisement by an entity of which the Participant is a part will not constitute solicitation or recruitment. The “**Non-solicitation Period**” shall mean the period from the Date of Grant through the first anniversary of the Participant’s termination of employment.

(c) **Non-Competition – Solicitation of Business.** Participant recognizes and agrees that the Affiliated Group has provided Confidential Information to Participant and has an interest in protecting this information from disclosure. Participant further understands that the goodwill of the Affiliated Group is an interest worthy of protection. For the protection of these and other interests, during the Non-competition Period (as defined below), the Participant shall not, either directly or indirectly, compete with the business of the Affiliated Group by (i) becoming an officer, agent, employee, partner or director of any other corporation, partnership or other entity, or otherwise render services to or assist or hold an interest (except as a less than 3-percent shareholder of a publicly traded corporation or as a less than 5-percent shareholder of a corporation that is not publicly traded) in any Competitive Business (as defined below), or (ii) soliciting, servicing, or accepting the business of (A) any active customer of any member of the Affiliated Group, or (B) any person or entity who is or was at any time during the previous twelve months a customer of any member of the Affiliated Group, provided that such business is competitive with any significant business of any member of the Affiliated Group. “**Competitive Business**” shall mean any person or entity (including any joint venture, partnership, firm, corporation, or limited liability company) that conducts a business that is competitive with any business of the Affiliated Group as of the date of termination (or any business that is being actively pursued as of the date of termination by the Affiliated Group). The Affiliated Group designs, manufactures, sells and licenses its products and technology worldwide. In addition, Competitive Businesses, as defined above, are not tied or limited to any specific geographic location. Accordingly, the scope of this Non-Competition provision is

worldwide. The “**Non-competition Period**” shall mean the period from the Date of Grant through the first anniversary of the date of termination of the Participant’s employment.

(d) **Remedies.** The Participant acknowledges and agrees that the terms of this Appendix B: (i) are reasonable in geographic and temporal scope, (ii) are necessary to protect legitimate proprietary and business interests of the Affiliated Group in, inter alia, customer relationships and confidential information. The Participant further acknowledges and agrees that the Participant’s breach of the provisions of this Appendix B will cause the Affiliated Group irreparable harm, which cannot be adequately compensated by money damages. The Participant consents and agrees that the forfeiture provisions contained in the Agreement are reasonable remedies in the event the Participant commits any such breach. If any of the provisions of this Appendix B are determined to be wholly or partially unenforceable, the Participant hereby agrees that Appendix B or any provision hereof may be reformed so that it is enforceable to the maximum extent permitted by law. If any of the provisions of this Appendix B are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the Affiliated Group’s right to enforce any such covenant in any other jurisdiction.

**ITRON, INC.  
AMENDED AND RESTATED 2010 STOCK INCENTIVE PLAN  
RESTRICTED STOCK UNIT AWARD NOTICE**

Itron, Inc. (the “**Company**”) hereby grants to Participant a restricted stock unit award (the “**Award**”). The Award is subject to all the terms and conditions set forth in this Restricted Stock Unit Award Notice (the “**Award Notice**”), the Restricted Stock Unit Award Agreement, including Appendix A (the “**Agreement**”) and the Itron, Inc. Amended and Restated 2010 Stock Incentive Plan (the “**Plan**”), all of which are incorporated into the Award Notice in their entirety.

**Participant:** «First\_Name» «Last\_Name»

**Grant Date:** «Grant Date»

**Number of Restricted Stock Units:** «# of Units»

**Vesting Schedule:** The Award will vest with respect to one-third of the Restricted Stock Units on each of the first, second and third anniversaries of the Grant Date (each, a “**Vest Date**”).

**Additional Terms/Acknowledgement:** This Award is subject to all the terms and conditions set forth in this Award Notice, the Agreement, and the Plan which are attached to and incorporated into this Award Notice in their entirety.

«First\_Name» «Last\_Name»

I accept this award subject to the terms and conditions stated herein.

«Electronically Signed»

Attachments:

1. Restricted Stock Unit Award Agreement, including Appendix A
2. Amended and Restated 2010 Stock Incentive Plan
3. Plan Prospectus

ITRON, INC.  
AMENDED AND RESTATED 2010 STOCK INCENTIVE PLAN

RESTRICTED STOCK UNIT AWARD AGREEMENT  
ALL PARTICIPANTS

Pursuant to your Restricted Stock Unit Award Notice (the “*Award Notice*”) and this Restricted Stock Unit Award Agreement, including Appendix A (this “*Agreement*”), Itron, Inc. (the “*Company*”) has granted you a restricted stock unit award (the “*Award*”) under its Amended and Restated 2010 Stock Incentive Plan (the “*Plan*”) for the number of restricted stock units indicated in your Award Notice. Capitalized terms not expressly defined in this Agreement but defined in the Plan shall have the same definitions as in the Plan.

The details of the Award are as follows:

**1. Vesting**

The Award will vest according to the vesting schedule set forth in the Award Notice (the “*Vesting Schedule*”). One share of Common Stock will be issuable for each restricted stock unit that vests. Restricted stock units that have vested and are no longer subject to forfeiture according to the Vesting Schedule are referred to herein as “*Vested Units*.” Restricted stock units that have not vested and remain subject to forfeiture under the Vesting Schedule are referred to herein as “*Unvested Units*.” Except as provided in Sections 2 and 3 below, the Unvested Units will vest (and to the extent so vested cease to be Unvested Units remaining subject to forfeiture) in accordance with the Vesting Schedule (the Unvested and Vested Units are collectively referred to herein as the “*Units*”). Except as provided in Sections 2 and 3 below, the Award will terminate and the Unvested Units will be forfeited upon termination of your employment for any reason.

**2. Retirement, Death or Disability**

**2.1** In the event that your employment terminates by reason of Retirement after the second anniversary of the Grant Date but during the Units’ vesting period, any Unvested Units will continue to vest in accordance with the Vesting Schedule until all Units become vested, provided that if you breach any of the covenants set forth in Appendix A to this Agreement after your Retirement, the Unvested Units will be forfeited immediately. For the purposes of this Section 2.1, “*Retirement*” means your voluntary termination of employment after the date on which you have reached (i) the age of 55 and have a total of at least 10 years of continuous employment with the Company and/or a Related Corporation or (ii) the age of 60 and have a total of at least 5 years of continuous employment with the Company and/or a Related Corporation; provided however, in either case, you must provide advance written notice to the Company at least 90 days prior to the termination of your employment unless otherwise agreed to in writing by the Company. For the avoidance of doubt, if your employment terminates due to Retirement before the second anniversary of the Grant Date, all Unvested Units will be automatically forfeited.

2.2 In the event that your employment terminates during the Units' vesting period by reason of death or Disability, any Unvested Units will accelerate in vesting and become Vested Units upon such termination of employment.

### 3. Change in Control Transaction

3.1 In the event of a Change in Control Transaction, the Award will be subject to any change in control severance agreement or other agreement providing for change in control provisions between you and the Company (a "**CIC Agreement**"). If you are not a party to a CIC Agreement, the provisions of this Section 3 shall apply.

3.2 In the event of a Change in Control Transaction in which (i) the Unvested Units are not assumed, substituted for, or converted into an award of the acquiring or surviving corporation (or a publicly-traded parent thereof) in a manner which prevents dilution of your rights under the Award or (ii) the acquiring or surviving corporation (or parent thereof) is not publicly-traded, any Unvested Units shall become immediately and fully vested as of the date of the Change in Control Transaction.

3.3 In the event of a Change in Control Transaction in which your Unvested Units are assumed, substituted for, or converted into an award of the acquiring or surviving public corporation (or a publicly-traded parent thereof) and your employment is terminated within twenty-four (24) months following such Change in Control Transaction, other than (a) for Cause, (b) by reason of Retirement, death or Disability (which shall be governed by Section 2), or (c) by you without Good Reason, any Unvested Units shall become immediately and fully vested as of the date of your termination of employment.

3.4 Definitions - For purposes of this Agreement, the following capitalized terms shall have the meanings set forth below:

(a) "**Base Salary**" shall mean your annual base salary immediately prior to a Change in Control Transaction, as such salary may be increased from time to time (in which case such increased amount shall be the Base Salary for purposes hereof), but without giving effect to any reduction thereto.

(b) "**Beneficial Owner**" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.

(c) "**Cause**" for termination of your employment by the Company or your employer, if different (the "**Employer**") shall mean (i) your willful and continued failure (other than any such failure resulting from (A) your incapacity due to physical or mental illness, (B) any such actual or anticipated failure after the issuance by you of a notice of termination in a form prescribed by the Company for Good Reason or (C) the Employer's active or passive obstruction of the performance of your duties and responsibilities) to perform substantially the duties and responsibilities of your position with the Employer after a written demand for substantial performance is delivered to you by the Employer, which demand specifically identifies the manner in which the Employer believes that you have not substantially performed

such duties or responsibilities; (ii) your conviction by a court of competent jurisdiction for felony criminal conduct (or the equivalent under applicable local law); or (iii) your willful engaging in fraud or dishonesty which is injurious to the Company and/or the Employer or its reputation, monetarily or otherwise. No act, or failure to act, on your part shall be deemed “willful” unless committed, or omitted by you in bad faith and without reasonable belief that your act or failure to act was in, or not opposed to, the best interest of the Company and/or the Employer.

(d) **“Good Reason”** for termination of your employment by you shall mean the occurrence (without your express written consent) after any Change in Control Transaction of any one of the following acts by the Company or the Employer, or failures by the Company or the Employer to act, unless, in the case of any act or failure to act described in subsection (i), (ii), (iii), (iv) or (v) below, such act or failure to act is corrected prior to the date of your termination specified in a notice of termination in a form prescribed by the Company given in respect thereof:

(i) an adverse change in your status or position(s) with the Employer as in effect immediately prior to the Change in Control Transaction, including, without limitation, any adverse change in your status or position as a result of a diminution of your duties or responsibilities (other than, if applicable, any such change directly and solely attributable to the fact that the Company is no longer publicly owned) or the assignment to you of any duties or responsibilities which are inconsistent with such status or position(s), or any removal of you from, or any failure to reappoint or reelect you to, such position(s);

(ii) a reduction in your Base Salary;

(iii) a reduction in your annual bonus opportunity or long term incentive opportunity, as compared to the year immediately preceding the year in which the Change in Control Transaction occurs;

(iv) the failure to continue to provide welfare, pension and fringe benefits which are in each case, in the aggregate, substantially similar to those provided to you immediately prior to Change in Control Transaction;

(v) the Employer requiring you to be based at an office that is greater than 50 miles from where your office is located immediately prior to the Change in Control Transaction except for required travel on the Employer’s business to an extent substantially consistent with the business travel obligations which you undertook on behalf of the Employer prior to the Change in Control Transaction; or

Notwithstanding the foregoing, the events described in clauses (ii), (iii) or (iv) above shall not constitute Good Reason hereunder to the extent they are as a result of across-the-board reductions of the applicable compensation element following the Change in Control Transaction which are equally applicable to all similarly situated employees of the surviving corporation and its affiliates. Your right to terminate your employment for Good Reason shall not be affected by your incapacity due to physical or mental illness. In order for Good Reason to exist hereunder, you must provide notice to the Company of the existence of the condition

or circumstance described above within 90 days of the initial existence of the condition or circumstance (or, if later, within 90 days of becoming aware of such condition or circumstance), and the Employer must have failed to cure such condition within 30 days of the receipt of such notice. Subject to the preceding sentence, your continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

(e) “**Person**” shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities or (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

#### 4. **Settlement of Vested Units.**

Vested Units shall be settled on the earliest to occur of (a) a date within 30 days following the applicable Vest Date, (b) a date within 30 days following the termination of your employment (i) due to death or Disability pursuant to Section 2 above or (ii) following a Change in Control Transaction pursuant to Section 3.3 above, or (c) the date of a Change in Control Transaction pursuant to Section 3.2 above that constitutes a “change in control event” within the meaning of U.S. Treasury Regulation Section 1.409A-3(i)(5).

#### 5. **Securities Law Compliance**

5.1 You represent and warrant that you (a) have been furnished with a copy of the prospectus for the Plan and all information which you deem necessary to evaluate the merits and risks of receipt of the Award, (b) have had the opportunity to ask questions and receive answers concerning the information received about the Award and the Company, and (c) have been given the opportunity to obtain any additional information you deem necessary to verify the accuracy of any information obtained concerning the Award and the Company.

5.2 You hereby agree that you will in no event sell or distribute all or any part of the shares of Common Stock that you receive pursuant to settlement of this Award (the “**Shares**”) unless (a) there is an effective registration statement under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) and any applicable state and foreign securities laws covering any such transaction involving the Shares or (b) the Company receives an opinion of your legal counsel (concurring with legal counsel for the Company) stating that such transaction is exempt from registration or the Company otherwise satisfies itself that such transaction is exempt from registration. You understand that the Company has no obligation to you to register the Shares with the U.S. Securities and Exchange Commission or any foreign securities regulator and has not represented to you that it will so register the Shares.

5.3 You confirm that you have been advised, prior to your receipt of the Shares, that neither the offering of the Shares nor any offering materials have been reviewed by any regulator

under the Securities Act or any other applicable securities act (the “**Acts**”) and that the Shares cannot be resold unless they are registered under the Acts or unless an exemption from such registration is available.

**5.4** You hereby agree to indemnify the Company and hold it harmless from and against any loss, claim or liability, including attorneys’ fees or legal expenses, incurred by the Company as a result of any breach by you of, or any inaccuracy in, any representation, warranty or statement made by you in this Agreement or the breach by you of any terms or conditions of this Agreement.

## **6. Transfer Restrictions**

Units shall not be sold, transferred, assigned, encumbered, pledged or otherwise disposed of, whether voluntarily or by operation of law, other than pursuant to a beneficiary designation in accordance with the following sentence. You may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under this Agreement is to be paid in case you do not receive any or all such benefit during your lifetime. Each such designation shall revoke all of your prior designations, shall be in a form prescribed by the Company, and will be effective only when completed in accordance with any instructions provided by the Company during your lifetime. In the absence of any such designation, benefits remaining unpaid to you during your lifetime shall be paid to your estate.

## **7. No Rights as Shareholder**

You shall not have voting or other rights as a shareholder of the Company with respect to the Units.

## **8. Book Entry Registration of Shares**

The Company will issue the Shares by registering the Shares in book entry form with the Company’s transfer agent in your name and the applicable restrictions will be noted in the records of the Company’s transfer agent and in the book entry system.

## **9. Responsibility for Taxes**

**9.1** Regardless of any action the Company or the Employer take with respect to any and all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you (“**Tax-Related Items**”), you acknowledge that the ultimate liability for all Tax-Related Items is and remains your responsibility and may exceed the amount actually withheld by the Company and/or the Employer. You further acknowledge that the Company and the Employer (a) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including, but not limited to, the granting or vesting of the Award, the settlement of Vested Units, the issuance of Shares upon settlement of the Vested Units, the subsequent sale of Shares acquired upon settlement of the Vested Units and the receipt of any dividends; and (b) do not commit to and are under no obligation to structure

the terms of the grant or any aspect of the Award to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you have become subject to Tax-Related Items in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, as applicable, you acknowledge that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

**9.2** Prior to any relevant taxable or tax withholding event, as applicable, you will pay or make adequate arrangements satisfactory to the Company and or the Employer to satisfy all Tax-Related Items.

(a) In this regard, you hereby irrevocably appoint Fidelity or any stock plan service provider or brokerage firm designated by the Company for such purpose (the “**Agent**”) as your Agent, and authorize the Agent, to:

(i) Sell on the open market at the then prevailing market price(s), on your behalf, as soon as practicable on or after the settlement date for any Vested Unit, a number of Shares (rounded up to the next whole number) sufficient to generate proceeds to cover the Tax-Related Items and all applicable fees and commissions due to, or required to be collected by, the Agent;

(ii) Remit directly to the Company the cash amount necessary to cover the Tax-Related Items;

(iii) Retain the amount required to cover all applicable fees and commissions due to, or required to be collected by, the Agent, relating directly to the sale of Shares referred to in clause (i) above; and

(iv) Remit any remaining funds to you.

(b) If the sale of Shares required by Section 9.2(a)(i) above is prohibited by a legal, contractual or regulatory restriction, is otherwise impossible as described in the 10b5-1 Plan set forth in Section 9.3 below, or if the obligation for withholding of Tax-Related Items arises at a time other than the settlement of the Award, then in addition to the withholding mechanism described in Section 9.2(a), you authorize the Company and/or the Employer, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by:

(i) requiring you to pay to the Company or the Employer any amount of the Tax-Related Items; and/or

(ii) withholding any amount of the Tax-Related Items from your wages or other cash compensation paid to you by the Company and/or the Employer; and/or

(iii) withholding in Shares to be issued upon settlement of the Vested Units, provided, however, that if you are a Section 16 officer of the Company under the Exchange Act, then the Plan Administrator (as constituted to satisfy Rule 16b-3 of the Exchange Act) shall

establish any alternative method of withholding as may be required from the alternatives (i) – (iii) herein and, if the Plan Administrator does not exercise its discretion prior to the Tax-Related Items withholding event, then the method of withholding set forth in alternative (iii) shall apply.

(c) Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates, including maximum applicable rates, in which case you will receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent amount in Shares. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, you will be deemed to have been issued the full number of Shares subject to the Vested Units notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan. The Company may refuse to issue or deliver Shares to you if you fail to comply with your obligations in connection with the Tax-Related Items.

**9.3** You acknowledge that the authorization and instruction to the Agent set forth in Section 9.2(a)(i) above to sell Shares to cover the Tax-Related Items is intended to comply with the requirements of Rule 10b5-1(c)(1)(i)(B) under the Exchange Act and to be interpreted to comply with the requirements of Rule 10b5-1(c) under the Exchange Act (regarding trading of the Company's securities on the basis of material nonpublic information) (a "**10b5-1 Plan**"). This 10b5-1 Plan is being adopted to permit you to sell a number of Shares issued upon settlement of Vested Units sufficient to pay the Tax-Related Items.

You acknowledge that the broker is under no obligation to arrange for the sale of Shares at any particular price. You further acknowledge that you will be responsible for all brokerage fees and other costs of sale, and you agree to indemnify and hold the Company harmless from any losses, costs, damages, or expenses relating to any such sale. You acknowledge that it may not be possible to sell Shares during the term of this 10b5-1 Plan due to (a) a legal or contractual restriction applicable to you or to the broker, (b) a market disruption, (c) rules governing order execution priority on the NASDAQ or other exchange where the Shares may be traded, (d) a sale effected pursuant to this 10b5-1 Plan that fails to comply (or in the reasonable opinion of the Agent's counsel is likely not to comply) with the Securities Act, or (e) if the Company determines that sales may not be effected under this 10b5-1 Plan. In the event of the Agent's inability to sell Shares, you will continue to be responsible for the Tax-Related Items.

You hereby agree to execute and deliver to the Agent any other agreements or documents as the Agent reasonably deems necessary or appropriate to carry out the purposes and intent of the 10b5-1 Plan. You acknowledge that this 10b5-1 Plan is subject to the terms of any policy adopted now or hereafter by the Company governing the adoption of 10b5-1 plans. The Agent is a third party beneficiary of Section 9.2(a)(i) and this 10b5-1 Plan.

## 10. Nature of Grant

In accepting the grant, you acknowledge, understand and agree that:

- (a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;
- (b) the grant of the Award is voluntary and occasional and does not create any contractual or other right to receive future grants of restricted stock units, or benefits in lieu of restricted stock units, even if restricted stock units have been granted in the past;
- (c) all decisions with respect to future grants of restricted stock units, if any, will be at the sole discretion of the Company;
- (d) the grant of the Award and your participation in the Plan shall not create a right to employment or be interpreted as forming an employment or service contract with the Employer, the Company or any Related Corporation and shall not interfere with the ability of the Employer, the Company or any Related Corporation to terminate your employment or service relationship (if any);
- (e) you are voluntarily participating in the Plan;
- (f) the Award and the Shares subject to the Award are not intended to replace any pension rights or compensation;
- (g) the Award and the Shares subject to the Award, and the income and value of same, are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;
- (h) the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;
- (i) no claim or entitlement to compensation or damages shall arise from forfeiture of the Award resulting from your ceasing to provide employment or other services to the Company or the Employer (for any reason whatsoever, and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where you are employed or the terms of your employment agreement, if any) and, in consideration of the grant of the Award to which you are otherwise not entitled, you irrevocably agree never to institute any claim against the Company, any Related Corporation or the Employer, waive the ability, if any, to bring any such claim and release the Company, any Related Corporation and the Employer from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, you will be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claims;

(j) for purposes of the Award, your employment will be considered terminated as of the date you cease to actively provide services to the Company or a Related Corporation; further, in the event of termination of your employment or other services (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where you are employed or the terms of your employment agreement, if any), unless otherwise provided in this Agreement or determined by the Company, your right to vest in the Award, if any, will terminate effective as of the date that you are no longer actively providing services and will not be extended by any notice period (*e.g.*, active service would not include any contractual notice period or any period of “garden leave” or similar period mandated under employment laws in the jurisdiction where you are employed or the terms of your employment agreement, if any); the Company’s Chief Executive Officer shall have the exclusive discretion to determine when you are no longer actively providing services for purposes of the Award (including whether or not you may still be considered to be providing services while on an approved leave of absence);

(k) unless otherwise provided in the Plan or by the Company in its discretion, the Award and the benefits evidenced by this Agreement do not create any entitlement to have the Award or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the shares of the Company; and

(l) the following provisions apply only if you are providing services outside the United States:

(i) the Award and the Shares subject to the Award are not part of normal or expected compensation or salary for any purpose;

(ii) neither the Company, the Employer nor any Related Corporation shall be liable for any foreign exchange rate fluctuation between your local currency and the United States dollar that may affect the value of the Award or of any amounts due to you pursuant to the settlement of the Award or the subsequent sale of any Shares acquired upon settlement.

## **11. No Advice Regarding Grant**

The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan or your acquisition or sale of the underlying Shares. You are hereby advised to consult with your own personal tax, legal and financial advisors regarding your participation in the Plan before taking any action related to the Plan. You acknowledge that you have either consulted with competent advisors independent of the Company to obtain advice concerning the receipt of the Award and the acquisition or disposition of any Shares to be issued pursuant to the Award in light of your specific situation or had the opportunity to consult with such advisors but chose not to do so.

## **12. Data Privacy**

*You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this Agreement and any other Award materials by and among, as applicable, the Employer, the Company and its Related Corporations for the exclusive purpose of implementing, administering and managing your participation in the Plan.*

*You understand that the Company and the Employer may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all Awards or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in your favor, for the exclusive purpose of implementing, administering and managing the Plan (“Data”).*

*You understand that Data will be transferred to Fidelity or such other stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan. You understand that the recipients of Data may be located in the United States or elsewhere, and that the recipients’ country (e.g., the United States) may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of Data by contacting your local human resources representative. You authorize the Company, Fidelity and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer Data, in electronic or other form, for the sole purpose of implementing, administering and managing your participation in the Plan. You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing your local human resources representative. Further, you understand that you are providing the consents herein on a purely voluntary basis. If you do not consent, your employment status or service and career with the Employer will not be adversely affected; the only adverse consequence of refusing or withdrawing your consent is that the Company would not be able to grant you the Award or other equity awards or administer or maintain such awards. Therefore, you understand that refusing or withdrawing your consent may affect your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.*

## **13. Electronic Delivery and Participation**

The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line

or electronic system established and maintained by the Company or a third party designated by the Company.

#### 14. Language

If you have received this Agreement (or any portion thereof) or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different from the English version, the English version will control.

#### 15. General Provisions

**15.1 Successors and Assigns.** The provisions of this Agreement will inure to the benefit of the successors and assigns of the Company and be binding upon you and your heirs, executors, administrators, successors and assigns.

##### 15.2 Section 409A.

(a) For purposes of U.S. taxpayers, the settlement of the Units is intended to be in compliance with Section 409A of the Code, and this Agreement will be interpreted, operated and administered in a manner that is consistent with this intent. In furtherance of this intent, the Plan Administrator may, at any time and without your consent, modify the terms of the Award as it determines appropriate to comply with the requirements of Section 409A of the Code and the related U.S. Department of Treasury guidance or to mitigate any additional tax, interest and/or penalties that may apply under Section 409A of the Code if compliance is not practicable. The Company makes no representation or covenant to ensure that the Units, settlement of the Units or other payment hereunder are compliant with Section 409A of the Code and will have no liability to you or any other party if the settlement of the Units or other payment hereunder that is intended to be compliant with Section 409A of the Code, is not compliant or for any action taken by the Plan Administrator with respect thereto.

(b) Notwithstanding anything in this Agreement to the contrary, any Units that become vested under this Agreement by reason of a termination of employment and that constitute an item of non-qualified deferred compensation subject to Section 409A of the Code shall not be settled unless you experience a “separation from service” within the meaning of Section 409A of the Code (a “**Separation from Service**”) and such Units shall be settled within 90 days of a Separation from Service; provided, however, that if you are a “specified employee” within the meaning of Section 409A of the Code as of the date of the Separation from Service (as determined according to the methodology established by the Company as in effect on the date of your termination of employment), such Units shall instead be settled on the first business day that is after the earlier of (i) the date that is six months following the date of the Separation from Service or (ii) the date of your death, to the extent such delayed payment is otherwise required in order to avoid a prohibited distribution under Section 409A(a)(2) of the Code, or any successor provision thereto.

**15.3 Governing Law and Choice of Venue.** The Award and the provisions of this Agreement will be construed and administered in accordance with and governed by the laws of

the State of Washington without giving effect to such state's principles of conflict of laws. For the purposes of litigating any dispute that arises under this grant of this Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the State of Washington and agree that such litigation shall be conducted in the courts of Spokane County, Washington, or the federal courts for the United States for the Eastern District of Washington, where this grant is made and/or to be performed.

**15.4 Severability.** The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

**15.5 Notice.** Any notice required or permitted hereunder shall be made in writing and sent to the following address:

Itron, Inc.  
Attn. General Counsel  
2111 N. Molter Road  
Liberty Lake, WA USA 99019

## **16. Appendix A**

Notwithstanding any provisions in this Agreement, the Award shall be subject to any special terms and conditions set forth in Appendix A to this Agreement. Appendix A constitutes part of this Agreement.

## **17. Imposition of Other Requirements**

The Company reserves the right to impose other requirements on your participation in the Plan, on the Award and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing

## **18. Waiver**

You acknowledge that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by you or any other Participant.

## APPENDIX A

### Restrictive Covenants

(a) **Confidential Information.** The person entering into the Agreement with the Company (the “**Participant**”) shall hold in a fiduciary capacity for the benefit of the Company and its Subsidiaries (collectively, the “**Affiliated Group**”), all secret or confidential information, knowledge or data relating to the Affiliated Group and its businesses (including, without limitation, any proprietary and not publicly available information concerning any processes, methods, trade secrets, research or secret data, costs, names of users or purchasers of their respective products or services, business methods, operating procedures or programs or methods of promotion and sale) that the Participant obtains during the Participant’s employment that is not public knowledge (other than as a result of the Participant’s violation of this Section (a)) (“**Confidential Information**”). The Participant shall not communicate, divulge or disseminate Confidential Information at any time during or after the Participant’s employment, except with the prior written consent of the Company, or as otherwise required by law or legal process, or as may be required in the course of the Participant performing his or her duties and responsibilities with the Affiliated Group; provided, however, that no Company policies or practices, including the sections addressing confidentiality obligations, is intended to or shall limit, prevent, impede or interfere in any way with an employee's right, without prior notice to the Company, to provide information to the government, participate in investigations, testify in proceedings regarding the Company's past or future conduct, or engage in any activities protected under whistle blower statutes. Pursuant to the Defend Trade Secrets Act of 2016, an employee shall not be held criminally, or civilly, liable under any Federal or State Trade secret law for the disclosure of a trade secret that is made in confidence either directly or indirectly to a Federal, State, or local government official, or an attorney, for the sole purpose of reporting, or investigating, a violation of law. Moreover, employees may disclose trade secrets in a complaint, or other document, filed in a lawsuit, or other proceeding, if such filing is made under seal. Finally, an employee who files a lawsuit alleging retaliation by the company for reporting a suspected violation of the law may disclose the trade secret to the attorney of the employee and use the trade secret in the court proceeding, if the employee files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order. Upon his or her termination of employment for any reason, the Participant shall promptly return to the Company all records, files, memoranda, correspondence, notebooks, notes, reports, customer lists, drawings, plans, documents, and other documents and the like relating to the business of the Affiliated Group or containing any trade secrets relating to the Affiliated Group or that the Participant uses, prepares or comes into contact with during the course of the Participant’s employment with the Affiliated Group, and all keys, credit cards and

passes, and such materials shall remain the sole property of the Affiliated Group. The Participant agrees to execute any standard-form confidentiality agreements with the Company that the Company in the future generally enters into with similarly situated employees.

(b) **Non-Recruitment of Affiliated Group Employees.** The Participant acknowledges that employees are a significant part of the goodwill of the Affiliated Group, such as, without limitation, their relationships and contacts with customers and suppliers as well as the training and knowledge they receive from the Affiliated Group in the course of their employment. The Participant shall not, at any time during the Non-solicitation Period (as defined below), without the prior written consent of the Company, directly or indirectly, solicit, recruit, or employ (whether as an employee, officer, agent, consultant or independent contractor) any person who is or was at any time during the previous 12 months, an employee, representative, officer or director of any member of the Affiliated Group. Further, during the Non-solicitation Period, the Participant shall not take any action that could reasonably be expected to have the effect of directly encouraging or inducing any person to cease their relationship with any member of the Affiliated Group for any reason. A general employment advertisement by an entity of which the Participant is a part will not constitute solicitation or recruitment. The “**Non-solicitation Period**” shall mean the period from the Date of Grant through the first anniversary of the Participant’s termination of employment.

(c) **Non-Competition – Solicitation of Business.** Participant recognizes and agrees that the Affiliated Group has provided Confidential Information to Participant and has an interest in protecting this information from disclosure. Participant further understands that the goodwill of the Affiliated Group is an interest worthy of protection. For the protection of these and other interests, during the Non-competition Period (as defined below), the Participant shall not, either directly or indirectly, compete with the business of the Affiliated Group by (i) becoming an officer, agent, employee, partner or director of any other corporation, partnership or other entity, or otherwise render services to or assist or hold an interest (except as a less than 3-percent shareholder of a publicly traded corporation or as a less than 5-percent shareholder of a corporation that is not publicly traded) in any Competitive Business (as defined below), or (ii) soliciting, servicing, or accepting the business of (A) any active customer of any member of the Affiliated Group, or (B) any person or entity who is or was at any time during the previous twelve months a customer of any member of the Affiliated Group, provided that such business is competitive with any significant business of any member of the Affiliated Group. “**Competitive Business**” shall mean any person or entity (including any joint venture, partnership, firm, corporation, or limited liability company) that conducts a business that is competitive with any business of the Affiliated Group as of the date of termination (or any business that is being actively pursued as of the date of termination by the Affiliated Group).

The Affiliated Group designs, manufactures, sells and licenses its products and technology worldwide. In addition, Competitive Businesses, as defined above, are not tied or limited to any specific geographic location. Accordingly, the scope of this Non-Competition provision is worldwide. The “**Non-competition Period**” shall mean the period from the Date of Grant through the first anniversary of the date of termination of the Participant’s employment.

(d) **Remedies.** The Participant acknowledges and agrees that the terms of this Appendix A: (i) are reasonable in geographic and temporal scope, (ii) are necessary to protect legitimate proprietary and business interests of the Affiliated Group in, inter alia, customer relationships and confidential information. The Participant further acknowledges and agrees that the Participant’s breach of the provisions of this Appendix A will cause the Affiliated Group irreparable harm, which cannot be adequately compensated by money damages. The Participant consents and agrees that the forfeiture provisions contained in the Agreement are reasonable remedies in the event the Participant commits any such breach. If any of the provisions of this Appendix A are determined to be wholly or partially unenforceable, the Participant hereby agrees that Appendix A or any provision hereof may be reformed so that it is enforceable to the maximum extent permitted by law. If any of the provisions of this Appendix A are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the Affiliated Group’s right to enforce any such covenant in any other jurisdiction.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES <sup>(1)</sup>

	Three Months Ended March 31,		Year Ended December 31,				
	2017	2016	2015	2014	2013	2012	
(in thousands, except ratios)							
<b>Earnings</b>							
Pre-tax income (loss)	\$ 25,061	\$ 84,627	\$ 37,102	\$ (18,265)	\$ (153,400)	\$ 125,194	
Add: dividends received from equity investees	—	335	444	681	707	571	
Less: noncontrolling interest income	(169)	(3,283)	(2,325)	(1,370)	(2,219)	(1,949)	
Less: income from equity investees	(94)	(393)	(807)	(270)	(954)	(517)	
	24,798	81,286	34,414	(19,224)	(155,866)	123,299	
<b>Fixed charges:<sup>(2)</sup></b>							
Interest expense, gross <sup>(3)</sup>	2,674	10,948	12,289	11,602	10,686	10,115	
Interest portion of rent expense	1,117	4,958	5,405	6,832	6,651	6,462	
a) Fixed charges	3,791	15,906	17,694	18,434	17,337	16,577	
b) Earnings for ratio <sup>(4)</sup>	\$ 28,589	\$ 97,192	\$ 52,108	\$ (790)	\$ (138,529)	\$ 139,876	
<b>Ratios:</b>							
Earnings to fixed charges (b/a) <sup>(5)</sup>	7.5	6.1	2.9	N/A	N/A	8.4	
Deficit of earnings to fixed charges	N/A	N/A	N/A	\$ (19,224)	\$ (155,866)	N/A	

<sup>(1)</sup> We had no preferred stock outstanding for any period presented and accordingly our ratio of earnings to combined fixed charges and preferred stock dividends is the same as our ratio of earnings to fixed charges for all periods presented.

<sup>(2)</sup> *Fixed charges* consist of interest on indebtedness and amortization of debt issuance costs plus that portion of lease rental expense representative of the interest factor.

<sup>(3)</sup> *Interest expense, gross*, includes amortization of prepaid debt fees.

<sup>(4)</sup> *Earnings for ratio* consists of income (loss) from continuing operations before income taxes, plus dividends received from equity method investments, less income from equity investees, less income attributable to noncontrolling interests.

<sup>(5)</sup> *Earnings to fixed charges ratio* is not calculated for years with a *Deficit of earnings to fixed charges* amount as the ratio is less than 1:1.





**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the Quarterly Report of Itron, Inc. (the Company) on Form 10-Q for the quarterly period ended March 31, 2017 (the Report) for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Philip C. Mezey, the Chief Executive Officer and Robert H.A. Farrow, the Interim Chief Financial Officer of the Company, each certifies that to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PHILIP C. MEZEY

---

**Philip C. Mezey**  
**President and Chief Executive Officer**  
**May 3, 2017**

/s/ ROBERT H.A. FARROW

---

**Robert H.A. Farrow**  
**Interim Chief Financial Officer**  
**May 3, 2017**