

**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 June 30, 2020

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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, no par value	ITRI	NASDAQ Global Select Market

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

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		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 July 31, 2020, there were outstanding 40,332,428 shares of the registrant's common stock, no par value, which is the only class of common stock of the registrant.

Itron, Inc.
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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements (Unaudited)

ITRON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

<i>In thousands, except per share data</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenues				
Product revenues	\$ 438,985	\$ 566,047	\$ 967,122	\$ 1,110,897
Service revenues	70,609	68,990	140,887	138,716
Total revenues	509,594	635,037	1,108,009	1,249,613
Cost of revenues				
Product cost of revenues	329,293	401,033	713,974	787,135
Service cost of revenues	41,784	42,790	83,952	84,001
Total cost of revenues	371,077	443,823	797,926	871,136
Gross profit	138,517	191,214	310,083	378,477
Operating expenses				
Sales, general and administrative	69,538	88,259	150,036	180,974
Research and development	48,994	49,449	102,775	99,939
Amortization of intangible assets	11,140	16,117	22,305	32,090
Restructuring	(2,683)	(6,169)	(2,931)	1,093
Loss on sale of business	56,915	—	56,915	—
Total operating expenses	183,904	147,656	329,100	314,096
Operating income (loss)	(45,387)	43,558	(19,017)	64,381
Other income (expense)				
Interest income	1,258	534	1,811	862
Interest expense	(11,684)	(13,496)	(22,961)	(27,031)
Other income (expense), net	(1,873)	(2,060)	(807)	(3,704)
Total other income (expense)	(12,299)	(15,022)	(21,957)	(29,873)
Income (loss) before income taxes	(57,686)	28,536	(40,974)	34,508
Income tax provision	(4,801)	(8,419)	(12,351)	(14,540)
Net income (loss)	(62,487)	20,117	(53,325)	19,968
Net income attributable to noncontrolling interests	315	671	793	2,429
Net income (loss) attributable to Itron, Inc.	\$ (62,802)	\$ 19,446	\$ (54,118)	\$ 17,539
Net income (loss) per common share - Basic	\$ (1.56)	\$ 0.49	\$ (1.35)	\$ 0.44
Net income (loss) per common share - Diluted	\$ (1.56)	\$ 0.49	\$ (1.35)	\$ 0.44
Weighted average common shares outstanding - Basic	40,216	39,389	40,130	39,523
Weighted average common shares outstanding - Diluted	40,216	39,686	40,130	39,875

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

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

<i>In thousands</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income (loss)	\$ (62,487)	\$ 20,117	\$ (53,325)	\$ 19,968
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	11,310	5,187	(14,135)	2,801
Foreign currency translation adjustment reclassified to net income on sale of business	52,088	—	52,088	—
Net unrealized gain (loss) on derivative instruments, designated as cash flow hedges	(1,389)	(1,634)	(2,156)	(1,499)
Pension benefit obligation adjustment	47	183	1,048	654
Total other comprehensive income (loss), net of tax	62,056	3,736	36,845	1,956
Total comprehensive income (loss), net of tax	(431)	23,853	(16,480)	21,924
Comprehensive income attributable to noncontrolling interests, net of tax	315	671	793	2,429
Comprehensive income (loss) attributable to Itron, Inc.	\$ (746)	\$ 23,182	\$ (17,273)	\$ 19,495

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

ITRON, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

<i>In thousands</i>	June 30, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 544,823	\$ 149,904
Accounts receivable, net	411,200	472,925
Inventories	226,564	227,896
Other current assets	172,241	146,526
Total current assets	<u>1,354,828</u>	<u>997,251</u>
Property, plant, and equipment, net	216,319	233,228
Deferred tax assets, net	57,835	63,899
Other long-term assets	45,610	44,686
Operating lease right-of-use assets, net	78,777	79,773
Intangible assets, net	157,125	185,097
Goodwill	1,101,648	1,103,907
Total assets	<u>\$ 3,012,142</u>	<u>\$ 2,707,841</u>
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 240,221	\$ 328,128
Other current liabilities	63,429	63,785
Wages and benefits payable	106,215	119,220
Taxes payable	19,878	22,193
Current portion of debt	14,063	—
Current portion of warranty	33,039	38,509
Unearned revenue	124,834	99,556
Total current liabilities	<u>601,679</u>	<u>671,391</u>
Long-term debt, net	1,320,004	932,482
Long-term warranty	11,718	14,732
Pension benefit obligation	99,184	98,712
Deferred tax liabilities, net	1,794	1,809
Operating lease liabilities	69,337	68,919
Other long-term obligations	105,557	118,981
Total liabilities	<u>2,209,273</u>	<u>1,907,026</u>
Equity		
Preferred stock, no par value, 10,000 shares authorized, no shares issued or outstanding	—	—
Common stock, no par value, 75,000 shares authorized, 40,234 and 39,941 shares issued and outstanding	1,376,134	1,357,600
Accumulated other comprehensive loss, net	(167,827)	(204,672)
Accumulated deficit	(430,508)	(376,390)
Total Itron, Inc. shareholders' equity	<u>777,799</u>	<u>776,538</u>
Noncontrolling interests	25,070	24,277
Total equity	<u>802,869</u>	<u>800,815</u>
Total liabilities and equity	<u>\$ 3,012,142</u>	<u>\$ 2,707,841</u>

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

ITRON, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)

<i>In thousands</i>	Common Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Itron, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount					
Balances at January 1, 2020	39,941	\$ 1,357,600	\$ (204,672)	\$ (376,390)	\$ 776,538	\$ 24,277	\$ 800,815
Net income				8,684	8,684	478	9,162
Other comprehensive income (loss), net of tax			(25,211)		(25,211)		(25,211)
Net stock issues and repurchases	235	2,247			2,247		2,247
Stock-based compensation expense		8,482			8,482		8,482
Balances at March 31, 2020	40,176	\$ 1,368,329	\$ (229,883)	\$ (367,706)	\$ 770,740	\$ 24,755	\$ 795,495
Net income (loss)				(62,802)	(62,802)	315	(62,487)
Other comprehensive income (loss), net of tax			62,056		62,056		62,056
Net stock issues and repurchases	58	706			706		706
Stock-based compensation expense		7,099			7,099		7,099
Balances at June 30, 2020	40,234	\$ 1,376,134	\$ (167,827)	\$ (430,508)	\$ 777,799	\$ 25,070	\$ 802,869

<i>In thousands</i>	Common Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Itron, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount					
Balances at January 1, 2019	39,498	\$ 1,334,364	\$ (196,305)	\$ (425,396)	\$ 712,663	\$ 21,385	\$ 734,048
Net income (loss)				(1,907)	(1,907)	1,758	(149)
Other comprehensive income (loss), net of tax			(1,780)		(1,780)		(1,780)
Distributions to noncontrolling interests						(517)	(517)
Net stock issues and repurchases	360	1,195			1,195		1,195
Stock-based compensation expense		7,048			7,048		7,048
Stock repurchased	(165)	(7,814)			(7,814)		(7,814)
Balances at March 31, 2019	39,693	\$ 1,334,793	\$ (198,085)	\$ (427,303)	\$ 709,405	\$ 22,626	\$ 732,031
Net income (loss)				19,446	19,446	671	20,117
Other comprehensive income (loss), net of tax			3,736		3,736		3,736
Net stock issues and repurchases	66	1,481			1,481		1,481
Stock-based compensation expense		6,420			6,420		6,420
Stock repurchased	(364)	(17,186)			(17,186)		(17,186)
Balances at June 30, 2019	39,395	\$ 1,325,508	\$ (194,349)	\$ (407,857)	\$ 723,302	\$ 23,297	\$ 746,599

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

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

<i>In thousands</i>	Six Months Ended June 30,	
	2020	2019
Operating activities		
Net income (loss)	\$ (53,325)	\$ 19,968
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	48,230	57,068
Non-cash operating lease expense	9,909	9,481
Stock-based compensation	15,581	13,783
Amortization of prepaid debt fees	2,013	2,402
Deferred taxes, net	5,904	2,076
Loss on sale of business	56,915	—
Restructuring, non-cash	(1,146)	(5,295)
Other adjustments, net	287	(3,471)
Changes in operating assets and liabilities		
Accounts receivable	52,031	(29,121)
Inventories	(16,529)	(9,202)
Other current assets	(7,861)	(14,413)
Other long-term assets	(3,919)	6,616
Accounts payable, other current liabilities, and taxes payable	(76,144)	(2,801)
Wages and benefits payable	(11,145)	13,484
Unearned revenue	23,099	14,961
Warranty	(8,417)	(3,270)
Other operating, net	(9,697)	5,797
Net cash provided by operating activities	25,786	78,063
Investing activities		
Net payments related to the sale of business	(3,630)	—
Acquisitions of property, plant, and equipment	(29,049)	(26,511)
Other investing, net	3,520	9,773
Net cash used in investing activities	(29,159)	(16,738)
Financing activities		
Proceeds from borrowings	400,000	50,000
Payments on debt	—	(72,188)
Issuance of common stock	4,183	4,001
Repurchase of common stock	—	(25,000)
Prepaid debt fees	(184)	(175)
Other financing, net	(2,036)	(3,165)
Net cash provided by (used in) financing activities	401,963	(46,527)
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	(3,671)	727
Increase in cash, cash equivalents, and restricted cash	394,919	15,525
Cash, cash equivalents, and restricted cash at beginning of period	149,904	122,328
Cash, cash equivalents, and restricted cash at end of period	\$ 544,823	\$ 137,853
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for:		
Income taxes, net	\$ (2,994)	\$ 6,571
Interest	32,149	23,333

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

ITRON, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020
(UNAUDITED)

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

Note 1: Summary of Significant Accounting Policies

Financial Statement Preparation

The 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, Consolidated Statements of Comprehensive Income (Loss), and Consolidated Statements of Equity for the three and six months ended June 30, 2020 and 2019, the Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019, and the Consolidated Balance Sheets as of June 30, 2020 and December 31, 2019, 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 and six months ended June 30, 2020 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 partially or completely omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) regarding interim results. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the fiscal year ended December 31, 2019 filed with the SEC in our Annual Report on Form 10-K on February 27, 2020 (2019 Annual Report). There have been no significant changes in financial statement preparation or significant accounting policies since December 31, 2019.

Risks and Uncertainties

The COVID-19 pandemic has had global economic impacts including disrupting global supply chains and creating market volatility. The extent of the recent pandemic and its ongoing impact on our operations is volatile, but is being monitored closely by our management. We expect that certain of our customers' projects and deployments may shift to later in 2020 and 2021. At this time, we have not identified any significant decrease in long-term customer demand for our products and services. Nonetheless, a prolonged pandemic could adversely impact the efficiency and effectiveness of our organization, further impact our global supply chain network, result in delays or decreases in customer collections, reduce demand for our products and services, and inhibit our sales efforts, any of which could further materially impact our revenues, results of operations, cash flows and financial condition.

Restricted Cash and Cash Equivalents

Cash and cash equivalents that are contractually restricted from operating use are classified as restricted cash and cash equivalents.

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

<i>In thousands</i>	June 30, 2020	December 31, 2019	June 30, 2019
Cash and cash equivalents	\$ 544,823	\$ 149,904	\$ 135,736
Current restricted cash included in other current assets	—	—	51
Long-term restricted cash	—	—	2,066
Total cash, cash equivalents, and restricted cash	<u>\$ 544,823</u>	<u>\$ 149,904</u>	<u>\$ 137,853</u>

Accounts Receivable, net

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

Recently Adopted Accounting Standards

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Subsequent to 2016-13 the FASB also issued codification improvements and transition relief in ASU 2019-04, ASU 2019-05, ASU 2019-11, ASU 2020-02, and ASU 2020-03, hereafter collectively referred to as Accounting Standards Codification (ASC) 326. ASC 326 replaces the incurred loss impairment methodology in previous GAAP with a methodology based on expected credit losses, which results in losses being recognized earlier. The estimate of expected credit losses uses a broader range of reasonable and supportable information. We adopted ASC 326 on January 1, 2020, and the impacts on our consolidated financial position, results of operations, and cash flows were immaterial.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which amended the disclosure requirements under ASC 820. This update clarifies and unifies the disclosure of Level 3 fair value instruments. We adopted this standard on January 1, 2020, and it did not materially impact our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*, which amends the disclosure requirements under ASC 715-20. This update clarifies annual disclosures for Defined Benefit Plans. We adopted this standard on January 1, 2020, and it did not materially impact our consolidated financial statements.

Recent Accounting Standards Not Yet Adopted

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which modifies certain provisions of ASC 740, in an effort to reduce the complexity of accounting for income taxes. ASU 2019-12 is effective for us beginning with our interim financial reports for the first quarter of 2021. We are currently evaluating the effects and do not believe this standard will have a material impact on our consolidated financial position, results of operations, or cash flows.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform. ASU 2020-04 applies to contracts that reference LIBOR or another reference rate expected to be terminated because of reference rate reform. An entity may elect certain optional expedients for hedging relationships that exist as of December 31, 2022, and maintain those optional expedients through the end of the hedging relationship. ASU 2020-04 can be adopted as of March 12, 2020. We do not currently have any contracts that have been changed to a new reference rate, but we will continue to evaluate our contracts and the effects of this standard on our consolidated financial position, results of operations, and cash flows prior to adoption.

Note 2: Earnings Per Share

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

<i>In thousands, except per share data</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income (loss) available to common shareholders	\$ (62,802)	\$ 19,446	\$ (54,118)	\$ 17,539
Weighted average common shares outstanding - Basic	40,216	39,389	40,130	39,523
Dilutive effect of stock-based awards	—	297	—	352
Weighted average common shares outstanding - Diluted	40,216	39,686	40,130	39,875
Net income (loss) per common share - Basic	\$ (1.56)	\$ 0.49	\$ (1.35)	\$ 0.44
Net income (loss) per common share - Diluted	\$ (1.56)	\$ 0.49	\$ (1.35)	\$ 0.44

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 our 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 0.9 million and 0.8 million stock-based awards were excluded from the calculation of diluted EPS for the three and six months ended June 30, 2020 because they were anti-dilutive. Approximately 0.5 million and 0.6 million stock-based awards were excluded from the calculation of diluted EPS for the three and six months ended June 30, 2019 because they were anti-dilutive. These stock-based awards could be dilutive in future periods.

Note 3: Certain Balance Sheet Components

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

Accounts receivable, net

<i>In thousands</i>	June 30, 2020		December 31, 2019	
Trade receivables (net of allowance of \$2,102 and \$3,064)	\$	330,283	\$	415,887
Unbilled receivables		80,917		57,038
Total accounts receivable, net	\$	411,200	\$	472,925

Allowance for doubtful accounts activity

<i>In thousands</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Beginning balance	\$ 3,046	\$ 4,046	\$ 3,064	\$ 6,331
Provision for (release of) doubtful accounts, net	(171)	365	339	(1,738)
Accounts written-off	(796)	(80)	(1,211)	(272)
Effect of change in exchange rates	23	29	(90)	39
Ending balance	\$ 2,102	\$ 4,360	\$ 2,102	\$ 4,360

Inventories

<i>In thousands</i>	June 30, 2020		December 31, 2019	
Raw materials	\$	139,035	\$	120,861
Work in process		10,454		11,105
Finished goods		77,075		95,930
Total inventories	\$	226,564	\$	227,896

Property, plant, and equipment, net

<i>In thousands</i>	June 30, 2020		December 31, 2019	
Machinery and equipment	\$	302,385	\$	323,003
Computers and software		111,774		109,924
Buildings, furniture, and improvements		151,440		149,471
Land		13,771		14,988
Construction in progress, including purchased equipment		43,125		54,490
Total cost		622,495		651,876
Accumulated depreciation		(406,176)		(418,648)
Property, plant, and equipment, net	\$	216,319	\$	233,228

Depreciation expense

<i>In thousands</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Depreciation expense	\$ 13,059	\$ 12,594	\$ 25,925	\$ 24,978

Note 4: Intangible Assets and Liabilities

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

<i>In thousands</i>	June 30, 2020			December 31, 2019		
	Gross	Accumulated (Amortization) Accretion	Net	Gross	Accumulated (Amortization) Accretion	Net
Intangible Assets						
Core-developed technology	\$ 498,006	\$ (459,876)	\$ 38,130	\$ 507,669	\$ (458,109)	\$ 49,560
Customer contracts and relationships	365,567	(251,085)	114,482	381,288	(251,509)	129,779
Trademarks and trade names	76,631	(72,677)	3,954	78,837	(73,732)	5,105
Other	12,021	(11,462)	559	12,020	(11,367)	653
Total intangible assets	<u>\$ 952,225</u>	<u>\$ (795,100)</u>	<u>\$ 157,125</u>	<u>\$ 979,814</u>	<u>\$ (794,717)</u>	<u>\$ 185,097</u>
Intangible Liabilities						
Customer contracts and relationships	<u>\$ (23,900)</u>	<u>\$ 17,465</u>	<u>\$ (6,435)</u>	<u>\$ (23,900)</u>	<u>\$ 13,450</u>	<u>\$ (10,450)</u>

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

<i>In thousands</i>	Six Months Ended June 30,	
	2020	2019
Intangible Assets, gross beginning balance	\$ 979,814	\$ 981,160
Intangibles disposed in sale of business	(18,140)	—
Effect of change in exchange rates	(9,449)	4,349
Intangible Assets, gross ending balance	<u>\$ 952,225</u>	<u>\$ 985,509</u>
Intangible Liabilities, gross beginning balance	\$ (23,900)	\$ (23,900)
Effect of change in exchange rates	—	—
Intangible Liabilities, gross ending balance	<u>\$ (23,900)</u>	<u>\$ (23,900)</u>

On January 5, 2018, we completed our acquisition of Silver Spring Networks, Inc. (SSNI) and acquired intangible assets including in-process research and development (IPR&D), which were completed during 2019 and are now included within core-developed technology. Assumed intangible liabilities reflect the present value of the projected cash outflows for an existing contract where remaining costs are expected to exceed projected revenues.

The disposal of intangible assets was related to the sale of our Latin America business. The net book value of these assets was \$0.8 million at the disposal date. Refer to "Note 17: Sale of Business" for additional information on the transaction.

Estimated future annual amortization (accretion) is as follows:

Year Ending December 31,	Amortization	Accretion	Estimated Annual Amortization, net
<i>In thousands</i>			
2020 (amount remaining at June 30, 2020)	\$ 26,345	\$ (4,013)	\$ 22,332
2021	37,479	(1,963)	35,516
2022	27,138	(459)	26,679
2023	19,605	—	19,605
2024	15,469	—	15,469
Thereafter	31,089	—	31,089
Total intangible assets subject to amortization (accretion)	<u>\$ 157,125</u>	<u>\$ (6,435)</u>	<u>\$ 150,690</u>

Note 5: Goodwill

The following table reflects changes in the carrying amount of goodwill for the six months ended June 30, 2020:

<i>In thousands</i>	Device Solutions	Networked Solutions	Outcomes	Total Company
Goodwill balance at January 1, 2020	\$ 54,930	\$ 908,088	\$ 140,889	\$ 1,103,907
Goodwill allocated to business sold	(3,000)	—	—	(3,000)
Effect of change in exchange rates	37	610	94	741
Goodwill balance at June 30, 2020	\$ 51,967	\$ 908,698	\$ 140,983	\$ 1,101,648

We recognized a \$3.0 million reduction in Device Solutions goodwill as part of our loss on sale of business. Refer to "Note 17: Sale of Business" for additional information on the transaction.

Note 6: Debt

The components of our borrowings were as follows:

<i>In thousands</i>	June 30, 2020	December 31, 2019
Credit facility		
USD denominated term loan	\$ 550,156	\$ 550,156
Multicurrency revolving line of credit	400,000	—
Senior notes	400,000	400,000
Total debt	1,350,156	950,156
Less: current portion of debt	14,063	—
Less: unamortized prepaid debt fees - term loan	3,232	3,661
Less: unamortized prepaid debt fees - senior notes	12,857	14,013
Long-term debt, net	\$ 1,320,004	\$ 932,482

Credit Facility

On October 18, 2019, we amended our credit facility that was initially entered on January 5, 2018 (together with the amendment, the "2018 credit facility"). The 2018 credit facility provides for committed credit facilities in the amount of \$1.2 billion U.S. dollars. The 2018 credit facility consists of a \$650 million U.S. dollar term loan (the term loan) and a multicurrency revolving line of credit (the revolver) with a principal amount of up to \$500 million. The revolver also contains a \$300 million standby letter of credit sub-facility and a \$50 million swingline sub-facility. The October 18, 2019 amendment extended the maturity date to October 18, 2024 and re-amortized the term loan based on the new balance as of the amendment date. The amendment also modified the required interest payments and made it based on total net leverage instead of total leverage. 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 0.15% to 0.25% and drawn amounts are subject to a margin ranging from 1.00% to 1.75%. Both the term loan and the revolver can be repaid without penalty. Amounts repaid on the term loan may not be reborrowed, and amounts borrowed under the revolver may be repaid and reborrowed until the revolver's maturity, at which time all outstanding loans together with all accrued and unpaid interest must be repaid.

The 2018 credit facility permits us and certain of our foreign subsidiaries to borrow in U.S. dollars, euros, British pounds, or, with lender approval, other currencies readily convertible into U.S. dollars. All obligations under the 2018 credit facility are guaranteed by Itron, Inc. and material U.S. domestic subsidiaries and are secured by a pledge of substantially all of the assets of Itron, Inc. and material U.S. domestic subsidiaries. This includes a pledge of 100% of the capital stock of material U.S. domestic subsidiaries and up to 66% of the voting stock (100% of the non-voting stock) of first-tier foreign subsidiaries. In addition, the obligations of any foreign subsidiary who is a foreign borrower, as defined by the 2018 credit facility, are guaranteed by the foreign subsidiary and by its direct and indirect foreign parents. The 2018 credit facility includes debt covenants, which contain certain financial thresholds and place certain restrictions on the incurrence of debt, investments, and the issuance of dividends. We were in compliance with the debt covenants under the 2018 credit facility at June 30, 2020.

Under the 2018 credit facility, we elect applicable market interest rates for both the term loan and any outstanding revolving loans. We also pay an applicable margin, which is based on our total net leverage ratio as defined in the credit agreement. The applicable rates per annum may be based on either: (1) the LIBOR rate or EURIBOR rate (subject to a floor of 0%), plus an applicable margin, or (2) the Alternate Base Rate, plus an applicable margin. The Alternate Base Rate election is equal to the

greatest of three rates: (i) the prime rate, (ii) the Federal Reserve effective rate plus 0.50%, or (iii) one-month LIBOR plus 1.00%. At June 30, 2020, the interest rate for both the term loan and revolver was 1.68%, which includes the LIBOR rate plus a margin of 1.50%.

On March 25, 2020, we drew \$400 million in U.S. dollars under the revolving line of credit within the 2018 credit facility to increase our cash position and preserve future financial flexibility. At June 30, 2020, \$400 million was outstanding under the revolver, and \$45.5 million was utilized by outstanding standby letters of credit, resulting in \$54.5 million available for additional borrowings or standby letters of credit. At June 30, 2020, no amounts were outstanding under the swingline sub-facility.

Senior Notes

On December 22, 2017 and January 19, 2018, we issued \$300 million and \$100 million of aggregate principal amount of 5.00% senior notes maturing January 15, 2026 (Senior Notes). The proceeds were used to refinance existing indebtedness related to the acquisition of SSNI, pay related fees and expenses, and for general corporate purposes. Interest on the Senior Notes is payable semi-annually in arrears on January 15 and July 15. The \$10 million interest payment due on July 15, 2020 was paid as of June 30, 2020. The Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by each of our subsidiaries that guarantee the senior credit facilities.

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

Debt Maturities

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

Year Ending December 31,	Minimum Payments
<i>In thousands</i>	
2020 (amount remaining at June 30, 2020)	\$ —
2021	32,422
2022	44,063
2023	44,063
2024	829,608
Thereafter	400,000
Total minimum payments on debt	\$ 1,350,156

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: Shareholders' Equity" and "Note 14: Fair Values of Financial Instruments" 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 (and are classified as "Level 2" in the fair value hierarchy). 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:

Derivative Assets	Balance Sheet Location	Fair Value	
		June 30, 2020	December 31, 2019
Derivatives designated as hedging instruments under ASC 815-20		<i>In thousands</i>	
Interest rate swap contract	Other current assets	\$ —	\$ 174
Interest rate cap contracts	Other current assets	—	1
Foreign exchange options	Other current assets	213	—
Cross currency swap contract	Other current assets	3,954	1,156
Cross currency swap contract	Other long-term assets	—	2,870
Derivatives not designated as hedging instruments under ASC 815-20			
Foreign exchange forward contracts	Other current assets	112	96
Total asset derivatives		\$ 4,279	\$ 4,297
Derivative Liabilities			
Derivatives designated as hedging instruments under ASC 815-20			
Interest rate swap contracts	Other current liabilities	\$ 979	\$ —
Interest rate swap contracts	Other long-term obligations	1,171	—
Derivatives not designated as hedging instruments under ASC 815-20			
Foreign exchange forward contracts	Other current liabilities	166	162
Total liability derivatives		\$ 2,316	\$ 162

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

<i>In thousands</i>	2020	2019
Net unrealized loss on hedging instruments at January 1,	\$ (15,103)	\$ (13,179)
Unrealized gain (loss) on hedging instruments	(1,914)	998
Realized (gains) losses reclassified into net income (loss)	(242)	(2,497)
Net unrealized loss on hedging instruments at June 30,	\$ (17,259)	\$ (14,678)

Reclassification of amounts related to hedging instruments are included in interest expense in the Consolidated Statements of Operations for the periods ended June 30, 2020 and 2019. Included in the net unrealized gain (loss) on hedging instruments at June 30, 2020 and 2019 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 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	
<i>In thousands</i>				
June 30, 2020	\$ 4,279	\$ (204)	\$ —	\$ 4,075
December 31, 2019	4,297	(56)	—	4,241

<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		
		Derivative Financial Instruments	Cash Collateral Pledged	Net Amount
<i>In thousands</i>				
June 30, 2020	\$ 2,316	\$ (204)	\$ —	\$ 2,112
December 31, 2019	162	(56)	—	106

Our derivative assets and liabilities subject to netting arrangements consist of foreign exchange forwards and options and interest rate contracts with six counterparties at June 30, 2020 and five counterparties at December 31, 2019. No derivative asset or liability balance with any of our counterparties was individually significant at June 30, 2020 or December 31, 2019. 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, and we have not received pledges of cash collateral from our counterparties under the associated derivative contracts.

Cash Flow Hedges

As a result of our floating rate debt, we are exposed to variability in our cash flows from changes in the applicable interest rate index. We enter into interest rate caps and swaps to reduce the variability of cash flows from increases in the LIBOR based borrowing rates on our floating rate credit facility. These instruments do not protect us from changes to the applicable margin under our credit facility. At June 30, 2020, our LIBOR-based debt balance was \$950.2 million.

In October 2015, we entered into one interest rate swap, which was effective August 31, 2016 and expired on June 23, 2020, to convert \$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 amortized to maturity at the same rate as required minimum payments on our term loan. The cash flow hedge was 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 were recorded as a component of other comprehensive income (loss) (OCI) and recognized in earnings when the hedged item affected earnings. The amounts paid or received on the hedge were recognized as adjustment to interest expense.

In March 2020, we entered into an interest rate swap, which is effective from June 30, 2020 to June 30, 2023, and converts \$240 million of our LIBOR-based debt from a floating LIBOR interest rate to a fixed interest rate of 0.617% (excluding the applicable margin). The notional balance will amortize to maturity at the same rate of originally required amortizations on our term loan. Changes in the fair value of the interest rate swap are recognized as a component of OCI and recognized in earnings when the hedged item affects earnings. The amounts paid or received on the hedge are recognized as adjustment to interest expense along with the earnings effect of the hedged item. The amount of net losses expected to be reclassified into earnings in the next 12 months is \$1.0 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 expired 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%. The interest rate cap contracts did not include the effect of the applicable margin. Changes in the fair value of these instruments were recognized as a component of OCI and recognized in earnings when the hedged item affected earnings. The amounts received on the hedge were recognized as an adjustment to interest expense along with the earnings effect of the hedged item.

In April 2018, we entered into one cross-currency swap, which converts \$56.0 million of floating LIBOR-based U.S. dollar denominated debt into 1.38% fixed rate euro denominated debt. This cross-currency swap matures on April 30, 2021 and mitigates the risk associated with fluctuations in currency rates impacting cash flows related to U.S. dollar denominated debt in a euro functional currency entity. Changes in the fair value of the cross-currency swap are recognized as a component of OCI and are recognized in earnings when the hedged item affects earnings. The amounts paid or received on the hedge are recognized as an adjustment to interest expense along with the earnings effect of the hedged item. The amount of net gains expected to be reclassified into earnings in the next 12 months is \$3.9 million.

As a result of our forecasted inventory purchases in a non-functional currency, we are exposed to foreign exchange risk. We hedge portions of these purchases. During February 2020, we entered into foreign exchange option contracts for a total notional amount of \$96 million at a cost of \$1.2 million. The contracts will mature ratably through the year with final maturity in October 2020. Changes in the fair value of the option contracts are recognized as a component of OCI and are recognized in product cost of revenues when the hedged item affects earnings.

The before-tax effects of our accounting for derivative instruments designated as hedges on AOCI were as follows:

Derivatives in ASC 815-20 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative		Gain (Loss) Reclassified from AOCI into Income		
			Location	Amount	
<i>In thousands</i>	2020	2019		2020	2019
Three Months Ended June 30,					
Interest rate swap contracts	\$ (937)	\$ (683)	Interest expense	\$ (296)	\$ 453
Interest rate cap contracts	389	134	Interest expense	194	305
Foreign exchange options	(880)	(89)	Product cost of revenues	(161)	162
Cross currency swap contract	(898)	(585)	Interest expense	145	416
Cross currency swap contract	—	—	Other income/(expense), net	(714)	(607)
Six Months Ended June 30,					
Interest rate swap contract	\$ (2,516)	\$ (1,001)	Interest expense	\$ (193)	\$ 919
Interest rate cap contracts	782	290	Interest expense	392	597
Foreign exchange options	(969)	218	Product cost of revenues	(161)	162
Cross currency swap contract	357	1,423	Interest expense	450	910
Cross currency swap contract	—	—	Other income/(expense), net	(197)	285

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 within 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 June 30, 2020, a total of 50 contracts were offsetting our exposures from the euro, Canadian dollar, Chinese yuan, Mexican peso, Pound Sterling and various other currencies, with notional amounts ranging from \$111,000 to \$26.4 million.

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

Derivatives Not Designated as Hedging Instrument under ASC 815-20	Location	Gain (Loss) Recognized on Derivatives in Other Income (Expense)	
		2020	2019
<i>In thousands</i>			
Three Months Ended June 30,			
Foreign exchange forward contracts	Other income (expense), net	\$ (904)	\$ (121)
Six Months Ended June 30,			
Foreign exchange forward contracts	Other income (expense), net	\$ 589	\$ (912)

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

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 certain of our international employees, primarily in Germany, France, Indonesia, India, and Italy. The defined benefit obligation is calculated annually by using the projected unit credit method. The measurement date for the pension plans was December 31, 2019.

Amounts recognized on the Consolidated Balance Sheets consist of:

<i>In thousands</i>	June 30, 2020	December 31, 2019
Assets		
Plan assets in other long-term assets	\$ —	\$ 44
Liabilities		
Current portion of pension benefit obligation in wages and benefits payable	3,716	2,885
Long-term portion of pension benefit obligation	99,184	98,712
Pension benefit obligation, net	<u>\$ 102,900</u>	<u>\$ 101,553</u>

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 cost for our plans include the following components:

<i>In thousands</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Service cost	\$ 1,017	\$ 892	\$ 1,993	\$ 1,971
Interest cost	457	573	930	1,155
Expected return on plan assets	(134)	(153)	(280)	(309)
Amortization of prior service costs	16	16	32	33
Amortization of actuarial net loss	453	342	908	687
Net periodic benefit cost	<u>\$ 1,809</u>	<u>\$ 1,670</u>	<u>\$ 3,583</u>	<u>\$ 3,537</u>

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

Note 9: Stock-Based Compensation

We grant stock-based compensation awards under the Second Amended and Restated 2010 Stock Incentive Plan (Stock Incentive Plan), including stock options, restricted stock units, phantom stock, and unrestricted stock units. In the Stock Incentive Plan, we have 12,623,538 shares of common stock reserved and authorized for issuance subject to stock splits, dividends, and other similar events and at June 30, 2020, 5,611,617 shares were available for grant. 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 204,451 shares of common stock were available for future issuance at June 30, 2020.

All other forms of stock grants, including Unrestricted stock, ESPP, and Phantom stock units were not significant for the three and six months ended June 30, 2020 and 2019.

Stock-Based Compensation Expense

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

In thousands	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Stock options	\$ 526	\$ 443	\$ 993	\$ 1,024
Restricted stock units	6,367	5,977	14,176	12,444
Unrestricted stock awards	206	158	412	315
Phantom stock units	1,060	525	1,493	1,443
Total stock-based compensation	\$ 8,159	\$ 7,103	\$ 17,074	\$ 15,226
Related tax benefit	\$ 1,420	\$ 1,275	\$ 3,187	\$ 2,718

Stock Options

A summary of our stock option activity is as follows:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value	Weighted Average Grant Date Fair Value
	(in thousands)		(years)	(in thousands)	
Outstanding, January 1, 2019	895	\$ 47.93	6.2	\$ 4,806	
Exercised	(59)	40.57		1,057	
Forfeited	(8)	67.38			
Expired	(9)	66.36			
Outstanding, June 30, 2019	819	\$ 48.06	5.8	\$ 12,958	
Outstanding, January 1, 2020	458	\$ 56.38	7.0	\$ 12,641	
Granted	73	87.27			\$ 26.72
Exercised	(47)	51.52		1,131	
Outstanding, June 30, 2020	484	\$ 61.48	7.3	\$ 4,871	
Exercisable, June 30, 2020	292	\$ 50.30	6.1	\$ 4,823	

At June 30, 2020, total unrecognized stock-based compensation expense related to nonvested stock options was \$3.4 million, which is expected to be recognized over a weighted average period of approximately 2.2 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:

	Six Months Ended June 30,	
	2020	2019
Expected volatility	31.0 %	— %
Risk-free interest rate	1.4 %	— %
Expected term (years)	5.3	N/A

There were no employee stock options granted for the three months ended June 30, 2020, and the three and six months ended June 30, 2019.

Restricted Stock Units

The following table summarizes restricted stock unit activity:

<i>In thousands, except fair value</i>	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Outstanding, January 1, 2019	817		
Granted	118	\$ 56.40	
Released ⁽¹⁾	(363)		\$ 22,304
Forfeited	(36)		
Outstanding, June 30, 2019	536		
Outstanding, January 1, 2020	684	\$ 64.38	
Granted	189	85.97	
Released ⁽¹⁾	(230)	65.14	\$ 2,506
Forfeited	(13)	66.91	
Outstanding, June 30, 2020	630	70.74	
Vested but not released, June 30, 2020	8		\$ 534

⁽¹⁾ Shares released is presented gross of shares netted for employee payroll tax obligations.

At June 30, 2020, total unrecognized compensation expense on restricted stock units was \$38.0 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 performance-based restricted stock units granted with a service and market condition and the resulting weighted average fair value are as follows:

	Six Months Ended June 30,	
	2020	2019
Expected volatility	37.6 %	31.3 %
Risk-free interest rate	1.5 %	2.5 %
Expected term (years)	1.8	1.6
Weighted average fair value	\$ 94.28	\$ 60.91

There were no performance-based restricted stock units granted for the three months ended June 30, 2020 and 2019.

Note 10: Income Taxes

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

Our tax rate for the three and six months ended June 30, 2020 of (8)% and (30)%, respectively, differed from the federal statutory rate of 21% primarily due to a significant loss recognized in the second quarter for the divestiture of the majority of our Latin American business activities. Refer to "Note 17: Sale of Business" for additional information on the transaction. This loss was recognized for tax as a discrete item and resulted in no tax benefit. Other rate drivers include losses in jurisdictions for which no benefit is recognized because of valuation allowances on deferred tax assets, the forecasted mix of earnings in domestic and international jurisdictions, a benefit related to excess stock-based compensation, and uncertain tax positions.

Our tax rate for the three and six months ended June 30, 2019 of 30% and 42%, respectively, differed from the federal statutory rate of 21% primarily due to losses in jurisdictions for which no benefit is recognized because of valuation allowances on deferred tax assets as well as the forecasted mix of earnings in domestic and international jurisdictions, a benefit related to excess stock-based compensation, and uncertain tax positions.

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 amounts recognized were as follows:

<i>In thousands</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net interest and penalties expense	\$ 312	\$ (42)	\$ 620	\$ 259

Accrued interest and penalties recognized were as follows:

<i>In thousands</i>	June 30, 2020	December 31, 2019
Accrued interest	\$ 3,203	\$ 2,849
Accrued penalties	1,746	1,681

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:

<i>In thousands</i>	June 30, 2020	December 31, 2019
Unrecognized tax benefits related to uncertain tax positions	\$ 122,621	\$ 121,715
The amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate	121,311	120,410

At June 30, 2020, we are under examination by certain tax authorities. 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 cash flows.

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.

We file income tax returns in various jurisdictions. The material jurisdictions where we are subject to examination include, among others, the United States, France, Germany, Italy, and the United Kingdom.

On March 27, 2020, the U.S. Federal government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act to provide economic relief from COVID-19. The CARES Act contains significant business tax provisions, which the Company has evaluated and determined will not have a material impact on the Company's financial statements or related disclosures.

The CARES Act also provides employer payroll tax credits for wages paid to employees who are unable to work during the COVID-19 outbreak and options to defer payroll tax payments. The Company has elected to defer remittances of payroll and other taxes into the future as provided for under the Act, and may assess in subsequent quarters the impact and availability of payroll tax credits from the U.S. and similar programs provided for by foreign governments, as applicable.

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 our future performance, which usually covers the installation phase of a contract and may, on occasion, cover the operations and maintenance phase of outsourcing contracts.

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

<i>In thousands</i>	June 30, 2020	December 31, 2019
Credit facility		
Multicurrency revolving line of credit	\$ 500,000	\$ 500,000
Long-term borrowings	(400,000)	—
Standby LOCs issued and outstanding	(45,458)	(41,072)
Net available for additional borrowings under the multi-currency revolving line of credit	<u>\$ 54,542</u>	<u>\$ 458,928</u>
Net available for additional standby LOCs under sub-facility	<u>\$ 54,542</u>	<u>\$ 258,928</u>
Unsecured multicurrency revolving lines of credit with various financial institutions		
Multicurrency revolving lines of credit	\$ 99,782	\$ 107,206
Standby LOCs issued and outstanding	(23,440)	(25,100)
Short-term borrowings	(134)	(173)
Net available for additional borrowings and LOCs	<u>\$ 76,208</u>	<u>\$ 81,933</u>
Unsecured surety bonds in force	<u>\$ 160,860</u>	<u>\$ 136,004</u>

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, as of August 3, 2020, we do not believe that any outstanding LOC or bond will be called.

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

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 would be 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:

<i>In thousands</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Beginning balance	\$ 48,719	\$ 57,532	\$ 53,242	\$ 60,443
New product warranties	1,000	538	2,070	2,257
Other adjustments and expirations, net	3,100	6,070	3,793	7,931
Claims activity	(8,365)	(7,434)	(14,305)	(13,517)
Effect of change in exchange rates	303	406	(43)	(2)
Ending balance	44,757	57,112	44,757	57,112
Less: current portion of warranty	33,039	38,987	33,039	38,987
Long-term warranty	<u>\$ 11,718</u>	<u>\$ 18,125</u>	<u>\$ 11,718</u>	<u>\$ 18,125</u>

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

<i>In thousands</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Total warranty expense	\$ 4,130	\$ 6,187	\$ 5,893	\$ 7,966

Note 12: Restructuring

2018 Projects

On February 22, 2018, our Board of Directors approved a restructuring plan (the 2018 Projects) to continue our efforts to optimize our global supply chain and manufacturing operations, research and development, and sales and marketing organizations. We expect to substantially complete expense recognition on the plan by the end of 2020. Many of the affected employees are represented by unions or works councils, which require consultation, and potential restructuring projects may be subject to regulatory approval, both of which could impact the timing of charges, total expected charges, cost recognized, and planned savings in certain jurisdictions. All prior restructuring plans are substantially complete and are not presented below.

During the three months ended June 30, 2020 we reversed expense for employee severance costs and asset impairments we will no longer incur as a result of selling our business in Latin America.

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

<i>In thousands</i>	Total Expected Costs at June 30, 2020	Costs Recognized in Prior Periods	Costs Recognized During the Six Months Ended June 30, 2020	Expected Remaining Costs to be Recognized at June 30, 2020
Employee severance costs	\$ 67,833	\$ 72,133	\$ (4,300)	\$ —
Asset impairments & net loss (gain) on sale or disposal	2,696	3,842	(1,146)	—
Other restructuring costs	21,381	11,420	2,515	7,446
Total	\$ 91,910	\$ 87,395	\$ (2,931)	\$ 7,446

The following table summarizes the activity within the restructuring related balance sheet accounts for the 2018 Projects during the six months ended June 30, 2020:

<i>In thousands</i>	Accrued Employee Severance	Asset Impairments & Net Loss (Gain) on Sale or Disposal	Other Accrued Costs	Total
Beginning balance, January 1, 2020	\$ 53,741	\$ —	\$ 2,366	\$ 56,107
Costs charged to expense	(4,300)	(1,146)	2,515	(2,931)
Cash (payments) receipts	(7,511)	2,312	(2,225)	(7,424)
Net assets disposed and impaired	—	(1,166)	—	(1,166)
Effect of change in exchange rates	96	—	(1)	95
Ending balance, June 30, 2020	\$ 42,026	\$ —	\$ 2,655	\$ 44,681

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. Restructuring expense is part of the Corporate unallocated segment and is not part of the operating segments.

The current portion of restructuring liabilities was \$15.6 million and \$18.9 million as of June 30, 2020 and December 31, 2019. The current portion of restructuring liabilities is classified within other current liabilities on the Consolidated Balance Sheets.

The long-term portion of restructuring liabilities balances was \$29.1 million and \$37.2 million as of June 30, 2020 and December 31, 2019. The long-term portion of restructuring liabilities is classified within other long-term obligations on the Consolidated Balance Sheets and includes severance accruals and facility exit costs.

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 will 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 June 30, 2020 or December 31, 2019.

Stock Repurchase Authorization

On March 14, 2019, Itron's Board of Directors authorized the Company to repurchase up to \$50 million of our common stock over a 12-month period (the 2019 Stock Repurchase Program). Following the announcement of the program and through December 31, 2019, we repurchased 529,396 shares at an average share price of \$47.22 (including commissions) for a total of \$25 million. The program expired on March 13, 2020 and no additional shares were repurchased during the quarter ended March 31, 2020.

Other Comprehensive Income (Loss)

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

<i>In thousands</i>	Foreign Currency Translation Adjustments	Net Unrealized Gain (Loss) on Derivative Instruments	Net Unrealized Gain (Loss) on Nonderivative Instruments	Pension Benefit Obligation Adjustments	Accumulated Other Comprehensive Income (Loss)
Balances at January 1, 2019	\$ (157,489)	\$ 1,201	\$ (14,380)	\$ (25,637)	\$ (196,305)
OCI before reclassifications	2,801	998	—	663	4,462
Amounts reclassified from AOCI	—	(2,497)	—	(9)	(2,506)
Total other comprehensive income (loss)	2,801	(1,499)	—	654	1,956
Balances at June 30, 2019	\$ (154,688)	\$ (298)	\$ (14,380)	\$ (24,983)	\$ (194,349)
Balances at January 1, 2020	\$ (157,999)	\$ (723)	\$ (14,380)	\$ (31,570)	\$ (204,672)
OCI before reclassifications	(14,135)	(1,914)	—	83	(15,966)
Amounts reclassified from AOCI	52,088	(242)	—	965	52,811
Total other comprehensive income (loss)	37,953	(2,156)	—	1,048	36,845
Balances at June 30, 2020	\$ (120,046)	\$ (2,879)	\$ (14,380)	\$ (30,522)	\$ (167,827)

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

<i>In thousands</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Before-tax amount				
Foreign currency translation adjustment	\$ 10,685	\$ 5,352	\$ (15,908)	\$ 3,098
Foreign currency translation adjustment reclassified to net income on sale of business	52,088	—	52,088	—
Net unrealized gain (loss) on derivative instruments, designated as cash flow hedges	(2,331)	651	(2,341)	822
Net hedging (gain) loss reclassified to net income	832	(2,610)	(291)	(2,874)
Net unrealized gain (loss) on defined benefit plans	(457)	378	81	720
Net defined benefit plan (gain) loss reclassified to net income	469	(189)	940	(10)
Total other comprehensive income (loss), before tax	\$ 61,286	\$ 3,582	\$ 34,569	\$ 1,756
Tax (provision) benefit				
Foreign currency translation adjustment	\$ 625	\$ (165)	\$ 1,773	\$ (297)
Foreign currency translation adjustment reclassified to net income on sale of business	—	—	—	—
Net unrealized gain (loss) on derivative instruments, designated as cash flow hedges	135	136	427	176
Net hedging (gain) loss reclassified to net income	(25)	189	49	377
Net unrealized gain (loss) on defined benefit plans	6	(42)	2	(57)
Net defined benefit plan (gain) loss reclassified to net income	29	36	25	1
Total other comprehensive income (loss) tax benefit	\$ 770	\$ 154	\$ 2,276	\$ 200
Net-of-tax amount				
Foreign currency translation adjustment	\$ 11,310	\$ 5,187	\$ (14,135)	\$ 2,801
Foreign currency translation adjustment reclassified to net income on sale of business	52,088	—	52,088	—
Net unrealized gain (loss) on derivative instruments, designated as cash flow hedges	(2,196)	787	(1,914)	998
Net hedging (gain) loss reclassified to net income	807	(2,421)	(242)	(2,497)
Net unrealized gain (loss) on defined benefit plans	(451)	336	83	663
Net defined benefit plan (gain) loss reclassified to net income	498	(153)	965	(9)
Total other comprehensive income (loss), net of tax	\$ 62,056	\$ 3,736	\$ 36,845	\$ 1,956

Note 14: Fair Values of Financial Instruments

The fair values at June 30, 2020 and December 31, 2019 do not reflect subsequent changes in the economy, interest rates, tax rates, and other variables that may affect the determination of fair value.

<i>In thousands</i>	June 30, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Credit facility				
USD denominated term loan	\$ 546,924	\$ 532,090	\$ 546,495	\$ 550,135
Multicurrency revolving line of credit	400,000	385,272	—	—
Senior notes	387,143	398,500	385,987	416,500

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

Cash, cash equivalents, and restricted cash: 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 determined based upon a hypothetical market participant, are calculated using a discounted cash flow model with Level 2 inputs, including estimates of incremental borrowing rates for debt with similar terms, maturities, and credit profiles. Refer to "Note 6: Debt" for a further discussion of our debt.

Senior Notes: The Senior Notes are not registered securities nor listed on any securities exchange but may be actively traded by qualified institutional buyers. The fair value is estimated using Level 1 inputs, as it is based on quoted prices for these instruments in active markets.

Derivatives: See "Note 7: Derivative Financial Instruments" for a description of our methods and assumptions in determining the fair value of our derivatives, which were determined using Level 2 inputs. Each derivative asset and liability has a carrying value equal to fair value.

Note 15: Segment Information

We operate under the Itron brand worldwide and manage and report under three operating segments: Device Solutions, Networked Solutions, and Outcomes.

We have three GAAP measures of segment performance: revenues, gross profit (gross margin), and operating income (operating margin). 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 the income tax provision (benefit) are neither allocated to the segments, nor are they included in the measure of segment performance. 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

Device Solutions – This segment primarily includes hardware products used for measurement, control, or sensing that do not have communications capability embedded for use with our broader Itron systems, i.e., hardware-based products not part of a complete "end-to-end" solution. Examples from the Device Solutions portfolio include: standard endpoints that are shipped without Itron communications, such as our standard gas meters, electricity IEC meters, and water meters, in addition to our heat and allocation products; communicating meters that are not a part of an Itron solution such as Smart Spec meters; and the implementation and installation of non-communicating devices, such as gas regulators.

Networked Solutions – This segment primarily includes a combination of communicating devices (smart meters, modules, endpoints, and sensors), network infrastructure, and associated application software designed and sold as a complete solution for acquiring and transporting robust application-specific data. Networked Solutions combines the majority of the assets from the recently acquired SSNI organization with our legacy Itron networking products and software and the implementation and installation of communicating devices into one operating segment. Examples from the Networked Solutions portfolio include: communicating measurement, control, or sensing endpoints such as our Itron® and OpenWay® Riva meters, Itron traditional ERT® technology, Intelis smart gas or water meters, 500G gas communication modules, 500W water communication modules; GenX networking products, network modules and interface cards; and specific network control and management software applications. The IIoT solutions supported by this segment include automated meter reading (AMR), advanced metering infrastructure (AMI), smart grid and distribution automation (DA), and smart street lighting and smart city solutions.

Outcomes – This segment primarily includes our value-added, enhanced software and services in which we manage, organize, analyze, and interpret data to improve decision making, maximize operational profitability, drive resource efficiency, and deliver results for consumers, utilities, and smart cities. Outcomes places an emphasis on delivering to Itron customers high-value, turn-key, digital experiences by leveraging the footprint of our Device Solutions and Networked Solutions segments. The revenues from these offerings are primarily recurring in nature and would include any direct management of Device Solutions, Networked Solutions, and other products on behalf of our end customers. Examples from the Outcomes portfolio include: our meter data management and analytics offerings; our managed service solutions including network-as-a-service and platform-as-a-service, forecasting software and services; and any consulting-based engagement. Within the Outcomes segment, we also

identify new business models, including performance-based contracting, to drive broader portfolio offerings across utilities and cities.

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

<i>In thousands</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Product revenues				
Device Solutions	\$ 126,950	\$ 214,589	\$ 327,118	\$ 433,158
Networked Solutions	300,351	333,422	615,788	647,772
Outcomes	11,684	18,036	24,216	29,967
Total Company	\$ 438,985	\$ 566,047	\$ 967,122	\$ 1,110,897
Service revenues				
Device Solutions	\$ 2,215	\$ 3,134	\$ 4,326	\$ 6,320
Networked Solutions	24,129	22,494	49,537	44,571
Outcomes	44,265	43,362	87,024	87,825
Total Company	\$ 70,609	\$ 68,990	\$ 140,887	\$ 138,716
Total revenues				
Device Solutions	\$ 129,165	\$ 217,723	\$ 331,444	\$ 439,478
Networked Solutions	324,480	355,916	665,325	692,343
Outcomes	55,949	61,398	111,240	117,792
Total Company	\$ 509,594	\$ 635,037	\$ 1,108,009	\$ 1,249,613
Gross profit				
Device Solutions	\$ 11,948	\$ 41,590	\$ 44,315	\$ 81,506
Networked Solutions	108,323	126,243	230,073	253,311
Outcomes	18,246	23,381	35,695	43,660
Total Company	\$ 138,517	\$ 191,214	\$ 310,083	\$ 378,477
Operating income (loss)				
Device Solutions	\$ (1,120)	\$ 28,355	\$ 17,078	\$ 53,812
Networked Solutions	77,382	98,035	166,062	193,357
Outcomes	9,226	14,367	17,424	24,777
Corporate unallocated	(130,875)	(97,199)	(219,581)	(207,565)
Total Company	(45,387)	43,558	(19,017)	64,381
Total other income (expense)	(12,299)	(15,022)	(21,957)	(29,873)
Income (loss) before income taxes	\$ (57,686)	\$ 28,536	\$ (40,974)	\$ 34,508

Our corporate unallocated operating loss for the three and six months ended June 30, 2020 includes a \$56.9 million loss from the sale of our Latin American business. Refer to "Note 17: Sale of Business" for additional information on the transaction.

For the three months ended June 30, 2020 and 2019, one customer represented 13% and 11% of total company revenues. For the six months ended June 30, 2020 and 2019, one customer represented 12% and 11% of total company revenues.

We currently buy a majority of our integrated circuit board assemblies from three suppliers. Management believes that other suppliers could provide similar products, but a change in suppliers, disputes with our suppliers, or unexpected constraints on the suppliers' production capacity could adversely affect operating results.

Revenues by region were as follows:

<i>In thousands</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
United States and Canada	\$ 369,862	\$ 417,909	\$ 755,187	\$ 815,475
Europe, Middle East, and Africa (EMEA)	107,799	167,314	274,783	338,556
Latin America and Asia Pacific ⁽¹⁾	31,933	49,814	78,039	95,582
Total Company	\$ 509,594	\$ 635,037	\$ 1,108,009	\$ 1,249,613

⁽¹⁾ On June 25, 2020, Itron closed on the sale of its Latin American operations. We will continue to sell into the region through an exclusive distributor.

Depreciation expense is allocated to the operating segments based upon each segment's use of the assets. All amortization expense is recognized within Corporate unallocated. Depreciation and amortization of intangible assets expense associated with our operating segments was as follows:

<i>In thousands</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Device Solutions	\$ 6,062	\$ 6,346	\$ 12,497	\$ 12,782
Networked Solutions	4,333	3,205	8,070	6,453
Outcomes	1,412	1,285	2,805	2,587
Corporate unallocated	12,392	17,805	24,858	35,246
Total Company	\$ 24,199	\$ 28,641	\$ 48,230	\$ 57,068

Note 16: Revenues

A summary of significant net changes in the contract assets and the contract liabilities balances during the period is as follows:

<i>In thousands</i>	Contract liabilities, less contract assets
Beginning balance, January 1, 2020	\$ 88,215
Revenues recognized from beginning contract liability	(71,859)
Increases due to amounts collected or due	181,878
Revenues recognized from current period increases	(75,447)
Other	(5,629)
Ending balance, June 30, 2020	\$ 117,158

On January 1, 2020, total contract assets were \$50.7 million and total contract liabilities were \$138.9 million. On June 30, 2020, total contract assets were \$49.6 million and total contract liabilities were \$166.8 million. The contract assets primarily relate to contracts that include a retention clause and allocations related to contracts with multiple performance obligations. The contract liabilities primarily relate to deferred revenue, such as extended warranty and maintenance cost.

Transaction price allocated to the remaining performance obligations

Total transaction price allocated to remaining performance obligations represents committed but undelivered products and services for contracts and purchase orders at period end. Twelve-month remaining performance obligations represent the portion of total transaction price allocated to remaining performance obligations that we estimate will be recognized as revenue over the next 12 months. Total transaction price allocated to remaining performance obligations is not a complete measure of our future revenues as we also receive orders where the customer may have legal termination rights but are not likely to terminate.

Total transaction price allocated to remaining performance obligations related to contracts is approximately \$1.2 billion for the next twelve months and approximately \$1.1 billion for periods longer than 12 months. The total remaining performance obligations consist of product and service components. The service component relates primarily to maintenance agreements for which customers pay a full year's maintenance in advance, and service revenues are generally recognized over the service period. Total transaction price allocated to remaining performance obligations also includes our extended warranty contracts, for which revenue is recognized over the warranty period, and hardware, which is recognized as units are delivered. The estimate of when remaining performance obligations will be recognized requires significant judgment.

Cost to obtain a contract and cost to fulfill a contract with a customer

Cost to obtain a contract and costs to fulfill a contract were capitalized and amortized using a systematic rational approach to align with the transfer of control of underlying contracts with customers. While amounts were capitalized, they are not material.

Disaggregation of revenue

Refer to "Note 15: Segment Information" and the Consolidated Statements of Operations for disclosure regarding the disaggregation of revenue into categories, which depict how revenue and cash flows are affected by economic factors. Specifically, our operating segments and geographical regions as disclosed, and categories for products, which include hardware and software and services, are presented.

Note 17: Sale of Business*Latin America Divestiture*

On June 25, 2020, we closed on the sale of five subsidiaries comprising our manufacturing and sales operations in Latin America to buyers led by Instalación Profesional y Tecnologías del Centro S.A. de C.V., a Mexican company doing business as Accell in Brazil (Accell), through the execution of various definitive stock purchase agreements. The sale of these Latin America-based operations is part of our continued strategy to improve profitability and focus on growing our Networked Solutions and Outcomes businesses in Latin America and throughout the world. We retained the intellectual property rights to our products sold in Latin America. As part of the transaction, we entered into an intellectual property license agreement whereby Accell will pay a royalty on certain products manufactured by Accell using licensed Company intellectual property. In addition, Accell will serve as an exclusive distributor for our Device Solutions, Networked Solutions, and Outcomes products and services offerings in Latin America.

Based on the sales price and the net assets of the five subsidiaries sold, we recognized an impairment loss of \$56.9 million in the second quarter of 2020. The impairment was primarily due to the recognition of \$52.1 million in foreign currency translation losses accumulated since the acquisition of these subsidiaries in 2006 and 2007, and allocated goodwill of \$3.0 million. Accell assumed all recognized liabilities, as well as all future liabilities, of the subsidiaries. We have provided no indemnification for any future losses that may be incurred. The terms of the agreement allow for adjustments to the working capital amounts used in the calculation of the sales price and net assets written off for a period of 60 days following the close of the transaction.

Of the total sales price, \$2.5 million was received at closing, and the majority of the remaining portion is due by December 31, 2020. Included in the net assets sold was \$6.1 million in cash. This resulted in net outflow of cash at closing of \$3.6 million.

The loss on sale of business was calculated as follows:

<i>In thousands</i>	Loss on sale of business	
Sales price	\$	35,008
Net assets sold (including working capital)		(36,002)
Currency translation adjustment loss		(52,088)
Goodwill allocated		(3,000)
Legal fees		(833)
Total loss on sale of business	\$	<u>(56,915)</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 consolidated financial statements and notes included in this report and with the consolidated financial statements and the notes thereto for the fiscal year ended December 31, 2019 filed with the Securities and Exchange Commission (SEC) in our Annual Report on Form 10-K on February 27, 2020 (2019 Annual Report).

Documents we provide to the SEC are available free of charge under the Investors section of our website at www.itron.com as soon as practicable after they are filed with or furnished to the SEC. In addition, these documents are available at the SEC's website (<http://www.sec.gov>).

Certain Forward-Looking Statements

This report contains, and our officers and representatives may from time to time make, "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are neither historical factors nor assurances of future performance. These statements are based on our expectations about, among others, revenues, operations, financial performance, earnings, liquidity, earnings per share, cash flows and restructuring activities including headcount reductions and other cost savings initiatives. This document reflects our current strategy, 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 words such as "expect," "intend," "anticipate," "believe," "plan," "goal," "seek," "project," "estimate," "future," "strategy," "objective," "may," "likely," "should," "will," "will continue," and similar expressions, including related to future periods, they are intended to identify forward-looking statements. Forward-looking statements rely on a number of assumptions and estimates. Although we believe the estimates and assumptions upon which these forward-looking statements are based are reasonable, any of these estimates or assumptions could prove to be inaccurate and the forward-looking statements based on these estimates and assumptions could be incorrect. Our operations involve risks and uncertainties, many of which are outside our control, and any one of which, or a combination of which, could materially affect our results of operations and whether the forward-looking statements ultimately prove to be correct. Actual results and trends in the future may differ materially from those suggested or implied by the forward-looking statements depending on a variety of factors. Therefore, you should not rely on any of these forward-looking statements. Some of the factors that we believe could affect our results include our ability to execute on our restructuring plan, our ability to achieve estimated cost savings, the rate and timing of customer demand for our products, rescheduling of current customer orders, changes in estimated liabilities for product warranties, adverse impacts of litigation, changes in laws and regulations, our dependence on new product development and intellectual property, future acquisitions, changes in estimates for stock-based and bonus compensation, increasing volatility in foreign exchange rates, international business risks, uncertainties caused by adverse economic conditions, including, without limitation those resulting from extraordinary events or circumstances such as the COVID-19 pandemic and other factors that are more fully described in Item 1A: "Risk Factors" included in our 2019 Annual Report, Part II - Item 1A of this document, and other reports on file with the SEC. We do not undertake any obligation to publicly update or revise any forward-looking statement, whether written or oral.

The impact caused by the ongoing COVID-19 pandemic includes uncertainty as to the duration, spread, severity, and any recurrence of the COVID-19 pandemic, the duration and scope of related government orders and restrictions, impact on overall demand, impact on our customers' businesses and workforce levels, disruptions of our business and operations, including the impact on our employees, limitations on, or closures of, our facilities, or the business and operations of our customers or suppliers. Our estimates and statements regarding the impact of COVID-19 are made in good faith to provide insight to our current and future operating and financial environment and any of these may materially change due to factors outside our control. For more information on risks associated with the COVID-19 pandemic, please see our updated risk in Part II, Item 1A, "Risk Factors" of this document.

Overview

We are a technology and service company, which is a leader in the Industrial Internet of Things (IIoT). We offer solutions that enable utilities and municipalities to safely, securely, and reliably operate their critical infrastructure. Our solutions include the deployment of smart networks, software, services, devices, sensors, and data analytics that allow our customers to manage assets, secure revenue, lower operational costs, improve customer service, improve safety, and enable efficient management of valuable resources. Our comprehensive solutions and data analytics address the unique challenges facing the energy, water, and municipality sectors, including increasing demand on resources, non-technical loss, leak detection, environmental and regulatory compliance, and improved operational reliability.

We operate under the Itron brand worldwide and manage and report under three operating segments: Device Solutions, Networked Solutions, and Outcomes. The product and operating definitions of the three segments are as follows:

Device Solutions – This segment primarily includes hardware products used for measurement, control, or sensing that do not have communications capability embedded for use with our broader Itron systems, i.e., hardware-based products not part of a complete "end-to-end" solution. Examples from the Device Solutions portfolio include: standard endpoints that are shipped without Itron communications, such as our standard gas meters, electricity IEC meters, and water meters, in addition to our heat and allocation products; communicating meters that are not a part of an Itron solution such as Smart Spec meters; and the implementation and installation of non-communicating devices, such as gas regulators.

Networked Solutions – This segment primarily includes a combination of communicating devices (smart meters, modules, endpoints, and sensors), network infrastructure, and associated application software designed and sold as a complete solution for acquiring and transporting robust application-specific data. Networked Solutions combines the majority of the assets from the recently acquired SSNI organization with our legacy Itron networking products and software and the implementation and installation of communicating devices into one operating segment. Examples from the Networked Solutions portfolio include:

communicating measurement, control, or sensing endpoints such as our Itron® and OpenWay® Riva meters, Itron traditional ERT® technology, Intelis smart gas or water meters, 500G gas communication modules, 500W water communication modules; GenX networking products, network modules and interface cards; and specific network control and management software applications. The IIoT solutions supported by this segment include automated meter reading (AMR), advanced metering infrastructure (AMI), smart grid and distribution automation (DA), and smart street lighting and smart city solutions.

Outcomes – This segment primarily includes our value-added, enhanced software and services in which we manage, organize, analyze, and interpret data to improve decision making, maximize operational profitability, drive resource efficiency, and deliver results for consumers, utilities, and smart cities. Outcomes places an emphasis on delivering to Itron customers high-value, turn-key, digital experiences by leveraging the footprint of our Device Solutions and Networked Solutions segments. The revenues from these offerings are primarily recurring in nature and would include any direct management of Device Solutions, Networked Solutions, and other products on behalf of our end customers. Examples from the Outcomes portfolio include: our meter data management and analytics offerings; our managed service solutions including network-as-a-service and platform-as-a-service, forecasting software and services; and any consulting-based engagement. Within the Outcomes segment, we also identify new business models, including performance-based contracting, to drive broader portfolio offerings across utilities and cities.

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), the income tax provision (benefit), and certain corporate operating expenses are neither allocated to the segments nor included in the measures of segment performance.

Non-GAAP Measures

To supplement our consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States (GAAP), we use certain adjusted or non-GAAP financial measures, including non-GAAP operating expense, non-GAAP operating income, non-GAAP net income, non-GAAP diluted earnings per share (EPS), adjusted EBITDA, adjusted EBITDA margin, constant currency, and free cash flow. We provide these non-GAAP financial measures because we believe they provide greater transparency and represent supplemental information used by management in its financial and operational decision making. We exclude certain costs in our non-GAAP financial measures as we believe the net result is a measure of our core business. We believe these measures facilitate operating performance comparisons from period to period by eliminating potential differences caused by the existence and timing of certain expense items that would not otherwise be apparent on a GAAP basis. Non-GAAP performance measures should be considered in addition to, and not as a substitute for, results prepared in accordance with GAAP. 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. Our non-GAAP financial measures may be different from those reported 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 41-43 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

Highlights and significant developments for the three months ended June 30, 2020 compared with the three months ended June 30, 2019

- Revenues were \$509.6 million compared with \$635.0 million in 2019, a decrease of \$125.4 million, or 20%
- Gross margin was 27.2%, compared with 30.1% in the same period last year
- Operating expenses increased \$36.2 million, or 25%, compared with 2019, and included a \$56.9 million loss on sale of business
- Net loss attributable to Itron, Inc. was \$62.8 million compared with net income of \$19.4 million in 2019
- GAAP diluted EPS decreased by \$2.05 to a diluted loss per share of \$1.56 compared with 2019
- Non-GAAP net income attributable to Itron, Inc. was \$1.3 million compared with \$34.6 million in 2019
- Non-GAAP diluted EPS was \$0.03, a decrease of \$0.84 compared with 2019
- Adjusted EBITDA was \$31.2 million compared with \$73.0 million in 2019
- Total backlog was \$2.9 billion and twelve-month backlog was \$1.3 billion at June 30, 2020

Highlights and significant developments for the six months ended June 30, 2020 compared with the six months ended June 30, 2019

- Revenues were \$1.11 billion compared with \$1.25 billion in 2019, a decrease of \$141.6 million, or 11%
- Gross margin was 28.0% compared with 30.3% in 2019
- Operating expenses increased \$15.0 million, or 5%, compared with 2019, and included a \$56.9 million loss on sale of business
- Net loss attributable to Itron, Inc. was \$54.1 million, compared with net income of \$17.5 million in 2019
- GAAP diluted EPS decreased by \$1.79 to a diluted loss per share of \$1.35 as compared with 2019
- Non-GAAP net income attributable to Itron, Inc. was \$24.3 million compared with \$62.5 million in 2019
- Non-GAAP diluted EPS was \$0.60, a decrease of \$0.97 compared with 2019
- Adjusted EBITDA was \$83.2 million compared with \$138.7 million in 2019

Outlook for 2020 due to COVID-19

The COVID-19 pandemic has had global economic impacts including disrupting global supply chains and creating market volatility. The extent of the recent pandemic and its ongoing impact on our operations is volatile but is being monitored closely by management. Certain of our European factories were closed during portions of the first half of 2020 due to government actions and local conditions, and all had reopened as of the end of the second quarter. These closures as well as any further closures that may be imposed on us could impact our results for the remainder of 2020. We expect that certain of our customers' projects and deployments may shift to later in 2020 and 2021. At this time, we expect that these Q2 2020 financial results of operations will be the most impacted by the pandemic. Incremental costs to us related to COVID-19, such as personal protective equipment, increased cleaning and sanitizing of our facilities, and other such items, have not been material to date. At this time, we have not identified any significant decrease in long-term customer demand for our products and services. For more information on risks associated with the COVID-19 pandemic, please see our updated risk in Part II, Item 1A, "Risk Factors".

The COVID 19 pandemic remains a rapidly evolving situation. Changes in the mix of earnings or losses from our different geographical operations, as well as any future enactment of tax legislation and other factors, may result in more volatile quarterly and annual effective tax rates. The detrimental impacts to financial results may be partially offset by financial assistance from the U.S. and foreign governments, including employer payroll tax credits for wages paid to employees who are unable to work during the COVID-19 outbreak. Other benefits, including options to defer payroll tax payments and additional deductions, has resulted in reduced future cash outlays in the near term.

Sale of Business

On June 25, 2020, we closed on the sale of five subsidiaries comprising our manufacturing and sales operations in Latin America to buyers led by Instalación Profesional y Tecnologías del Centro S.A. de C.V., a Mexican company doing business as Accell in Brazil (Accell), through the execution of various definitive stock purchase agreements. The sale of these Latin America-based operations is part of our continued strategy to improve profitability and focus on growing our Networked Solutions and Outcomes businesses in Latin America and throughout the world. We retained the intellectual property rights to our products sold in Latin America. As part of the transaction, we entered into an intellectual property license agreement

whereby Accell will pay a royalty on certain products manufactured by Accell using licensed Company intellectual property. In addition, Accell will serve as an exclusive distributor for our Device Solutions, Networked Solutions, and Outcomes products and services offerings in Latin America. We recognized a loss on sale of business of \$56.9 million in the second quarter of 2020, primarily due to foreign currency translation losses and allocated goodwill. Refer to Item 1: "Financial Statements (Unaudited), Note 17: Sale of Business" for more information.

Credit Facility

We drew \$400 million U.S. dollars under the revolving line of credit within the 2018 credit facility on March 25, 2020. In light of the current uncertain environment, we deemed it prudent to increase our cash position and preserve future financial flexibility. The Total Net Leverage Ratio, as defined in the amended 2018 credit facility agreement, was unchanged by this drawing.

Total Company GAAP and Non-GAAP Highlights and Unit Shipments:

<i>In thousands, except margin and per share data</i>	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
GAAP						
Revenues						
Product revenues	\$ 438,985	\$ 566,047	(22)%	\$ 967,122	\$ 1,110,897	(13)%
Service revenues	70,609	68,990	2%	140,887	138,716	2%
Total revenues	509,594	635,037	(20)%	1,108,009	1,249,613	(11)%
Gross profit	\$ 138,517	\$ 191,214	(28)%	\$ 310,083	\$ 378,477	(18)%
Operating expenses	183,904	147,656	25%	329,100	314,096	5%
Operating income (loss)	(45,387)	43,558	NM	(19,017)	64,381	NM
Other income (expense)	(12,299)	(15,022)	(18)%	(21,957)	(29,873)	(26)%
Income tax provision	(4,801)	(8,419)	(43)%	(12,351)	(14,540)	(15)%
Net income (loss) attributable to Itron, Inc.	(62,802)	19,446	NM	(54,118)	17,539	NM
Non-GAAP⁽¹⁾						
Non-GAAP operating expenses	\$ 118,187	\$ 128,041	(8)%	\$ 251,234	\$ 258,598	(3)%
Non-GAAP operating income	20,330	63,173	(68)%	58,849	119,879	(51)%
Non-GAAP net income attributable to Itron, Inc.	1,326	34,600	(96)%	24,295	62,490	(61)%
Adjusted EBITDA	31,201	72,966	(57)%	83,174	138,724	(40)%
GAAP Margins and Earnings Per Share						
Gross margin						
Product gross margin	25.0 %	29.2 %		26.2 %	29.1 %	
Service gross margin	40.8 %	38.0 %		40.4 %	39.4 %	
Total gross margin	27.2 %	30.1 %		28.0 %	30.3 %	
Operating margin	(8.9) %	6.9 %		(1.7) %	5.2 %	
Net income (loss) per common share - Basic	\$ (1.56)	\$ 0.49		\$ (1.35)	\$ 0.44	
Net income (loss) per common share - Diluted	\$ (1.56)	\$ 0.49		\$ (1.35)	\$ 0.44	
Non-GAAP Earnings Per Share⁽¹⁾						
Non-GAAP diluted EPS	\$ 0.03	\$ 0.87		\$ 0.60	\$ 1.57	

⁽¹⁾ These measures exclude certain expenses that we do not believe are indicative of our core operating results. See pages 41-43 for information about these non-GAAP measures and reconciliations to the most comparable GAAP measures.

Endpoints Summary

Our revenue is driven significantly by sales of endpoints. We classify our endpoints into two categories:

- *Standard Endpoints* – an Itron product delivered primarily via our Device Solutions segment. The majority of our standard endpoint devices are used for delivery and metrology in the electricity, water, and gas distribution industries, and have no built-in remote reading communication technology. However, some standard endpoint devices are shipped with non-Itron communications capabilities and are not a part of an Itron solution, such as the Smart Spec meters, and are classified as a standard endpoint.
- *Networked Endpoints* – an Itron product with the capability of one-way communication or two-way communication of data including remote device configuration and upgrade (consisting primarily of our OpenWay® or Gen X technology). This primarily includes Itron devices used in electricity, water, and gas distribution industries. Networked endpoints also include smart communication modules and network interface cards (NICs). NICs are communicating modules that can be sold separately from the device directly to our customers or to third party manufacturers for use in endpoints such as electric, water, and gas meters; streetlights and smart city devices; sensors or another standard device that the end customer would like to connect to our OpenWay or Gen X Networked Solutions. These endpoints are primarily delivered via our Networked Solutions segment.

A summary of our endpoints shipped is as follows:

Units in thousands	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Itron Endpoints				
Standard endpoints	3,130	5,570	8,520	11,040
Networked endpoints	4,190	4,260	8,090	8,240
Total endpoints	7,320	9,830	16,610	19,280

Results of Operations

Revenues and Gross Margin

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

In thousands	Three Months Ended June 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2020	2019			
Total Company					
Revenues	\$ 509,594	\$ 635,037	\$ (10,766)	\$ (114,677)	\$ (125,443)
Gross profit	138,517	191,214	(2,623)	(50,074)	(52,697)

In thousands	Six Months Ended June 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2020	2019			
Total Company					
Revenues	\$ 1,108,009	\$ 1,249,613	\$ (19,180)	\$ (122,424)	\$ (141,604)
Gross profit	310,083	378,477	(4,489)	(63,905)	(68,394)

Revenues - Three months ended June 30, 2020 vs. Three months ended June 30, 2019

Total revenues decreased \$125.4 million, or 20%, in the 2020 quarter, compared with the same period in 2019. We were negatively impacted by COVID-19, which played a significant role in lower year-over-year results. Product revenues decreased by \$127.1 million, and service revenues increased slightly. Device Solutions decreased by \$88.6 million; Networked Solution decreased by \$31.4 million; and Outcomes decreased by \$5.4 million when compared with the same period last year. Changes in exchange rates unfavorably impacted total revenues in the 2020 period by \$10.8 million, of which \$9.1 million unfavorably impacted Device Solutions.

Revenues - Six months ended June 30, 2020 vs. Six months ended June 30, 2019

Total revenues decreased \$141.6 million, or 11%, for the first half of 2020, compared with the same period in 2019. We were negatively impacted by COVID-19, which played a significant role in lower year-over-year results. Product revenues decreased by \$143.8 million, and service revenues increased slightly. Device Solutions decreased by \$108.0 million; Networked Solutions decreased by \$27.0 million; and Outcomes decreased by \$6.6 million when compared with the same period last year. Changes in exchange rates unfavorably impacted total revenues by \$19.2 million, of which \$16.7 million unfavorably impacted Device Solutions.

Gross Margin - Three months ended June 30, 2020 vs. Three months ended June 30, 2019

Gross margin in the 2020 period was 27.2%, compared with 30.1% in 2019. We were negatively impacted by unfavorable product mix and manufacturing inefficiencies. Product sales gross margin decreased to 25.0% for the quarter in 2020, compared with 29.2% in 2019. Gross margin on service revenues increased to 40.8% in 2020, compared with 38.0% in 2019.

Gross Margin - Six months ended June 30, 2020 vs. Six months ended June 30, 2019

Gross margin for the current year was 28.0%, compared with 30.3% in 2019. Unfavorable product mix and manufacturing inefficiencies negatively impacted our results. Product sales gross margin decreased to 26.2% in the 2020 period, compared with 29.1% in 2019 and gross margin on service revenues increased to 40.4%, compared with 39.4% in 2019.

Refer to Operating Segment Results section below for further detail on total company revenues and gross margin.

Operating Expenses

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

<i>In thousands</i>	Three Months Ended June 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2020	2019			
Total Company					
Sales, general and administrative	\$ 69,538	\$ 88,259	\$ (1,048)	\$ (17,673)	\$ (18,721)
Research and development	48,994	49,449	(212)	(243)	(455)
Amortization of intangible assets	11,140	16,117	(87)	(4,890)	(4,977)
Restructuring	(2,683)	(6,169)	(22)	3,508	3,486
Loss on sale of business	56,915	—	—	56,915	56,915
Total Operating expenses	\$ 183,904	\$ 147,656	\$ (1,369)	\$ 37,617	\$ 36,248

<i>In thousands</i>	Six Months Ended June 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2020	2019			
Total Company					
Sales, general and administrative	\$ 150,036	\$ 180,974	\$ (2,277)	\$ (28,661)	\$ (30,938)
Research and development	102,775	99,939	(343)	3,179	2,836
Amortization of intangible assets	22,305	32,090	(151)	(9,634)	(9,785)
Restructuring	(2,931)	1,093	(181)	(3,843)	(4,024)
Loss on sale of business	56,915	—	—	56,915	56,915
Total Operating expenses	\$ 329,100	\$ 314,096	\$ (2,952)	\$ 17,956	\$ 15,004

Operating expenses increased \$36.2 million for the second quarter of 2020 as compared with the same period in 2019. This was primarily the result of the \$56.9 million loss on sale of business due to the recent Latin America divestiture. The increase was partially offset by decreases of \$18.7 million in sales, general and administrative expenses due to lower medical and travel expenses, and \$5.0 million in amortization of intangible assets compared with the 2019 period. Acquisition and integration costs, which are classified within sales, general and administrative expenses, decreased by \$8.9 million compared with the same period in 2019.

Operating expenses increased \$15.0 million for the six months ended June 30, 2020 as compared with the same period in 2019. This was primarily the result of the \$56.9 million loss on sale of business due to the recent Latin America divestiture. The increase was partially offset by decreases of \$30.9 million in sales, general and administrative expenses due to lower medical and travel expenses, and \$9.8 million in amortization of intangible assets. Acquisition and integration costs, which are classified within sales, general and administrative expenses, decreased by \$19.1 million compared with the same period in 2019.

Other Income (Expense)

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

<i>In thousands</i>	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Interest income	\$ 1,258	\$ 534	136%	\$ 1,811	\$ 862	110%
Interest expense	(10,678)	(12,294)	(13)%	(20,948)	(24,629)	(15)%
Amortization of prepaid debt fees	(1,006)	(1,202)	(16)%	(2,013)	(2,402)	(16)%
Other income (expense), net	(1,873)	(2,060)	(9)%	(807)	(3,704)	(78)%
Total other income (expense)	\$ (12,299)	\$ (15,022)	(18)%	\$ (21,957)	\$ (29,873)	(26)%

Total other income (expense) for the three and six months ended June 30, 2020 was a net expense of \$12.3 million and \$22.0 million, compared with net expense of \$15.0 million and \$29.9 million in the same periods in 2019.

The lower total expense for the three months ended June 30, 2020, as compared with the same period in 2019, was driven primarily by \$2.3 million in lower interest expense for the credit facility.

The decrease in other income (expense) for the six months ended June 30, 2020, as compared with the same period in 2019, was primarily driven by \$4.8 million in lower interest expense for the credit facility and lower foreign currency exchange losses resulting from transactions denominated in a currency other than the reporting entity's functional currency.

Income Tax Provision

For the three and six months ended June 30, 2020, our income tax expense was \$4.8 million and \$12.4 million compared with income tax expense of \$8.4 million and \$14.5 million for the same periods in 2019. Our tax rate for the three and six months ended June 30, 2020 of (8)% and (30)%, respectively, differed from the federal statutory rate of 21% primarily due to a significant loss recognized in the second quarter for the divestiture of the majority of our Latin American business activities. This loss was recognized for tax as a discrete item and resulted in no tax benefit. Other rate drivers include losses experienced in jurisdictions with valuation allowances on deferred tax assets, the forecasted mix of earnings in domestic and international jurisdictions, a benefit related to excess stock-based compensation, and uncertain tax positions. Our tax rate for the three and six months ended June 30, 2019 of 30% and 42%, respectively, differed from the federal statutory rate of 21% primarily due to losses in jurisdictions for which no benefit is recognized because of valuation allowances on deferred tax assets as well as the forecasted mix of earnings in domestic and international jurisdictions, a benefit related to excess stock-based compensation, and uncertain tax positions.

For additional discussion related to income taxes, see Item 1: "Financial Statements (Unaudited), Note 10: Income Taxes".

Operating Segment Results

For a description of our operating segments, refer to Item 1: "Financial Statements (Unaudited), Note 15: Segment Information". The following tables and discussion highlight significant changes in trends or components of each operating segment:

<i>In thousands</i>	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Segment Revenues						
Device Solutions	\$ 129,165	\$ 217,723	(41)%	\$ 331,444	\$ 439,478	(25)%
Networked Solutions	324,480	355,916	(9)%	665,325	692,343	(4)%
Outcomes	55,949	61,398	(9)%	111,240	117,792	(6)%
Total revenues	<u>\$ 509,594</u>	<u>\$ 635,037</u>	(20)%	<u>\$ 1,108,009</u>	<u>\$ 1,249,613</u>	(11)%

<i>In thousands</i>	Three Months Ended June 30,				Six Months Ended June 30,			
	2020		2019		2020		2019	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin
Segment Gross Profit and Margin								
Device Solutions	\$ 11,948	9.3%	\$ 41,590	19.1%	\$ 44,315	13.4%	\$ 81,506	18.5%
Networked Solutions	108,323	33.4%	126,243	35.5%	230,073	34.6%	253,311	36.6%
Outcomes	18,246	32.6%	23,381	38.1%	35,695	32.1%	43,660	37.1%
Total gross profit and margin	<u>\$ 138,517</u>	<u>27.2%</u>	<u>\$ 191,214</u>	<u>30.1%</u>	<u>\$ 310,083</u>	<u>28.0%</u>	<u>\$ 378,477</u>	<u>30.3%</u>

<i>In thousands</i>	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Segment Operating Expenses						
Device Solutions	\$ 13,068	\$ 13,235	(1)%	\$ 27,237	\$ 27,694	(2)%
Networked Solutions	30,941	28,208	10%	64,011	59,954	7%
Outcomes	9,020	9,014	—%	18,271	18,883	(3)%
Corporate unallocated	130,875	97,199	35%	219,581	207,565	6%
Total operating expenses	<u>\$ 183,904</u>	<u>\$ 147,656</u>	25%	<u>\$ 329,100</u>	<u>\$ 314,096</u>	5%

<i>In thousands</i>	Three Months Ended June 30,				Six Months Ended June 30,			
	2020		2019		2020		2019	
	Operating Income (Loss)	Operating Margin	Operating Income (Loss)	Operating Margin	Operating Income (Loss)	Operating Margin	Operating Income (Loss)	Operating Margin
Segment Operating Income (Loss) and Operating Margin								
Device Solutions	\$ (1,120)	(0.9)%	\$ 28,355	13.0%	\$ 17,078	5.2%	\$ 53,812	12.2%
Networked Solutions	77,382	23.8%	98,035	27.5%	166,062	25.0%	193,357	27.9%
Outcomes	9,226	16.5%	14,367	23.4%	17,424	15.7%	24,777	21.0%
Corporate unallocated	(130,875)	(25.7)%	(97,199)	(15.3)%	(219,581)	(19.8)%	(207,565)	(16.6)%
Total operating income (loss) and operating margin	<u>\$ (45,387)</u>	<u>(8.9)%</u>	<u>\$ 43,558</u>	<u>6.9%</u>	<u>\$ (19,017)</u>	<u>(1.7)%</u>	<u>\$ 64,381</u>	<u>5.2%</u>

Device Solutions

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

<i>In thousands</i>	Three Months Ended June 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2020	2019			
Device Solutions Segment					
Revenues	\$ 129,165	\$ 217,723	\$ (9,078)	\$ (79,480)	\$ (88,558)
Gross profit	11,948	41,590	(1,961)	(27,681)	(29,642)
Operating expenses	13,068	13,235	(95)	(72)	(167)

<i>In thousands</i>	Six Months Ended June 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2020	2019			
Device Solutions Segment					
Revenues	\$ 331,444	\$ 439,478	\$ (16,711)	\$ (91,323)	\$ (108,034)
Gross profit	44,315	81,506	(3,466)	(33,725)	(37,191)
Operating expenses	27,237	27,694	(206)	(251)	(457)

Revenues - Three months ended June 30, 2020 vs. Three months ended June 30, 2019

Revenues decreased \$88.6 million, or 41%. Changes in foreign currency exchange rates unfavorably impacted revenues by \$9.1 million, and we had lower shipments due to COVID-19 related factory closures in Europe, Middle East, and Africa (EMEA).

Revenues - Six months ended June 30, 2020 vs. Six months ended June 30, 2019

Revenues decreased \$108.0 million, or 25%. Changes in foreign currency exchange rates unfavorably impacted revenues by \$16.7 million, and we had lower shipments due to COVID-19.

Gross Margin - Three months ended June 30, 2020 vs. Three months ended June 30, 2019

For the three months ended June 30, 2020, gross margin was 9.3%, compared with 19.1% for the same period in 2019. The 980 basis point reduction over the prior year was primarily due to manufacturing inefficiencies.

Gross Margin - Six months ended June 30, 2020 vs. Six months ended June 30, 2019

For the six months ended June 30, 2020, gross margin was 13.4%, compared with 18.5% for the same period in 2019. The 510 basis point reduction over the prior year was primarily due to \$10.1 million of unfavorable product mix and manufacturing inefficiencies, partially offset by lower warranty expense of \$0.8 million.

Operating Expenses - Three months ended June 30, 2020 vs. Three months ended June 30, 2019

Operating expenses decreased \$0.2 million, or 1%, compared with 2019. The decrease was primarily related to lower sales and marketing expense of \$0.4 million, partially offset by an increase of \$0.2 million in research and development expense.

Operating Expenses - Six months ended June 30, 2020 vs. Six months ended June 30, 2019

Operating expenses decreased \$0.5 million, or 2%, for the first half of 2020, compared with the same period in 2019. The decrease was primarily a result of \$0.3 million lower sales and marketing expense and \$0.2 million lower research and development expense.

Networked Solutions

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

<i>In thousands</i>	Three Months Ended June 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2020	2019			
Networked Solutions Segment					
Revenues	\$ 324,480	\$ 355,916	\$ (1,102)	\$ (30,334)	\$ (31,436)
Gross profit	108,323	126,243	(380)	(17,540)	(17,920)
Operating expenses	30,941	28,208	(16)	2,749	2,733

<i>In thousands</i>	Six Months Ended June 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2020	2019			
Networked Solutions Segment					
Revenues	\$ 665,325	\$ 692,343	\$ (1,491)	\$ (25,527)	\$ (27,018)
Gross profit	230,073	253,311	(537)	(22,701)	(23,238)
Operating expenses	64,011	59,954	(38)	4,095	4,057

Revenues - Three months ended June 30, 2020 vs. Three months ended June 30, 2019

Revenues decreased \$31.4 million, or 9%, in 2020 compared with 2019. The change was primarily due to delayed deployments driven by COVID-19, with lower product revenue of \$33.1 million partially offset by higher maintenance service revenue of \$1.6 million.

Revenues - Six months ended June 30, 2020 vs. Six months ended June 30, 2019

Revenues decreased \$27.0 million, or 4%, for the first half of 2020 compared with the same period in 2019. The change was primarily due to delayed deployments driven by COVID-19, with lower product revenue of \$32.0 million partially offset by higher maintenance service revenue of \$5.0 million.

Gross Margin - Three months ended June 30, 2020 vs. Three months ended June 30, 2019

Gross margin was 33.4% for the period ending June 30, 2020, compared with 35.5% in 2019. The 210 basis point decrease was primarily related to higher supply chain costs.

Gross Margin - Six months ended June 30, 2020 vs. Six months ended June 30, 2019

Gross margin was 34.6% for the 2020 period, compared with 36.6% in 2019. The 200 basis point decrease was primarily related to higher supply chain costs.

Operating Expenses - Three months ended June 30, 2020 vs. Three months ended June 30, 2019

Operating expenses increased \$2.7 million, or 10%, for the quarter in 2020, compared with the same period in 2019. The increase was primarily related to higher research and development expenses of \$3.1 million, partially offset by a decrease of \$0.4 million in sales and marketing expenses.

Operating Expenses - Six months ended June 30, 2020 vs. Six months ended June 30, 2019

Operating expenses increased \$4.1 million, or 7%, for the first half of 2020, compared with the same period in 2019. The increase was primarily related to higher research and development expenses of \$4.9 million, partially offset by a decrease of \$0.8 million in sales and marketing expenses.

Outcomes

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

<i>In thousands</i>	Three Months Ended June 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2020	2019			
Outcomes Segment					
Revenues	\$ 55,949	\$ 61,398	\$ (587)	\$ (4,862)	\$ (5,449)
Gross profit	18,246	23,381	(283)	(4,852)	(5,135)
Operating expenses	9,020	9,014	(12)	18	6

<i>In thousands</i>	Six Months Ended June 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2020	2019			
Outcomes Segment					
Revenues	\$ 111,240	\$ 117,792	\$ (979)	\$ (5,573)	\$ (6,552)
Gross profit	35,695	43,660	(486)	(7,479)	(7,965)
Operating expenses	18,271	18,883	(33)	(579)	(612)

Revenues - Three months ended June 30, 2020 vs. Three months ended June 30, 2019

For the 2020 period, revenues decreased \$5.4 million, or 9%, compared with the 2019 period. This decline was driven by a decrease in software license sales.

Revenues - Six months ended June 30, 2020 vs. Six months ended June 30, 2019

Revenues decreased \$6.6 million, or 6%, for the first half of 2020, compared with 2019. This decline was driven by a decrease in hardware and software license sales and professional services.

Gross Margin - Three months ended June 30, 2020 vs. Three months ended June 30, 2019

Gross margin decreased to 32.6% for the second quarter of 2020, compared with 38.1% for the same period last year. The 550 basis point decrease was driven by a less favorable product mix.

Gross Margin - Six months ended June 30, 2020 vs. Six months ended June 30, 2019

Gross margin decreased to 32.1% for the period ending in 2020, compared with 37.1% for last year. The 500 basis point decrease was driven by product mix and infrastructure investments.

Operating Expenses - Three months ended June 30, 2020 vs. Three months ended June 30, 2019

Operating expenses for the 2020 period were substantially flat, compared with the same period last year, with a \$0.1 million increase in research and development expense offset by lower product marketing expense.

Operating Expenses - Six months ended June 30, 2020 vs. Six months ended June 30, 2019

Operating expenses for the first half of 2020 decreased \$0.6 million, or 3%, compared with the same period last year. This was primarily related to lower product marketing expenses of \$0.5 million and lower research and development expenses of \$0.1 million.

Corporate Unallocated

Corporate Unallocated Expenses - Three months ended June 30, 2020 vs. Three months ended June 30, 2019

Operating expenses not directly associated with an operating segment are classified as "Corporate unallocated". These expenses increased \$33.7 million, or 35%, for the three months ended June 30, 2020 compared with the same period in 2019. This was primarily the result of a \$56.9 million loss on sale of business due to the Latin America divestiture. Partially offsetting the increase were \$17.8 million in reduced sales, general and administrative expenses due to lower medical and travel expenses, and a \$5 million reduction in amortization of intangible assets. Acquisition and integration costs, which are classified within sales, general and administrative expenses, decreased by \$8.9 million compared with the same period in 2019.

Corporate Unallocated Expenses - Six months ended June 30, 2020 vs. Six months ended June 30, 2019

For the first half of 2020, corporate unallocated expenses increased \$12.0 million, or 6%, compared with the 2019 period. This was primarily the result of a \$56.9 million loss on sale of business due to the Latin America divestiture. The increase was offset by \$29.3 million in reduced sales, general and administrative expenses due to lower medical and travel expenses, and \$9.8 million in lower amortization of intangible assets. Acquisition and integration costs, which are classified within sales, general and administrative expenses, decreased by \$19.1 million compared with the same period in 2019.

Bookings and Backlog of Orders

Bookings for a reported period represent customer contracts and purchase orders received during the period for hardware, software, and services that have met certain conditions, such as regulatory and/or contractual approval. Total backlog represents committed but undelivered 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, as well as frame contracts. Bookings and backlog may fluctuate significantly due to the timing of large project awards. In addition, annual or multi-year contracts are subject to rescheduling and cancellation by customers due to the long-term nature of the contracts. Beginning total backlog, plus bookings, minus revenues, will not equal ending total backlog due to miscellaneous contract adjustments, foreign currency fluctuations, and other factors. Total bookings and backlog include certain contracts with termination for convenience clause, which will not agree to the total transaction price allocated to the remaining performance obligations disclosed in Item 1: "Financial Statements (Unaudited), Note 16: Revenues".

Quarter Ended	Quarterly Bookings	Ending Total Backlog	Ending 12-Month Backlog
<i>In millions</i>			
June 30, 2020	\$ 390	\$ 2,895	\$ 1,291
March 31, 2020	418	3,020	1,319
December 31, 2019	767	3,207	1,499
September 30, 2019	609	3,063	1,361
June 30, 2019	702	3,090	1,403

Financial Condition

Cash Flow Information

<i>In thousands</i>	Six Months Ended June 30,	
	2020	2019
Cash provided by operating activities	\$ 25,786	\$ 78,063
Cash used in investing activities	(29,159)	(16,738)
Cash provided by (used in) financing activities	401,963	(46,527)
Effect of exchange rates on cash, cash equivalents, and restricted cash	(3,671)	727
Increase in cash, cash equivalents, and restricted cash	\$ 394,919	\$ 15,525

Cash, cash equivalents, and restricted cash was \$544.8 million at June 30, 2020, compared with \$149.9 million at December 31, 2019. The \$394.9 million increase in cash, cash equivalents, and restricted cash in the 2020 period was primarily the result of a \$400 million draw from our credit facility in March 2020, along with cash flows from operating activities, partially offset by acquisitions of property, plant, and equipment.

Operating activities

Cash provided by operating activities during the six months in 2020 was \$25.8 million compared with \$78.1 million during the same period in 2019. The decrease was primarily due to lower net income and increased cash used for working capital, including increased variable compensation payouts.

Investing activities

Cash used in investing activities during 2020 was \$12.4 million higher than in 2019. This increase in use of cash was primarily related to the net cash outflow for the sale of our Latin America operations, and a \$2.5 million greater investment in property, plant, and equipment.

Financing activities

Net cash provided by financing activities during the six months in 2020 was \$402.0 million, compared with net cash used of \$46.5 million for the same period in 2019. In March 2020, we drew on our revolver in the amount of \$400 million to increase our cash position and preserve future financial flexibility. In 2019, we repurchased \$25 million in shares of our common stock and had net repayments of debt of \$22.2 million.

Effect of exchange rates on cash and cash equivalents

The effect of exchange rates on the cash balances of currencies held in foreign denominations at June 30, 2020 was a decrease of \$3.7 million, compared with an increase of \$0.7 million for the same period in 2019. Our foreign currency exposure relates to non-U.S. dollar denominated balances in our international subsidiary operations.

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

<i>In thousands</i>	Six Months Ended June 30,	
	2020	2019
Cash provided by operating activities	\$ 25,786	\$ 78,063
Acquisitions of property, plant, and equipment	(29,049)	(26,511)
Free cash flow	\$ (3,263)	\$ 51,552

Free cash flow fluctuated primarily as a result of changes in 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 June 30, 2020 and December 31, 2019 that we believe could reasonably likely 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 the sale of our 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, continues to be in a net favorable position.

Borrowings

On October 18, 2019 we amended our credit facility that was initially entered on January 5, 2018 (together with the amendment, the "2018 credit facility"). The 2018 credit facility provides for committed credit facilities in the amount of \$1.2 billion U.S. dollars. The 2018 credit facility consists of a \$650 million U.S. dollar term loan (the term loan) and a multicurrency revolving line of credit (the revolver) with a principal amount of up to \$500 million. The revolver also contains a \$300 million standby letter of credit sub-facility and a \$50 million swingline sub-facility. The October 18, 2019, amendment extended the maturity date to October 18, 2024 and re-amortized the term loan based on the new balance as of the amendment date.

We drew \$400 million in U.S. dollars under the revolving line of credit within the 2018 credit facility in March 2020. In light of the current uncertain environment, we deemed it prudent to increase our cash position and preserve future financial flexibility. The Total Net Leverage Ratio, as defined in the amended 2018 credit facility agreement, is unchanged by this drawing.

In December 2017 and January 2018, we issued a combined \$400 million in aggregate principal amount of 5.00% senior notes maturing January 15, 2026 (Senior Notes). The proceeds were used to refinance existing indebtedness related to the acquisition of SSNI, pay related fees and expenses, and for general corporate purposes. Interest on the Senior Notes is payable semi-annually in arrears on January 15 and July 15, commencing on July 15, 2018. The \$10 million interest payment due on July 15, 2020 was paid as of June 30, 2020. The Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by each of our subsidiaries that guarantee the 2018 credit facility.

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

For further description of our borrowings, refer to Item 1: "Financial Statements (Unaudited), 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 (Unaudited), Note 11: Commitments and Contingencies".

Silver Spring Networks, Inc. Acquisition

As part of the acquisition of SSNI, we announced an integration plan to obtain approximately \$50 million of annualized savings by the end of 2020. For the six months ended June 30, 2020, we paid out \$9.8 million and we have approximately \$5 million to \$10 million of estimated cash payments remaining on the integration plan, the majority of which is expected to be paid out in the next 12 months. We have recognized \$0.3 million of acquisition and integration related expenses during the second quarter of 2020.

Restructuring

For the six months ended June 30, 2020, we paid out a net \$7.4 million related to the restructuring projects. As of June 30, 2020, \$44.7 million was accrued for restructuring projects, of which \$15.6 million is expected to be paid over the next 12 months.

For further details regarding our restructuring activities, refer to Item 1: "Financial Statements (Unaudited), Note 12: Restructuring".

Other Liquidity Considerations

We have tax credits and net operating loss carryforwards in various jurisdictions that are available to reduce cash taxes. However, utilization of tax credits and net operating losses are limited in certain jurisdictions. Based on current projections, we expect to pay, net of refunds, approximately \$1 million in state taxes and approximately \$7 million in local and foreign taxes during 2020. We expect to receive approximately \$7 million in U.S. federal tax refunds. For a discussion of our tax provision and unrecognized tax benefits, see Item 1: "Financial Statements (Unaudited), Note 10: Income Taxes".

At June 30, 2020, we are under examination by certain tax authorities. 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.

As of June 30, 2020, there was \$38.4 million of cash and short-term investments held by certain foreign subsidiaries in which we are permanently reinvested for tax purposes. As a result of recent changes in U.S. tax legislation, any repatriation in the future would not result in U.S. federal income tax. Accordingly, there is no provision for U.S. deferred taxes on this cash. If this cash were repatriated to fund U.S. operations, additional withholding tax costs may be incurred. Tax is only one of the many factors that we consider in the management of global cash. 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 June 30, 2020, \$3.0 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

Notwithstanding the expected short to mid-term impacts of the COVID-19 pandemic, we expect to grow through a combination of internal new research and 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 our 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, our dependence on certain key vendors and components, changes in estimated liabilities for product warranties and/or litigation, duration of the COVID-19 pandemic, future business combinations, capital market fluctuations, international risks, and other factors described under "Risk Factors" within Item 1A of Part I of our 2019 Annual Report, 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 (Unaudited), Note 11: Commitments and Contingencies".

Critical Accounting Estimates and Policies

Our consolidated financial statements and accompanying notes are prepared in accordance with U.S. GAAP. Preparing consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates and assumptions are based on historical experience and on various other assumptions management believes to be reasonable. 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 2019 Annual Report and have not changed materially.

Refer to Item 1: "Financial Statements (Unaudited), Note 1: Summary of Significant Accounting Policies" included in this Quarterly Report on Form 10-Q for further disclosures regarding new accounting pronouncements.

Non-GAAP Measures

The accompanying schedule contains non-GAAP financial measures. To supplement our consolidated financial statements, which are prepared in accordance with GAAP, we use certain non-GAAP financial measures, including non-GAAP operating expense, non-GAAP operating income, non-GAAP net income, non-GAAP diluted EPS, adjusted EBITDA, free cash flow, and constant currency. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and other companies may define such measures differently. For more information on these non-GAAP financial measures, please see the table captioned "Reconciliations of Non-GAAP Financial Measures to the Most Directly Comparable GAAP Financial Measures".

We use these non-GAAP financial measures for financial and operational decision making and/or as a means for determining executive compensation. Management believes that these non-GAAP financial measures provide meaningful supplemental information regarding our performance and ability to service debt by excluding certain expenses that may not be indicative of our recurring core operating results. 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 acquisition and integration related expenses, 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, loss on sale of business, corporate transition cost, acquisition and integration, and goodwill impairment. We define non-GAAP operating income as operating income excluding the expenses related to the amortization of intangible assets, restructuring, loss on sale of business, corporate transition cost, acquisition and integration, and goodwill impairment. Acquisition and integration related expenses

include costs, which are incurred to affect and integrate business combinations, such as professional fees, certain employee retention and salaries related to integration, severances, contract terminations, travel costs related to knowledge transfer, system conversion costs, and asset impairment charges. 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 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 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, amortization of debt placement fees, restructuring, loss on sale of business, corporate transition cost, acquisition and integration, goodwill impairment, 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.

For interim periods, beginning the first quarter of 2019, the budgeted annual effective tax rate (AETR) is used, adjusted for any discrete items, as defined in ASC 740 - Income Taxes. The budgeted AETR is determined at the beginning of the fiscal year. The AETR is revised throughout the year based on changes to our full-year forecast. If the revised AETR increases or decreases by 200 basis points or more from the budgeted AETR due to changes in the full-year forecast during the year, the revised AETR is used in place of the budgeted AETR beginning with the quarter the 200 basis point threshold is exceeded and going forward for all subsequent interim quarters in the year. We continue to assess the AETR based on latest forecast throughout the year and use the most recent AETR anytime it increases or decreases by 200 basis points or more from the prior interim period.

Adjusted EBITDA – We define adjusted EBITDA as net income (a) minus interest income, (b) plus interest expense, depreciation and amortization of intangible assets, restructuring, loss on sale of business, corporate transition cost, acquisition and integration related expense, goodwill impairment and (c) excluding income tax provision 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 (loss).

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.

Reconciliations of Non-GAAP Financial Measures to the Most Directly Comparable GAAP Financial Measures

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

TOTAL COMPANY RECONCILIATIONS <i>In thousands, except per share data</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
NON-GAAP OPERATING EXPENSES				
GAAP operating expenses	\$ 183,904	\$ 147,656	\$ 329,100	\$ 314,096
Amortization of intangible assets	(11,140)	(16,117)	(22,305)	(32,090)
Restructuring	2,683	6,169	2,931	(1,093)
Loss on sale of business	(56,915)	—	(56,915)	—
Corporate transition cost	(7)	(473)	33	(1,556)
Acquisition and integration related expense	(338)	(9,194)	(1,610)	(20,759)
Non-GAAP operating expenses	<u>\$ 118,187</u>	<u>\$ 128,041</u>	<u>\$ 251,234</u>	<u>\$ 258,598</u>
NON-GAAP OPERATING INCOME				
GAAP operating income (loss)	\$ (45,387)	\$ 43,558	\$ (19,017)	\$ 64,381
Amortization of intangible assets	11,140	16,117	22,305	32,090
Restructuring	(2,683)	(6,169)	(2,931)	1,093
Loss on sale of business	56,915	—	56,915	—
Corporate transition cost	7	473	(33)	1,556
Acquisition and integration related expense	338	9,194	1,610	20,759
Non-GAAP operating income	<u>\$ 20,330</u>	<u>\$ 63,173</u>	<u>\$ 58,849</u>	<u>\$ 119,879</u>
NON-GAAP NET INCOME & DILUTED EPS				
GAAP net income (loss) attributable to Itron, Inc.	\$ (62,802)	\$ 19,446	\$ (54,118)	\$ 17,539
Amortization of intangible assets	11,140	16,117	22,305	32,090
Amortization of debt placement fees	963	1,159	1,926	2,315
Restructuring	(2,683)	(6,169)	(2,931)	1,093
Loss on sale of business	56,915	—	56,915	—
Corporate transition cost	7	473	(33)	1,556
Acquisition and integration related expense	338	9,194	1,610	20,759
Income tax effect of non-GAAP adjustments	(2,552)	(5,620)	(1,379)	(12,862)
Non-GAAP net income attributable to Itron, Inc.	<u>\$ 1,326</u>	<u>\$ 34,600</u>	<u>\$ 24,295</u>	<u>\$ 62,490</u>
Non-GAAP diluted EPS	<u>\$ 0.03</u>	<u>\$ 0.87</u>	<u>\$ 0.60</u>	<u>\$ 1.57</u>
Non-GAAP weighted average common shares outstanding - Diluted	<u>40,488</u>	<u>39,686</u>	<u>40,481</u>	<u>39,875</u>
ADJUSTED EBITDA				
GAAP net income (loss) attributable to Itron, Inc.	\$ (62,802)	\$ 19,446	\$ (54,118)	\$ 17,539
Interest income	(1,258)	(534)	(1,811)	(862)
Interest expense	11,684	13,496	22,961	27,031
Income tax provision	4,801	8,419	12,351	14,540
Depreciation and amortization	24,199	28,641	48,230	57,068
Restructuring	(2,683)	(6,169)	(2,931)	1,093
Loss on sale of business	56,915	—	56,915	—
Corporate transition cost	7	473	(33)	1,556
Acquisition and integration related expense	338	9,194	1,610	20,759
Adjusted EBITDA	<u>\$ 31,201</u>	<u>\$ 72,966</u>	<u>\$ 83,174</u>	<u>\$ 138,724</u>
FREE CASH FLOW				
Net cash provided by operating activities	\$ 6,892	\$ 53,139	\$ 25,786	\$ 78,063
Acquisitions of property, plant, and equipment	(16,447)	(15,096)	(29,049)	(26,511)
Free Cash Flow	<u>\$ (9,555)</u>	<u>\$ 38,043</u>	<u>\$ (3,263)</u>	<u>\$ 51,552</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 March 2020, we entered into an interest rate swap, which is effective from June 30, 2020 to June 30, 2023, and converts \$240 million of our LIBOR-based debt from a floating LIBOR interest rate to a fixed interest rate of 0.617% (excluding the applicable margin). The notional balance will amortize to maturity at the same rate of originally required amortizations on our term loan. At June 30, 2020, our LIBOR-based debt balance was \$950.2 million.

In April 2018, we entered into a cross-currency swap, which converts \$56.0 million of floating rate LIBOR-based U.S. dollar denominated debt into 1.38% fixed rate euro denominated debt. This cross-currency swap matures on April 30, 2021 and mitigates the risk associated with fluctuations in interest and currency rates impacting cash flows related to a U.S. dollar denominated debt in a euro functional currency entity.

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 June 30, 2020. Weighted average variable rates in the table are based on implied forward rates in the Reuters U.S. dollar yield curve as of June 30, 2020 and our estimated leverage ratio, which determines our additional interest rate margin at June 30, 2020.

<i>Dollars in thousands</i>	2020	2021	2022	2023	2024	Total	Fair Value
<i>Variable Rate Debt</i>							
Principal: U.S. dollar term loan	\$ —	\$ 32,422	\$ 44,063	\$ 44,063	\$ 429,608	\$ 550,156	\$ 532,090
Weighted average interest rate	1.67 %	1.63 %	1.62 %	1.69 %	1.82 %		
Principal: Multicurrency revolving line of credit	\$ —	\$ —	\$ —	\$ —	\$ 400,000	\$ 400,000	\$ 385,272
Weighted average interest rate	1.67 %	1.63 %	1.62 %	1.69 %	1.82 %		
<i>Interest rate swap</i>							
Weighted average interest rate (pay) Fixed	0.62 %	0.62 %	0.62 %	0.62 %			
Weighted average interest rate (receive) Floating LIBOR	0.17 %	0.13 %	0.12 %	0.15 %			
<i>Cross currency swap</i>							
Weighted average interest rate (pay) Fixed - EURIBOR	1.38 %	1.38 %					
Weighted average interest rate (receive) Floating - LIBOR	0.17 %	0.17 %					

Based on a sensitivity analysis as of June 30, 2020, we estimate that, if market interest rates average one percentage point higher in 2020 than in the table above, our financial results in 2020 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 31% and 35% of total revenues for the three and six months ended June 30, 2020 compared with 36% and 37% for the same respective periods in 2019.

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 June 30, 2020, a total of 50 contracts were offsetting our exposures from the euro, Canadian dollar, Chinese yuan, Mexican peso, Pound Sterling and various other currencies, with notional amounts ranging from \$111,000 to \$26.4 million. Based on a sensitivity analysis as of June 30, 2020, we estimate that, if foreign currency exchange rates average ten percentage points higher in 2020 for these financial instruments, our financial results in 2020 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 June 30, 2020, 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

There have been no changes in our internal control over financial reporting during the three months ended June 30, 2020 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 (Unaudited), Note 11: Commitments and Contingencies".

Item 1A: Risk Factors

For a complete list of Risk Factors, refer to Item 1A: "Risk Factors" of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, which was filed with the Securities and Exchange Commission on February 27, 2020.

We have been and will continue to be affected by the ongoing COVID-19 pandemic, and such effects could have an adverse effect on our business operations, results of operations, cash flows, and financial condition.

We have experienced disruptions to our business from the ongoing COVID-19 pandemic, and the full impact of the COVID-19 pandemic on all aspects of our business and geographic markets is highly uncertain and cannot be predicted with confidence. This includes how it may impact our customers, employees, vendors, strategic partners, managed services, and manufacturing operations. The COVID-19 pandemic has created significant volatility, uncertainty, and economic disruption, which may materially and adversely affect our business operations, cash flows, and financial condition.

The impact of the virus on third parties on which we rely, such as our suppliers, contract manufacturers, distributors, and strategic partners, cannot be fully known or controlled by us. As a result, we may experience difficulties sourcing components and other critical inventory. The impact of the COVID-19 pandemic on our customers and demand for our products is also uncertain. Due to resulting financial constraints, illness within their organizations, quarantine and travel restrictions placed upon our customers' employees, as well as individual actions our customers may take in response to the spread of COVID-19, our customers may have difficulty in making timely payments to us or may have an inability or unwillingness to purchase our products and services. Also, certain of our projects require regulatory approvals, and our customers may experience delays in regulatory approvals. Any of these effects may materially and adversely affect us.

Our company is also taking measures, both voluntary and as a result of government directives and guidance, to mitigate the effects of the COVID-19 pandemic on us and others. These measures include, among others, restrictions on our employees' access to our physical work locations and the purchase of personal protective equipment. Additionally, we may implement the temporary closure or reduction in operations of certain of our manufacturing facilities, which is disruptive to our operations. We have also implemented measures to allow certain employees to work remotely, which may place a burden on our IT systems and may expose us to increased vulnerability to cyber-attack and other cyber-disruption. Many of these measures may result in incremental costs to us, and such costs may not be recoverable or adequately covered by our insurance. Further, any focus by our management on mitigating COVID-19 effects has required, and will continue to require, a large investment of time and resources, which may delay other value-add initiatives.

As a company with global operations, we are subject to numerous government jurisdictions at all levels that are addressing COVID-19 differently. The guidance and directives provided by these governmental authorities is difficult to predict, may be unclear in their application, and are unknown in duration. This includes uncertainty in governmental authorities' assessments of our business as "essential". If governmental authorities were to reverse their designation of our business as "essential", it could have a material effect on our results of operations and cash flows.

The full extent to which the COVID-19 pandemic impacts us depends on numerous evolving factors and future developments that we are not able to predict at this time, including: medical advancements to treat or stop the virus, governmental, business, and other actions (which could include limitations on our operations to provide products or services); the duration of the outbreak and the related limitations on our ability to conduct business; or the length of time and velocity at which we will return to more normalized operations. In addition, we cannot predict the impact that COVID-19 will have on our customers, vendors, strategic partners, and other business partners, and each of their financial conditions; however, any material effect on these parties could materially and adversely impact us. The impact of COVID-19 may also include possible impairment or other charges and may exacerbate other risks discussed in Item 1A: Risk Factors in our Annual Report on Form 10-K, any of which could have a material effect on us. This situation is changing rapidly and additional impacts may arise that we are not aware of currently.

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

- (a) Not applicable.
- (b) Not applicable.
- (c) Issuer Repurchase of Equity Securities

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share ⁽²⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
				<i>In thousands</i>
April 1, 2020 through April 30, 2020	—	\$ —	—	\$ —
May 1, 2020 through May 31, 2020	9,045	62.63	—	—
June 1, 2020 through June 30, 2020	—	—	—	—
Total	<u>9,045</u>		<u>—</u>	

⁽¹⁾ Shares repurchased represent shares transferred to us by certain employees who vested in restricted stock units and used shares to pay all, or a portion of, the related taxes.

⁽²⁾ Includes commissions.

Item 5: Other Information

- (a) No information was required to be disclosed in a report on Form 8-K during the second quarter of 2020 that was not reported.
- (b) Not applicable.

Item 6: Exhibits

Exhibit Number	Description of Exhibits
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	The following financial information from Itron, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 formatted in Inline XBRL (Extensible Business Reporting Language) includes: (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income (Loss), (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to the Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURE

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

ITRON, INC.

August 3, 2020

By:

/s/ JOAN S. HOOPER

Date

Joan S. Hooper
Senior Vice President and Chief Financial Officer

**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 June 30, 2020 (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.

Thomas L. Deitrich, the Chief Executive Officer and Joan S. Hooper, the Chief Financial Officer of the Company, each certifies that to the best of his or her 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/ THOMAS L. DEITRICH

August 3, 2020

Thomas L. Deitrich
President and Chief Executive Officer

Date

/s/ JOAN S. HOOPER

August 3, 2020

Joan S. Hooper
Senior Vice President and Chief Financial Officer

Date