

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003**

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 0-22418

ITRON, INC.

(Exact name of registrant as specified in its charter)

**Washington
(State of Incorporation)**

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

**2818 North Sullivan Road
Spokane, Washington 99216-1897
(509) 924-9900**
(Address and telephone number of registrant's principal executive offices)

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

**Securities registered pursuant to Section 12(g) of the Act:
Title of each class
Common stock, no par value
Preferred share purchase rights**

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2003 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the shares of common stock held by non-affiliates of the registrant (based on the closing price for the common stock on the NASDAQ National Market on such date) was \$438,949,633.

As of February 29, 2004, there were outstanding 20,669,361 shares of the registrant's common stock, no par value, which is the only class of common stock of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part II and Part III is incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Shareholders of the Company to be held May 6, 2004.

Certain Forward-Looking Statements

This document contains forward-looking statements concerning our operations, economic performance, revenues, earnings, cost reduction programs and other items. These statements are based on information currently available as of the date of this Form 10-K. When included in this discussion, the words “expects,” “intends,” “anticipates,” “believes,” “plans,” “projects,” “estimates,” “future” and similar expressions are intended to identify forward-looking statements. However, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. The forward-looking statements rely on a number of assumptions and estimates, which could be inaccurate, and which are subject to risks and uncertainties that could cause our actual results to vary materially from those anticipated. Such risks and uncertainties include, among others, 1) the timing of the closing of Schlumberger’s electricity metering business acquisition or the failure to finalize satisfactory credit arrangements for that acquisition, 2) the rate and timing of customer demand for our products, 3) estimates for product warranties, 4) rescheduling of current customer orders, 5) changes in law and regulation (including Federal Communications Commission licensing actions) and 6) other factors. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Form 10-K. We do not have any obligation or undertaking to update publicly or revise any forward-looking statement contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. For a more complete description of these and other risks, see “Certain Risks Relating to Our Business” within Item 1 included in our Form 10-K.

PART I

ITEM 1: BUSINESS

Available Information

Our Securities and Exchange Commission (SEC) filings are available free of charge under the Investor Relations section of our website at www.itron.com as soon as practicable after they are filed with or furnished to the SEC. In addition, our filings are available at the SEC’s website (www.sec.gov) and at the SEC’s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549, or by calling 1-800-SEC-0330.

OVERVIEW

General

We are a leading technology provider and source of knowledge for collecting, analyzing and applying critical data about electric, gas and water usage to the global energy and water industries. We deliver value to our customers by providing industry-leading solutions for meter data collection, energy information management, demand side management and response, load forecasting and analysis consulting services and software, transmission and distribution (T&D) system design and optimization, web-based workforce automation, commercial and industrial (C&I) customer care and residential energy management.

We have a strong tradition in meter data collection technology, having provided handheld computer-based systems used by meter readers since our founding in 1977 and automatic meter reading (AMR) since 1986. As the worldwide leader in AMR systems, our technology facilitates the automatic collection and delivery of meter usage data from over 33 million meters, and we have a 55% market share of meters that have been automated in North America. Our handheld meter reading systems are used by over 2,000 utilities worldwide, including 75%

of the largest utilities in the United States (U.S.) and Canada. We also have strong handheld meter reading market share in Mexico, Japan, Australia and parts of Europe. We estimate that our handheld meter reading systems are used to collect metering data from over 250 million meters worldwide, providing us with a strong foothold as utilities migrate to more automated forms of meter reading.

Our vision is to provide our energy and water customers with the knowledge they require to optimize the delivery and use of energy and water. Our products and services help our customers reduce costs, increase efficiency and reliability, reduce risk, enhance regulatory and safety compliance, improve asset utilization in terms of people, technology, systems and infrastructure and improve customer service. In 2002 and 2003, we expanded our portfolio of products and services to include software and consulting services solutions that complement our core meter data collection technologies. Our solutions are comprised of hardware, software and services that integrate the collection, management, application and forecasting of data, providing a platform for utilities to share and apply critical knowledge throughout the utility and with other market participants, including end-use customers.

Pending Acquisition

On July 16, 2003, we entered into an agreement to acquire Schlumberger Electricity Metering (SEM) for \$255 million, subject to a post-closing working capital adjustment. SEM is a leading manufacturer of electricity meters in the U.S. and Canada. By adding electricity meters to our existing portfolio of meter data collection technologies and software and consulting solutions we will be able to offer customers a highly integrated suite of products for measuring, gathering, delivering, analyzing and applying electricity usage data.

SEM designs, manufactures and markets residential, commercial and industrial electricity meters. Founded in 1899, SEM has been serving electric utilities for over 100 years and has an installed base of approximately 37 million meters in the U.S., representing approximately 32% of the total installed electricity meters in this market. A recent significant development in the electricity metering industry has been the introduction of electronic, or solid-state, metering technology. Rather than the gear-based technology of traditional electromechanical meters, electronic-based technology provides increased capabilities, reliability and accuracy and facilitates the integration of embedded AMR functionality in electricity meters. While most of the other leading manufacturers of electricity meters have only recently entered the solid-state residential electricity meter market, SEM is currently the North American leader in this market, having introduced its first electronic residential electricity meter in 1998 and having sold just under nine million of these meters since then. Growth in SEM's electricity meter business has outpaced average industry growth over the past several years as a result of increased interest by utilities in implementing AMR.

Because of our strength in AMR, SEM's strength in electricity meters and the convergence of these technologies, we believe that the combination of Itron and SEM will create a strong platform for increasing sales of electricity meters and AMR.

We expect to finance the acquisition with debt. On December 17, 2003, on a documentary basis we closed a new \$240 million senior secured credit facility comprised of a replacement \$55 million revolving credit line and a \$185 million seven year term loan. The new facility does not become fully effective until certain conditions are satisfied, including closing the acquisition of SEM. We plan on placing an additional \$125 million of debt in connection with the acquisition.

On July 28, 2003, we filed notification with the Federal Trade Commission (FTC) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR) regarding our intent to acquire SEM. On August 28, 2003 we and SEM received a second request for information from the FTC regarding our filing. We are currently in substantial compliance with all FTC information requests. As an accommodation to concerns raised by the FTC regarding competition, we are completing negotiations of an agreement with a competing AMR vendor to license to them some of our electric meter module and certain other related technology. The license with the AMR

vendor is contingent on closing the acquisition of SEM. We anticipate receiving HSR clearance and closing the SEM acquisition early in the second quarter of 2004.

Energy and Water Industries Overview

In the U.S. and Canada, the largest electric and gas utilities have historically consisted of publicly-owned highly regulated monopolies that were able to generate sufficient return on capital by passing cost increases along to customers. The water industry, and some portions of the electric and gas industries, have historically consisted of smaller utilities that are government run or privately owned and whose annual rates are derived primarily from the utilities' cost of operation plus some allocation for capital. Outside of the U.S. and Canada, utilities are a mixture of government, privately owned, and public companies and in some cases, are much larger in size than utilities in the U.S. and Canada. Despite differences in size, and differences between markets, utilities around the world face similar pressures.

In recent years, utilities have faced increased pressure from regulators and customers to improve service and increase system reliability. In some markets, there is pressure to provide better information so that customers can manage their own energy usage. At the same time that utilities are expected to keep rates low, utility investors and governments want improved financial performance and reasonable returns on their investments.

In addition to focusing on internal matters, utilities have had to deal with numerous external forces. While current generation supplies may be adequate in most areas, the T&D infrastructure needed to transfer energy to areas of high demand, at peak times, is insufficient. The inability to reliably deliver energy during critical peak usage periods has resulted in outages and service disruptions and extreme volatility in electricity and natural gas prices. In the water industry, increasing demand and static or decreasing supplies in North America, have resulted in water utilities imposing restrictions on the use of water in many areas and in the EPA and other Federal and State agencies seeking increasing measurement of and communication regarding the use of water.

Deregulation of most U.S. electric markets has not moved as rapidly as was expected several years ago, and has progressed primarily in the Northeast and some Midwest markets. Many U.S. natural gas markets have been deregulated for some time. The move to deregulation and open competitive markets has resulted in numerous challenges for utilities in running their businesses and serving their customers. In most open competitive markets, commercial and industrial customers have typically taken more advantage of customers' freedom to choose their energy supplier than residential customers. In addition, increases in wholesale natural gas prices over the past few years have presented electric and gas utilities with several challenges, including, higher retail energy prices, higher costs for electric generation and greater price volatility.

In the short term, utilities have primarily used capital reductions, operating budget reductions and maintenance cutbacks to improve their financial results. However, more recently utilities have begun investing in hardware and software technologies that provide increased analytics and intelligence in order to improve their operational and financial performance, and to provide themselves and their customers with additional information to manage their exposure to energy market forces. In this challenging environment, the collection, management, analysis and application of energy and water data is critical to reduce costs, satisfy customers, manage usage, design optimal systems, reduce risk, ensure regulatory and safety compliance and target infrastructure investments. Our solutions are targeted directly at these industry challenges.

Business Strategy

Our strategy leverages the combined strengths of our various technologies and services with our industry and customer relationships to provide solutions that make the delivery and use of energy and water more efficient, reliable and cost-effective.

Leverage Market Position to Capitalize on Growth Opportunities in Meter Data Collection:

As a leading provider of AMR and handheld meter reading systems, we are well-positioned to capitalize on future growth opportunities in meter data collection.

- Our product strategy focuses on migrating customers from their current level of meter reading technology to a more advanced meter reading technology, enabling customers to reduce costs and gain operating efficiencies. With only 21% of the estimated 270 million meters in the U.S. and Canada equipped with AMR capabilities, there are significant opportunities for growth in this market. Our 75% market share in handheld meter reading systems for the largest utilities in the U.S. and Canada (those with 100,000 meters installed) represents a significant installed base into which we can focus our efforts to sell more AMR solutions. In addition, many of our 1,200 AMR customers have deployed our AMR solutions in only a portion of their service territories representing another opportunity to grow our AMR business. We intend to leverage our market leading position in handheld meter reading and AMR to further penetrate our existing customer base and to capitalize on increasing interest in AMR from new customers.
- Outside the U.S. and Canada, there has been minimal penetration of AMR technology, yet utilities in international markets face the same needs for cost and operational efficiencies as energy market participants in the U.S. and Canada. We already have a significant handheld meter reading market share in Mexico, Japan, Australia and parts of Europe. We intend to leverage our relationships in these international markets and our considerable experience in the U.S. and Canadian AMR markets to capture a significant portion of the emerging AMR growth opportunities internationally.

Provide a Broad, Integrated Portfolio of Value-Added Solutions to Capitalize on Our Customers' Increasing Needs for Efficiency and Analytics:

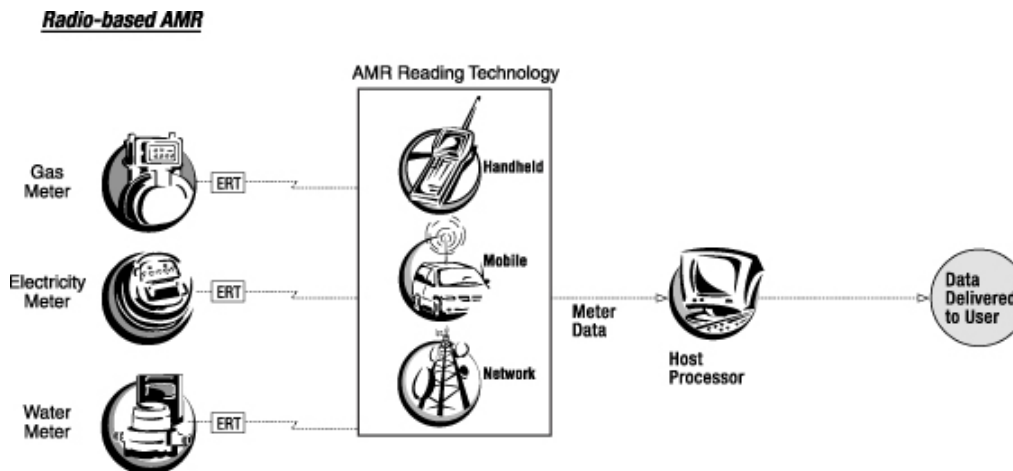
Our solutions help energy and water industry participants get more value out of their data, transform their business and achieve meaningful business process change. We will continue to broaden our solutions portfolio through internal development, acquisitions and partnering opportunities and further integrate our various solutions for metering, data collection, data management, operational analysis and forecasting. This will enable us to access a much broader piece of a utility's overall budget and will provide us with opportunities to sell our products to additional market participants such as supply generators, regulators, market operators and end-use customers. We also believe that implementation of certain of our products and services will drive customers to implement additional products and services that we offer.

Products and Solutions

Meter Data Collection

AMR Systems and Products for Residential Use:

Our AMR product line for residential meters primarily involves the use of radio communications technology to collect and transmit meter data along with software solutions for billing interfaces, data storage and retrieval, Internet data presentment, load profiling and forecasting, theft and leakage and other applications for meter data. Due to the geographic features and varying population density of a utility's service territory, our AMR applications provide flexibility ranging from the selective installation of AMR on only high cost-to-read meters or geographically dispersed meters, to a saturated deployment of AMR for a large portion of a utility's service area.



AMR Meter Modules: Our encoder, receiver, transmitter (ERT) meter modules are radio-based modules that can be retrofitted to existing electricity, gas or water meters or installed in or on new meters. The ERTs encode consumption, tamper and other information from the meters and communicate the data via radio to our handheld, mobile and network radio-based data collection technology. Electric ERTs are typically installed under the glass of electricity meters and are powered by the electricity running through the meter. Gas and water ERTs are usually attached to the meters and are powered by long-life batteries. In addition to selling ERT modules, we license our technology to third parties, including meter manufacturers, such as SEM, who either manufacture their own AMR modules or embed our AMR technology into their meters. We also offer a separate line of meter modules for use outside the U.S. and Canada. The primary differences between the meter modules used in U.S. and Canadian markets and in international markets are the radio frequency bands in which they operate and the physical configurations of the modules.

Handheld AMR: With handheld AMR, a meter reader walks a route, and a radio-equipped handheld computer sends a radio wake-up signal to nearby ERT-equipped meters and, in return, receives consumption, tamper and other information back from ERTs. A meter reader using a handheld AMR data collection system can significantly increase the number of meters read each shift.

Mobile AMR: Mobile AMR uses a radio transceiver installed in a utility vehicle that broadcasts a radio wake-up signal to all ERT-equipped meters within range and receives consumption, tamper and other information back from ERTs. Mobile AMR is designed for reading saturated deployments of ERT modules. With mobile AMR, a meter reader can read up to 20,000 meters in a day, dramatically improving meter reading efficiency.

Network AMR: Our Network AMR solutions enable a utility to read meters as often as needed. Network AMR uses locally installed concentrator devices (typically installed on streetlights or power poles) to send data to, and receive data from, ERTs. Concentrators then use public network communications for communication and data transfer between the concentrators and a host processor at a utility.

AMR Systems and Products for C&I Use:

We provide both hardware and software solutions for C&I meter data collection and management.

C&I Network: Our C&I Network uses advanced, peer-to-peer radio communications to transport meter data from solid-state electricity meters equipped with our External Meter Modems, or EMMs. Data travels from EMMs, through a system of radio relays, to a hub, which then routes the data using a single dedicated phone line to an Itron MV-90 host processor. There the data can be integrated with a variety of software applications, including billing, internet-based data presentment, load forecasting, settlements, marketing, load curtailment, energy management, load research and system engineering applications. Our C&I Network eliminates the need for dedicated phone lines and associated ongoing phone charges for each meter, which makes it a cost-effective solution for areas with groups of C&I meters, such as commercial and industrial parks, strip malls, downtown areas, or large commercial and industrial facilities with multiple metering points.

SmartSynchTM Meter Systems: In addition to our own C&I network, during 2002 we agreed to be the exclusive distributor of SmartSynch's SmartMeter SystemSM. The SmartMeter System is installed within a regular solid-state C&I electricity meter, which results in low-cost and efficient installations. The SmartMeter collects power quality and usage data, and then compresses and encrypts the data for transmission through wireless public communications networks. With its drop-in capability and use of public wireless communications networks, the SmartMeter System is ideally suited and cost-effective for selective deployments of C&I meters in areas with public wireless network coverage.

Commercial and Industrial Software: C&I meters have more sophisticated measurement capabilities than residential meters and collect much more data from meters that must be conveyed back with software solutions to energy providers and others. There is a wide variety of these meters from multiple meter vendors with no uniform communications standards. We are a leading provider of software systems for the collection, validation, estimation and editing of interval, register and event data from C&I meters. Our C&I software solutions have extensive functionality to support data validation, estimation and editing, data totalization, time-of-use pricing, load research, interactive graphics, billing and financial settlement, load forecasting and demand management, distribution operations and planning, marketing and customer care and deregulated marketplace transactions. Our C&I software is very scalable and can be operated on a single PC as well as in wide-area network operating environments and distributed systems.

Handheld Meter Data Collection Systems and Products:

We provide several models of handheld computers to meet the varying requirements of our customers. Each model is designed for use in harsh environments with standard text and graphics, back-lit displays, several memory sizes, multiple communication options, interface devices for electronic meters and easy-to-use customizable keyboards. A meter reader walking the route will, on average, read 300 to 500 meters per day.

Complementary Software and Consulting Services

Energy Management and Asset Optimization: We provide utilities with software that integrates, warehouses and manages meter, rate and weather data, and applications that analyze and deliver that information throughout a utility to where it is needed. We also offer software to end-use customers for gathering and managing meter energy bill, budget and weather data, along with automated tools to streamline and manage energy costs at the corporate level. In addition to software, we offer professional services for the implementation, system testing and integration of software, as well as training, maintenance and software hosting.

We also provide forecasting services and software products for short-term and long-term forecasting to utilities, market operators, research organizations, end-use customers and governmental agencies. Our solutions are used for predicting load growth, new facilities requirements, customer reaction to proposed programs and rates, day-ahead energy needs and longer-term energy needs. We also offer residential energy management and load curtailment tools that utilize internet connections within homes to enable utilities and customers to control thermostats and monitor energy consumption.

Transmission and Distribution Design and Optimization: We provide software solutions and engineering consulting services for optimizing the design and construction of a utility's new T&D infrastructure as well as the rebuilding of T&D infrastructures. Specific products include: (1) licensed software tools, typically sold on a seat license basis, for transmission line, distribution line and substation design, (2) software services that help utilities apply our T&D tools, including data entry of utility codes and standards, and electrical and mechanical design standards, (3) engineering consulting services for T&D line design, (4) joint use services, which include services and software tools for surveying utility poles in preparation for attachment of cables and equipment of other carriers (cable companies, competitive local exchange carriers, etc.) and (5) distribution line design tools that are integrated with Origin GIS™ (geographic information systems) software.

Work Force Automation Software: By combining wireless communications with the internet and real-time information exchange, our workforce automation software enables utilities to streamline and automate many of the processes associated with field service, including turn-ons/turn-offs, gas leak detection, credit and collections, meter services and trouble calls. Our workforce automation software supports numerous mobile computing handheld devices ranging from a pocket PC/PDA to a laptop computer. Information can be downloaded to mobile computers via regular dial-up docking station connections or via wireless communications. Our solutions use the internet and a utility's local-area network or wide-area network to provide connections between a server, dispatcher workstations, customer service representatives and the wireless network.

Sales and Distribution

We use a combination of direct and indirect sales channels. Direct sales, technical and administrative support teams serve the needs of the largest electric, gas and water utilities in the U.S. and Canada. For other utilities, and in some international markets, we conduct sales and technical support activities primarily through distributors, representative agencies and meter manufacturers. We have approximately 50 direct sales employees with an average of 13 years of industry experience and more than 25 companies in our indirect sales channel. In addition, we market solutions through a number of alliances and other partnering arrangements. We also sell electric and water meter modules through original equipment manufacturer arrangements with several major meter manufacturers. In these arrangements manufacturers incorporate our meter modules into new meters and then offer them for sale. We also license our AMR technology to certain third parties, including electricity meter manufacturers who either manufacture their own AMR modules or embed our AMR technology into their meters.

Customers

We have more than 2,000 utility customers worldwide and many of our customers have installed multiple Itron solutions. There are approximately 265 electric, gas and water utilities in the U.S. and Canada each with more than 100,000 installed meters. Of those large utilities, approximately 90% are using at least one of our products or services.

Meter Data Collection Systems: Worldwide, approximately 2,000 utilities use our meter data collections systems to read approximately 250 million meters. Approximately 1,200 have installed our AMR technology to automatically collect data from more than 33 million of those meters, representing a 55% market share in North America. Approximately 75% of the largest utilities in the U.S. and Canada use our handheld meter reading systems. Worldwide, more than 500 utilities use our C&I meter data collection software, including most of the largest electric and gas utilities in the U.S. and Canada.

Software and Service Solutions: Approximately 125 utilities use our energy forecasting and analysis tools as well as consulting expertise to improve system operation, scheduling, risk management and financial performance for utilities. Our enterprise energy data management software is used by six of the top ten utilities in the U.S. and Canada, and three of the top ten Fortune 100 companies. Approximately 90 utilities have utilized our T&D software design tools and services to design more cost effective and operationally efficient T&D infrastructure as well as to rebuild existing T&D infrastructure.

Marketing

Our marketing efforts focus on Company and product brand awareness and recognition principally through an integrated marketing communications approach, which includes trade shows, symposiums, brochures and collateral, published papers, our website, advertising, direct mail, electronic communications, newsletters, conferences, industry standards committee representation and regulatory support. We maintain communications with our customers through integrated marketing communication campaigns, and our annual users conference offers an important opportunity for us and our customers to come together and share ideas about our products, industry happenings and customer needs.

Employees

At December 31, 2003, we employed approximately 1,500 full-time regular and contract manufacturing persons, of which 37% were in product development, 34% in manufacturing, 13% in sales and marketing, 10% in service and support, with the balance in general and administrative support functions. Of these employees, approximately 94% were located in the U.S., none of which are represented by a labor union. We have not experienced any work stoppages and consider our employee relations to be good. In early 2004, we reduced headcount by approximately 70 employees, or 5%.

Competition

We provide a broad spectrum of products and services to customers in the utility industry and compete with a large number of diverse companies in the provision of these products and services. In many of our markets, there are participants that may be both competitors and partners. We may continue to partner with some of these companies, as well as consulting and system integration companies such as CGE&Y, IBM and Accenture, among others, to address future competitive energy market needs.

In the AMR meter data collection market, we compete with a variety of radio-based and power-line-carrier based providers. Most of these competitors are more narrowly focused than we are in that they do not provide AMR technologies for electricity, gas and water meters, and most do not offer multiple data collection options such as handheld, mobile and network. Our competitors in this market primarily include Actaris, Amco, Badger Meter Inc., Cellnet by ATOS Origin (formerly SchlumbergerSema), Echelon, ESCO Technologies Inc. (DCSI), Elster Metering, Hexagram Inc., Hunt Technologies Inc., Landis+Gyr, Neptune Technology, Sensus and others.

We face competition in energy management and asset optimization from a number of companies such as ABB Energy Interactive Inc., Comverge Inc., ICF Consulting, LodeStar Corp., Logica CMG and Siemens Corp. In the future, in the end-user energy management market, we believe we will face competition from billing and in-home-controls companies and may, in some cases, enter into cooperative relationships to jointly develop and offer solutions to this market.

In transmission design and optimization, we compete with Power Line Systems Inc. and others. In our distribution business, we compete with Cook-Hurlbert Inc., GE Network Solutions and others.

In the utility field workforce automation market, we compete with companies such as Axiom, DB Microware Inc., Logica, M3i, Mobile Data Solutions Inc. (MDSI), Utility Partners Inc. and Wishbone (recently acquired by Indus).

Product Development

We have maintained our leadership position in part because of our commitment to developing new products and continued enhancement of existing products that target specific market identified values. Our next generation technology development is primarily focused on data collection, communications technologies, data warehousing and software applications. We spent \$43.0 million, \$36.8 million and \$30.0 million on product development in 2003, 2002 and 2001, respectively. A majority of our 2003 product development dollars were spent developing future products.

Manufacturing

We manufacture meter modules in our facility in Waseca, Minnesota. We currently have the capacity to produce over six million electric, gas and water meter modules annually. However, capacity for individual products varies throughout the year depending on production mix. In November 2003, we began a facility expansion in Waseca, which will allow for capacity expansion beyond our current six million units. We produced 4.5 million units in 2003. In December 2003, our quality system was upgraded to the ISO 9001-2000 standard. We outsource the manufacturing of certain handheld systems and peripheral equipment, as well as low volume AMR products, to contract manufacturers.

Backlog of Orders

Our AMR meter module business includes a mix of project and routine sales. Project sales involve annual or multi-year contracts. Project sales are subject to rescheduling and cancellation by customers due to the long-term nature of the contracts. Routine sales include follow-on or add-on orders with existing AMR customers and initial orders with new customers.

Bookings for a reported period represent the revenue value of contracts signed during a specified period except for those related to annual maintenance, joint use (utility pole surveys) and engineering services. Annual maintenance contracts are not included in bookings or backlog. Revenues from joint use and engineering services contracts are included in bookings during the quarter in which the revenues are earned.

Total backlog represents the revenue value of undelivered contractual orders, excluding annual maintenance, joint use and engineering services. Twelve-month backlog represents the estimated portion of total backlog that we estimate will be earned over the next twelve months. Backlog is not a complete measure of our future business as a growing portion is book-and-ship, and as bookings and backlog can be highly variable from period to period primarily due to the nature and timing of large orders.

Bookings and backlog information is summarized by quarter as follows:

<u>Quarter Ended</u>	<u>Total Bookings</u>	<u>Total Backlog</u>	<u>12-month Backlog</u>
		(in millions)	
December 31, 2003	\$ 45	\$ 145	\$ 62
September 30, 2003	67	169	69
June 30, 2003	41	173	79
March 31, 2003	60	203	102
December 31, 2002	61	197	100
September 30, 2002	87	200	109
June 30, 2002	45	179	95
March 31, 2002	38	202	112

Note that beginning total backlog, plus current quarter bookings, less current quarter sales and service revenues will not always equal ending total backlog due to miscellaneous contract adjustments and other factors.

Intellectual Property

We own or license over 70 U.S., Canadian and foreign patents and have filed over 60 patent applications. These patents cover a range of technologies related to electricity meter reading portable handheld computer and AMR related technologies. We also rely on a combination of copyrights and trade secrets to protect our products and technologies. We have registered trademarks for most of our major product lines in the U.S. and many foreign countries. Itron[®], LineSoft[®], MV-90[®] and ERT[®] are registered trademarks of Itron and Service-Link[™] and “Knowledge to Shape Your Future”[™] are unregistered trademarks of Itron.

Disputes over the ownership, registration and enforcement of intellectual property rights arise in the ordinary course of our business. On October 14, 2003, we settled all issues in a patent infringement litigation for \$7.9 million.

Federal Communications Commission (FCC) Regulation and Allocation of Radio Frequencies

Certain of our products made for use in the U.S. use radio frequencies, the use of which are regulated by the FCC pursuant to the Communications Act of 1934, as amended. In general, a radio station license issued by the FCC is required to operate a radio transmitter. The FCC issues these licenses for a fixed term, and the licenses must be periodically renewed. Because of interference constraints, the FCC can generally issue only a limited number of radio station licenses for a particular frequency band in any one area.

Although radio licenses generally are required for radio stations, Part 15 of the FCC’s rules permit certain low-power radio devices (Part 15 devices) to operate on an unlicensed basis. Part 15 devices are designed for use on frequencies used by others. These other users may include licensed users, which have priority over Part 15 users. Part 15 devices are not permitted to cause harmful interference to licensed users and must be designed to accept interference from licensed radio devices. Our radio meter modules are Part 15 devices that transmit information back to either handheld, mobile or network AMR reading devices in the 910-920 MHz band pursuant to these rules.

On May 24, 2002, the FCC adopted service rules governing the use of the 1427-1432 MHz band. We use this band in connection with various devices in our network solutions. We were originally granted a nationwide license to operate in the band during 1994. Among other things, the new rules reserve the upper 2.5 MHz of the band for general telemetry, including utility telemetry, and provide that nonexclusive licenses will be issued in accordance with Part 90 rules and the recommendations of frequency coordinators. Telemetry licensees must comply with power limits and out-of-band emission requirements that are designed to avoid interference with the use of the lower part of the band by hospitals. Although the FCC will issue licenses on a nonexclusive basis and it is possible that the demand for spectrum will exceed supply, we believe that we will continue to have access to spectrum in the 1429.5-1432 MHz band under favorable conditions.

Environmental Regulations

In the ordinary course of our business, like that of other companies engaged in similar businesses, we use metals, solvents and similar materials that are stored on-site. The waste created by use of these materials is transported off-site on a regular basis by an unaffiliated waste hauler. We have made a concerted effort to reduce or eliminate the use of mercury and other hazardous materials in our products. We believe we are in material compliance with federal, state and local laws and regulations relating to the storage, discharge, handling, emission, generation, manufacture and disposal of, or exposure to or remediation of, toxic or other hazardous substances. Our Waseca facility has been certified to the ISO 14001 Environmental Standard.

Certain Risks Relating To Our Business

We are dependent on the utility industry, which has experienced volatility:

We derive substantially all of our revenues from sales of products and services to the utility industry. Purchases of our products may be deferred as a result of many factors, including mergers and acquisitions, regulatory decisions, weather conditions, rising interest rates and general economic downturns. We have experienced and may in the future experience variability in operating results, on both an annual and a quarterly basis as a result of these factors.

Sales cycles with customers in the utility industry, both domestic and foreign, are generally long and unpredictable due to customers' budgeting, purchasing and regulatory processes that can take up to several years to complete. Our utility customers typically issue requests for quotes and proposals, establish evaluation committees, review different technical options with vendors, analyze performance and cost/benefit justifications and perform a regulatory review, in addition to applying the normal budget approval process within a utility.

Our quarterly results may fluctuate substantially:

While we were profitable in fiscal years 2003, 2002 and 2001, we experienced operating losses in some quarters during those periods and in prior periods. We may be unable to maintain consistent profitability on a quarterly or annual basis. We have experienced variability of quarterly results and believe our quarterly results will continue to fluctuate as a result of costs related to acquisitions, including in-process research and development (IPR&D) and intangible amortization expenses, legal activity, estimates for warranty, restructuring charges, size and timing of significant customer orders, FCC or other governmental actions, the gain or loss of significant customers, timing and levels of new product developments, shifts in product or sales channel mix, increased competition and pricing pressure and general economic conditions affecting enterprise spending for the energy industry.

A significant portion of our revenues are generated from a limited number of customers:

Historically our revenues have been concentrated with a limited number of customers, which change over time. National Grid represented approximately 8%, 12% and 15% of total Company revenues in 2003, 2002 and 2001, respectively. The top ten customers in each year represented 35% of revenues for the year ended 2003 and 40% of revenues for the years ended 2002 and 2001. From time to time, we are dependent on large contracts that are subject to cancellation or rescheduling by our customers. Cancellation or postponement of one or more of these significant contracts could have a material adverse effect on us. For example, in 2003, we had a large electric utility reschedule approximately \$8 million of shipments booked for 2003 to 2004 due to the utility's need to divert capital spending in order to rebuild critical infrastructure as a result of damage caused by extreme, unplanned weather conditions. In addition, if a large customer contract is not replaced upon its expiration with a new large contract, our business could be negatively affected.

Our acquisitions of and investments in third parties carry risks:

Acquisitions and investments involve numerous risks such as the diversion of senior management's attention, unsuccessful integration of the acquired entity's personnel, operations, technologies and products, lack of market acceptance of new services and technologies, or a shift in industry dynamics that negatively impacts the forecasted demand for the new products. Impairment of an investment or goodwill and intangible assets may result if these risks materialize. There can be no assurances that an acquired business will perform as expected or generate significant revenues or profits. In addition, acquisitions may involve the assumption of obligations or significant one-time write-offs. For example, in the fourth quarter of 2003, we incurred pre-tax charges totaling \$2.4 million for the write-off of a minority investment in one company and the impairment of our minority investment in another company due to changes in the business conditions of those companies. In order to finance any future acquisitions, we may need to raise additional funds through public or private financings.

Our acquisition of SEM will be our largest acquisition to date. In addition to the general acquisition risks described above, subsequent to our acquisition of SEM, we will have a significant amount of indebtedness, which could have important consequences. For example, it could:

- Increase our vulnerability to adverse general economic and utility industry conditions;
- Require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes;
- Limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- Place us at a competitive disadvantage compared with our competitors that have less debt; and
- Limit our ability to borrow additional funds.

In addition, the debt that we expect to incur to finance the SEM acquisition will contain financial and other restrictive covenants that may limit our ability to engage in new activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of our debts.

We depend on our ability to develop new products:

We have made, and expect to continue to make, substantial investments in technology development. Our future success will depend, in part, on our ability to continue to design and manufacture new competitive products and to enhance and sustain our existing products. This product development will require continued investment in order to maintain our market position. We may experience unforeseen problems in the development or performance of our technologies or products. In addition, we may not meet our product development schedules. Finally, we may not achieve market acceptance of our new products and solutions.

We are facing increasing competition:

We face competitive pressures from a variety of companies in each of the markets we serve. Some of our present and potential future competitors have or may have substantially greater financial, marketing, technical or manufacturing resources, and in some cases, greater name recognition and experience than we have. Some competitors may enter markets we serve and sell products at low prices in order to obtain market share. Our competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources to the development, promotion and sale of their products and services than we can. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties that enhance their ability to address the needs of our prospective customers. It is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. In connection with our acquisition of SEM, as an accommodation to the FTC regarding competition, we are negotiating a licensing agreement with a competing AMR vendor to license to them some of our electric meter module and certain other related technology. We cannot be certain that this agreement will not materially impact our future sales growth at some point. Other companies may also produce products that are equal or superior to our products, which could reduce our market share, reduce our overall sales and require us to invest additional funds in new technology development. If we cannot compete successfully against current or future competitors, this will have a material adverse effect on our business, financial condition, results of operations and cash flow.

We are affected by availability and regulation of radio spectrum:

A significant number of our products use radio spectrum and in the U.S. are subject to regulation by the FCC. Licenses for radio frequencies must be obtained and periodically renewed. Licenses granted to us or our

customers may not be renewed on acceptable terms, if at all. The FCC may adopt changes to the rules for our licensed and unlicensed frequency bands that are incompatible with our business. In the past, the FCC has adopted changes to the requirements for equipment using radio spectrum, and it is possible that the FCC or Congress will adopt additional changes.

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

Our radio-based products currently employ both licensed and unlicensed radio frequencies. There must be sufficient radio spectrum allocated by the FCC for our intended uses. As to the licensed frequencies, there is some risk that there may be insufficient available frequencies in some markets to sustain our planned operations. The unlicensed frequencies are available for a wide variety of uses and are not entitled to protection from interference by other users. The unlicensed frequencies are also frequently the subject of proposals to the FCC requesting a change in the rules under which such frequencies may be used. If the unlicensed frequencies become unacceptably crowded or restrictive or subject to changed rules governing their use, and no additional frequencies are allocated, our business could be materially adversely affected.

We are also subject to regulatory requirements in international markets that vary by country. To the extent we wish to introduce products designed for use in the U.S. or another country into a new market, such products may require significant modification or redesign in order to meet frequency requirements and power specifications. Further, in some countries, limitations on frequency availability or the cost of making necessary modifications may preclude us from selling our products in those countries.

We may face liability associated with the use of products for which patent ownership or other intellectual property rights are claimed:

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

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

We may be unable to adequately protect our intellectual property:

While we believe that our patents, trademarks and other intellectual property have significant value, it is uncertain that this intellectual property, or any intellectual property acquired or developed by us in the future,

will provide meaningful competitive advantages. There can be no assurance that our patents or pending applications will not be challenged, invalidated or circumvented by competitors or that rights granted thereunder will provide meaningful proprietary protection. Moreover, competitors may infringe our patents or successfully avoid them through design innovation. To combat infringement or unauthorized use, we may need to commence litigation, which can be expensive and time-consuming. In addition, in an infringement proceeding a court may decide that a patent or other intellectual property right of ours is not valid or is unenforceable, or may refuse to stop the other party from using the technology or other intellectual property right at issue on the ground that it is non-infringing. Policing unauthorized use of our intellectual property is difficult and expensive, and we may not be able to, or have the resources to, prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as do the laws of the U.S.

We may face warranty exposure that exceeds our reserve:

We provide product warranties for varying lengths of time. In anticipation of such expenses, we establish allowances for the estimated liability associated with product warranties and product-failure related costs. However, these warranty and related product-failure cost allowances may be inadequate, and we may incur additional warranty and related expenses in the future with respect to new or established products. For example, in the fourth quarter of 2003, we made an \$8.6 million adjustment to a previous warranty estimate for a specific product that resulted from a defective component provided by a supplier.

A single manufacturing facility:

A substantial portion of our revenues are derived from the sale of AMR meter modules, which we manufacture in our facility in Waseca, Minnesota. In the event of a significant interruption in production at this facility, considerable time and effort could be required to establish alternative production lines, which would have a material adverse effect on our business, financial condition and results of operations.

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

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

We depend on certain key vendors:

Certain of our products, subassemblies and system components are procured from limited sources. Our reliance on such limited sources involves certain risks, including the possibility of shortages and reduced control over delivery schedules, manufacturing capability, quality and costs. In addition, we depend on one contract manufacturing vendor for a large portion of our low-volume manufacturing business and all of our repair services for our domestic handheld meter reading units. If that vendor should become unable to perform its responsibilities, our operations could be materially disrupted.

We are subject to international business uncertainties:

We conduct operations outside the U.S. International sales and operations may be subject to risks such as the imposition of government controls, political instability, restrictions on the import or export of critical technology, currency exchange rate fluctuations, adverse tax burdens, availability of qualified third-party financing, generally longer collection periods, trade restrictions, changes in tariffs, difficulties in staffing and managing international operations, potential insolvency of international dealers, burdens of complying with different permitting standards and a wide variety of foreign laws, and obstacles to the repatriation of earnings and cash. Fluctuations in the value of the U.S. dollar impact our ability to compete with international based competitors. International expansion and market acceptance depend on our ability to modify our technology to take into account such

factors as the applicable regulatory and business environment, labor costs and other economic conditions. In addition, the laws of certain countries do not protect our products or technology to the same extent as do the laws of the U.S. There can be no assurance that these factors will not have a material adverse effect on our future international sales and, consequently, on our business, financial condition and results of operations.

We are subject to regulatory compliance related to our operations:

We are subject to various governmental regulations related to the use of radio frequency spectrum, occupational safety and health, labor and wage practices. We are subject to various governmental regulations regarding the performance of certain engineering services. Failure to comply with current or future regulations could result in the imposition of substantial fines, suspension of production, alteration of our production processes, cessation of operations, or other actions, which could materially and adversely affect our business, financial condition and results of operations.

We may incur liability arising from the use of hazardous materials:

Our business and our facilities are subject to a number of federal, state and local laws, regulations and ordinances governing, among other things, the storage, discharge, handling, emission, generation, manufacture, disposal, remediation of, or exposure to toxic or other hazardous substances and certain waste products. Many of these environmental laws and regulations subject current or previous owners or operators of land to liability for the costs of investigation, removal or remediation of hazardous materials. In addition, these laws and regulations typically impose liability regardless of whether the owner or operator knew of, or was responsible for, the presence of any hazardous materials and regardless of whether the actions that led to the presence were taken in compliance with the law. In the ordinary course of our business, like that of other companies engaged in similar businesses, we use metals, solvents and similar materials, which are stored on site. The waste created by use of these materials is transported off-site on a regular basis by an unaffiliated waste hauler. We have made a concerted effort to eliminate or reduce the use of mercury and other hazardous materials in our products. Many environmental laws and regulations require generators of waste to take remedial actions at the off-site disposal location even if the disposal was conducted in compliance with the law. We have made and will continue to make capital and other expenditures in order to comply with these comprehensive laws and regulations. The requirements of these laws and regulations are complex, change frequently and could become more stringent in the future. Failure to comply with current or future environmental regulations could result in the imposition of substantial fines, suspension of production, alteration of our production processes, cessation of operations or other actions, which could materially and adversely affect our business, financial condition and results of operations. There can be no assurance that a claim, investigation or liability will not arise with respect to these activities, or that the cost of complying with governmental regulations in the future, will not have a material adverse effect on us.

Executive Officers of the Registrant

Set forth below are the names, ages and titles of the executive officers of Itron as of our filing date, and reflects the new organizational structure we began implementing in January 2004.

<u>Name</u>	<u>Age</u>	<u>Position</u>
LeRoy D. Nosbaum	57	Chief Executive Officer and Chairman of the Board
Robert D. Neilson	47	President and Chief Operating Officer and Director
Russell N. Fairbanks, Jr.	60	Vice President and General Counsel
Steven M. Helmbrecht	41	Vice President and General Manager, International Market
John W. Hengesh, Jr.	49	Vice President and General Manager, Water and Public Power Market
Philip C. Mezey	44	Group Vice President and General Manager, Software Solutions
Randi L. Neilson	41	Vice President, Marketing
David G. Remington	62	Vice President and Chief Financial Officer
Mima G. Scarpelli	45	Vice President, Investor Relations and Corporate Communications
Russell E. Vanos	47	Vice President and General Manager, Energy Market
John M. Woolard	38	Vice President, Strategy and Business Development

LeRoy Nosbaum is Chief Executive Officer and Chairman of the Board. Since joining Itron in 1996, Mr. Nosbaum has held positions as Chief Operating Officer and Vice President with responsibilities over manufacturing, product development, operations and marketing. Before joining Itron, Mr. Nosbaum was with Metricom Inc., a supplier of wireless data communications networking technology. Prior to joining Metricom Inc., Mr. Nosbaum was with Schlumberger, Ltd. and Sangamo Electric from 1969 to 1989 in various roles, including General Manager of Schlumberger's Integrated Metering Systems Division. In 2002, *Hart* magazine, a leading energy industry publication, named Mr. Nosbaum one of the top ten CEO's in the energy industry.

Rob Neilson is President and Chief Operating Officer as well as a Director of Itron. Mr. Neilson joined Itron in 1983 and has held several positions including Vice President, Strategy and Business Development, as well as Vice President, Marketing.

Russ Fairbanks, Jr. is Vice President and General Counsel and joined Itron in 2000. From 1997 to 1999, Mr. Fairbanks served as Vice President and General Counsel for ASM America, Inc., a manufacturer of chemical vapor deposition equipment used to make integrated circuits.

Steve Helmbrecht is Vice President and General Manager, International Market. Prior to joining Itron in 2002, Mr. Helmbrecht was Chief Financial Officer of LineSoft Corporation (LineSoft) beginning in 2000. Prior to joining LineSoft, Mr. Helmbrecht spent seven years with SS&C Technologies, Inc., a software company focused on portfolio management and accounting systems for institutional investors.

John Hengesh, Jr. is Vice President and General Manager, Water and Public Power Market. Since joining Itron in 1984, Mr. Hengesh has served in a number of positions covering sales, marketing, hardware and software development, manufacturing, quality and customer and field support.

Philip Mezey is Group Vice President and General Manager, Software Solutions. Mr. Mezey joined Itron in March 2003 as Managing Director of Software Development for Itron's Energy Management Solutions group

upon Itron's acquisition of Silicon. Mr. Mezey joined Silicon in 2000 as Vice President, Software Development. Prior to joining Silicon, Mr. Mezey was a founding member of Indus, a leading provider of integrated asset and customer management software, and was with Indus for 12 years with various responsibilities for product development and services for utility solutions.

Randi Neilson is Vice President, Marketing. Ms. Neilson joined Itron in 1990 and has served in a number of positions, most recently as Director of Solutions and Product Marketing.

Dave Remington is Vice President and Chief Financial Officer. Before joining Itron in 1996, Mr. Remington was an investment banker with Dean Witter Reynolds, specializing in structured asset-based financings including power and energy related transactions. Prior to joining Dean Witter Reynolds, Mr. Remington was the Vice President Finance and, later, President of Steiner Financial Corporation, a specialized financial services firm.

Mima Scarpelli is Vice President, Investor Relations and Corporate Communications. Ms. Scarpelli joined Itron in 1985 and has held numerous positions in the finance and accounting area including Treasurer and Controller.

Russ Vanos is Vice President and General Manager, Energy Market. Mr. Vanos first joined Itron in 1980 and held numerous positions from 1980 until 2000 with responsibilities in sales and operations. In 2000, Mr. Vanos left Itron briefly to become Vice President of Sales at LineSoft. He rejoined Itron in 2001 as Vice President and General Manager, Electric business unit.

John Woolard is Vice President, Strategy and Business Development. Mr. Woolard joined Itron as Vice President, End User Solutions business unit and Energy Management Solutions Group in March 2003, upon Itron's acquisition of Silicon. Mr. Woolard co-founded Silicon and was the President, Chief Executive Officer and Chairman of the Board since December 1997.

ITEM 2: PROPERTIES

Our headquarters consist of approximately 141,000 square feet of owned space in Spokane, Washington. We sublease approximately 30,000 square feet of our headquarters to a subcontract manufacturer in which we have a 30% ownership interest. In Waseca, Minnesota, we lease 106,000 square feet of manufacturing and engineering space. In Raleigh, North Carolina, we lease approximately 52,000 square feet for sales, product development and service. In addition, we have approximately 171,000 square feet of leased space in various cities in North America for sales and service. Our International business unit leases sales, service and operations offices located in Australia and Europe.

United States and Canada	Square footage	Description
Own	141,000	Headquarters, engineering, marketing, sales, service and operations
Lease	329,000	Manufacturing, engineering, sales, service and operations
Sublease	(63,000)	Various locations
International		
Lease	9,900	Sales, service and operations
Sublease	(2,200)	Australia

The above facilities are in good condition and we believe our current manufacturing and other properties will be sufficient to support our operations for the foreseeable future.

ITEM 3: LEGAL PROCEEDINGS**Patent Litigation**

On October 14, 2003, we settled all issues in a patent infringement litigation for \$7.9 million. The settlement includes payment for all royalties, attorneys' fees and other items, including the assigned ownership of the patent to us. We accrued \$7.4 million in 2002 and expensed \$500,000 in 2003 related to this matter.

We are not involved in any other material legal proceedings.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of shareholders of Itron during the fourth quarter of 2003.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information for Common Stock

Our common stock is traded on the NASDAQ National Market. The following table reflects the range of high and low common stock sales prices for the four quarters of 2003 and 2002 as reported by the NASDAQ National Market.

	2003		2002	
	High	Low	High	Low
First Quarter	\$20.74	\$13.00	\$32.30	\$22.25
Second Quarter	\$22.25	\$16.25	\$36.50	\$19.99
Third Quarter	\$24.16	\$18.07	\$26.98	\$12.53
Fourth Quarter	\$21.88	\$17.72	\$25.90	\$16.12

Holders

At February 29, 2004 there were approximately 480 holders of record of our Common Stock.

Dividends

We have never declared or paid cash dividends. We intend to retain future earnings for the development of our business and do not anticipate paying cash dividends in the foreseeable future.

Securities Authorized for Issuance Under Equity Compensation Plans

The section entitled "Equity Compensation Plan Information" appearing in the 2003 Proxy Statement sets forth certain information required by Item 201(d) of Regulation S-K and is incorporated herein by reference.

Unregistered Equity Security Sales

None.

ITEM 6: SELECTED CONSOLIDATED FINANCIAL DATA

	Year Ended December 31,				
	2003	2002	2001	2000	1999
(in thousands, except per share data)					
Statements of Operations Data					
Revenues					
Sales	\$ 273,783	\$ 241,158	\$ 183,425	\$ 141,899	\$ 147,128
Service	43,182	43,684	42,130	38,042	46,284
Total revenues	316,965	284,842	225,555	179,941	193,412
Cost of revenues	173,411	152,573	127,696	109,092	202,640
Gross profit (loss)	143,554	132,269	97,859	70,849	(9,228)
Operating expenses					
Sales and marketing	36,673	30,603	24,952	19,902	24,536
Product development	43,017	36,780	30,000	21,331	26,764
General and administrative	28,944	26,653	16,780	18,389	14,205
Amortization of intangibles	9,618	2,356	1,486	1,762	1,986
Restructurings	2,208	3,135	(1,219)	(185)	16,686
In-process research and development	900	7,200	—	—	—
Litigation accrual	500	7,400	—	—	—
Total operating expenses	121,860	114,127	71,999	61,199	84,177
Operating income (loss)	21,694	18,142	25,860	9,650	(93,405)
Other income (expense)					
Equity in affiliates	79	126	(616)	1,069	(600)
Interest income	159	1,187	1,410	1,110	—
Interest expense	(2,638)	(2,061)	(5,112)	(5,313)	(6,585)
Other income (expense), net	(1,395)	1,465	(176)	2,022	5,954
Total other income (expense)	(3,795)	717	(4,494)	(1,112)	(1,231)
Income (loss) before income taxes and cumulative effect of change in accounting principle	17,899	18,859	21,366	8,538	(94,636)
Income tax (provision) benefit	(7,421)	(10,176)	(7,916)	(3,270)	26,040
Net income (loss) before cumulative effect of change in accounting principle	10,478	8,683	13,450	5,268	(68,596)
Cumulative effect of change in accounting principle, net of income taxes of \$1,581	—	—	—	(2,562)	—
Net income (loss)	\$ 10,478	\$ 8,683	\$ 13,450	\$ 2,706	\$ (68,596)
Earnings Per Share					
Basic					
Income (loss) before cumulative effect	\$ 0.51	\$ 0.45	\$ 0.86	\$ 0.35	\$ (4.62)
Cumulative effect	—	—	—	(0.17)	—
Basic net income (loss) per share	\$ 0.51	\$ 0.45	\$ 0.86	\$ 0.18	\$ (4.62)
Diluted					
Income (loss) before cumulative effect	\$ 0.48	\$ 0.41	\$ 0.75	\$ 0.34	\$ (4.62)
Cumulative effect	—	—	—	(0.17)	—
Diluted net income (loss) per share	\$ 0.48	\$ 0.41	\$ 0.75	\$ 0.18	\$ (4.62)
Weighted average number of shares outstanding					
Basic	20,413	19,262	15,639	15,180	14,851
Diluted	21,740	21,380	18,834	15,385	14,851
Balance Sheet Data					
Working capital	\$ (1,846)	\$ 51,036	\$ 66,646	\$ 45,340	\$ 44,261
Total assets	303,489	247,246	202,691	177,231	192,079
Total debt	52,269	5,453	64,484	65,446	74,998
Shareholders' equity	177,244	161,601	76,052	52,092	47,526

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

The following discussion and analysis should be read in conjunction with the "Selected Consolidated Financial Information" and the Consolidated Financial Statements and Notes thereto.

Results of Operations

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

From 2000 through 2003, our organizational structure consisted of business units that focus on the customer segments we serve. These business units are Electric, Natural Gas, Water and Public Power, International and End User Solutions. The Electric, Natural Gas, Water and Public Power and End User Solutions business units focus on the U.S. and Canadian business territories. The International business unit focuses on sales outside of the U.S. and Canada.

Sales revenues for each business unit may include hardware, software license, custom software development, field and project management service and engineering, consulting and installation service revenues. Service revenues include post-sale maintenance support and outsourcing service revenue. Outsourcing services encompass installation, operation and maintenance of meter reading systems to provide meter information to a customer for billing and management purposes. Outsourcing services can be provided for systems we own as well as those owned by our customers. Inter-business unit revenues are immaterial. Business unit hardware cost of sales are based on standard costs, which include materials, direct labor and an overhead allocation based on projected production for the year. Business unit cost of sales for software, professional services and maintenance are based on actual time and materials incurred, warranty expense and an allocation of miscellaneous service related costs. Miscellaneous hardware costs and variances from standard costs are included in Corporate cost of sales and are not allocated to the business units.

In January 2004, we began to implement a change in our organizational structure. In the new structure, we are moving from profit and loss responsibility and reporting along business unit or market lines to two primary operations groups: hardware and software. The segment information presented in this Form 10-K is based on the organizational structure in place from 2000 through 2003. We expect to begin reporting under the new organization structure starting with the second quarter of 2004. At that time, historical amounts will be restated.

Executive Highlights

In 2003 our revenues were \$317.0 million, which is 11% higher than our 2002 revenues.

- Approximately half of the revenue growth resulted from three acquisitions, two in the fourth quarter of 2002 and one in the first quarter of 2003, with the rest coming from increased AMR business.
- AMR unit shipments increased approximately 15% in 2003 compared with 2002.
- We had no customer representing more than 10% of total Company revenues in 2003 compared with one customer representing 12% of revenues in 2002.
- Total new order bookings were \$213.8 million in 2003 compared with \$231.6 million in 2002.
- While revenues increased in 2003, our new order bookings and backlog declined primarily as three large electric utility customers delayed AMR orders in 2003 as a result of delays in capital spending due to an ice storm, a large-scale electrical power blackout in the eastern U.S. and a hurricane.

- We expect that certain of these order delays will continue to impact us in the first quarter of 2004. We expect that electric utilities will resolve many of these issues and that our electric market order activity will improve beginning in the second quarter of 2004.

Net income was \$10.5 million, or 48 cents per diluted share in 2003 compared with \$8.7 million, or 41 cents per diluted share, in 2002. Despite strong revenue performance in 2003, our earnings for the full year were impacted by a number of unusual charges. These items consisted of the following:

- An increase of \$8.6 million to an estimate for warranty expenses related to higher than normal product failures for a certain product.
- Impairment charges totaling \$2.4 million for minority investments in two companies.
- The above charges were partially offset by a fourth quarter reversal of approximately \$3.7 million of management bonus and employee profit sharing accrued in the first three quarters of 2003.

In early 2004, we began to implement a new organizational structure. In the process of implementing our new organization, and to adjust expenditures to expected revenue potential for 2004 in some areas, we have made headcount reductions and other spending adjustments.

Revenues and Gross Margins

Total Company Revenues and Gross Margins

The following tables summarize our revenues and gross margin for each year presented.

	Year Ended December 31,				
	2003	2002	% Change 2003-2002	2001	% Change 2002-2001
	(in millions)				
Revenues					
Sales	\$ 273.8	\$ 241.1	14%	\$ 183.5	31%
Service	43.2	43.7	(1)	42.1	4
Total revenues	\$ 317.0	\$ 284.8	11%	\$ 225.6	26%

	Year Ended December 31,				
	2003	2002	Change 2003-2002	2001	Change 2002-2001
Gross Margin					
Sales	50%	49%	1 %	45%	4%
Service	13	30	(17)	36	(6)
Total gross margin	45%	46%	(1)%	43%	3%

Revenues

Approximately half of the 11% growth in revenues from 2002 to 2003 was driven by two acquisitions in the fourth quarter of 2002 and one acquisition in the first quarter of 2003. The remaining 2003 revenue growth was driven by higher AMR hardware revenues and royalty income, offset by lower revenues from installations related to meter reading systems.

Sales revenues in 2003 increased \$32.7 million, or approximately 14%, compared with 2002. AMR module revenues increased \$21.1 million as module shipments increased 15% to approximately 4.2 million units in 2003. The three acquisitions above contributed \$12.9 million of the increase. Royalty revenue increased by \$4.3 million

primarily due to increased shipments of solid state electricity meters with our AMR technology embedded. Offsetting these increases were decreased AMR installation revenues of \$24.7 million in 2003 compared with \$29.6 million in 2002 due to the completion of several large installation contracts. Revenues through indirect sales channels, which include sales through meter manufacturers, business associates and other alliance partners, increased to approximately \$60.0 million in 2003, up from \$41.3 million in 2002, and were 19% and 15% of total Company revenues for the years ended December 31, 2003 and 2002, respectively. Service revenues decreased slightly in 2003 primarily due to a decline in outsourcing service revenues.

The \$59.2 million, or 26% increase in revenues in 2002 compared with 2001 principally reflects increased hardware deliveries to existing domestic customers of electric, gas and water AMR modules. One acquisition in the first quarter and two in the fourth quarter of 2002 contributed a combined \$11.2 million in 2002 revenues. Service revenues in 2002 included a \$1.5 million one-time revenue increase related to a long-term outsourcing contract.

There were no customers that accounted for more than 10% of total Company revenues in 2003. One group of affiliated Electric business unit customers, National Grid Companies, accounted for approximately 12% and 15% of total Company revenues in 2002 and 2001, respectively. The top ten customers in 2003, 2002 and 2001 accounted for approximately 35%, 40% and 40% of revenues for the respective periods.

Gross Margins

Gross margins in 2003 were negatively and significantly impacted by increased warranty expenses, which are reflected in service gross margins. In 2003, we began to experience high field failures for a specific type of electric AMR module. After extensive testing and analysis, we traced the source of the product failures to a change in encapsulation material from a supplier to our component supplier. The defective material was used by the supplier for approximately twelve months. Certain lots of this electric AMR module manufactured during this period included the defective material. Under certain conditions, primarily heat and humidity, there is a slow degradation of the material, which causes the product to fail.

The units containing the defective components are primarily isolated at four utilities and in 2003 we began a proactive program to replace affected modules at the two utilities that are experiencing the high failures. We expect to complete the replacements midway through 2004. A warranty accrual of approximately \$8.6 million was charged to service cost of sales during the fourth quarter of 2003, which reflects our estimate of the material, labor and other costs we will incur to replace the remaining affected units. Our estimates include assumptions for the number of units affected, hourly labor charges for installation work, in house material and labor costs to rework affected units, reimbursements from our component supplier and other variable factors. While we believe we have adequately reserved for this issue based on the information that is available to us today, our actual costs may differ from our estimates.

Warranty charges were the primary reason for the 17% decrease in service gross margins from 30% in 2002 to 13% in 2003. Sales gross margins increased 1%, from 49% in 2002 to 50% in 2003, from a combination of factors, including higher manufacturing volumes, lower general market prices for electronic components, higher product royalties and changes in product mix. Our gross margins may vary from period to period depending on the mix of hardware and software products and services.

Gross margins improved to 46% in 2002 compared with 43% in 2001 from a combination of factors, including improved manufacturing efficiencies from higher production volumes and changes in product mix, specific cost reduction efforts, lower general market prices for electronic components and other supply-chain management initiatives. Service gross margins decreased in 2002 primarily due to a one-time increase in costs associated with a long-term service contract.

Segment Revenues and Gross Margins

The following tables and discussion highlight significant changes in trends or components of revenues and gross margin for each segment.

	Year Ended December 31,				
	2003	2002	% Change 2003-2002	2001	% Change 2002-2001
(in millions)					
<i>Segment Revenues</i>					
Electric	\$ 150.6	\$ 136.8	10%	\$ 99.7	37%
Natural Gas	56.0	50.3	11	35.7	41
Water and Public Power	93.6	84.1	11	65.1	29
International	14.4	13.6	6	25.1	(46)
End User Solutions	2.4	N/A	N/A	N/A	N/A
Total revenues	\$ 317.0	\$ 284.8	11%	\$ 225.6	26%

	Year Ended December 31,				
	2003	2002	Change 2003-2002	2001	Change 2002-2001
<i>Segment Gross Margin</i>					
Electric	41%	46%	(5)%	42%	4%
Natural Gas	61	57	4	54	3
Water and Public Power	40	43	(3)	44	(1)
International	27	37	(10)	34	3
End User Solutions	48	N/A	N/A	N/A	N/A
Corporate ⁽¹⁾	2	—	2	(1)	1
Total gross margin	45%	46%	(1)%	43%	3%

⁽¹⁾ Corporate is included to reconcile total segment gross margin to total gross margin above.

Electric: Revenues in 2003 increased \$13.8 million, or 10%, compared with 2002 primarily as a result of two acquisitions in the fourth quarter of 2002 and one acquisition in the first quarter of 2003, which in total contributed \$11.9 million more in revenues in 2003 than in 2002. Sales of handheld computer systems were slightly higher in 2003 while maintenance services were lower due to initial warranty periods for new handheld system sales. AMR revenues increased only slightly in 2003 as several large electric utilities delayed orders due to several instances of extreme weather, a major blackout in the Northeastern U.S. and other utility specific delays in capital spending. Revenues in 2002 increased by \$37.1 million compared with 2001, or 37%, two-thirds of which resulted from increased hardware shipments for AMR, particularly with one customer. Also contributing to the 2002 increase in revenues was \$10.7 million related to an acquisition in the first quarter and two acquisitions in the fourth quarter of 2002.

One customer represented approximately 16%, 24% and 34% of Electric business unit revenues in 2003, 2002 and 2001, respectively, and approximately 8%, 12% and 15% of total Company revenues in 2003, 2002 and 2001, respectively. Revenues under existing contracts with this customer were substantially recognized in late 2003.

The Electric business unit gross margin in 2003 decreased 5% compared with 2002 primarily due to the increase in warranty expense discussed above under total Company gross margin. Approximately \$6.2 million of the \$8.6 million fourth quarter warranty accrual is reflected in the Electric business unit. Also contributing to lower Electric business unit gross margin in 2003 were higher than normal installation costs on an AMR contract with one customer due to poor productivity issues with a third party contractor. Late in 2003, we switched to a

new third party contractor to complete the project within a timeframe that was acceptable to the customer. The poor productivity issues resulted in our incurring higher installation costs than originally budgeted. In the fourth quarter of 2003, we had \$2.2 million in costs for this contract that were in excess of revenues, approximately \$1.0 million of which is a forward loss accrual for the estimated 2004 operations. We expect to complete the installation work for this contract around the end of the first quarter of 2004. Also contributing to the lower Electric business unit gross margin was a decrease in the average selling prices of electric meter modules in certain large orders. These declines were partially offset by favorable changes in product mix and an increase in royalty revenues of approximately \$4.8 million, primarily from SEM, in 2003. The 4% improvement in Electric business unit margins from 2001 to 2002 resulted primarily from lower standard hardware costs due to higher planned production volumes and other manufacturing efficiencies, as well as a shift in the mix of products and services.

Natural Gas: Revenues in 2003 increased approximately \$5.7 million, or 11%, compared with 2002 primarily due to meter module deliveries related to ongoing and new AMR projects. Revenue growth was 41% from 2001 to 2002 and was driven by increased hardware deliveries under several large contracts. In 2003 two customers represented approximately 13% and 11% of the Natural Gas business unit revenues, compared with one customer representing 20% of Natural Gas business unit revenues in 2002. These customers represented 4% of total Company revenues in 2003 and 2002. There were no customers representing 10% or more of the Natural Gas business unit's revenues in 2001.

Gross margins increased 4% from 2002 to 2003 and 3% from 2001 to 2002 due to lower standard hardware costs resulting primarily from higher planned production volumes. AMR module unit shipments were approximately 17% higher in 2003 compared with 2002, and shipments in 2002 were 45% higher than in 2001. The increase in margin in 2003 was partially offset by approximately \$600,000 in warranty expense that was reclassified from Corporate because it relates to specific warranty exposure in this business unit. As the warranty expense was originally recorded in Corporate in 2002, the reclassification in 2003 did not have an impact on total Company warranty expense.

Water and Public Power: Revenues in 2003 increased 11%, compared with 2002, primarily as a result of a 45% increase in sales through our indirect channel. Revenues through indirect sales channels in 2003 were 64% of Water and Public Power business unit revenues and 19% of total Company revenues. In 2002 and 2001, revenues through indirect sales channels were 49% and 48% of Water and Public Power business unit revenues and 15% and 14% of total Company revenues, respectively. Gross margin was 3% lower in 2003 compared with 2002, as \$2.4 million of the \$8.6 million warranty expense issue discussed above under total Company gross margin is reflected in this business unit, with additional decreases from lower margin hardware sales. Gross margin in 2003 was also negatively impacted by approximately \$600,000 in warranty expense that was reclassified from Corporate because it relates to specific warranty exposure in this business unit. As the warranty expense was originally recorded in Corporate in 2002, the reclassification in 2003 did not have an impact on total Company warranty expense. In 2002, gross margin was slightly lower than in 2001 as installation services, which are at a lower gross margin than hardware, were a higher component of overall revenues.

International: During the fourth quarter of 2002, we announced plans to restructure our European operations to improve the long-term profitability and efficiency of International operations. Much of our efforts in 2003 were focused on completing that transformation. Revenues increased slightly in 2003 compared with 2002 due to sales from acquisitions. Total revenues decreased by \$11.5 million, or 46%, in 2002, compared with 2001 due to an \$8.9 million handheld meter reading system sale to a customer in Japan in 2001, which was not replaced with a comparable size order in 2002.

Gross margins in 2003 decreased due to lower margin handheld system sales, expansion of our service center in the Netherlands, warranty charges related to products we are no longer selling or supporting and a lower amount of higher margin software sales. Margins were slightly higher in 2002 compared with 2001 due to a shift in product mix.

End User Solutions: As a result of the acquisition of Silicon on March 4, 2003, we created the End User Solutions business unit, which sells products and services to domestic commercial and industrial end-use customers. Revenues were approximately \$2.4 million from March 4, 2003 through December 31, 2003, and sales consisted primarily of energy management software and services.

Corporate: Miscellaneous hardware costs and variances from standard costs are reported within Corporate cost of sales and are not allocated to the business units. Overall, Corporate costs of sales were comparable as a percentage of revenue in 2003, 2002 and 2001. Corporate gross profit in 2003 reflects a reclassification of \$1.2 million in warranty expense from Corporate to the Natural Gas and Water and Public Power business units, because it relates to specific warranty exposures in those business units. The warranty expense was originally recorded in Corporate in 2002. The reclassification in 2003 did not have an impact on total Company warranty expense. In addition, in 2003 there was no bonus or profit sharing expense in Corporate cost of sales, compared with \$1.9 million in 2002 and \$1.4 million in 2001.

Operating Expenses

The following table details our total operating expenses in dollars and as a percent of revenues. Certain amounts in 2002 and 2001 have been reclassified to conform to the 2003 presentation.

	Year Ended December 31,					
	2003	% of Revenue	2002	% of Revenue	2001	% of Revenue
(in millions)						
<i>Operating Expenses</i>						
Sales and marketing	\$ 36.7	12%	\$ 30.6	11%	\$ 25.0	11%
Product development	43.0	14	36.8	13	30.0	13
General and administrative	28.9	9	26.7	9	16.8	7
Amortization of intangibles	9.6	3	2.3	1	1.4	1
Restructurings	2.2	1	3.1	1	(1.2)	(1)
In-process research and development	0.9	—	7.2	3	—	N/A
Litigation accrual	0.5	—	7.4	3	—	N/A
Total operating expenses	\$ 121.8	38%	\$ 114.1	40%	\$ 72.0	32%

Operating expenses increased during 2002 and 2003 primarily due to three acquisitions in 2002 and one in 2003.

Sales and marketing expenses increased \$6.1 million, or 20%, in 2003 and \$5.6 million, or 22%, in 2002 as a result of additional sales and marketing staff and product marketing activities primarily related to new products and services from acquisitions. However, as a percentage of revenues, sales and marketing increased only slightly from 2001 to 2003. These increases in expenses were partially offset by no bonus and profit sharing expense in 2003, compared with \$1.4 million and \$968,000 in 2002 and 2001, respectively.

Product development expenses increased \$6.2 million, or 17%, in 2003 and \$6.8 million, or 23%, in 2002 due primarily to increased staffing and other development expenses related to acquisitions. However, as a percentage of revenues, product development increased slightly from 2001 to 2003. These increases in expenses were partially offset by no bonus and profit sharing expense in 2003, compared with \$1.5 million and \$1.9 million in 2002 and 2001, respectively.

General and administrative expenses increased \$2.2 million, or 8%, in 2003 compared with 2002 but remained relatively constant at 9% of revenues. Expenses increased \$9.9 million from 2001 to 2002, and also increased 2% as a percentage of revenues. Approximately half of the expense increase in 2002 and 2003 resulted from acquisitions. Consulting costs related to Sarbanes-Oxley compliance and legal costs associated with a

patent litigation were approximately \$600,000 and \$300,000 higher in 2003 than in 2002. These increases in expenses were partially offset by no bonus and profit sharing expense in 2003, compared with \$2.7 million and approximately \$1.0 million in 2002 and 2001, respectively.

Amortization of intangibles increased as a result of the addition of \$14.3 million and \$16.2 million in amortizable intangible assets from acquisitions completed in 2003 and 2002, respectively. There is no goodwill amortization in 2003 and 2002 due to the adoption of Statement of Financial Accounting Standards (SFAS) No. 142 as of January 1, 2002. Goodwill amortization was \$749,000 in 2001. We completed our initial impairment test of goodwill in the second quarter of 2002, and our annual impairment test in the fourth quarters of 2003 and 2002, and concluded in all cases that goodwill was not impaired.

In January 2003, we initiated a restructuring of our EIS product group in Raleigh, North Carolina, which resulted in a charge of approximately \$2.0 million related to workforce reductions. The EIS restructuring plan was substantially completed during 2003. In 2002, we expensed \$3.1 million for planned costs related to the restructuring of our European operations. The restructuring plan resulted in the closure of the Vienne, France office, a reduction in workforce, the consolidation of product development efforts into existing Company locations and the outsourcing of select production efforts in order to improve the overall profitability of our International operations. Continuation of this activity in 2003 resulted in an additional \$259,000 of restructuring charges in 2003 from the write-down of fixed assets and lease termination charges and international restructuring activities were substantially complete by mid-2003. We had a recovery of \$1.2 million in 2001 of previously expensed restructuring charges from a sublease of office space that was on more favorable terms than originally anticipated.

In-Process Research and Development

During 2003 we recorded a \$900,000 charge for IPR&D related to the acquisition of Silicon and in 2002 a \$7.2 million charge for IPR&D related to the acquisition of LineSoft as follows:

	IPR&D	Estimated Cost to Complete Technology	Discount Rate Applied to IPR&D	Weighted Average Cost of Capital
			(in millions)	
Silicon Energy Corp.	\$ 0.9	\$ 1.2	29%	19%
LineSoft Corporation	\$ 7.2	\$ 3.3	25%	20%

At the time of the acquisitions, Silicon and LineSoft were in the process of developing new software products that had not yet reached technological feasibility. We expect to benefit as products that contain the in-process technology are marketed and sold to end-users.

Other Income (Expense)

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

	Year Ended December 31,		
	2003	2002	2001
		(in thousands)	
Equity in affiliates	\$ 79	\$ 126	\$ (616)
Interest income	159	1,187	1,410
Interest expense	(2,638)	(2,061)	(5,112)
Other income (expense), net	(1,395)	1,465	(176)
Total other income (expense)	\$ (3,795)	\$ 717	\$ (4,494)

Included in equity in affiliates is income related to our 30% equity interest in Servatron, Inc. (Servatron), a company that performs contract manufacturing and repair services for us, of \$79,000, \$97,000 and \$85,000 in 2003, 2002 and 2001, respectively. In 2001, we wrote-off approximately \$850,000 of an investment in an affiliate.

Interest income decreased by \$1.0 million in 2003, compared with 2002, due to lower cash investments, as well as a reduction of \$200,000 in interest income associated with an impairment of loans provided to Home EcoSystems, Inc., dba Lanthorn Technologies, Inc. (Lanthorn).

Interest expense in 2003 resulted primarily from interest expense and amortization of loan origination fees on the term loan and credit line entered into in March 2003 for the Silicon acquisition. Interest expense in 2002 and 2001 resulted primarily from subordinated debt, which we converted to equity in April and May 2002. In addition, in 2001, we had interest expense related to mortgage debt for our Spokane facility. The weighted average of outstanding borrowings was \$43.8 million in 2003, compared with \$24.5 million in 2002 and \$64.9 million in 2001.

Other income (expense), net, decreased in 2003, compared with 2002, primarily due to the impairment and write-down of minority investments in two companies. We recorded a \$1.7 million impairment of the \$2.4 million in loans we provided to Lanthorn due to a consideration of the estimated fair market value of the company as indicated by Lanthorn's last round of financing. The loans may be converted at any time into common stock of Lanthorn. In addition, we wrote-off our ownership interest in another minority investment of approximately \$500,000 in 2003, as we believe the company ceased operations during the fourth quarter of 2003. Included in 2002 other income (expense), net, was an \$841,000 pretax gain from the sale of our Raleigh, NC facility and a \$200,000 pretax gain from the early payoff of the mortgage on our Spokane facility.

Income Taxes

In 2003 our effective income tax rate was approximately 41.5% compared with 54.0% and 37.0% in 2002 and 2001, respectively. The 2003 and 2002 rates include no tax benefit recognized for the \$900,000 and \$7.2 million IPR&D expenses since IPR&D charges are not tax deductible. Excluding the impact of non-tax deductible IPR&D charges in 2003 and 2002, the adjusted effective tax rates were 39.5% and 39.0%, respectively. Our effective income tax rate can vary from period to period due to fluctuations in operating results, changes in the valuation allowances for deferred tax assets (which reduce the tax assets to an amount that more likely than not will be realized), new or revised tax legislation and changes in the level of business performed in domestic and international tax jurisdictions.

Financial Condition

	Year Ended December 31,		
	2003	2002	2001
	(in millions)		
<i>Cash Flow Information</i>			
Operating activities	\$ 10.3	\$ 49.2	\$ 32.3
Investing activities	(85.2)	(23.3)	(38.0)
Financing activities	48.6	(13.9)	5.1
Increase (decrease) in cash	\$(26.3)	\$ 12.0	\$ (0.6)

Operating activities: We generated \$10.3 million of cash from operations for the year ended December 31, 2003, compared with \$49.2 million in 2002. Operating cash flow in 2003 was negatively impacted by a \$7.9 million cash payment to settle a patent infringement litigation, \$7.4 million of which was accrued in 2002. In addition, a \$4.0 million payment in May 2003 to Duquesne Light Company related to an amendment to

our long-term warranty and maintenance agreement, was paid against an accrued loss for that contract and reduced operating cash flow. We used \$7.1 million in cash in 2003 for bonus and profit sharing compared with generating \$1.8 million in cash in 2002. The change primarily resulting from no accrual in 2003 for bonus and profit sharing. Also contributing to lower operating cash flows were payments in 2003 for restructuring accruals in 2002 and higher accounts receivable balances at the end of 2003 compared with 2002 due to the timing of sales late in December 2003 and customers taking slightly longer to pay in 2003. Days sales outstanding (DSO) totaled 69 days in 2003 compared with DSO of 60 days in 2002.

We generated \$32.3 million in cash from operations in 2001 compared with \$49.2 million in 2002. Improved operating cash flow in 2002 resulted primarily from higher bonus and profit sharing accruals in 2002 compared with 2001 and slightly faster turnover of accounts receivable. DSO totaled 60 days in 2002 compared with DSO of 62 days in 2001.

Investing activities: We used \$71.1 million in cash for the Silicon acquisition during 2003 compared with \$42.9 million used for three acquisitions during 2002. There were no acquisitions in 2001. We used \$3.7 million for SEM pre-acquisition costs during 2003, with no comparable activity in 2002 and 2001. We loaned \$405,000 to Lanthorn during 2003, compared with \$2.0 million in 2002. We used \$9.6 million in cash for property, plant and equipment purchases during 2003, compared with \$10.5 million and \$7.6 million in 2002 and 2001, respectively. We liquidated short-term investments in 2002, primarily to fund acquisitions. Net proceeds from short-term investments were \$22.1 million in 2002, compared with net purchases of \$22.2 million in 2001. During 2002, proceeds of \$1.9 million on the sale of property, plant and equipment and the reclassification of \$5.1 million from restricted cash for a collateralized letter of credit to cash as a result of a new credit facility also contributed to cash inflows.

In connection with the purchase of LineSoft in March 2002, we replaced a pre-existing non-recourse loan in the amount of \$2.0 million to the former Chief Executive Officer of LineSoft with a new non-recourse promissory note, secured with our common stock, in the same amount. At December 31, 2002, the loan balance was approximately \$473,000 and bore interest at an annual rate of 6.0%. The replacement note matured on May 11, 2003 and to settle the note, the remaining shares that secured the note were transferred to us. The fair value of the shares was less than the outstanding balance on the note resulting in an expense of approximately \$170,000 during 2003 to write-off the residual value of the note.

Financing activities: In connection with the Silicon acquisition in March 2003, we received \$50.0 million in proceeds from a term loan under a new credit facility and paid debt origination fees of \$1.9 million. Repayments on the term loan were \$12.5 million in 2003. We had \$10.0 million outstanding on our revolving line of credit at December 31, 2003 compared with no borrowings outstanding at the end of 2002 and 2001. We received \$3.7 million from employee stock purchase plan purchases and stock option exercises during 2003, compared with \$7.7 million and \$7.8 million for the same periods in 2002 and 2001, respectively. Cash used during 2002, included \$4.9 million for the early repayment of mortgage debt, \$3.5 million to repay credit lines and long-term debt assumed in the LineSoft acquisition and \$12.6 million to repurchase 807,900 shares of common stock. Cash used during 2001, included \$1.9 million to repurchase 85,100 shares of common stock.

Disclosures about contractual obligations and commitments

The following table summarizes our known obligations to make future payments pursuant to certain contracts as of December 31, 2003, as well as an estimate of the timing in which these obligations are expected to be satisfied.

Contractual obligations

	Total	Less than 1 year	1-3 years	3-5 years	Beyond 5 years
	(in thousands)				
Term loan debt ⁽¹⁾	\$ 37,500	\$ 37,500	\$ —	\$ —	\$ —
Project financing debt ⁽¹⁾	4,763	739	1,657	1,927	440
Revolving credit line ⁽¹⁾⁽²⁾	10,000	10,000	—	—	—
Operating and capital lease obligations ⁽³⁾	12,115	4,970	4,910	2,024	211
Guaranteed lease payments for an affiliate ⁽⁴⁾	439	170	269	—	—
Purchase and service commitments ⁽⁵⁾	69,456	69,456	—	—	—
Other long-term liabilities reflected on the balance sheet under generally accepted accounting principles	11,086	8,539	—	—	2,547
Total	\$ 145,359	\$ 131,374	\$ 6,836	\$ 3,951	\$ 3,198

⁽¹⁾ Borrowings are disclosed within footnote 9 in the “Notes to Consolidated Financial Statements.”

⁽²⁾ The revolving credit line was fully paid in January 2004.

⁽³⁾ Operating and capital lease obligations are disclosed in footnote 18 in the “Notes to Consolidated Financial Statements.”

⁽⁴⁾ Guaranteed lease payments for an affiliate are disclosed in footnote 17 in the “Notes to the Consolidated Financial Statements.”

⁽⁵⁾ We enter into standard purchase orders in the ordinary course of business that typically obligate us to purchase the items ordered. Purchase orders can vary in terms by providing an extended shipment period of up to one year at an established unit cost. We had total outstanding purchase orders of \$65.9 million at December 31, 2003. Long-term executory purchase agreements that contain termination clauses have been classified within less than 1 year as the commitment is the estimated amount we would be required to pay at December 31, 2003 if the commitment was canceled. We had outstanding long-term executory purchase agreements of \$3.6 million at December 31, 2003.

We have no off-balance sheet financing agreements.

Investments: As of December 31, 2003, we had loaned a total of \$2.4 million to Lanthorn, which is developing internet-based energy monitoring and management software and services. The loans are convertible notes, which are due in March 2007. The notes accrue interest at 7% and may be converted at any time into common stock of Lanthorn. If we had converted our notes into equity at December 31, 2003, they would have converted into approximately 22% of Lanthorn’s common stock assuming that all granted stock options and other convertible debt of the firm were exercised or converted. Lanthorn has not yet produced any significant revenue. In December 2003, we recorded a \$1.9 million impairment charge related to Lanthorn, which consisted of a \$176,000 reversal of interest income recognized in the first three quarters of 2003 and a \$1.7 million charge to other income (expense), net, for principal.

During 2003 we wrote-off a minority investment, resulting in a \$500,000 charge to other income (expense), net.

Liquidity, Sources and Uses of Capital:

We have historically funded our operations and growth with cash flow from operations, borrowings and sales of our stock. At December 31, 2003, we had \$6.2 million in cash and cash equivalents. Cash equivalents and short-term investments historically have been invested in investments rated A or better by Standard & Poor's or Moody's and have market interest rates. We are exposed to changes in interest rates on cash equivalents and short-term investments.

At December 31, 2003, we had a \$92.5 million secured credit facility. The credit facility consists of a \$50 million three year term loan, which had an outstanding balance of \$37.5 million at December 31, 2003, and a \$55 million revolving credit line. At December 31, 2003, there were \$10.0 million of borrowings and approximately \$15.0 million of standby letters of credit outstanding under the revolving credit line. Collateral that has been granted to the lenders includes equipment, inventory, real property and intellectual property.

The credit facility contains financial covenants which require us to maintain certain liquidity and coverage ratios on a quarterly basis. At December 31, 2003, our fixed charge coverage ratio was below the minimum required according to a covenant in our loan agreement. In early February 2004, we received a waiver of compliance with the covenant from our lenders.

In connection with our acquisition of SEM, we intend to replace our current credit facility with \$365 million of new debt for a net increase in our debt facilities of approximately \$272.5 million. On December 17, 2003, on a documentary or "paper" basis we closed a new \$240 million senior secured credit facility comprised of a replacement \$55 million revolving credit line and a \$185 million seven year term loan. The new facility does not permit borrowing until certain conditions are satisfied, including closing the acquisition of SEM. Without the satisfaction of the remaining conditions the new credit facility expires the later of March 31, 2004, or the deadline date of the SEM acquisition agreement, but no later than May 15, 2004. The annual interest rates under the new facility will vary depending on market rates, with initial interest rates of LIBOR plus 2.75% for the revolving line of credit and LIBOR plus 2.25% for the term loan.

If we are unable to complete the final or financial closing of the new credit facility by March 31, 2004, or thereafter, in respect of our existing credit facility, we anticipate we will be below the minimum required fixed charge coverage ratio covenant referred to above for the first three quarters of 2004 and a leverage ratio covenant for the quarter ended March 31, 2004, due in part to a four-quarter rolling calculation of a component of our covenant requirements. Consequently, the \$20.8 million long-term portion of our term loan has been classified as a current liability at December 31, 2003. We believe we will be able to obtain a waiver of covenant compliance for the first three quarters of 2004, and therefore, existing cash resources and available borrowings are adequate to meet our cash needs through 2004.

We maintain bid and performance bonds for certain customers. Bonds in force were \$41.7 million and \$40.3 million at December 31, 2003 and 2002, respectively. Bid bonds guarantee that we will enter into a contract consistent with the terms of the bid. Performance bonds provide a guarantee to the customer for future performance, which usually covers the installation phase of a contract and may on occasion cover the operations and maintenance phase of outsourcing contracts.

During 2003, we received a cancellation notice from a bonding company on a \$25.0 million performance bond, based on policy changes at the bonding company, which cancellation became effective in February 2004. We have negotiated a reduction in performance collateral, in the form of a bond, a letter of credit and/or escrowed cash totaling \$17 million to \$20 million, depending on the form. In January 2004, we replaced the bond with an \$18 million letter of credit.

We also have standby letters of credit to guarantee our performance under certain contracts. The outstanding amounts of standby letters of credit were \$15.0 million at December 31, 2003 and 2002. In March 2003, we issued a standby letter of credit in the amount of approximately \$1.0 million to a third party landlord to guarantee a subsidiary's lease payments on a facility. The standby letter of credit renews on an annual basis during the term

of the lease, which expires in 2005. If we fail to make a scheduled lease payment, the landlord could draw up to the maximum amount specified on the standby letter of credit. In May 2003, we reduced a standby letter of credit from \$5.0 million to \$4.0 million as a result of an amendment to a long-term warranty and maintenance agreement with a customer.

We guarantee lease payments for certain equipment leased by an affiliated company. The maximum future lease obligation of the guarantee at December 31, 2003 was approximately \$439,000. The lease and our guarantee terminate in 2006. In the event the affiliate is unable to pay a monthly lease obligation, we would be required to make the payment. If we do not make the payment, the equipment would be returned to the lessor. In the event that the equipment is not in working condition, we would be obligated to pay for the equipment to be returned to working condition.

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 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. The terms of the indemnification normally do not limit the maximum potential future payments. We also provide an indemnification 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 the indemnification generally do not limit the maximum potential payments.

On October 14, 2003, we settled all issues in a patent infringement litigation for \$7.9 million. The settlement included payment for all royalties, attorneys' fees and other items, including the assigned ownership of the patent to us. We accrued \$7.4 million in 2002 and expensed \$500,000 in 2003 related to this matter.

We are a party to various other lawsuits and claims, both as plaintiff and defendant, and have contingent liabilities arising from the conduct of business, none of which, in our opinion, are expected to have a material effect on our financial position or results of operations. None of the various other lawsuits or claims required the recognition of a liability as of December 31, 2003, as negative outcomes are not considered probable.

In March 2002, we acquired LineSoft, a leading provider of engineering design software applications and consulting services for optimizing the construction or rebuilding of utility T&D infrastructure. We are required to pay additional amounts to certain LineSoft shareholders of up to \$13.5 million in the event that certain defined revenue targets in 2003 and/or 2004 are exceeded. Any earnout payments will be paid half in cash and half in our common stock. If an earnout is required, the purchase price will be increased by the fair value of the payment. The 2003 revenue target was not exceeded and an earnout was not recorded. We do not expect the 2004 revenue target to be exceeded and therefore, it is unlikely an earnout payment will be required in 2004.

In October 2002, we acquired Regional Economic Research, Inc. (RER), a California based company specializing in energy consulting, analysis and forecasting services and software. We are required to pay additional amounts to certain RER shareholders of up to \$4.0 million to the extent that certain defined revenue targets in 2003 and 2004 are exceeded. RER exceeded the defined revenue target established for 2003 and we accrued a liability of \$1.8 million for the expected earnout payment. The purchase price was increased by the earnout and recorded as an addition to goodwill. We expect that the 2004 revenue target will be exceeded and that an additional earnout in the range of \$1.0 to \$2.0 million will be required in 2004. The form of the anticipated earnout is payable in cash and/or our common stock based solely upon our discretion. The 2003 earnout will be paid in cash on or before March 31, 2004.

In 2003, total net deferred tax assets increased approximately \$13.5 million primarily due to net deferred tax assets of approximately \$18.1 million recorded as part of the acquisition of Silicon during March 2003. Silicon's net deferred tax assets primarily represent net operating loss carryforwards that will be limited in use on an

annual basis pursuant to Internal Revenue Code Section 382 (Section 382). The net value assigned to the Silicon related deferred tax assets is based on preliminary estimates and is subject to adjustment. Our net deferred tax assets also consist of our own accumulated net operating losses and Section 382 limited deferred tax assets acquired in connection with the acquisitions of LineSoft and RER. We expect to utilize tax loss carryforwards and available tax credits to offset taxes otherwise due on regular taxable income in upcoming years. During 2004, we expect to pay approximately \$1.4 million in cash for federal alternative minimum tax and various state tax obligations. We expect to begin making significant cash payments for federal tax purposes beginning in 2005 as tax credits and net operating loss carryforwards not limited by Section 382 will have been fully utilized in 2004.

Working capital at December 31, 2003 was \$(1.8) million compared with \$51.0 million at December 31, 2002. The decrease in working capital is primarily due to the classification of \$20.8 million of the long-term portion of our term loan as a current liability at December 31, 2003, and the use of \$21.1 million in cash for the acquisition of Silicon in March 2003. If we are unable to complete the final or financial closing of our new credit facility by March 31, 2004, or thereafter, in respect of our existing credit facility, we anticipate we will be below the minimum required fixed charge coverage ratio covenant on our current loan for the first three quarters of 2004 and a debt leverage ratio covenant for the quarter ended March 31, 2004, due in part to a four-quarter rolling calculation of a component of our covenant requirements. Consequently, the \$20.8 million long-term portion of our term loan has been classified as a current liability, resulting in \$37.5 million classified as short-term debt at December 31, 2003.

The DSO for billed and unbilled accounts receivable totaled 69 days in 2003 compared with DSO of 60 days in 2002. Historically, our DSO ratio has been driven more by specific contract billing terms rather than collection issues.

In November 2003, we began a facility expansion in Waseca, which will allow for capacity expansion beyond our current six million units. The cost of the expansion is not expected to exceed \$2.0 million.

We expect to continue to expand our operations and grow our business through a combination of internal new product development, licensing technology from or to others, distribution agreements, partnership arrangements and acquisitions of technology or other companies. We expect these activities to be funded from existing cash, cash flow from operations, borrowings and the issuance of common stock or other securities. We believe existing sources of liquidity will be sufficient to fund our existing operations and obligations for the foreseeable future, but offer no assurances. Our liquidity requirements could be affected by our dependence on the stability of the energy industry, competitive pressures, international risks, intellectual property claims and other factors described under "Certain Risks Relating to Our Business" within Item 1 and "Quantitative and Qualitative Disclosures About Market Risk" within Item 7A, included in our Form 10-K.

Critical Accounting Policies

Revenue Recognition: The majority of our revenues are recognized when products are shipped to or received by a customer or when services are provided. We have certain customer arrangements with multiple elements. For such arrangements, we determine the fair value of each element and then allocate the total arrangement consideration among the separate elements under the provisions of EITF 00-21. Revenues for each element are then recognized based on the type of element, such as 1) when the products are shipped, 2) services are delivered, 3) percentage of completion when implementation services are essential to the software performance or 4) upon customer acceptance provisions. Under outsourcing arrangements, revenue is recognized as services are provided. Hardware and software post-contract customer support fees are recognized over the life of the related service contracts. Revenue can vary significantly from period to period based on the timing of orders and the application of revenue recognition criteria. Use of the percentage of completion method for revenue recognition requires estimating the cost to complete a project. Actual costs may vary from estimates.

Unearned revenue is recorded for products or services when the criteria for revenue recognition has not been met. The majority of unearned revenue relates to annual billing terms for post-sale maintenance and support agreements.

Accounts Receivable: The allowance for doubtful accounts is based on our historical experience of bad debts and is adjusted for estimated uncollectible amounts.

Inventories: Inventories consist primarily of sub-assemblies and components necessary to support maintenance contracts. Inventory amounts include the cost to manufacture the item, such as the cost of raw materials, labor and other applied direct and indirect costs. If the market value of the inventory falls below the original cost, the inventory value is reduced to the market value. Items are removed from inventory using the first-in, first-out method. Inventory is subject to rapidly changing technologies.

Goodwill and Intangible Assets: Goodwill and intangible assets are primarily the result of our acquisitions in 2002 and 2003. We use estimates in determining the value of goodwill and intangible assets, including estimates of useful lives of intangible assets, discounted future cash flows and fair values of the related operations. We test annually, on October 1st, to determine whether goodwill has been impaired, under the guidance of SFAS No. 142. We utilize an independent appraiser to forecast discounted future cash flows at the reporting unit level, which consists of our business units, based on our historical and best estimates of future revenues and operating costs, which take into consideration factors such as existing backlog, expected future orders, supplier contracts and general market conditions. Changes in our forecasts or cost of capital may result in asset value write-downs, which could have a significant impact on our current and future financial position and results of operations.

Warranty: We offer standard warranty terms on most of our product sales of between one and three years. The warranty accrual includes the cost to manufacture or purchase warranty parts from our suppliers as well as the cost to install or repair equipment. The warranty accrual is based on historical product performance trends, business volume assumptions, supplier information and other business and economic projections. Thorough testing of new products in the development stage helps to identify and correct potential warranty issues prior to manufacturing. Continuing quality control efforts during manufacturing limit our exposure to warranty claims. We track warranty claims in order to identify any potential warranty trends. If our quality control efforts were to fail to detect a fault in one of our products, we could experience an increase in warranty claims resulting in an increase in the warranty accrual. Management continually evaluates the sufficiency of warranty provisions and makes adjustments when necessary. Actual warranty costs may fluctuate and may be different than amounts accrued. For example, in 2003, we made net adjustments to previous warranty estimates totaling \$8.4 million.

Contingencies: We are subject to various legal proceedings and claims of which the outcomes are subject to significant uncertainty. An estimated loss from a contingency is accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. We evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our financial position or results of operations.

New Accounting Pronouncements

In May 2003, the Financial Accounting Standards Board (FASB) issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. The statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The statement requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. The provisions of this statement are effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The provisions are to be implemented by reporting the cumulative effect of a change in an accounting principle for

financial instruments created before the issuance date of the statement and still existing at the beginning of the interim period of adoption. We do not have any financial instruments to which this statement would apply.

In May 2003, the FASB ratified the consensus on Emerging Issues Task Force (EITF) 01-08, *Determining Whether an Arrangement Contains a Lease*, which provides guidance on when an arrangement represents a lease transaction and requires the application of SFAS No. 13, *Accounting for Leases*. The guidance is effective for arrangements entered into or modified after June 30, 2003. The provisions of this guidance may impact our accounting for future outsourcing contracts. We have not entered into or modified any arrangements subsequent to June 30, 2003 to which this guidance may apply.

Subsequent Event

As discussed in our press releases dated January 20, 2004 and February 5, 2004, we do not expect to see growth in our electric business unit in the first quarter of 2004 due to order delays by several large electric customers. We do expect to see order activity increase in the second quarter of 2004. In January 2004 we began to implement a change in our organizational structure as we moved from profit and loss responsibility and reporting along business unit or market lines to two primary operations groups: hardware and software. In the process of developing the new structure, and in light of lower expectations for first quarter revenues, we took some corrective actions to reduce expenses and eliminate certain unprofitable activities. Those actions resulted in a reduction of approximately 70 employees, or 5%, of our workforce and will result in a restructuring charge of approximately \$2.5 million in the first quarter of 2004.

The segment information presented in this Form 10-K is based on the organizational structure in place from 2000 through 2003. We expect to begin reporting under the new organization structure beginning with our second quarter results in 2004. At that time, historical amounts will be restated.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk: The table below provides information about our financial instruments that are sensitive to changes in interest rates. At December 31, 2003, we had fixed rate debt of approximately \$4.8 million and variable rate debt of \$47.5 million. Weighted average variable rates in the table are based on implied forward rates in the LIBOR yield curve as of February 20, 2004 and our estimated ratio of funded debt to EBITDA. The table below illustrates the scheduled repayment of principal over the remaining lives of the debt at December 31, 2003:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Beyond 2008</u>
	(in millions)					
Fixed rate debt						
Project financing debt	\$ 0.7	\$ 0.8	\$0.9	\$0.9	\$1.0	\$ 0.5
Average interest rate	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%
Variable rate debt						
Revolving credit line	\$10.0	—	—	—	—	—
Average interest rate	3.8%	—	—	—	—	—
Term loan debt ⁽¹⁾	\$16.7	\$16.7	\$4.1	—	—	—
Average interest rate	3.9%	4.8%	5.5%	—	—	—

⁽¹⁾ If we are unable to complete the final or financial closing of the new credit facility by March 31, 2004, or thereafter, in respect of our existing credit facility, we anticipate we will be below the minimum required fixed charge coverage ratio covenant for the first three quarters of 2004 and a debt leverage ratio covenant for the quarter ended March 31, 2004, due in part to a four-quarter rolling calculation of a component of our covenant requirements. Consequently, the \$20.8 million long-term portion of our term loan has been classified as a current liability at December 31, 2003.

Our variable rate debt is exposed to changes in interest rates. Our requirement to enter into an interest rate hedge agreement to substantially fix or limit the interest rate on at least 50% of our the term loan principal for a minimum of two years was waived to March 31, 2004. The forecasted interest rates provided in the tabular format above do not include the benefits of the interest rate hedge agreement, which will be entered into subsequent to the date of this document.

Based on a sensitivity analysis as of December 31, 2003, we estimate that if market interest rates average 1% higher than in the table above in 2004, our earnings before income taxes in 2004 would decrease by approximately \$317,000.

Foreign Currency Exchange Rate Risk: We conduct business in a number of foreign countries and, therefore, face exposure to adverse movements in foreign currency exchange rates. International revenue was 5% of our total revenue in 2003. Since we do not use derivative instruments to manage all foreign currency exchange rate risks, the consolidated results of operations in U.S. dollars are subject to fluctuation as foreign exchange rates change. In addition, our foreign currency exchange rate exposures may change over time as business practices evolve and could have a material impact on our financial results.

Our primary exposure is related to non-U.S. dollar denominated sales, cost of sales and operating expenses in our international subsidiary operations. This means we are subject to changes in the consolidated results of operations expressed in U.S. dollars. Other international business, consisting primarily of shipments from the U.S. to international distributors and customers in the Pacific Rim and Latin America, is predominantly denominated in U.S. dollars, which reduces our exposure to fluctuations in foreign currency exchange rates. In some cases where sales from the U.S. are not denominated in U.S. dollars, we have and may hedge our foreign exchange risk by selling the expected foreign currency receipts forward. There have been and there may continue to be large period-to-period fluctuations in the relative portions of international revenue that are denominated in foreign currencies.

Risk-sensitive financial instruments in the form of inter-company trade receivables are mostly denominated in U.S. dollars, while inter-company notes may be denominated in local foreign currencies. As foreign currency exchange rates change, inter-company trade receivables impact current earnings, while inter-company notes may be re-valued and result in unrealized translation gains or losses that are reported in other comprehensive income.

Because our earnings are affected by fluctuations in the value of the U.S. dollar against foreign currencies, we have performed a sensitivity analysis assuming a hypothetical 10% increase or decrease in the value of the dollar relative to the currencies in which our transactions are denominated. At December 31, 2003, the analysis indicated that such market movements would not have had a material effect on our consolidated results of operations or on the fair value of any risk-sensitive financial instruments. The model assumes foreign currency exchange rates will shift in the same direction and relative amount. However, exchange rates rarely move in the same direction. This assumption may result in the overstatement or understatement of the impact of changing exchange rates on assets and liabilities denominated in a foreign currency. Consequently, the actual effects on operations in the future may differ materially from results of the analysis for the year ended December 31, 2003. We may, in the future, experience greater fluctuations in U.S. dollar earnings from fluctuations in foreign currency exchange rates. We will continue to monitor and assess the impact of currency fluctuations and may institute hedging alternatives.

REPORT OF MANAGEMENT

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

Management is responsible for the preparation of our consolidated financial statements and related information appearing in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present our financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. Management has included in our financial statements amounts based on estimates and judgments that it believes are reasonable under the circumstances.

Management's explanation and interpretation of our overall operating results and financial position, with the basic financial statements presented, should be read in conjunction with the entire report. The Notes to Consolidated Financial Statements, an integral part of the basic financial statements, provide additional detailed financial information. Our Board of Directors has an Audit and Finance Committee composed of independent Directors. The Committee meets regularly with financial management and Deloitte & Touche LLP to review accounting control, auditing and financial reporting matters.

LeRoy D. Nosbaum
Chairman and Chief Executive Officer

David G. Remington
Vice President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Itron, Inc.

We have audited the accompanying consolidated balance sheets of Itron, Inc. and subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Itron, Inc. and subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets in 2002.

DELOITTE & TOUCHE LLP

Seattle, Washington
March 8, 2004

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2003	2002	2001
	(in thousands, except per share data)		
Revenues			
Sales	\$ 273,783	\$ 241,158	\$ 183,425
Service	43,182	43,684	42,130
Total revenues	316,965	284,842	225,555
Cost of revenues			
Sales	135,940	122,189	100,692
Service	37,471	30,384	27,004
Total cost of revenues	173,411	152,573	127,696
Gross profit	143,554	132,269	97,859
Operating expenses			
Sales and marketing	36,673	30,603	24,952
Product development	43,017	36,780	30,000
General and administrative	28,944	26,653	16,780
Amortization of intangibles	9,618	2,356	1,486
Restructurings	2,208	3,135	(1,219)
In-process research and development	900	7,200	—
Litigation accrual	500	7,400	—
Total operating expenses	121,860	114,127	71,999
Operating income	21,694	18,142	25,860
Other income (expense)			
Equity in affiliates	79	126	(616)
Interest income	159	1,187	1,410
Interest expense	(2,638)	(2,061)	(5,112)
Other income (expense), net	(1,395)	1,465	(176)
Total other income (expense)	(3,795)	717	(4,494)
Income before income taxes	17,899	18,859	21,366
Income tax provision	(7,421)	(10,176)	(7,916)
Net income	\$ 10,478	\$ 8,683	\$ 13,450
Earnings per share			
Basic net income per share	\$ 0.51	\$ 0.45	\$ 0.86
Diluted net income per share	\$ 0.48	\$ 0.41	\$ 0.75
Weighted average number of shares outstanding			
Basic	20,413	19,262	15,639
Diluted	21,740	21,380	18,834

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

CONSOLIDATED BALANCE SHEETS

	At December 31,	
	2003	2002
	(in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,240	\$ 32,564
Accounts receivable, net	70,782	57,571
Inventories	16,037	15,660
Deferred income taxes, net	11,673	5,927
Other	4,557	2,770
	109,289	114,492
Property, plant and equipment, net	32,414	30,168
Equipment used in outsourcing, net	10,404	11,589
Intangible assets, net	22,979	18,305
Goodwill	90,385	44,187
Deferred income taxes, net	31,755	24,050
Other	6,263	4,455
	\$ 303,489	\$ 247,246
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 40,175	\$ 25,526
Wages and benefits payable	10,711	18,259
Accrued litigation	—	7,400
Short-term borrowings	10,000	—
Current portion of debt	38,245	691
Unearned revenue	12,004	11,580
	111,135	63,456
Project financing debt	4,024	4,762
Warranty and other obligations	11,086	17,427
	126,245	85,645
Commitments and contingencies (Notes 9 and 18)		
Shareholders' equity		
Preferred stock, no par value, 10 million shares authorized, no shares issued or outstanding	—	—
Common stock, no par value, 75 million shares authorized, 20,572,382 and 20,192,847 shares issued and outstanding	200,567	195,546
Accumulated other comprehensive loss	(136)	(280)
Accumulated deficit	(23,187)	(33,665)
	177,244	161,601
	\$ 303,489	\$ 247,246

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Shares	Amount	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings (Deficit)	Total
			(in thousands)		
Balances at January 1, 2001	15,329	\$ 109,730	\$ (1,840)	\$ (55,798)	\$ 52,092
Net income				13,450	13,450
Currency translation adjustment, net of tax			(114)		(114)
Unrealized gain on investments, net of tax			38		38
Total comprehensive income					13,374
Stock issues (repurchases):					
Options exercised	842	7,396			7,396
Stock option income tax benefits		4,419			4,419
Stock repurchased by Company	(85)	(1,908)			(1,908)
Director compensation	16	112			112
Conversion of subordinated debt	8	146			146
Employee stock purchase plan	111	421			421
Balances at December 31, 2001	16,221	\$ 120,316	\$ (1,916)	\$ (42,348)	\$ 76,052
Net income				8,683	8,683
Currency translation adjustment, net of tax			1,674		1,674
Reclassification adjustment for gains realized in net income, net of tax			(38)		(38)
Total comprehensive income					10,319
Stock issues (repurchases):					
Options exercised	737	7,362			7,362
Stock option income tax benefits		5,066			5,066
Stock repurchased by Company	(808)	(12,555)			(12,555)
Director compensation	6	144			144
Conversion of subordinated debt	3,169	53,108			53,108
Employee stock purchase plan	19	304			304
Acquisition of LineSoft	849	21,801			21,801
Balances at December 31, 2002	20,193	\$ 195,546	\$ (280)	\$ (33,665)	\$ 161,601
Net income				10,478	10,478
Currency translation adjustment, net of tax			144		144
Total comprehensive income					10,622
Stock issues (repurchases):					
Options exercised	280	2,322			2,322
Stock option and employee stock purchase plan income tax benefits	—	1,156			1,156
Director compensation	9	180			180
Employee stock purchase plan	91	1,384			1,384
Settlement of related party note receivable in partial exchange for common stock	(1)	(21)			(21)
Balances at December 31, 2003	20,572	\$ 200,567	\$ (136)	\$ (23,187)	\$ 177,244

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2003	2002	2001
	(in thousands)		
Operating activities			
Net income	\$ 10,478	\$ 8,683	\$ 13,450
Noncash charges (credits) to income:			
Depreciation and amortization	19,040	10,184	9,900
Deferred income taxes provision	5,315	4,731	3,053
Impairment of investments	2,244	—	—
Stock option and employee stock purchase plan income tax benefits	1,156	5,066	4,419
Acquired in-process research and development	900	7,200	—
Realization of accumulative currency translation losses due to restructuring	—	641	—
Impairment loss	—	401	—
Gain on early extinguishment of debt	—	(200)	—
Gain on sale of building	—	(841)	—
Equity in affiliates	(79)	(127)	616
Other, net	1,050	428	112
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(11,792)	2,615	(2,486)
Inventories	(377)	621	915
Accounts payable and accrued expenses	3,321	4,449	(5,482)
Wages and benefits payable	(10,766)	4,497	2,367
Unearned revenue	(2,482)	(1,428)	4,533
Long-term warranty and other obligations	(7,359)	2,643	1,079
Other, net	(393)	(337)	(139)
Cash provided by operating activities	10,256	49,226	32,337
Investing activities			
Proceeds from sales and maturities of investment securities	—	48,979	8,172
Purchase of short-term investments	—	(26,922)	(30,371)
Reclassification of restricted cash	—	5,100	(5,100)
Proceeds from the sale of property, plant and equipment	17	1,901	—
Acquisition of property, plant and equipment	(9,630)	(10,536)	(7,642)
Issuance of notes receivable	(405)	(2,000)	—
Acquisitions, net of cash and cash equivalents	(71,054)	(42,917)	—
Pre-acquisition costs	(3,749)	—	—
Other, net	(358)	3,043	(3,088)
Cash used by investing activities	(85,179)	(23,352)	(38,029)
Financing activities			
New borrowings	50,000	—	—
Change in short-term borrowings, net	10,000	(2,527)	—
Payments on debt	(13,184)	(1,581)	(589)
Issuance of common stock	3,706	7,666	7,817
Repurchase of common stock	—	(12,555)	(1,908)
Payments on mortgage note payable	—	(4,853)	(214)
Other, net	(1,923)	(42)	(48)
Cash provided (used) by financing activities	48,599	(13,892)	5,058
Increase (decrease) in cash and cash equivalents	(26,324)	11,982	(634)
Cash and cash equivalents at beginning of period	32,564	20,582	21,216
Cash and cash equivalents at end of period	\$ 6,240	\$ 32,564	\$ 20,582
Non-cash transactions:			
Acquisition of RER, contingent purchase price payable	\$ 1,844	—	—
Settlement of note in partial exchange for common stock	21	—	—
Acquisition of LineSoft in partial exchange for common stock	—	\$ 21,801	—
Debt to equity conversion	—	53,313	\$ 146
Conversion of debt issuance costs	—	347	—
Acquisition of eMobile, non-cash consideration	—	2,547	—
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Income taxes	\$ 950	\$ 379	\$ 184
Interest	3,722	2,619	4,335

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

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

The consolidated financial statements include the accounts of Itron, Inc. (Itron) and our wholly owned subsidiaries. Significant inter-company transactions and balances are eliminated upon consolidation. We consolidate all entities in which we have a greater than 50% ownership interest and over which we have control. We account for entities in which we have a 50% or less investment and exercise significant influence under the equity method of accounting. Entities in which we have less than a 20% investment and do not exercise significant influence are accounted for under the cost method. Any variable interest entity of which we are the primary beneficiary is also considered for consolidation. We are not the primary beneficiary of any variable interest entities.

Cash and Cash Equivalents

We consider all highly liquid instruments with original maturities of three months or less to be cash equivalents. Cash equivalents are recorded at cost, which approximates fair value.

Short-term Investments

Our short-term investments are classified as available-for-sale and are recorded at market value. Investment purchases and sales are accounted for on a trade date basis and market value at a period end is based upon quoted market prices for each security. Realized gains and losses are determined on the specific identification method. Unrealized holding gains and losses, net of any tax effect, are recorded as a component of other comprehensive income.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on our historical experience of bad debts and is adjusted for estimated uncollectible amounts.

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method. Cost includes raw materials and labor, plus applied direct and indirect costs. Service inventories consist primarily of sub-assemblies and components necessary to support post-sale maintenance. A large portion of our low-volume manufacturing and all of our repair services for our domestic handheld meter reading units are provided by an outside vendor in which we have a 30% equity interest. Consigned inventory at the outside vendor affiliate totaled \$538,000 at December 31, 2003 and \$1.3 million at December 31, 2002.

Property, Plant and Equipment and Equipment used in Outsourcing

Property, plant and equipment are stated at cost. Depreciation, which includes the depreciation of assets recorded under capital leases, is computed using the straight-line method over the assets' estimated useful lives of three to seven years, or over the term of the applicable capital lease, if shorter. Project management and installation costs and equipment used in outsourcing contracts are depreciated using the straight-line method over the shorter of the useful life or the term of the contract. Plant is depreciated over 30 years using the straight-line method. We review long-lived assets for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. There were no significant impairments in each of the three years in the period ended December 31, 2003. If there were an indication of impairment, management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

eventual disposition. If these cash flows were less than the carrying amount of the assets, an impairment loss would be recognized to write down the assets to their estimated fair value.

Capitalized Software Development Costs

Financial accounting standards require the capitalization of development costs for software to be marketed or sold after technological feasibility of the software is established. Due to the relatively short period between technological feasibility of a product and the completion of product development and the insignificance of related costs we generally do not capitalize software development costs.

Acquisitions

In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, we utilize the purchase method of accounting for business combinations. Business combinations accounted for under the purchase method include the results of operations of the acquired business from the date of acquisition. Net assets of the company acquired and intangible assets that arise from contractual/legal rights, or are capable of being separated, are recorded at their fair values at the date of acquisition. The balance of the purchase price after fair value allocations represents goodwill. Amounts allocated to in-process research and development (IPR&D) are expensed in the period of acquisition.

Intangible Assets

Effective January 1, 2002, we adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. There was no impairment of goodwill upon adoption of SFAS No. 142. Goodwill is not amortized and is tested for impairment at the reporting unit level, which consists of our business units, annually, as of October 1st, or more frequently if a significant event occurs. Intangible assets with a finite life are amortized based on estimated discounted cash flows over weighted average useful lives. Prior to the adoption of SFAS No. 142, goodwill and intangible assets were amortized using the straight-line method over periods ranging from three to 20 years.

Warranty

We offer standard warranty terms on most product sales of between one and three years and a longer warranty term for certain components of products. An accrual for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience. The short-term warranty accrual is included in accounts payable and accrued expenses. The long-term warranty accrual includes estimated warranty costs for the period beyond one year. Warranty expense was approximately \$15.6 million and \$5.3 million for the years ended December 31, 2003 and 2002, respectively.

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

	Year Ended December 31,	
	2003	2002
	(in thousands)	
Beginning balance, January 1	\$ 9,439	\$ 6,327
Standard accrual	7,185	5,262
Adjustments to pre-existing items	8,378	—
Utilization of accrual	(7,527)	(2,150)
Ending balance, December 31	17,475	9,439
Less: current portion of warranty	13,939	4,567
Long-term warranty	\$ 3,536	\$ 4,872

Contingencies

An estimated loss for a contingency is charged to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. We evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our financial position or results of operations.

Income Taxes

We account for income taxes using the asset and liability method. Under this method, deferred income taxes are recorded for the temporary differences between the financial reporting basis and tax basis of our assets and liabilities. These deferred taxes are measured using the provisions of currently enacted tax laws. We establish a valuation allowance for the portion of the deferred tax asset we may not be able to utilize.

Foreign Exchange

Our consolidated financial statements are prepared in U.S. dollars. Assets and liabilities of foreign subsidiaries are denominated in foreign currencies and are translated to U.S. dollars at the exchange rates in effect on the balance sheet date. Revenues, costs of revenues and expenses for these subsidiaries are translated using a weighted average rate for the relevant reporting period. Translation adjustments resulting from this process are included in other comprehensive income in shareholders' equity net of tax, as the transactions are considered to be of a long-term investment nature.

Revenue Recognition

Sales revenues consist of hardware, software license fees, custom software development, field and project management services and engineering, consulting and installation services. Service revenues include post-sale maintenance support and outsourcing services. Outsourcing services encompass installation, operation and maintenance of meter reading systems to provide meter information to a customer for billing and management purposes. Outsourcing services can be provided for systems we own as well as those owned by our customers.

Revenue arrangements with multiple deliverables, entered into subsequent to June 30, 2003, are divided into separate units of accounting if the delivered item(s) have value to the customer on a standalone basis, there is objective and reliable evidence of fair value of the undelivered item(s) and delivery/performance of the undelivered item(s) is probable. The total arrangement consideration is allocated among the separate units of accounting based on their relative fair values and the applicable revenue recognition criteria is considered for each unit of accounting. For our standard contract arrangements that combine deliverables such as hardware, meter reading system software, installation and maintenance services, each deliverable is generally considered a single unit of accounting. The amount allocable to a delivered item(s) is limited to the amount that we are entitled to bill and collect and is not contingent upon the delivery/performance of additional item(s).

We recognize revenues from hardware at the time of shipment, receipt by customer, or, if applicable, upon completion of customer acceptance provisions. Revenues for software licenses, custom software development, field and project management services, engineering and consulting, installation, outsourcing and maintenance services are recognized when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the sales price is fixed or determinable and (4) collectibility is reasonably assured. For software arrangements with multiple elements, revenue recognition is dependent upon the existence of vendor-specific objective evidence (VSOE) of fair value for each of the elements. The availability of VSOE affects the timing of revenue recognition, which can vary from recognizing revenue at the time of delivery of each element, to the percentage of completion method, or ratably over the performance period. If the

implementation services are essential to the software arrangement, revenue is recognized using the percentage of completion methodology. Under outsourcing arrangements, revenue is recognized as services are provided. Hardware and software post-contract customer support fees are recognized over the life of the related service contracts.

Unearned revenue is recorded for products or services that have not been provided but have been invoiced under contractual agreements or paid for by a customer, or when products or services have been provided but the criteria for revenue recognition have not been met. Unbilled receivables are recorded when revenues are recognized upon product shipment or service delivery and invoicing occurs at a later date.

Product Development Expenses

Product development costs are expensed as incurred.

Advertising

Advertising costs are expensed as incurred. Advertising expenses were \$1.3 million, \$979,000 and \$633,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

Earnings Per Share

Basic earnings per share (EPS) is calculated using net income divided by the weighted average common shares outstanding during the year. Diluted EPS is similar to Basic EPS except that the weighted average common shares outstanding are increased to include the number of additional common shares that would have been outstanding if dilutive options had been exercised and dilutive convertible subordinated notes had been converted. Diluted EPS assumes that common shares were issued upon the exercise of stock options for which the market price exceeded the exercise price, less shares that could have been repurchased with the related proceeds (treasury stock method). It also assumes that any dilutive convertible subordinated notes outstanding at the beginning of each year were converted, with related interest expense adjusted accordingly (if converted method).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Because of various factors affecting future costs and operations, actual results could differ from estimates.

Stock-Based Compensation

SFAS No. 123, *Accounting for Stock-Based Compensation*, allows companies to either expense the estimated fair value of stock options or to continue to follow the intrinsic value method set forth in Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, but disclose the pro forma effects on net income had the fair value of the options been expensed. We elected to continue to apply APB 25 in accounting for our stock-based compensation plans and disclose the pro forma effects of applying the fair value provisions of SFAS No. 123.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Had the compensation cost for our stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method prescribed in SFAS No. 123, our net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	Year Ended December 31,		
	2003	2002	2001
	(in thousands, except per share data)		
Net income			
As reported	\$ 10,478	\$ 8,683	\$ 13,450
Deduct: Total fair value of stock-based compensation expense, net of related tax effect	(4,133)	(3,300)	(2,139)
Pro forma net income	\$ 6,345	\$ 5,383	\$ 11,311
Basic earnings per share			
As reported	\$ 0.51	\$ 0.45	\$ 0.86
Pro forma	0.31	0.28	0.72
Diluted earnings per share			
As reported	\$ 0.48	\$ 0.41	\$ 0.75
Pro forma	0.30	0.26	0.63

The weighted average fair value of options granted was \$18.17, \$17.45 and \$8.05 during 2003, 2002 and 2001, respectively. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model using the following assumptions:

	2003	2002	2001
Dividend yield	—	—	—
Expected volatility	77.3%	86.7%	84.3%
Risk-free interest rate	2.9%	4.2%	5.4%
Expected life (years)	4.6	5.0	5.0

Reclassifications

Certain amounts in 2002 and 2001 have been reclassified to conform to the 2003 presentation.

New Accounting Pronouncements

In May 2003, the Financial Accounting Standards Board (FASB) issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. The statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The statement requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. The provisions of this statement are effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The provisions are to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the statement and still existing at the beginning of the interim period of adoption. We do not have any financial instruments to which this statement would apply.

In May 2003, the FASB ratified the consensus on Emerging Issues Task Force (EITF) 01-08, *Determining Whether an Arrangement Contains a Lease*, which provides guidance on when an arrangement represents a lease transaction and requires the application of SFAS No. 13, *Accounting for Leases*. The guidance is effective for

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

arrangements entered into or modified after June 30, 2003. The provisions of this guidance may impact our accounting for future outsourcing contracts. We have not entered into or modified any arrangements subsequent to June 30, 2003 to which this guidance may apply.

Note 2: Short-Term Investments

Short-term investments, which are classified as available-for-sale, consist of United States (U.S.) government and agency paper, money market funds, repurchase agreements, master notes and certificates of deposits. During the year ended December 31, 2002, we liquidated our short-term investments, and realized a gain of \$27,000. Cost was determined using the specific identification method in computing the realized gain in 2002. There were no significant realized gains or losses on short-term investments for the years ended December 31, 2003 and 2001. No interest income was earned on short-term investments for the year ended December 31, 2003. Interest income earned on short-term investments was \$486,000 and \$658,000 for the years ended December 31, 2002 and 2001, respectively.

Note 3: Earnings Per Share and Capital Structure

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

	Year Ended December 31,		
	2003	2002	2001
	(in thousands, except per share data)		
Basic earnings per share:			
Net income available to common shareholders	\$10,478	\$ 8,683	\$13,450
Weighted average shares outstanding	20,413	19,262	15,639
Basic net income per share	<u>\$ 0.51</u>	<u>\$ 0.45</u>	<u>\$ 0.86</u>
Diluted earnings per share:			
Net income available to common shareholders	\$10,478	\$ 8,683	\$13,450
Interest on convertible debt, net of income taxes	—	171	637
Adjusted net income available to common shareholders, assuming conversion	<u>\$10,478</u>	<u>\$ 8,854</u>	<u>\$14,087</u>
Weighted average shares outstanding	20,413	19,262	15,639
Effect of dilutive securities:			
Employee stock options	1,327	1,690	1,644
Convertible debt	—	428	1,551
Adjusted weighted average shares	<u>21,740</u>	<u>21,380</u>	<u>18,834</u>
Diluted net income per share	<u>\$ 0.48</u>	<u>\$ 0.41</u>	<u>\$ 0.75</u>

We have granted options to purchase shares of our common stock to directors, employees and other key personnel at fair market value on the date of grant.

The dilutive effect of options is calculated using the treasury stock method. Under this method, earnings per share is computed as if the options were exercised at the beginning of the period (or at time of issuance, if later) and as if the funds obtained thereby were used to purchase common stock at the average market price during the period. Weighted average common shares outstanding, assuming dilution, include the incremental shares that would be issued upon the assumed exercise of stock options. At December 31, 2003, 2002 and 2001, we had

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

stock options outstanding of approximately 3.9 million, 3.5 million and 3.4 million at average option exercise prices of \$13.22, \$11.54 and \$9.66, respectively. Approximately 589,000, 157,000 and 594,000 stock options were excluded from the calculation of diluted earnings per share for the years ended December 31, 2003, 2002 and 2001, respectively, because they were anti-dilutive. These options could be dilutive in future periods.

The dilutive effect of our convertible subordinated notes is calculated using the if converted method. Under this method, the after-tax amount of interest expense related to the convertible debt is added back to net income. In 2001 and for a portion of 2002, we had subordinated convertible debt outstanding with conversion prices of \$9.65, representing 1.5 million shares, and \$23.70, representing an additional 1.6 million shares. During April and May of 2002, we exercised our option to redeem our subordinated convertible debt. All holders of the notes chose to convert their notes into common stock as opposed to redeem them. In both 2001 and 2002 certain portions of the convertible debt shares were excluded from the earnings per share calculation, as they were anti-dilutive.

In November 2002, our Board of Directors authorized the repurchase of up to 1.0 million shares of our common stock. No shares have been repurchased under this repurchase authorization.

In May 1998, our Board of Directors authorized the repurchase of up to 1.0 million shares of our common stock. During the years ended December 31, 2002 and 2001, we repurchased 807,900 shares at an average price of \$15.54 and 85,100 shares at an average price of \$22.42, respectively, which along with shares purchased in the prior year, completed the repurchase program.

In December 2002, we amended and restated our Articles of Incorporation to authorize ten million shares of preferred common stock with no par value. The amendment brings the total number of authorized common and preferred shares to 85 million. In the event of a liquidation, dissolution or winding up of the affairs of the corporation, whether voluntary or involuntary, the holders of the preferred stock at the time outstanding shall be entitled to be paid the preferential amount per share to be determined by the Board of Directors prior to any payment to holders of common stock. Shares of preferred stock may be convertible into common stock based on terms, conditions, rates and subject to such adjustments set by the Board of Directors. There was no preferred stock issued or outstanding at December 31, 2003 and 2002.

Note 4: Certain Balance Sheet Components

	At December 31,	
	2003	2002
(in thousands)		
Accounts receivable, net		
Trade (net of allowance for doubtful accounts of \$695 and \$1,291)	\$ 62,770	\$ 47,496
Unbilled revenue	8,012	10,075
Total accounts receivable	\$ 70,782	\$ 57,571
Inventories		
Materials	\$ 4,081	\$ 4,304
Work in process	777	804
Finished goods	11,006	10,322
Total manufacturing inventories	15,864	15,430
Service inventories	173	230
Total inventories	\$ 16,037	\$ 15,660
Property, plant and equipment		
Machinery and equipment	\$ 30,905	\$ 31,133
Equipment used in outsourcing	16,093	15,987
Computers and purchased software	33,268	34,029
Buildings, furniture and improvements	21,349	20,373
Land	1,735	1,735
Total cost	103,350	103,257
Accumulated depreciation	(60,532)	(61,500)
Property, plant and equipment, net	\$ 42,818	\$ 41,757

Depreciation expense was \$9.4 million, \$7.8 million and \$8.1 million for the years ended December 31, 2003, 2002 and 2001, respectively.

There was no provision to increase the allowance for doubtful accounts in 2003. Provisions to the allowance for doubtful accounts were \$839,000 and \$2.1 million in 2002 and 2001, respectively. There were no recoveries of previously charged-off accounts in 2003, 2002 or 2001.

Note 5: Business Combinations

Silicon Energy Corp.: On March 4, 2003, we acquired Silicon Energy Corp. (Silicon), a leading provider of enterprise energy management software and services to utilities and large energy users, for consideration equal to \$71.1 million in cash, plus other direct transaction costs of approximately \$1.3 million, less cash acquired of approximately \$1.4 million. Of the consideration, approximately \$6.4 million was retained in an indemnification escrow account, which terminates March 2005, to cover certain representations and warranties issued by Silicon. The amount of merger consideration was subject to a working capital adjustment that was finalized within 45 days from closing. No working capital adjustment was required. We acquired Silicon utilizing cash on hand and the proceeds from a \$50 million term loan, repayable over three years with equal quarterly principal payments. The annual interest rate on the term loan at closing was approximately 3.8% and will vary according to market rates and our consolidated leverage ratio.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

At March 4, 2003, Silicon was in the process of developing new software products that had not yet reached technological feasibility. The fair value of the IPR&D was estimated by an independent valuation using the income approach, which reflects the net present value of the projected cash flows expected to be generated by the products incorporating the in-process technology. The discount rate applicable to the cash flows of the products reflects the stage of completion and other risks inherent in the projects. The discount rate used in the valuation of IPR&D was 29 percent. The fair value of IPR&D was estimated to be \$900,000 with an estimated cost to complete of approximately \$1.2 million. The in-process technology was substantially completed in 2003. The IPR&D fair value of \$900,000 was expensed in March 2003 and recorded within operating expenses. Other identifiable intangible assets with a total value of \$14.3 million are being amortized over the lives of the estimated discounted cash flows assumed in the valuation models. Goodwill will be assessed for impairment on an annual basis, or upon a significant event during a year, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*.

The following condensed financial information reflects a preliminary allocation of the purchase price based on the estimated fair values of the assets and liabilities. The fair values of the majority of the assets and liabilities have been finalized. However, we continue to assess the allocation of fair value to assets and liabilities acquired and expect to make final adjustments in the quarter ended March 31, 2004.

	Fair Value	Weighted Average Life
	(in thousands)	(in months)
Fair value of net assets assumed	\$ 12,249	
In-process research and development	900	
Identified intangible assets—amortizable		
Core-developed technology	5,900	28
Customer relationships/contracts	4,400	35
Customer backlog	2,600	13
Trademarks and trade names	200	27
Partner relationships	1,200	14
Goodwill	43,605	
Net assets acquired	\$ 71,054	

LineSoft Corporation: In March 2002, we acquired LineSoft Corporation (LineSoft), a leading provider of engineering design software applications and consulting services for optimizing the construction or rebuilding of utility T&D infrastructure. The purchase price was \$43.5 million, distributed as \$20.9 million in cash and 848,870 shares of common stock valued at \$25.68 per share, plus acquisition expenses of \$1.6 million. A working capital adjustment decreased the purchase price by \$784,000. The value of the common shares issued was determined based on the average market price of our common shares over a specified period prior to closing. In addition, we are required to pay additional amounts to certain LineSoft shareholders of up to \$13.5 million in the event that certain defined revenue targets in 2003 and/or 2004 are exceeded. Any earnout payments will be paid half in cash and half in our common stock. If an earnout is required, the purchase price will be increased by the fair value of the payment. The 2003 revenue target was not exceeded and an earnout was not recorded. We do not expect the 2004 revenue target to be exceeded and therefore, it is unlikely an earnout payment will be required in 2004.

We replaced a pre-existing non-recourse loan in the amount of \$2.0 million to the former Chief Executive Officer of LineSoft with a new non-recourse promissory note, secured with our common stock, in the same amount. At December 31, 2002, the loan balance was approximately \$473,000 and bore interest at an annual rate

of 6.0%. The replacement note matured on May 11, 2003 and to settle the note, the remaining shares that secured the note were transferred to us. The fair value of the shares was less than the outstanding balance on the note resulting in an expense of approximately \$170,000 during 2003 to write-off the residual value of the note.

An independent valuation was performed to identify and value the acquired intangible assets. The assets primarily consist of core-developed technology and customer contracts. We are amortizing the acquired intangibles over the lives of the estimated discounted cash flows assumed in the valuation models. In addition to the amortizable intangible assets identified, IPR&D was also identified. A fair value of \$7.2 million attributed to IPR&D was determined utilizing the income approach, which discounts expected future cash flows from projects under development to their net present value. Each project was analyzed to determine the technological innovations included, the utilization of core technology, the complexity, cost and time to complete development, any alternative future use or current technological feasibility and the stage of completion. Future cash flows were estimated taking into account the expected life cycles of the product and the underlying technology, relevant market sizes and industry trends. A discount rate was determined based on an assessment of the weighted average cost of capital of LineSoft, a weighted average return on assets, the internal rate of return of the investment in the acquisition of LineSoft and venture capital rates of return. The discount rate used in the valuation of all IPR&D projects was 25 percent. We expensed the IPR&D in 2002 and are amortizing the core-developed technology and customer contracts over weighted average useful lives of 29 and 30 months, respectively. Goodwill will be assessed for impairment on an annual basis, or upon a significant event during a year, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*.

Regional Economic Research, Inc.: In October 2002, we acquired Regional Economic Research, Inc. (RER), a California based company specializing in energy consulting, analysis and forecasting services and software. The initial purchase price of \$14.3 million consisted of \$13.9 million paid in cash, plus acquisition expenses of \$428,500. We are required to pay additional amounts to certain RER shareholders of up to \$4.0 million to the extent that certain defined revenue targets in 2003 and 2004 are exceeded. RER exceeded the defined revenue target established for 2003 and we accrued a liability of \$1.8 million for the expected earnout payment. The purchase price was increased by the earnout and recorded as an addition to goodwill. We expect that the 2004 revenue target will be exceeded and that an additional earnout in the range of \$1.0 to \$2.0 million will be required in 2004. The form of the anticipated earnout is payable in cash and/or our common stock based solely upon our discretion. The 2003 earnout will be paid in cash on or before March 31, 2004.

An independent valuation was performed to identify and value the acquired intangible assets. The assets primarily consist of core-developed technology and software license renewal contracts. The fair values of the acquired intangible assets were determined utilizing the income approach based on projected revenues. We are amortizing the acquired intangibles over the lives of the estimated discounted cash flows assumed in the valuation models. Amortization periods for the core-developed technology and software license renewal contracts are 49 and 45 months, respectively. Goodwill will be assessed for impairment on an annual basis, or upon a significant event during a year, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*.

eMobile Data Corporation: Also in October 2002, we acquired eMobile Data Corporation (eMobile), a British Columbia, Canada based company that provides wireless, web-based workforce management solutions for the utility industry. The purchase price of \$9.4 million consisted of \$6.4 million of cash, \$2.5 million of non-cash consideration and \$487,800 of acquisition expenses. A working capital adjustment decreased the purchase price by \$28,500. During the year ended December 31, 2001, we loaned \$2.0 million in the form of a convertible note to eMobile which, with accrued and unpaid interest, was considered part of the purchase price in 2002.

An independent valuation was performed to identify and value the acquired intangible assets. The significant asset identified related to core-developed technology. The fair values of the acquired intangible assets

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

were determined utilizing the income approach based on projected revenues. We are amortizing the acquired intangibles over the lives of the estimated discounted cash flows assumed in the valuation models. The amortization period for the core-developed technology is 30 months. Goodwill will be assessed for impairment on an annual basis, or upon a significant event during a year, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*.

The following is a summary of our 2002 acquisitions, the respective purchase price and the allocation of the purchase price based on the foreign currency exchange rate and estimated fair values at the date of acquisition, and the weighted average useful lives of the identified intangible assets.

	<u>LineSoft</u>	<u>Wtd Ave Life (mos)</u>	<u>RER</u>	<u>Wtd Ave Life (mos)</u>	<u>eMobile</u>	<u>Wtd Ave Life (mos)</u>
	(in thousands)					
Fair value of net assets assumed	\$ 5,336		\$ 1,736		\$ (222)	
Intangible assets—amortizable:						
Core/developed technology	5,600	29	3,230	49	3,600	30
Customer/software contracts	1,250	30	1,460	45	—	n/a
Other	565	14	120	47	410	28
In-process research and development	7,200	n/a	—	n/a	—	n/a
Goodwill	23,568	n/a	9,642	n/a	5,629	n/a
Total	\$43,519		\$16,188		\$9,417	

Goodwill related to the eMobile acquisition was fully deductible for tax purposes, while goodwill related to Silicon, LineSoft and RER is not deductible. Goodwill and intangible assets were allocated to our defined reporting units based on the acquired entities' percentage of forecasted revenue contributed to each reporting unit. The allocation was as follows:

	<u>Silicon</u>	<u>LineSoft</u>	<u>RER</u>	<u>eMobile</u>
Reporting unit				
Electric	60%	96%	85%	68%
Natural Gas	8	3	7	17
Water and Public Power	13	1	8	15
End User Solutions	19	—	—	—
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following pro forma results for the years ending December 31, 2003 and 2002 are based on the individual historical results of Itron, Inc., Silicon and LineSoft (prior to the acquisitions on March 4, 2003 for Silicon and March 12, 2002 for LineSoft) with adjustments to give effect to the combined operations. The adjustments are related to amortization of acquired identified intangible assets, reduction of depreciation expense resulting from adjustments to the value of acquired fixed assets, elimination of interest expense on Silicon's debt, which was paid in full upon acquisition, Silicon's line of credit paid in full and the change in tax provision. The pro forma results are presented solely as unaudited supplemental information and do not necessarily represent what the combined results of operations or financial position would actually have been had the transactions in fact occurred at an earlier date, nor are they representative of results for any future date or period. The acquisitions of RER and eMobile have been excluded from the pro forma results as such amounts are immaterial.

	Pro forma	
	2003	2002
	(in thousands, except per share data)	
Revenues	\$ 318,687	\$ 304,435
Gross profit	143,238	142,348
Operating expenses	125,405	141,869
Other income (expense)	7,789	(1,199)
Net income (loss)	15,758	(442)
Basic net income per share	\$ 0.77	\$ (0.02)
Diluted net income per share	\$ 0.72	\$ (0.02)
Weighted average shares assumed outstanding		
Basic	20,413	19,477
Diluted	21,740	21,167

Note 6: Identified Intangible Assets

The gross carrying amount and accumulated amortization of our intangible assets, other than goodwill, as of December 31, 2003 and 2002 were as follows:

	Gross Assets 12/31/03	Accumulated Amortization 12/31/03	Gross Assets 12/31/02	Accumulated Amortization 12/31/02
	(in thousands)			
Core-developed technology	\$18,330	\$ (5,553)	\$12,437	\$ (855)
Patents	7,088	(3,952)	7,088	(3,524)
Capitalized software	5,065	(5,065)	5,065	(5,065)
Distribution and production rights	3,935	(2,711)	2,480	(2,347)
Customer contracts	5,650	(1,237)	2,710	(354)
Other	5,101	(3,672)	1,107	(437)
Total identified intangible assets	\$45,169	\$ (22,190)	\$30,887	\$ (12,582)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Amortization expense on identified intangible assets was approximately \$9.6 million in 2003, \$2.4 million in 2002 and \$737,000 in 2001. Estimated amortization expense is as follows:

Years ending December 31,	Estimated Amortization
	(in thousands)
2004	\$ 8,108
2005	6,032
2006	3,251
2007	1,893
2008	1,380
Beyond 2008	2,315

Note 7: Goodwill

We completed our initial impairment test of goodwill during the second quarter of 2002, and our annual impairment test in the fourth quarters of 2003 and 2002, and concluded that no impairment adjustment was required. Goodwill increased in 2003 primarily due to the acquisition of Silicon on March 4, 2003 and adjustments to goodwill balances associated with acquisitions made during 2002. In addition, the goodwill balance increased approximately \$1.3 million with a corresponding increase in other comprehensive income, due to changes in currency exchange rates from December 31, 2002 to December 31, 2003. Goodwill increased in 2002 due to the acquisitions of LineSoft, RER and eMobile. Adjustments to goodwill represent the earnout payment accrued for RER at December 31, 2003 as well as other purchase accounting adjustments recorded in 2003 related to the 2002 acquisitions of LineSoft, RER and eMobile. The change in goodwill for the years ended December 31, 2003 and 2002 is as follows:

	2003	2002
	(in thousands)	
Beginning balance, January 1	\$44,187	\$ 6,616
Goodwill acquired	43,605	37,571
Goodwill adjustments	1,268	—
Effect of change in exchange rate	1,325	—
Ending balance, December 31	\$90,385	\$44,187

The following table reflects adjustments to our consolidated results had the adoption of SFAS No. 142 occurred at the beginning of 2001:

	Pro forma		
	2003	2002	2001
	(in thousands, except per share data)		
Net income, as reported	\$10,478	\$8,683	\$13,450
Goodwill amortization, net of tax effect	—	—	456
Adjusted net income	\$10,478	\$8,683	\$13,906
Basic net income per share, as reported	\$ 0.51	\$ 0.45	\$ 0.86
Goodwill amortization, net of tax effect	—	—	0.03
Adjusted basic net income per share	\$ 0.51	\$ 0.45	\$ 0.89
Diluted net income per share, as reported	\$ 0.48	\$ 0.41	\$ 0.75
Goodwill amortization, net of tax effect	—	—	0.02
Adjusted diluted net income per share	\$ 0.48	\$ 0.41	\$ 0.77

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table reflects goodwill allocated to each business unit at December 31, 2003 and 2002:

	<u>Electric</u>	<u>Natural Gas</u>	<u>Water and Public Power</u>	<u>International</u>	<u>End User Solutions</u>	<u>Total</u>
	(in thousands)					
Goodwill balance at December 31, 2001	\$ 3,413	\$ 894	\$ 2,309	\$ —	\$ —	\$ 6,616
Goodwill acquired	33,744	2,070	1,757	—	—	37,571
Goodwill balance at December 31, 2002	37,157	2,964	4,066	—	—	44,187
Goodwill acquired	26,068	3,659	5,421	—	8,458	43,606
Goodwill adjustments	959	138	170	—	—	1,267
Effect of change in exchange rate	904	226	195	—	—	1,325
Goodwill balance at December 31, 2003	\$ 65,088	\$ 6,987	\$ 9,852	\$ —	\$ 8,458	\$ 90,385

Note 8: Investments in and Loans to Affiliates

Investments in Affiliates

We have a 30% interest in Servatron, Inc. (Servatron), a company that serves both as a contract manufacturer for our low volume products and as our handheld service repair depot. This investment is accounted for under the equity method of accounting.

During 2001, we invested \$500,000 in International Utility Information Systems Corporation (IUISC), an early stage company developing home energy gateway communication technology. The investment was accounted for under the cost method as we did not exercise significant influence over the company. We have not been able to obtain financial statements from the CEO of the company. Given that and other factors, we believe IUISC ceased operations during 2003. Consequently, we wrote-off our 10% ownership interest, resulting in a \$500,000 charge to other income (expense) in 2003.

During December 2002, we liquidated our 50% investment in Ensite. Ensite was created as a partnership with another utility, and its purpose was to serve as a marketing vehicle for a defined territory comprised of and surrounding the utility's service territory. No gain or loss resulted from the liquidation.

Balances and equity in earnings relating to these investments, which are reflected in other assets, are as follows:

	<u>Balances at December 31,</u>		<u>Equity in earnings for the Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(in thousands)				
Servatron	\$ 1,321	\$ 1,242	\$ 79	\$ 97	\$ 85
IUISC	—	500	—	—	—
Ensite	—	—	—	29	157

Loans to Affiliates

We loaned \$500,000 to Servatron, in addition to our equity investment, at an interest rate equal to prime plus 700 basis points through January 2003. Servatron paid the balance in full during the year ended December 31, 2002.

In March 2003, we loaned \$405,000 to Home EcoSystems, Inc., dba Lanthorn Technologies, Inc. (Lanthorn), which is developing internet-based energy monitoring and management software and services. The form of the loan is a convertible note with a term of four years. In March 2002, we loaned \$2.0 million to Lanthorn as a convertible note with a five year term. The loan balances are included within other noncurrent assets. The notes

accrue interest at 7% and may be converted at any time into common stock of Lanthorn. If we had converted our notes into equity at December 31, 2003, they would have converted into approximately 22% of Lanthorn's common stock assuming that all granted stock options and other convertible debt of the firm were exercised or converted. We have also entered into a distribution and licensing agreement with Lanthorn, which gives us non-exclusive distribution and licensing rights. Lanthorn has not yet produced any significant revenue. In December 2003, due to a consideration of the estimated fair market value of Lanthorn as indicated by Lanthorn's last round of financing, we recorded a \$1.9 million impairment to the loans and accrued interest, which consisted of a \$176,000 reversal of interest income recognized in the first three quarters of 2003 and a \$1.7 million charge to other income (expense), net, for the principal.

During 2001, we invested \$850,000 in an early stage company (Metering Services.Com Corporation), which was developing a meter reading service. The company ceased its operations during 2001 and we wrote-off our equity investment of \$500,000 and a note receivable of \$350,000, resulting in an \$850,000 charge to equity in affiliates in 2001.

Note 9: Debt*Term Loan Debt and Revolving Credit Line*

On March 4, 2003, we entered into a secured credit facility for \$105 million. At December 31, 2003, the secured credit facility was reduced to \$92.5 million due to principal payments on the term loan. Collateral that has been granted to the lenders includes equipment, inventory, real property and intellectual property.

The credit facility consists of a \$50 million three year term loan to finance a portion of the Silicon acquisition, which had an outstanding balance of \$37.5 million at December 31, 2003. The term loan is payable with equal quarterly principal payments. Remaining principal payments under the term loan are \$16,667,000 in 2004 and 2005 and \$4,166,000 in 2006. The annual interest rate on the term loan will vary according to market rates and our consolidated leverage ratio. The weighted average interest rate during 2003 was approximately 3.5%. Our requirement to enter into an interest rate agreement to substantially fix or limit the interest rate on at least 50% of the term loan principal for a minimum of two years has been waived to March 31, 2004. Interest expense related to the term loan in 2003 was approximately \$1.4 million.

In addition to the term loan, the credit facility provides a \$55 million revolving credit line with a three year term, which was available for general use at December 31, 2003. Borrowings of \$10.0 million were outstanding on the revolving credit line at December 31, 2003. Interest expense related to the revolving credit line in 2003 was approximately \$16,000 based on a weighted average interest rate during 2003 of approximately 3.9%.

At December 31, 2003, \$15.0 million of the revolving credit line was utilized by outstanding standby letters of credit resulting in \$30 million available for additional borrowing. We incur an annual commitment fee on the unused portion of the available revolving credit line, which varies according to our consolidated leverage ratio. The annual commitment fee at closing was 0.375%. We incur annual letter of credit fees based on (a) a fronting fee of 0.125% and (b) a letter of credit fee based on our consolidated leverage ratio for outstanding letters of credit. The letter of credit fee at closing was 2.625%. The annual commitment and letter of credit fees are paid on a quarterly basis. In 2003, annual commitment and letter of credit fee expenses were approximately \$701,000. Approximately \$1.9 million in upfront fees for the credit facility were paid at closing. The upfront fees are being amortized over the life of the credit facility using the effective interest rate method.

The credit facility contains financial covenants which require us to maintain certain liquidity and coverage ratios on a quarterly basis. At December 31, 2003, our fixed charge coverage ratio was below the minimum required according to a covenant in our loan agreement. In early February 2004, we received a waiver of compliance with the covenant from our lenders.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In connection with our acquisition of SEM, we intend to replace our current credit facility with \$365 million of new debt for a net increase in our debt facilities of approximately \$272.5 million. On December 17, 2003, on a documentary or “paper” basis we closed a new \$240 million senior secured credit facility comprised of a replacement \$55 million revolving credit line and a \$185 million seven year term loan. The new facility does not permit borrowing until certain conditions are satisfied, including closing the acquisition of SEM. Without the satisfaction of the remaining conditions the new credit facility expires the later of March 31, 2004, or the deadline date of the SEM acquisition agreement, but no later than May 15, 2004. The annual interest rates under the new facility will vary depending on market rates, with initial interest rates of LIBOR plus 2.75% for the revolving line of credit and LIBOR plus 2.25% for the term loan.

If we are unable to complete the final or financial closing of the new credit facility by March 31, 2004, or thereafter, in respect of our existing credit facility, we anticipate we will be below the minimum required fixed charge coverage ratio covenant referred to above for the first three quarters of 2004 and a debt leverage ratio covenant for the quarter ended March 31, 2004, due in part to a four quarter rolling calculation of a component of our covenant requirements. Consequently, the \$20.8 million long-term portion of our term loan has been classified as a current liability at December 31, 2003.

With the signing of our current credit facility in March 2003, our former \$35 million credit line was terminated. At December 31, 2002, the maximum amount we could borrow under the former credit line was \$20 million due to outstanding standby letters of credit of \$15.0 million. The former credit line was secured by accounts receivable, inventory and general intangibles, excluding intellectual property. We paid an origination fee of 0.125% for the line of credit and paid an annual commitment fee of 0.125% on the unused portion of the available line of credit. We paid an issuance fee of 0.9% per annum for outstanding letters of credit. No borrowings were outstanding at December 31, 2002.

Project Financing

In conjunction with project financing for one of our outsourcing contracts, we entered into a note secured by the assets of the project. Principal payments due under the note are \$739,000 in 2004, \$797,000 in 2005, \$860,000 in 2006, \$927,000 in 2007, \$1.0 million in 2008 and \$440,000 million thereafter.

	At December 31,	
	2003	2002
	(in thousands)	
Secured note payable with principal and interest payments of 7.6% until maturity on May 31, 2009	\$4,763	\$5,447

Mortgage Note Payable

In January 2002, we paid in full a secured mortgage note payable to a shareholder at a discounted amount of \$4.9 million, resulting in a gain of \$200,000, which is included in other income (expense) in 2002. The note was incurred in conjunction with the purchase of our headquarters and related manufacturing space in Spokane, Washington, required principal and interest payments of 9% and was scheduled to mature in August 2015.

Convertible Subordinated Debt

We completed a \$63.4 million convertible subordinated note offering in March and April of 1997. Interest of 6.75% on the notes was payable semi-annually on March 31 and September 30 of each year until maturity on March 31, 2004. In February 1999, we exchanged \$22 million principal amount of original notes for \$15.8 million principal amount of exchange notes. The exchange notes had the same maturity date, interest

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

payment dates and rate of interest as the original notes. Both the original notes and the exchange notes had no sinking fund requirements and were redeemable, in whole or in part, at our option at any time on or after April 4, 2000, (for the original notes) or March 12, 2002 (for the exchange notes). The notes were convertible, in whole or in part, at the option of the holder at any time prior to maturity at a price of \$23.70 per common share for the original notes and \$9.65 per common share for the exchange notes. In 2000, we repurchased \$3.8 million of notes from a holder for \$2.1 million. During 2001, \$146,000 of notes were converted to common stock by individual holders. During 2002, the remaining \$53.3 million of convertible notes, along with accrued interest of \$142,000, were converted into common stock by individual holders, less unamortized debt issuance costs of \$347,000.

Note 10: Fair Values of Financial Instruments

The estimated fair value of financial instruments has been determined by using available market information and appropriate valuation methodologies. The values provided are representative of fair values only as of December 31, 2003 and 2002, and do not reflect subsequent changes in the economy, interest and tax rates and other variables that may affect determination of fair value. The following methods and assumptions were used in estimating fair values.

Cash and cash equivalents: Due to the liquid nature of these instruments, the carrying value approximates fair value.

Accounts receivable: The fair value approximates book value as we expect receipt in the near term.

Short-term borrowings: The carrying value approximates fair value as the interest rate varies according to market rates.

Term loan debt: The carrying value approximates fair value as the interest rates are periodically adjusted to market rates by our lenders.

Project financing debt: The fair value is estimated based on an internally generated fair value model, using estimated spreads above quoted treasury rates for similar issues.

	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Cash and cash equivalents	\$ 6,240	\$ 6,240	\$32,564	\$32,564
Accounts receivable, net	70,782	70,782	57,571	57,571
Short-term borrowings	10,000	10,000	—	—
Term loan debt	37,500	37,500	—	—
Project financing debt	4,763	4,860	5,447	5,647

Note 11: Restructurings

During the first quarter of 2003, we initiated a restructuring of our Energy Information Systems (EIS) group located in Raleigh, North Carolina, which included a workforce reduction of approximately 40 employees and recognized a charge of approximately \$2.0 million related to severance during 2003. As of March 31, 2003, substantially all of the 40 employees were terminated and severance payments were made. The restructuring was complete in 2003.

In the fourth quarter of 2002, we announced plans to restructure our European operations and recorded a charge of approximately \$3.1 million. The charge included approximately \$866,000 related to lease terminations, \$1.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

million related to employee severance liabilities, \$347,000 related to inventory and fixed asset write-downs and \$641,000 related to the reclassification of cumulative translation adjustments. An additional restructuring charge of approximately \$216,000 was recorded during 2003 to write-down additional fixed assets, and approximately \$43,000 was recorded during 2003 for additional lease termination charges. The restructuring involved a reduction in workforce of approximately 30 employees in Vienne, France. At December 31, 2003, substantially all of the employees were terminated and substantially all benefits were paid or charged against the accrual.

Accrued liabilities associated with Company-wide restructuring efforts were approximately \$153,000 and \$2.4 million at December 31, 2003 and 2002, respectively and consisted of the following:

	<u>Severance and Related Costs</u>	<u>Lease Termination and Related Costs</u>
	(in thousands)	
Accrual balance at December 31, 2001	\$ 131	\$ 447
Addition/adjustments to accruals	1,263	866
Cash payments	(131)	(136)
Accrual balance at December 31, 2002	\$ 1,263	\$ 1,177
Addition/adjustments to accruals	1,961	247
Cash payments	(3,196)	(1,299)
Accrual balance at December 31, 2003	\$ 28	\$ 125

The liability for lease terminations is recorded within accrued expenses and the liability for employee severance is recorded within wages and benefits payable. Lease termination and related costs are dependent on our continued ability to sublease vacant space under a non-cancelable operating lease through 2006.

Note 12: Development Agreements

We received funding to develop certain products under joint development agreements with several companies. We retain the intellectual property rights to the products that are developed. Funding received under these agreements is credited against product development expenses. One agreement required us to pay royalties on sales of products incorporating certain AMR technologies. The royalty agreement expired in June 2003. Funding received and royalty expense under these arrangements was as follows:

	<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(in thousands)		
Funding received	\$287	\$563	\$391
Royalties paid	\$355	\$786	\$605

Note 13: Warranty and Maintenance Agreement

In March 2000, we sold our network-based automated meter reading (AMR) system in Pittsburgh, Pennsylvania, that we used to provide Duquesne Light Company (Duquesne) with meter information for billing and other purposes, to an affiliate of Duquesne for \$33 million. Negotiations commenced in 1999, and in anticipation of the sale, we recorded a \$49.8 million loss on the sale in 1999.

In March 2000, we entered into a warranty and maintenance agreement with the purchasing Duquesne affiliate, pursuant to which we provide certain maintenance and support services for the system through December 31, 2013. The warranty and maintenance agreement provided for the receipt of approximately \$10 million ratably

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

over the term of those services and we expected to incur approximately \$24.3 million in expenses. As such, we recorded a forward loss of \$14.3 million in the fourth quarter of 1999 related to this agreement. In connection with our performance responsibilities, we provided a \$5 million standby letter of credit.

Effective May 1, 2003, we amended the warranty and maintenance agreement. We will continue to provide certain maintenance and support services for the system through December 31, 2013, however, the scope and nature of the services to be provided were reduced. We paid \$4.0 million to Duquesne in consideration for the reduced scope of services, which did not impact earnings in 2003 as it was charged to our forward loss accrual. In addition, the \$5.0 million standby letter of credit required under the original agreement was reduced to \$4.0 million under the terms of the amended agreement. The amended warranty and maintenance agreement provides for the receipt of approximately \$7.3 million over the term of the agreement and we expect to incur \$13.2 million in expenses to service the amended contract. In 2003, as a result of the amended agreement, we reduced the associated forward loss accrual by approximately \$848,000, which is reflected in service cost of sales. The forward loss accrual balance at December 31, 2003 was \$5.9 million.

Note 14: Income Taxes

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

The domestic and foreign components of income before taxes were:

	Year Ended December 31,		
	2003	2002	2001
	(in thousands)		
Domestic	\$19,741	\$22,195	\$21,590
Foreign	(1,842)	(3,336)	(224)
Income before income taxes	\$17,899	\$18,859	\$21,366
Expected federal income tax provision	\$ 6,264	\$ 6,600	\$ 7,478
Change in valuation allowance	6,419	1,201	(1,222)
State income taxes	700	1,172	231
Goodwill amortization	—	—	317
Tax credits	288	17	276
Foreign operations	(1,322)	(2,301)	861
Write-off of foreign subsidiary	(5,119)	—	—
Meals and entertainment	260	164	102
Nondeductible charges for purchased research and development	350	2,808	—
Export sales benefit	(272)	—	—
Other, net	(147)	515	(127)
Total provision for income taxes	\$ 7,421	\$10,176	\$ 7,916

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The provision for income taxes consisted of the following:

	Year Ended December 31,		
	2003	2002	2001
	(in thousands)		
Current:			
Federal	\$ 312	\$ —	\$ 4,589
State and local	625	108	264
Foreign	143	208	9
Total current	1,080	316	4,862
Deferred:			
Federal	2,282	10,103	3,130
State and local	(251)	1,064	(39)
Foreign	(2,109)	(2,508)	1,185
Total deferred	(78)	8,659	4,276
Change in valuation allowance	6,419	1,201	(1,222)
Total provision for income taxes	\$ 7,421	\$ 10,176	\$ 7,916

Net deferred income tax assets consisted of the following:

	At December 31,	
	2003	2002
	(in thousands)	
Deferred tax assets		
Loss carryforwards	\$ 46,503	\$ 23,168
Tax credits	8,525	6,620
Accrued expenses	12,020	8,818
Inventory valuation	331	2,162
Long-term contracts	—	570
Other, net	467	—
Total deferred tax assets	67,846	41,338
Deferred tax liabilities		
Depreciation and amortization	(7,705)	(2,825)
Other, net	—	(1,800)
Total deferred tax liabilities	(7,705)	(4,625)
Valuation allowance	(16,713)	(6,736)
Net deferred tax assets	\$ 43,428	\$ 29,977

At December 31, 2003, we had unused federal research and development tax credits of \$5.7 million, including \$1.1 million from the Silicon acquisition, which expire during the tax years 2004 – 2023 if not utilized. We have state research and development tax credits of \$819,000, including \$596,000 from the Silicon acquisition, available to offset future state tax liabilities indefinitely.

We also have \$2.0 million of alternative minimum tax credits that are available to offset future federal tax liabilities indefinitely.

Federal loss carryforwards of \$102.4 million expire during the tax years 2019 – 2023, including \$59.0 million from the Silicon acquisition.

Valuation allowances of \$16.7 million, \$6.7 million and \$5.5 million in 2003, 2002 and 2001, respectively, were provided for carryforwards attributable to various items for which we may not receive future benefits. During the current year we added approximately \$1.8 million of valuation allowance from the Silicon acquisition and approximately \$5.1 million from the write-off of a foreign subsidiary.

The tax benefit associated with equity compensation disqualifying dispositions was \$1.2 million and \$5.1 million in 2003 and 2002, respectively.

We assigned approximately \$18.1 million of net deferred tax assets as a result of the Silicon acquisition.

Note 15: Shareholder Rights Plan

On November 4, 2002, the Board of Directors authorized the implementation of a Shareholder Rights Plan and declared a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock, without par value. The Rights will separate from the common stock and become exercisable following the earlier of (i) the close of business on the tenth business day after a public announcement that a person or group (including any affiliate or associate of such person or group) has acquired beneficial ownership of 15% or more of the outstanding common shares and (ii) the close of business on such date, if any, as may be designated by the Board of Directors following the commencement of, or first public disclosure of an intent to commence, a tender or exchange offer for outstanding common shares, which could result in the offeror becoming the beneficial owner of 15% or more of the outstanding common shares (the earlier of such dates being the distribution date). After the distribution date, each Right will entitle the holder to purchase, for \$160.00, one one-hundredth (1/100) of a share of Series R Cumulative Participating Preferred Stock of the Company (a Preferred Share) with economic terms similar to that of one common share.

In the event a person or group becomes an acquiring person, the Rights will entitle each holder of a Right to purchase, for the purchase price, that number of common shares equivalent to the number of common shares, which at the time of the transaction would have a market value of twice the purchase price. Any Rights that are at any time beneficially owned by an acquiring person will be null and void and nontransferable and any holder of any such Right will be unable to exercise or transfer any such Right. If, at any time after any person or group becomes an acquiring person, we are acquired in a merger or other business combination with another entity, or if 50% or more of its assets or assets accounting for 50% or more of its net income or revenues are transferred, each Right will entitle its holder to purchase, for the purchase price, that number of shares of common stock of the person or group engaging in the transaction having a then current market value of twice the purchase price. At any time after any person or group becomes an acquiring person, but before a person or group becomes the beneficial owner of more than 50% of the common shares, the Board of Directors may elect to exchange each Right for consideration per Right consisting of one-half of the number of common shares that would be issuable at such time on the exercise of one Right and without payment of the purchase price. At any time prior to any person or group becoming an acquiring person, the Board of Directors may redeem the Rights in whole, but not in part, at a price of \$0.01 per Right, subject to adjustment as provided in the Rights Agreement. The Rights are not exercisable until the distribution date and will expire on December 11, 2012, unless earlier redeemed or exchanged by us.

The terms of the Rights and the Rights Agreement may be amended without the approval of any holder of the Rights, at any time prior to the distribution date. Until a Right is exercised, the holder thereof, as such, will have no rights as a shareholder of the Company, including, without limitation, the right to vote or receive dividends. In order to preserve the actual or potential economic value of the Rights, the number of Preferred Shares or other securities issuable upon exercise of the Right, the purchase price, the redemption price and the number of Rights associated with each outstanding common share are all subject to adjustment by the Board of Directors pursuant to certain customary antidilution provisions. The Rights distribution should not be taxable for federal income tax

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

purposes. Following an event that renders the Rights exercisable or upon redemption of the Rights, shareholders may recognize taxable income.

Note 16: Employee Benefit Plans

Employee Savings Plan

We have an employee incentive savings plan in which substantially all employees are eligible to participate. Employees may contribute, on a tax-deferred basis, up to 22% of their salary. We provide a 50% match on the first 6% of the employee salary deferral, subject to statutory limitations. The expense for our matching contribution was \$1.8 million in 2003, \$1.4 million in 2002 and \$1.1 million in 2001.

Stock Option Plans

At December 31, 2003, we had three stock-based compensation plans in effect, only one of which we are currently granting options under. We apply APB 25 and related interpretations in accounting for our plans. The following table summarizes information about stock options outstanding at December 31, 2003 (including the weighted average remaining contractual life and the weighted average exercise price):

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Shares (in 000's)	Remaining Life (years)	Weighted Average Price	Shares (in 000's)	Weighted Average Price
\$ 4.00 – \$ 6.75	567	5.39	\$ 5.70	495	\$ 5.56
\$ 7.00 – \$ 8.66	1,196	6.75	7.55	681	7.79
\$13.00 – \$20.00	1,189	7.20	15.42	539	16.15
\$20.01 – \$27.52	909	8.17	21.66	383	23.28
\$30.32 – \$32.35	16	8.10	31.67	6	31.94
\$58.75	10	2.33	58.75	10	58.75
	<u>3,887</u>	<u>7.02</u>	<u>\$ 13.22</u>	<u>2,114</u>	<u>\$ 12.52</u>

Under our three stock option plans, we have granted options to purchase shares of common stock to employees and non-employee directors at prices no less than the fair market value on the date of grant. Because all stock options were issued at fair value, no compensation cost has been recognized. Those options terminate ten years from the date granted. For grants to employees, and non-employee directors, the options become fully exercisable within three or four years from the date of grant. In addition, the plan provides for the granting of stock to non-employee directors. The price range of options exercised was \$4.00 to \$17.75 in 2003, \$4.00 to \$24.50 in 2002 and \$0.86 to \$24.50 in 2001. At December 31, 2003, there were 4.1 million shares of authorized but unissued common stock under the plans, of which options for the purchase of 192,619 shares were available for future grants. Share amounts and weighted average exercise prices are as follows:

	Year Ended December 31,					
	2003		2002		2001	
	Shares (in 000's)	Price	Shares (in 000's)	Price	Shares (in 000's)	Price
Outstanding at beginning of year	3,474	\$ 11.54	3,402	\$ 9.66	3,180	\$ 9.97
Granted	844	18.17	849	17.45	1,117	8.05
Exercised	(280)	17.98	(737)	9.92	(842)	8.74
Cancelled	(151)	11.21	(40)	8.38	(53)	8.29
Outstanding at end of year	<u>3,887</u>	<u>13.22</u>	<u>3,474</u>	<u>11.54</u>	<u>3,402</u>	<u>9.66</u>
Options exercisable at year end	<u>2,114</u>	<u>\$ 12.52</u>	<u>1,457</u>	<u>\$ 11.25</u>	<u>1,608</u>	<u>\$ 11.60</u>

Employee Stock Purchase Plan

Under our Employee Stock Purchase Plan, we are authorized to issue shares of common stock to our eligible employees who have completed three months of service, work more than 20 hours each week and are employed more than five months in any calendar year. Employees who own 5% or more of our common stock are not eligible to participate in the Plan. Under the terms of the Plan, eligible employees can choose payroll deductions each year of up to 10% of their regular cash compensation. Such deductions are applied toward the discounted purchase price of our common stock. The purchase price of the common stock is 85% of the fair market value of the stock as defined in the Plan. Under the Plan we sold 91,223, 19,347 and 111,459 shares to employees in 2003, 2002 and 2001, respectively.

Note 17: Other Related Party Transactions

During 2003, an officer of one of our customers held a position on our Board of Directors. Revenues from this customer were \$372,000 in 2003. Accounts receivable from this customer were approximately \$26,000 at December 31, 2003. During 2001 and 2002, three customers were also shareholders of the Company and had officers who held positions on our Board of Directors. In addition, one of those customers had a greater than 10% ownership in 2000. Revenues from these customers were \$4.4 million in 2002 and \$4.0 million in 2001. Accounts receivable from these customers were approximately \$34,000 at December 31, 2003 and 2002. Interest expense related to the mortgage note payable to one of these customers was approximately \$49,000 in 2002 and \$464,000 in 2001. In January 2002, we paid \$4.9 million, which represents a \$200,000 discount, to this shareholder to fully satisfy our mortgage note.

We have a 30% interest in an affiliate that serves both as a contract manufacturer for some of our low volume products and as our handheld service repair depot. Purchases of low volume products and repair services from the affiliate were \$13.6 million in 2003, \$13.4 million in 2002 and \$14.8 million in 2001. We sublease a portion of our Spokane facility to this affiliate. The lease agreement commenced in May 2000 and terminated in May 2003. In November 2002, the affiliate notified us of its intent to exercise the renewal option for one year. The base monthly lease payments of \$14,430 are based on current market rates. The affiliate pays us for its share of operating cost of the subleased premises. The costs payable by the affiliate to us are based on the square footage of the leased premises. Accounts receivable from the affiliate were approximately \$54,000 and \$144,000 at December 31, 2003 and 2002, respectively. Additionally, we guarantee lease payments for certain equipment leased by the affiliate. The maximum future lease obligation of the guarantee at December 31, 2003 was \$439,000.

We lease two facilities from former owners of RER, who are now current employees. The monthly lease expense is approximately \$31,000. The lease agreements terminated in December 2003 and January 2004, respectively. The leases are currently month to month pending lease renewal negotiations.

Note 18: Commitments and Contingencies

Commitments

We have noncancelable capital leases for computer equipment and software, and operating leases for computers, office, production and storage space expiring at various dates through December 2009. Rent expense under our operating leases was \$8.0 million in 2003, \$5.7 million in 2002 and \$3.2 million in 2001. Receipts under our noncancelable subleases were \$368,000 in 2003, \$391,000 in 2002 and \$353,000 in 2001. Assets under capital leases are included in the consolidated balance sheets as follows:

	At December 31,	
	2003	2002
	(in thousands)	
Computers and software	\$ 150	\$ 145
Accumulated depreciation	(144)	(122)
Net capital leases	\$ 6	\$ 23

Future minimum payments and sublease revenues at December 31, 2003, under the aforementioned leases and other noncancelable operating leases and subleases with initial or remaining terms in excess of one year are as follows:

	Minimum Payments	Sublease Revenues	Payments, Net
	(in thousands)		
2004	\$ 4,970	\$ 303	\$ 4,667
2005	3,179	217	2,962
2006	1,731	184	1,547
2007	1,437	—	1,437
2008	587	—	587
Thereafter	211	—	211
Total minimum lease payments	\$12,115	\$ 704	\$ 11,411

During 2002, we entered into an exclusive distribution agreement with a company. The agreement required us to purchase a minimum of 2,500 units over a three year period. We completed the minimum purchase requirement during 2003.

Guarantees and Indemnifications

Under FASB Interpretation 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, we record a liability for certain types of guarantees and indemnifications for agreements entered into or amended subsequent to December 31, 2002. No liabilities were required for the agreements entered into during the year ended December 31, 2003.

We maintain bid and performance bonds for certain customers. Bonds in force were \$41.7 million and \$40.3 million at December 31, 2003 and 2002, respectively. Bid bonds guarantee that we will enter into a contract consistent with the terms of the bid. Performance bonds provide a guarantee to the customer for future performance, which usually covers the installation phase of a contract and may on occasion cover the operations and maintenance phase of outsourcing contracts.

During 2003, we received a cancellation notice from a bonding company on a \$25.0 million performance bond, based on policy changes at the bonding company, which cancellation became effective in February 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We have negotiated a reduction in performance collateral, in the form of a bond, a letter of credit and/or escrowed cash totaling \$17 million to \$20 million, depending on the form. In January 2004, we replaced the bond with an \$18 million letter of credit.

We also have standby letters of credit to guarantee our performance under certain contracts. The outstanding amounts of standby letters of credit were \$15.0 million at December 31, 2003 and 2002. In March 2003, we issued a standby letter of credit in the amount of approximately \$1.0 million to a third party landlord to guarantee a subsidiary's lease payments on a facility. The standby letter of credit renews on an annual basis during the term of the lease, which expires in 2005. If we fail to make a scheduled lease payment, the landlord could draw up to the maximum amount specified on the standby letter of credit. In May 2003, we reduced a standby letter of credit from \$5.0 million to \$4.0 million as a result of an amendment to a long-term warranty and maintenance agreement with a customer (see Note 13).

We guarantee lease payments for certain equipment leased by an affiliated company. The maximum future lease obligation of the guarantee at December 31, 2003 was approximately \$439,000. The lease and our guarantee terminate in 2006. In the event the affiliate is unable to pay a monthly lease obligation, we would be required to make the payment. If we do not make the payment, the equipment would be returned to the lessor. In the event that the equipment is not in working condition, we would be obligated to pay for the equipment to be returned to working condition.

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 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. The terms of the indemnification normally do not limit the maximum potential future payments. We also provide an indemnification 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 the indemnification generally do not limit the maximum potential payments.

Legal Matters

On October 14, 2003, we settled all issues in a patent infringement litigation for \$7.9 million. The settlement includes payment for all royalties, attorneys' fees and other items, including the assigned ownership of the patent to us. We accrued \$7.4 million in 2002 and expensed \$500,000 in 2003 related to this matter.

We are a party to various other lawsuits and claims, both as plaintiff and defendant, and have contingent liabilities arising from the conduct of business, none of which, in our opinion, are expected to have a material effect on our financial position or results of operations. None of the various other lawsuits or claims required the recognition of a liability as of December 31, 2003, as negative outcomes are not considered probable.

Note 19: Segment Information

Our organizational structure consists of five business units that focus on the customer segments that we serve. These business units are Electric, Natural Gas, Water and Public Power, International and End User Solutions. The Electric, Natural Gas, Water and Public Power and End User Solutions business units focus on the U.S. and Canadian business territories. The International business unit focuses on sales outside of the U.S. and Canada.

Revenues for each business unit may include hardware, software license fees, custom software development, field and project management services and engineering, consulting and installation services, post-sale maintenance support and outsourcing services. Inter-business unit revenues are immaterial. Within each business unit, costs of sales are based on standard costs, which include materials, direct labor and an overhead allocation based on projected production for the year. Service related cost of sales are based on actual time and materials incurred, warranty expense and an allocation of miscellaneous service related costs. Miscellaneous hardware costs and variances from standard costs are reported in Corporate costs of sales and are not allocated to the business units. Assets and liabilities are not allocated to the business units for management purposes. In addition to assets and liabilities, Corporate operating expenses, interest revenue, interest expense, equity in the income of investees accounted for by the equity method, income tax expense and amortization expense are not allocated to the business units, nor included in the measure of segment profit or loss for management purposes. Approximately 35% of depreciation expense is allocated to the business units.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Management has two primary measures for each of the business units: revenue and operating income. Operating income is defined as revenue, less (a) direct costs associated with that revenue, (b) warranty and miscellaneous service related expenses, (c) operating expenses directly incurred by the segment and (d) allocations of basic services (such as floor space and communication expense). Operating expenses directly associated with each business unit may include sales, marketing, product development or administrative expenses. Corporate expenses, which include product development, marketing, miscellaneous manufacturing and certain other corporate expenditures, are included in the table below to reconcile business unit activity to the consolidated statements of operations:

	Year Ended December 31,		
	2003	2002	2001
	(in thousands)		
Revenues			
Electric	\$ 150,557	\$ 136,782	\$ 99,722
Natural Gas	56,036	50,353	35,694
Water and Public Power	93,609	84,069	65,072
International	14,369	13,638	25,067
End User Solutions	2,394	—	—
Total revenues	\$ 316,965	\$ 284,842	\$ 225,555
Gross profit (loss)			
Electric	\$ 61,755	\$ 62,968	\$ 42,352
Natural Gas	34,029	28,818	19,370
Water and Public Power	37,659	35,771	28,791
International	3,854	5,094	8,621
End User Solutions	1,161	—	—
Corporate	5,096	(382)	(1,275)
Total gross profit	\$ 143,554	\$ 132,269	\$ 97,859
Operating income (loss)			
Electric	\$ 50,212	\$ 54,698	\$ 37,201
Natural Gas	30,952	26,283	16,738
Water and Public Power	31,816	31,228	25,295
International	(2,508)	(5,242)	1,839
End User Solutions	(752)	—	—
Corporate	(88,026)	(88,825)	(55,213)
Total operating income	\$ 21,694	\$ 18,142	\$ 25,860
Total other income (expense)	(3,795)	717	(4,494)
Income before income taxes	\$ 17,899	\$ 18,859	\$ 21,366

We did not have any customers that accounted for more than 10% of our revenues in 2003. One Electric business unit customer accounted for approximately 12% and 15% of total Company revenues in 2002 and 2001, respectively.

Electric and Water and Public Power business units' gross margin in 2003 were negatively impacted by the increase in warranty expense associated with a defective component within specific AMR modules. Electric and Water and Public Power incurred charges of approximately \$6.2 million and \$2.4 million, respectively, of the total \$8.6 million adjustment to the warranty accrual.

Corporate gross profit in 2003 reflects a reclassification from Corporate of \$1.2 million in warranty expense that was reclassified to the Natural Gas and Water and Public Power business units because it relates to specific warranty exposures in those business units. The original warranty expense was recorded in Corporate in 2002. The reclassification in 2003 did not have an impact on total Company warranty expense. In addition, in 2003, there was no bonus or profit sharing expense in Corporate cost of sales compared with approximately \$1.9 million in 2002 and \$1.4 million in 2001.

Note 20: Pending Acquisition

On July 16, 2003, we entered into an agreement to acquire Schlumberger Electricity Metering (SEM) for \$255 million, subject to a post-closing working capital adjustment. SEM is a leading manufacturer of electricity meters in the U.S. and Canada. By adding electricity meters to our existing portfolio of meter data collection technologies and software and consulting solutions we will be able to offer customers a highly integrated suite of products for measuring, gathering, delivering, analyzing and applying electricity usage data. We expect to finance the acquisition through the issuance of approximately \$365 million in debt. We intend to use a portion of the financing to replace our existing credit line and pay off the outstanding balance of our existing term loan (see Note 9).

On July 28, 2003, we filed notification with the Federal Trade Commission (FTC) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR) regarding our intent to acquire SEM. On August 28, 2003 we and SEM received a second request for information from the FTC regarding our filing. We are currently in substantial compliance with all FTC information requests. As an accommodation to concerns raised by the FTC regarding competition, we are completing negotiations of an agreement with a competing AMR vendor to license to them some of our electric meter module and certain other related technology. The license with the AMR vendor is contingent on closing the acquisition of SEM. We anticipate receiving HSR clearance and closing the acquisition early in the second quarter of 2004.

Note 21: Subsequent Events

In January 2004 we began to implement a change in our organizational structure as we moved from profit and loss responsibility and reporting along business unit or market lines to two primary operations groups: hardware and software. In the process of developing the new structure, and in light of lower expectations for first quarter revenues, we took some corrective actions to reduce expenses and eliminate certain unprofitable activities. Those actions resulted in a reduction of approximately 70 employees, or 5%, of our workforce and will result in a restructuring charge of approximately \$2.5 million in the first quarter of 2004.

The segment information presented in this Form 10-K is based on the organizational structure in place from 2000 through 2003. We expect to begin reporting under the new organization structure beginning with our second quarter results in 2004. At that time, historical amounts will be restated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Quarterly Results (Unaudited)

Quarterly results are as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
(in thousands, except per share and stock price data)					
2003					
<i>Statement of operations data:</i>					
Total revenues	\$ 74,645	\$ 80,264	\$ 82,079	\$ 79,977	\$ 316,965
Gross profit	36,862	39,354	39,528	27,810	143,554
Net income (loss)	\$ 2,916	\$ 4,173	\$ 5,028	\$ (1,639) ⁽¹⁾	\$ 10,478
Basic net income (loss) per share	\$ 0.14	\$ 0.20	\$ 0.25	\$ (0.08)	\$ 0.51
Diluted net income (loss) per share	\$ 0.14	\$ 0.19	\$ 0.23	\$ (0.08)	\$ 0.48
<i>Stock Price:</i>					
High	\$ 20.74	\$ 22.25	\$ 24.16	\$ 21.88	\$ 24.16
Low	13.00	16.25	18.07	17.72	13.00
2002					
<i>Statement of operations data:</i>					
Total revenues	\$ 62,075	\$ 72,439	\$ 73,057	\$ 77,271	\$ 284,842
Gross profit	27,287	33,851	34,349	36,782	132,269
Net income (loss)	\$ (2,970) ⁽²⁾	\$ 6,325	\$ 5,968	\$ (640) ⁽³⁾	\$ 8,683
Basic net income (loss) per share	\$ (0.18)	\$ 0.32	\$ 0.29	\$ (0.03)	\$ 0.45
Diluted net income (loss) per share	\$ (0.18)	\$ 0.28	\$ 0.27	\$ (0.03)	\$ 0.41
<i>Stock Price:</i>					
High	\$ 32.30	\$ 36.50	\$ 26.98	\$ 25.90	\$ 36.50
Low	22.25	19.99	12.53	16.12	12.53

(1) Net loss includes \$8.6 million warranty charge and \$2.4 million impairment of investments.

(2) Net loss includes \$7.4 million write-off of IPR&D associated with the LineSoft acquisition.

(3) Net loss includes \$7.4 million litigation accrual and \$3.1 million restructuring expense.

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

There were no disagreements with our independent accountants on accounting and financial disclosure matters within the three year period ended December 31, 2003, or in any period subsequent to such date.

ITEM 9A: CONTROLS AND PROCEDURES

- (a) *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 the Company's disclosure controls and procedures were effective as of December 31, 2003.
- (b) *Changes in internal controls.* There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation. In connection with the Company's internal controls assessment, we have evaluated the controls surrounding appropriate segregation of duties and have detected areas for improvement or correction. As a result, we continue to improve and change our internal controls relating to the segregation of duties and have discussed these items with our independent accountants and our audit committee. Full implementation of these changes will continue into 2004. Notwithstanding these changes, sufficient procedures, policies and reviews exist to maintain our ability to accurately record, process and summarize financial data and prepare financial statements that fairly present our financial condition, results of operations and cash flows.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The section entitled "Election of Directors" appearing in our Proxy Statement for the Annual Meeting of Shareholders to be held on May 6, 2004 (the 2003 Proxy Statement) sets forth certain information with regard to our directors and is incorporated herein by reference.

Certain information with respect to persons who are or may be deemed to be executive officers of Itron is set forth under the caption "Executive Officers of the Registrant" in Part I of this Annual Report on Form 10-K.

ITEM 11: EXECUTIVE COMPENSATION

The section entitled "Executive Compensation" appearing in the 2003 Proxy Statement sets forth certain information (except for those sections captioned "Compensation Committee Report on Executive Compensation" and "Performance Graph", which are not incorporated by reference herein) with respect to the compensation of management of the Registrant and is incorporated herein by reference.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The section entitled "Security Ownership of Certain Beneficial Owners and Management" appearing in the 2003 Proxy Statement sets forth certain information with respect to the ownership of the Registrant's common stock and is incorporated herein by reference.

The section entitled "Equity Compensation Plan Information" appearing in the 2003 Proxy Statement sets forth certain information required by Item 201(d) of Regulation S-K and is incorporated herein by reference.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The section entitled "Certain Relationships and Related Party Transactions" appearing in the 2003 Proxy Statement sets forth certain information with respect to certain business relationships and transactions between the Registrant and its directors and officers and is incorporated herein by reference.

ITEM 14: PRINCIPAL ACCOUNTING FEES AND SERVICES

The section entitled "Independent Auditors' Fees Report" appearing in the 2003 Proxy Statement sets forth certain information with respect to the principal accounting fees and services of the Registrant and is incorporated herein by reference.

The section entitled "Audit/Finance Committee Charter" Appendix B to the 2003 Proxy Statement sets forth certain information with respect to the audit committee's pre-approval policies and procedures of the Registrant and is incorporated herein by reference.

PART IV

ITEM 15: EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (2) List of Financial Statement Schedules:

Schedule II—Valuation and Qualifying Accounts

(a) (3) Exhibits:

<u>Exhibit Number</u>	<u>Description of Exhibits</u>
2.1	Agreement and Plan of Reorganization between Itron, Inc. and LineSoft Corporation dated February 14, 2002. (filed as Exhibit 2.1 to the registrant's Report on Form 8-K dated March 1, 2002—File No. 0-22418)
2.2	Agreement and Plan of Merger By and Among Regional Economic Research, Inc., RER Combination, Inc. and Itron, Inc. dated September 9, 2002. (filed as Exhibit 2.2 to the registrant's Report on Form 10-K dated March 27, 2003—File No. 0-22418)
2.3	Combination Agreement By and Among eMobile Data Corporation, Marc Jones, eMD Combination, Inc. and Itron, Inc. dated August 30, 2002. (filed as Exhibit 2.3 to the registrant's Report on Form 10-K dated March 27, 2003—File No. 0-22418)
2.4	Agreement and Plan of Merger By and Among Silicon Energy Corp., Shadow Combination, Inc. and Itron, Inc. dated January 18, 2003 as amended on February 27, 2003 and February 28, 2003. (filed as Exhibit 2.1 to the registrant's Report on Form 8-K dated March 19, 2003—File No. 0-22418)
2.5	Corrected Schedule 1.1 of First Amendment dated February 27, 2003 of the Agreement and Plan of Merger, by and among Itron, Inc., Shadow Combination, Inc. and Silicon Energy Corp. (filed as Exhibit 2.1.1 to the registrant's Report on Form 8-K/A dated March 26, 2003—File No. 0-22418)
3.1	Amended and Restated Articles of Incorporation of the Registrant. (filed as Exhibit 3.1 to the registrant's Report on Form 10-K dated March 27, 2003—File No. 0-22418)
3.2	Amended and Restated Bylaws of the Registrant. (filed as Exhibit 3.2 to the registrant's Quarterly Report on Form 10-Q dated August 12, 2002—File No. 0-22418)
4.1	Rights Agreement between the Registrant and Mellon Investor Services LLC, as Rights Agent, dated as of December 11, 2002. (filed as Exhibit 4.1 to the registrant's Registration of Securities on Form 8-A, filed on December 12, 2002—File No. 0-22418)
10.1	Form of Change of Control Agreement between Registrant and certain of its executive officers. (filed as Exhibit 10.1 to the registrant's Report on Form 10-K dated March 26, 2000—File No. 0-22418)
10.2	Schedule of certain executive officers who are parties to Change of Control Agreements (see Exhibit 10.1 hereto) with the Registrant. (filed as Exhibit 10.2 to the registrant's Report on Form 10-K dated March 27, 2003—File No. 0-22418)
10.3	Amended and Restated 2000 Stock Incentive Plan. (filed as Appendix A to the registrant's designated Proxy Statement dated April 21, 2003 for its meeting of shareholder's held on May 23, 2003—File No. 0-22418)
10.4	Amended and Restated Stock Option Grant Program for Non-employee Directors under the Itron, Inc. 2000 Stock Incentive Plan. (filed as Exhibit 10.22 to the registrant's Report on Form 10-K dated March 28, 2002—File No. 0-22418)
10.5	Executive Deferred Compensation Plan.* (filed as Exhibit 10.12 to the registrant's Registration Statement on Form S-1 (Registration #33-49832), as amended, filed on July 22, 1992)
10.6	Form of Indemnification Agreements between the Registrant and certain directors and officers. (filed as Exhibit 10.9 to the registrant's Report on Form 10-K dated March 26, 2000—File No. 0-22418)

Exhibit Number	Description of Exhibits
10.7	Schedule of directors and executive officers who are parties to Indemnification Agreements (see Exhibit 10.6 hereto) with the Registrant.
10.8	Employment Agreement between the Registrant and David G. Remington dated February 29, 1996.* (filed as Exhibit 10.16 to the registrant's Report on Form 10-K dated March 30, 1996—File No. 0-22418)
10.9	Office Lease between the Registrant and Woodville Leasing Inc. dated October 4, 1993. (filed as Exhibit 10.24 to the registrant's Report on Form 10-K filed on March 30, 1994—File No. 0-22418)
10.10	Asset Purchase Agreement between Itron, Inc. and DataCom Information Systems, LLC (e.g. an affiliate of Duquesne Light Company) dated March 30, 2000. (filed as Exhibit 10.19 to the registrant's Quarterly Report on Form 10-Q dated May 12, 2000—File No. 0-22418)
10.11	Amended and Restated Warranty and Maintenance Agreement between Itron, Inc. and Duquesne Light Company dated May 1, 2003. (filed as Exhibit 10.13 to the registrant's Quarterly Report on Form 10-Q dated May 9, 2003—File No. 0-22418)
10.12	Contribution Agreement between Itron, Inc. and Servatron, Inc. dated May 15, 2000. (filed as Exhibit 10.22 to the registrant's Quarterly Report on Form 10-Q dated August 14, 2000—File No. 0-22418)
10.13	2002 Employee Stock Purchase Plan. (filed as Appendix B to the registrant's designated Proxy Statement dated April 16, 2002 for its annual meeting of shareholders held on May 24, 2002—File No. 0-22418)
10.14	Credit Agreement among Itron, Inc., the lenders listed and Wells Fargo Bank, National Association dated March 4, 2003. (filed as Exhibit 4.1 to the registrant's Report on Form 8-K dated March 19, 2003—File No. 0-22418)
10.15	First Amendment to Credit Agreement dated March 20, 2003 and entered into by and among Itron, Inc., the lenders listed, LaSalle Bank, N.A., KeyBank N.A. and Wells Fargo Bank, N.A., and is made with reference to the Credit Agreement dated March 4, 2003. (filed as Exhibit 10.18 to the registrant's Quarterly Report on Form 10-Q dated May 9, 2003—File No. 0-22418)
10.16	Second Amendment to Credit Agreement dated October 23, 2003 and entered into by and among Itron, Inc., the lenders listed, LaSalle Bank, N.A., KeyBank N.A. and Wells Fargo Bank, N.A., and is made with reference to the Credit Agreement dated March 4, 2003. (filed as Exhibit 10.19 to the registrant's Quarterly Report on Form 10-Q dated November 13, 2003—File No. 0-22418)
10.17	Credit Agreement among Itron, Inc., several lenders from time to time parties hereto, Bear Stearns Corporate Lending, Inc. and Wells Fargo Bank, National Association dated December 17, 2003.
12	Statement re Computation of Ratios
21	Subsidiaries of the Registrant
23	Independent Auditors' Consent
31	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Management contract or compensatory plan or arrangement.

b) Reports on Form 8-K this quarter:

On October 16, 2003, Itron furnished a Form 8-K under Items 7 and 12 announcing the issuance of a press release regarding Itron, Inc.'s financial results for the three and nine months ended September 30, 2003.

On October 20, 2003, Itron furnished a Form 8-K under Item 9 regarding the issuance of a press release announcing the settlement of patent infringement litigation.

Signature

Title

/s/ S. EDWARD WHITE

Director

S. Edward White

/s/ GRAHAM M. WILSON

Director

Graham M. Wilson

Schedule II: VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at beginning of period	Additions Charged to costs and expenses	Deductions	Balance at end of period	
				Current	Noncurrent
(in thousands)					
<i>Year ended December 31, 2001:</i>					
Short and long-term warranty	\$ 5,734	\$ 4,407	\$ 3,814	\$ 3,229	\$ 3,098
Allowance for doubtful accounts	1,144	2,129	1,846	1,427	—
<i>Year ended December 31, 2002:</i>					
Short and long-term warranty	\$ 6,327	\$ 5,262	\$ 2,150	\$ 4,567	\$ 4,872
Allowance for doubtful accounts	1,427	839	975	1,291	—
<i>Year ended December 31, 2003:</i>					
Short and long-term warranty	\$ 9,439	\$ 15,563	\$ 7,527	\$ 13,939	\$ 3,536
Allowance for doubtful accounts	1,291	—	596	695	—

EXHIBIT INDEX

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2.2	Agreement and Plan of Merger By and Among Regional Economic Research, Inc., RER Combination, Inc. and Itron, Inc. dated September 9, 2002. (filed as Exhibit 2.2 to the registrant's Report on Form 10-K dated March 27, 2003—File No. 0-22418)
2.3	Combination Agreement By and Among eMobile Data Corporation, Marc Jones, eMD Combination, Inc. and Itron, Inc. dated August 30, 2002. (filed as Exhibit 2.3 to the registrant's Report on Form 10-K dated March 27, 2003—File No. 0-22418)
2.4	Agreement and Plan of Merger By and Among Silicon Energy Corp., Shadow Combination, Inc. and Itron, Inc. dated January 18, 2003 as amended on February 27, 2003 and February 28, 2003. (filed as Exhibit 2.1 to the registrant's Report on Form 8-K dated March 19, 2003—File No. 0-22418)
2.5	Corrected Schedule 1.1 of First Amendment dated February 27, 2003 of the Agreement and Plan of Merger, by and among Itron, Inc., Shadow Combination, Inc. and Silicon Energy Corp. (filed as Exhibit 2.1.1 to the registrant's Report on Form 8-K/A dated March 26, 2003—File No. 0-22418)
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10.1	Form of Change of Control Agreement between Registrant and certain of its executive officers. (filed as Exhibit 10.1 to the registrant's Report on Form 10-K dated March 26, 2000—File No. 0-22418)
10.2	Schedule of certain executive officers who are parties to Change of Control Agreements (see Exhibit 10.1 hereto) with the Registrant. (filed as Exhibit 10.2 to the registrant's Report on Form 10-K dated March 27, 2003—File No. 0-22418)
10.3	Amended and Restated 2000 Stock Incentive Plan. (filed as Appendix A to the registrant's designated Proxy Statement dated April 21, 2003 for its meeting of shareholder's held on May 23, 2003—File No. 0-22418)
10.4	Amended and Restated Stock Option Grant Program for Non-employee Directors under the Itron, Inc. 2000 Stock Incentive Plan. (filed as Exhibit 10.22 to the registrant's Report on Form 10-K dated March 28, 2002—File No. 0-22418)
10.5	Executive Deferred Compensation Plan.* (filed as Exhibit 10.12 to the registrant's Registration Statement on Form S-1 (Registration #33-49832), as amended, filed on July 22, 1992)
10.6	Form of Indemnification Agreements between the Registrant and certain directors and officers. (filed as Exhibit 10.9 to the registrant's Report on Form 10-K dated March 26, 2000—File No. 0-22418)
10.7	Schedule of directors and executive officers who are parties to Indemnification Agreements (see Exhibit 10.6 hereto) with the Registrant.

Exhibit Number	Description of Exhibits
10.8	Employment Agreement between the Registrant and David G. Remington dated February 29, 1996.* (filed as Exhibit 10.16 to the registrant's Report on Form 10-K dated March 30, 1996—File No. 0-22418)
10.9	Office Lease between the Registrant and Woodville Leasing Inc. dated October 4, 1993. (filed as Exhibit 10.24 to the registrant's Report on Form 10-K filed on March 30, 1994—File No. 0-22418)
10.10	Asset Purchase Agreement between Itron, Inc. and DataCom Information Systems, LLC (e.g. an affiliate of Duquesne Light Company) dated March 30, 2000. (filed as Exhibit 10.19 to the registrant's Quarterly Report on Form 10-Q dated May 12, 2000—File No. 0-22418)
10.11	Amended and Restated Warranty and Maintenance Agreement between Itron, Inc. and Duquesne Light Company dated May 1, 2003. (filed as Exhibit 10.13 to the registrant's Quarterly Report on Form 10-Q dated May 9, 2003—File No. 0-22418)
10.12	Contribution Agreement between Itron, Inc. and Servatron, Inc. dated May 15, 2000. (filed as Exhibit 10.22 to the registrant's Quarterly Report on Form 10-Q dated August 14, 2000—File No. 0-22418)
10.13	2002 Employee Stock Purchase Plan. (filed as Appendix B to the registrant's designated Proxy Statement dated April 16, 2002 for its annual meeting of shareholders held on May 24, 2002—File No. 0-22418)
10.14	Credit Agreement among Itron, Inc., the lenders listed and Wells Fargo Bank, National Association dated March 4, 2003. (filed as Exhibit 4.1 to the registrant's Report on Form 8-K dated March 19, 2003—File No. 0-22418)
10.15	First Amendment to Credit Agreement dated March 20, 2003 and entered into by and among Itron, Inc., the lenders listed, LaSalle Bank, N.A., KeyBank N.A. and Wells Fargo Bank, N.A., and is made with reference to the Credit Agreement dated March 4, 2003. (filed as Exhibit 10.18 to the registrant's Quarterly Report on Form 10-Q dated May 9, 2003—File No. 0-22418)
10.16	Second Amendment to Credit Agreement dated October 23, 2003 and entered into by and among Itron, Inc., the lenders listed, LaSalle Bank, N.A., KeyBank N.A. and Wells Fargo Bank, N.A., and is made with reference to the Credit Agreement dated March 4, 2003. (filed as Exhibit 10.19 to the registrant's Quarterly Report on Form 10-Q dated November 13, 2003—File No. 0-22418)
10.17	Credit Agreement among Itron, Inc., several lenders from time to time parties hereto, Bear Stearns Corporate Lending, Inc. and Wells Fargo Bank, National Association dated December 17, 2003.
12	Statement re Computation of Ratios
21	Subsidiaries of the Registrant
23	Independent Auditors' Consent
31	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Management contract or compensatory plan or arrangement.

INDEMNIFICATION AGREEMENTS

MariLyn R. Blair
Michael B. Bracy
William L. Brown
Michael A. Cantelme
Michael J. Chesser
Ted C. DeMerritt
Deloris R. Duquette
C.R. Dwiggins, Jr.
Larry H. Eggleston
Jon E. Eliassen
Russell N. Fairbanks, Jr.
Thomas S. Foley
Thomas S. Glanville
Steven M. Helmbrecht
John W. Hengesh, Jr.
John F. Jenkins-Stark
Philip C. Mezey
Randi L. Neilson
Robert D. Neilson
Sharon L. Nelson
LeRoy D. Nosbaum
Mary Ann Peters
David G. Remington
Jemima G. Scarpelli f/k/a Brennan
Douglas L. Staker
Russell E. Vanos
Krista K. Voss
Stuart Edward White
Robert W. Whitney
Graham M. Wilson
John M. Woolard

\$240,000,000

CREDIT AGREEMENT

among

ITRON, INC.,

as Borrower,

The Several Lenders

from Time to Time Parties Hereto,

BEAR STEARNS CORPORATE LENDING INC.,

as Syndication Agent,

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,

as Administrative Agent

Dated as of December 17, 2003

BEAR, STEARNS & CO. INC., as Sole Lead Arranger and Sole Bookrunner

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ANNEX:

A	Pricing Grid
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SCHEDULES:

1.1A	Lenders
1.1	Mortgaged Property
3.7	Assumed Letters of Credit
5.1	Contingent Liabilities, etc.
5.4	Consents, Authorizations, Filings and Notices
5.15	Subsidiaries
5.17	Environmental Matters
5.17(a)	Owned and Leased Properties
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8.2(d)	Existing Indebtedness
8.3(f)	Existing Liens

EXHIBITS:

A	Form of Guarantee and Collateral Agreement
B	Form of Compliance Certificate
C	Form of Closing Certificate
D	Form of Mortgage
E	Form of Assignment and Assumption
F	Form of Legal Opinion of Perkins Coie LLP
G	Form of Exemption Certificate
H-1	Form of Term Note
H-2	Form of Revolving Note
H-3	Form of Swingline Note
I	Form of Addendum
J	Form of Solvency Certificate

CREDIT AGREEMENT, dated as of December 17, 2003, among ITRON, Inc., a Washington corporation (the "Borrower"), the several banks and other financial institutions or entities from time to time parties to this Agreement (the "Lenders"), BEAR, STEARNS & CO. INC., as sole lead arranger and sole bookrunner (in such capacity, the "Lead Arranger"), BEAR STEARNS CORPORATE LENDING INC., as syndication agent (in such capacity, the "Syndication Agent"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, as administrative agent (in such capacity, the "Administrative Agent").

WITNESSETH

WHEREAS, pursuant to the Acquisition Agreement (defined below), the Borrower has agreed to acquire the Schlumberger Business through the purchase of 100% of the outstanding capital stock of Schlumberger Electricity, Inc., a Delaware corporation ("SEI"), 51% of the stock of Walsin Schlumberger Electricity Measurement Corporation, a corporation organized and existing under the laws of Taiwan, Republic of China (the "Joint Venture") and certain assets owned by certain foreign affiliates of SEI (the "SEI Acquisition");

WHEREAS, the Borrower has requested that the Lenders make credit facilities available to the Borrower in order to finance the Acquisition and for other purposes set forth herein;

WHEREAS, the Lenders are willing to make such credit facilities available upon and subject to the terms and conditions hereinafter set forth;

NOW THEREFORE, in consideration of the premises and the agreements hereinafter set forth, the parties hereto hereby agree as follows:

SECTION 1. DEFINITIONS

1.1. Defined Terms. As used in this Agreement, the terms listed in this Section 1.1 shall have the respective meanings set forth in this Section 1.1.

"Acquisition": the SEI Acquisition and the JV Acquisition.

"Acquisition Agreement": the Purchase Agreement, dated as of July 16, 2003, by and among the Borrower, Schlumberger Technology Corporation, a Texas corporation, SEI and the other parties signatory thereto.

"Acquisition Documentation": collectively, the Acquisition Agreement and all schedules, exhibits and annexes thereto and all side letters and agreements affecting the terms thereof or entered into in connection therewith.

"Addendum": an instrument, substantially in the form of Exhibit I, by which a Lender becomes a party to this Agreement as of the Closing Date.

"Adjustment Date": as defined in the Pricing Grid.

"Administrative Agent": as defined in the preamble to this Agreement.

“**Affiliate**”: as to any Person, any other Person that, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, “control” of a Person means the power, directly or indirectly, either to (a) direct or cause the direction of the management and policies of such Person, whether by contract or otherwise or (b) alternatively with respect to the use of “Affiliate” in Section 8.10 only, to vote 15% or more of the securities having ordinary voting power for the election of directors (or persons performing similar functions) of such Person.

“**Agents**”: the collective reference to the Syndication Agent, the Documentation Agent, the Lead Arranger and the Administrative Agent, which term shall include, for purposes of Section 10 only, the Issuing Lender.

“**Aggregate Exposure**”: with respect to any Lender at any time, an amount equal to (a) until the Closing Date, the aggregate amount of such Lender’s Commitments at such time and (b) thereafter, the sum of (i) the aggregate then unpaid principal amount of such Lender’s Term Loans and (ii) the amount of such Lender’s Revolving Commitment then in effect or, if the Revolving Commitments have been terminated, the amount of such Lender’s Revolving Extensions of Credit then outstanding.

“**Aggregate Exposure Percentage**”: with respect to any Lender at any time, the ratio (expressed as a percentage) of such Lender’s Aggregate Exposure at such time to the Aggregate Exposure of all Lenders at such time.

“**Agreement**”: this Credit Agreement.

“**Agreement Execution Date**”: December 17, 2003.

“**Applicable Margin**”: for each Type of Loan, the rate per annum set forth under the relevant column heading below:

	<u>Eurodollar Loans</u>	<u>Base Rate Loans</u>
Revolving Loans and Swingline Loans	2.75%	1.75%
Tranche B Term Loans	2.25%	1.25%

; provided, that, on and after the first Adjustment Date (as defined in the Pricing Grid) occurring after the completion of two full fiscal quarters of the Borrower after the Closing Date, (a) the Applicable Margin with respect to Revolving Loans and Swingline Loans will be determined pursuant to the Pricing Grid and (b) the Applicable Margin with respect to the Tranche B Term Loans shall be adjusted to 2.00% with respect to Eurodollar Loans and 1.00% with respect to Base Rate Loans (i) on such Adjustment Date and (ii) on any subsequent Adjustment Date, in each case, if the financial statements relating to such Adjustment Date demonstrate that the Consolidated Leverage Ratio is less than 2.00 to 1.00, with such adjustment to become effective on the date that is three Business Days after the date on which the relevant financial statements are delivered to the Lenders pursuant to Section 7.1 and to remain in effect until the next adjustment and (c) the Commitment Fee Rate shall be adjusted to 0.375% (i) on

such Adjustment Date and (ii) on any subsequent Adjustment Date, in each case, if the financial statements relating to such Adjustment Date demonstrate that the Consolidated Leverage Ratio is less than 2.75 to 1.00, with such adjustment to become effective on the date that is three Business Days after the date on which the relevant financial statements are delivered to the Lenders pursuant to Section 7.1 and to remain in effect until the next adjustment. If any financial statements referred to above are not delivered within the time periods specified in Section 7.1, then, until the date that is three Business Days after the date on which such financial statements are delivered, the Applicable Margin with respect to the Tranche B Term Loans shall be 2.25% with respect to Eurodollar Loans and 1.25% with respect to Base Rate Loans and the Commitment Fee Rate shall be 0.50%.

“Application”: an application, in such form as the Issuing Lender may specify from time to time, requesting the Issuing Lender to open a Letter of Credit.

“Approved Fund”: (a) a CLO and (b) with respect to any Lender that is a fund which invests in commercial loans, any other fund that invests in commercial loans and is managed or advised by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

“Asset Sale”: any Disposition of Property or series of related Dispositions of Property (excluding any such Disposition permitted by clause (a), (b), (c), (d), (e) or (f) of Section 8.5) that yields gross proceeds to any Group Member (valued at the initial principal amount thereof in the case of non-cash proceeds consisting of notes or other debt securities and valued at fair market value in the case of other non-cash proceeds) in excess of \$1,000,000.

“Assignee”: as defined in Section 11.6(b).

“Assignment and Assumption”: an Assignment and Assumption, substantially in the form of Exhibit E.

“Available Revolving Commitment”: as to any Revolving Lender at any time, an amount equal to the excess, if any, of (a) such Lender’s Revolving Commitment then in effect over (b) such Lender’s Revolving Extensions of Credit then outstanding; provided that, in calculating any Lender’s Revolving Extensions of Credit for the purpose of determining such Lender’s Available Revolving Commitment pursuant to Section 3.5, the aggregate principal amount of Swingline Loans then outstanding shall be deemed to be zero.

“Base Rate”: for any day, a rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus 0.50%. For purposes hereof: “Prime Rate” shall mean the rate of interest per annum publicly announced from time to time by the Reference Lender as its prime rate in effect at its principal office in San Francisco (the Prime Rate not being intended to be the lowest rate of interest charged by the Reference Lender in connection with extensions of credit to debtors). Any change in the Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective as of the opening of business on the effective day of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

“Base Rate Loans”: Loans the rate of interest applicable to which is based upon the Base Rate.

“Benefited Lender”: as defined in Section 11.7(a).

“Board”: the Board of Governors of the Federal Reserve System of the United States (or any successor).

“Borrower”: as defined in the preamble to this Agreement.

“Borrower ECF Amount”: with respect to any fiscal year of the Borrower commencing after December 31, 2003, 100% less the ECF Percentage for such fiscal year times the Excess Cash Flow with respect to such fiscal year.

“Borrowing Date”: any Business Day specified by the Borrower as a date on which the Borrower requests the relevant Lenders to make Loans hereunder.

“Business”: as defined in Section 5.17(b).

“Business Day”: a day other than a Saturday, Sunday or other day on which commercial banks in New York or San Francisco are authorized or required by law to close, provided, that with respect to notices and determinations in connection with, and payments of principal and interest on, Eurodollar Loans, such day is also a day for trading by and between banks in Dollar deposits in the interbank eurodollar market.

“Capital Expenditures”: for any period, with respect to any Person, the aggregate of all expenditures by such Person and its Subsidiaries for the acquisition or leasing (pursuant to a capital lease) of fixed or capital assets or additions to equipment (including replacements, capitalized repairs and improvements during such period) that should be capitalized under GAAP on a consolidated balance sheet of such Person and its Subsidiaries. The amount of any Capital Expenditure with respect to any capital lease shall be equal to the initial capitalized value.

“Capital Lease Obligations”: as to any Person, the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP and, for the purposes of this Agreement, the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP.

“Capital Stock”: any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing.

“Cash Equivalents”: (a) marketable direct obligations issued by, or unconditionally guaranteed by, the United States government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within fifteen months from the date of acquisition; (b) certificates of deposit, time deposits, eurodollar time

deposits or overnight bank deposits having maturities of fifteen months or less from the date of acquisition issued by any Lender or by any commercial bank organized under the laws of the United States or any state thereof having combined capital and surplus of not less than \$500,000,000; (c) commercial paper of an issuer rated at least A-1 by Standard & Poor's Ratings Services ("S&P") or P-1 by Moody's Investors Service, Inc. ("Moody's"), or carrying an equivalent rating by a nationally recognized rating agency, if both of the two named rating agencies cease publishing ratings of commercial paper issuers generally, and maturing within fifteen months from the date of acquisition; (d) repurchase obligations of any Lender or of any commercial bank satisfying the requirements of clause (b) of this definition, having a term of not more than 30 days, with respect to securities issued or fully guaranteed or insured by the United States government; (e) securities with maturities of fifteen months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States, by any political subdivision or taxing authority of any such state, commonwealth or territory or by any foreign government, the securities of which state, commonwealth, territory, political subdivision, taxing authority or foreign government (as the case may be) are rated at least A by S&P or A by Moody's; (f) securities with maturities of fifteen months or less from the date of acquisition backed by standby letters of credit issued by any Lender or any commercial bank satisfying the requirements of clause (b) of this definition; or (g) shares of money market mutual or similar funds which invest exclusively in assets satisfying the requirements of clauses (a) through (f) of this definition or money market funds that (i) comply with the criteria set forth in Securities and Exchange Commission Rule 2a-7 under the Investment Company Act of 1940, as amended, (ii) are rated AAA by S&P and Aaa by Moody's and (iii) have portfolio assets of at least \$500,000,000.

"CLO": any entity (whether a corporation, partnership, trust or otherwise) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by a Lender or an affiliate of such Lender.

"Closing Date": the date on which the conditions precedent set forth in Section 6.1 shall have been satisfied or waived in accordance with Section 11.1.

"Code": the Internal Revenue Code of 1986, as amended from time to time.

"Collateral": all property of the Loan Parties, now owned or hereafter acquired, upon which a Lien is purported to be created by any Security Document.

"Commitment": as to any Lender, the sum of the Tranche B Term Commitment and the Revolving Commitment of such Lender.

"Commitment Fee Rate": 0.50% per annum; provided that, on and after the first Adjustment Date occurring after the completion of two full fiscal quarters of the Borrower after the Closing Date, the Commitment Fee Rate will be determined pursuant to the definition of Applicable Margin.

"Commonly Controlled Entity": an entity, whether or not incorporated, that is under common control with the Borrower within the meaning of Section 4001 of ERISA or is part of a group that includes the Borrower and that is treated as a single employer under Section 414 of the Code.

“Compliance Certificate”: a certificate duly executed by a Responsible Officer substantially in the form of Exhibit B.

“Conduit Lender”: any special purpose entity organized and administered by any Lender for the purpose of making Loans otherwise required to be made by such Lender and designated by such Lender in a written instrument, subject to the consent of the Administrative Agent and the Borrower (which consent shall not be unreasonably withheld); provided, that the designation by any Lender of a Conduit Lender shall not relieve the designating Lender of any of its obligations to fund a Loan under this Agreement if, for any reason, its Conduit Lender fails to fund any such Loan, and the designating Lender (and not the Conduit Lender) shall have the sole right and responsibility to deliver all consents and waivers required or requested under this Agreement with respect to its Conduit Lender, and provided, further, that no Conduit Lender shall (a) be entitled to receive any greater amount pursuant to Section 4.9, 4.10, 4.11 or 11.5 than the designating Lender would have been entitled to receive in respect of the extensions of credit made by such Conduit Lender or (b) be deemed to have any Commitment.

“Confidential Information Memorandum”: the Confidential Information Memorandum dated October 2003 and furnished to the Lenders.

“Consolidated Current Assets”: at any date, all amounts (other than cash and Cash Equivalents) that would, in conformity with GAAP, be set forth opposite the caption “total current assets” (or any like caption) on a consolidated balance sheet of the Borrower and its Subsidiaries at such date.

“Consolidated Current Liabilities”: at any date, all amounts that would, in conformity with GAAP, be set forth opposite the caption “total current liabilities” (or any like caption) on a consolidated balance sheet of the Borrower and its Subsidiaries at such date, but excluding (a) the current portion of any Funded Debt of the Borrower and its Subsidiaries and (b) without duplication of clause (a) above, all Indebtedness consisting of Revolving Loans or Swingline Loans to the extent otherwise included therein.

“Consolidated EBITDA”: for any period, Consolidated Net Income for such period plus, without duplication and to the extent reflected as a charge in the statement of such Consolidated Net Income for such period, the sum of (a) income tax provision, (b) interest expense, amortization or write-off of debt discount and debt issuance costs and commissions, discounts and other fees and charges associated with Indebtedness (including the Loans), (c) depreciation and amortization expense, (d) amortization of intangibles and organization costs, (e) any extraordinary charges or losses determined in accordance with GAAP, (f) non-cash compensation expenses arising from the issuance of stock, options to purchase stock and stock appreciation rights to the management of the Borrower, and (g) any other noncash charges (including, but not limited to, goodwill writedowns), noncash expenses or noncash losses of the Borrower or any of its Subsidiaries for such period (excluding any such charge, expense or loss incurred in the ordinary course of business that constitutes an accrual of or a reserve for cash charges for any future period), provided, however, that cash payments made in such period or in

any future period in respect of such noncash charges, expenses or losses (excluding any such charge, expense or loss incurred in the ordinary course of business that constitutes an accrual of or a reserve for cash charges for any future period) shall be subtracted from Consolidated Net Income in calculating Consolidated EBITDA in the period when such payments are made, and minus, to the extent included in the statement of such Consolidated Net Income for such period, the sum of (a) interest income, (b) any extraordinary income or gains determined in accordance with GAAP and (c) any other non-cash income (excluding any items that represent the reversal of any accrual of, or cash reserve for, anticipated cash charges in any prior period that are described in the parenthetical to clause (g) above), all as determined on a consolidated basis. For the purposes of calculating Consolidated EBITDA for any period of four consecutive fiscal quarters (each, a "Reference Period") pursuant to any determination of the Consolidated Leverage Ratio and the Consolidated Senior Debt Ratio, (i) if at any time during such Reference Period the Borrower or any Subsidiary shall have made any Material Disposition, the Consolidated EBITDA for such Reference Period shall be reduced by an amount equal to the Consolidated EBITDA (if positive) attributable to the property that is the subject of such Material Disposition for such Reference Period or increased by an amount equal to the Consolidated EBITDA (if negative) attributable thereto for such Reference Period and (ii) if during such Reference Period the Borrower or any Subsidiary shall have made a Material Acquisition, Consolidated EBITDA for such Reference Period shall be calculated after giving pro forma effect thereto as if such Material Acquisition occurred on the first day of such Reference Period. As used in this definition, "Material Acquisition" means any acquisition of property or series of related acquisitions of property that (a) constitutes assets comprising all or substantially all of an operating unit of a business or constitutes all or substantially all of the common stock of a Person and (b) involves the payment of consideration by the Borrower and its Subsidiaries in excess of \$1,000,000; and "Material Disposition" means any Disposition of property or series of related Dispositions of property that yields gross proceeds to the Borrower or any of its Subsidiaries in excess of \$1,000,000.

"Consolidated Fixed Charge Coverage Ratio": for any period of four consecutive fiscal quarters, the ratio of (a) Consolidated EBITDA for such period (less the aggregate amount paid by the Borrower and its Subsidiaries during such period on account of Capital Expenditures (excluding Capital Expenditures financed by Indebtedness incurred during such period specifically to finance such expenditures)) to (b) Consolidated Fixed Charges for such period. For purposes of this definition, the aggregate amount paid by the Borrower and its Subsidiaries on account of Capital Expenditures for the first, second and third Specified Fiscal Quarters shall respectively be deemed equal to (a) for the first Specified Fiscal Quarter, four times the aggregate amount paid by the Borrower and its Subsidiaries on account of Capital Expenditures with respect to the first Specified Fiscal Quarter, (b) for the second Specified Fiscal Quarter, two times the sum of the aggregate amount paid by the Borrower and its Subsidiaries on account of Capital Expenditures for the first and second Specified Fiscal Quarters, and (c) for the third Specified Fiscal Quarter, 4/3 times the sum of the aggregate amount paid by the Borrower and its Subsidiaries on account of Capital Expenditures for the first, second and third Specified Fiscal Quarters

"Consolidated Fixed Charges": for any period, the sum (without duplication) of (a) Consolidated Interest Expense for such period, (b) the cash taxes payable portion of the GAAP provision for income taxes made by the Borrower and its Subsidiaries on a consolidated

basis as of the last day of such period (such amount, the “Cash Income Tax Amount”), and (c) scheduled payments made during such period on account of principal of Indebtedness of the Borrower or any of its Subsidiaries (including scheduled principal payments in respect of the Term Loans pursuant to Section 2.3); provided that for any period of four consecutive fiscal quarters ending on the last day of a Specified Fiscal Quarter, for purposes of this definition (i) the Cash Income Tax Amount for the first, second and third Specified Fiscal Quarters shall respectively be deemed equal to (a) for the first Specified Fiscal Quarter, four times the Cash Income Tax Amount with respect to the first Specified Fiscal Quarter, (b) for the second Specified Fiscal Quarter, two times the sum of the Cash Income Tax Amounts for the first and second Specified Fiscal Quarters, and (c) for the third Specified Fiscal Quarter, 4/3 times the sum of the Cash Income Tax Amounts for the first, second and third Specified Fiscal Quarters and (ii) scheduled payments on account of principal of Indebtedness for the first, second and third Specified Fiscal Quarters shall respectively be deemed equal to (a) for the first Specified Fiscal Quarter, four times the scheduled payments on account of principal of Indebtedness with respect to the first Specified Fiscal Quarter, (b) for the second Specified Fiscal Quarter, two times the sum of the scheduled payments on account of principal of Indebtedness for the first and second Specified Fiscal Quarters, and (c) for the third Specified Fiscal Quarter, 4/3 times the sum of the scheduled payments on account of principal of Indebtedness for the first, second and third Specified Fiscal Quarters.

“Consolidated Interest Coverage Ratio”: for any period of four consecutive fiscal quarters, the ratio of (a) Consolidated EBITDA for such period to (b) Consolidated Interest Expense for such period.

“Consolidated Interest Expense”: for any period, total cash interest expense (including that attributable to Capital Lease Obligations) of the Borrower and its Subsidiaries for such period with respect to all outstanding Indebtedness of the Borrower and its Subsidiaries (including all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers’ acceptance financing and net costs under Hedge Agreements in respect of interest rates to the extent such net costs are allocable to such period in accordance with GAAP); provided that for any period of four consecutive fiscal quarters ending on the last day of any Specified Fiscal Quarter, for purposes of this definition, Consolidated Interest Expense for the first, second and third Specified Fiscal Quarters shall respectively be deemed equal to (a) for the first Specified Fiscal Quarter, four times Consolidated Interest Expense with respect to the first Specified Fiscal Quarter, (b) for the second Specified Fiscal Quarter, two times the sum of Consolidated Interest Expense for the first and second Specified Fiscal Quarters, and (c) for the third Specified Fiscal Quarter, 4/3 times the sum of Consolidated Interest Expense for the first, second and third Specified Fiscal Quarters.

“Consolidated Leverage Ratio”: as of the last day of any period of four consecutive fiscal quarters, the ratio of (a) Consolidated Total Debt on such day to (b) Consolidated EBITDA for such period.

“Consolidated Net Income”: for any period, the consolidated net income (or loss) of the Borrower and its Subsidiaries, determined on a consolidated basis in accordance with GAAP; provided that there shall be excluded (a) the income (or deficit) of any Person accrued prior to the date it becomes a Subsidiary of the Borrower or is merged into or consolidated with

the Borrower or any of its Subsidiaries, (b) the income (or deficit) of any Person (other than a Subsidiary of the Borrower) in which the Borrower or any of its Subsidiaries has an ownership interest, except to the extent that any such income is actually received by the Borrower or such Subsidiary in the form of dividends or similar distributions, (c) the income (or deficit) of any Outsourcing Project Subsidiary if such Outsourcing Project Subsidiary is in default under its Outsourcing Project Indebtedness, and (d) the undistributed earnings of any Subsidiary of the Borrower (other than an Outsourcing Project Subsidiary) to the extent that the declaration or payment of dividends or similar distributions by such Subsidiary is not at the time permitted by the terms of any Contractual Obligation (other than under any Loan Document) or Requirement of Law applicable to such Subsidiary.

“Consolidated Senior Debt”: all Consolidated Total Debt other than the Senior Subordinated Notes (and/or any refinancing of the Senior Subordinated Notes permitted by Section 8.2(f)) and any subordinated Indebtedness incurred pursuant to Section 8.2(i).

“Consolidated Senior Debt Ratio”: as of the last day of any period of four consecutive fiscal quarters, the ratio of (a) Consolidated Senior Debt on such day to (b) Consolidated EBITDA for such period.

“Consolidated Total Debt”: at any date, the aggregate principal amount of all Indebtedness of the Borrower and its Subsidiaries at such date that would be classified a liability on the consolidated balance sheet of the Borrower, determined in accordance with GAAP.

“Consolidated Working Capital”: at any date, Consolidated Current Assets on such date less Consolidated Current Liabilities on such date.

“Continuing Directors”: the directors of the Borrower on the Closing Date, after giving effect to the Acquisition and the other transactions contemplated hereby, and each other director, if, in each case, such other director’s nomination for election to the board of directors of the Borrower is recommended by at least 50% of the then Continuing Directors.

“Contractual Obligation”: as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

“Default”: any of the events specified in Section 9, whether or not any requirement for the giving of notice, the lapse of time, or both, has been satisfied.

“Disposition”: with respect to any Property, any sale, lease, sale and leaseback, assignment, conveyance, transfer or other disposition thereof. The terms “Dispose” and “Disposed of” shall have correlative meanings.

“Dollars” and “\$”: dollars in lawful currency of the United States.

“Domestic Subsidiary”: any Subsidiary of the Borrower organized under the laws of any jurisdiction within the United States.

“ECF Percentage”: with respect to any fiscal year of the Borrower, 75%; provided, that the ECF Percentage for any fiscal year shall be reduced to 50% if the Consolidated Leverage Ratio as of the last day of such fiscal year is not greater than 2.50 to 1.00.

“Environmental Laws”: any and all foreign, Federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees, requirements of any Governmental Authority or other Requirements of Law (including common law) regulating, relating to or imposing liability or standards of conduct concerning protection of human health or the environment, as now or may at any time hereafter be in effect.

“ERISA”: the Employee Retirement Income Security Act of 1974, as amended from time to time.

“Eurocurrency Reserve Requirements”: for any day as applied to a Eurodollar Loan, the aggregate (without duplication) of the maximum rates (expressed as a decimal fraction) of reserve requirements in effect on such day (including basic, supplemental, marginal and emergency reserves under any regulations of the Board or other Governmental Authority having jurisdiction with respect thereto) dealing with reserve requirements prescribed for eurocurrency funding (currently referred to as “Eurocurrency Liabilities” in Regulation D of the Board) maintained by a member bank of the Federal Reserve System.

“Eurodollar Base Rate”: with respect to each day during each Interest Period pertaining to a Eurodollar Loan, the rate per annum determined on the basis of the rate for deposits in Dollars for a period equal to such Interest Period commencing on the first day of such Interest Period appearing on Page 3750 of the Telerate screen as of 11:00 A.M., London time, two Business Days prior to the beginning of such Interest Period. In the event that such rate does not appear on Page 3750 of the Telerate screen (or otherwise on such screen), the “Eurodollar Base Rate” shall be determined by reference to such other comparable publicly available service for displaying eurodollar rates as may be selected by the Administrative Agent or, in the absence of such availability, by reference to the rate at which the Administrative Agent is offered Dollar deposits at or about 11:00 A.M., San Francisco time, two Business Days prior to the beginning of such Interest Period in the interbank eurodollar market where its eurodollar and foreign currency and exchange operations are then being conducted for delivery on the first day of such Interest Period for the number of days comprised therein.

“Eurodollar Loans”: Loans the rate of interest applicable to which is based upon the Eurodollar Rate.

“Eurodollar Rate”: with respect to each day during each Interest Period pertaining to a Eurodollar Loan, a rate per annum determined for such day in accordance with the following formula (rounded upward to the nearest 1/100th of 1%):

$$\frac{\text{Eurodollar Base Rate}}{1.00 - \text{Eurocurrency Reserve Requirements}}$$

“Eurodollar Tranche”: the collective reference to Eurodollar Loans under a particular Facility, the then current Interest Periods with respect to all of which begin on the same date and end on the same later date (whether or not such Loans shall originally have been made on the same day).

“Event of Default”: any of the events specified in Section 9, provided that any requirement for the giving of notice, the lapse of time, or both, has been satisfied.

“Excess Cash Flow”: for any fiscal year of the Borrower, (a) the sum, without duplication, of (i) Consolidated Net Income for such fiscal year, (ii) the amount of all non-cash charges (including depreciation and amortization) deducted in arriving at such Consolidated Net Income, (iii) decreases in Consolidated Working Capital for such fiscal year, and (iv) the aggregate net amount of non-cash losses on the Disposition of Property by the Borrower and its Subsidiaries during such fiscal year (other than sales of inventory in the ordinary course of business), to the extent deducted in arriving at such Consolidated Net Income less (b) the sum, without duplication, of (i) the amount of all non-cash credits included in arriving at such Consolidated Net Income, (ii) the aggregate amount actually paid by the Borrower and its Subsidiaries in cash during such fiscal year on account of Capital Expenditures (excluding the principal amount of Indebtedness incurred to finance such expenditures (but including repayments of any such Indebtedness incurring during such period) and any such expenditures financed with the proceeds of any Reinvestment Deferred Amount), (iii) the aggregate amount of all prepayments of Revolving Loans and Swingline Loans during such fiscal year to the extent accompanying permanent optional reductions of the Revolving Commitments and all optional prepayments of the Term Loans during such fiscal year, (iv) the aggregate amount of all regularly scheduled principal payments of Funded Debt (including the Term Loans) of the Borrower and its Subsidiaries made during such fiscal year (other than in respect of any revolving credit facility to the extent there is not an equivalent permanent reduction in commitments thereunder), (v) increases in Consolidated Working Capital for such fiscal year, and (vi) the aggregate net amount of non-cash gain on the Disposition of Property by the Borrower and its Subsidiaries during such fiscal year (other than sales of inventory in the ordinary course of business), to the extent included in arriving at such Consolidated Net Income.

“Excess Cash Flow Application Date”: as defined in Section 4.2(c).

“Excluded Foreign Subsidiary”: on any date of determination, any Foreign Subsidiary that if aggregated with all other Foreign Subsidiaries which are not Guarantors, as of the last day of most recently completed fiscal quarter of the Borrower would have, either (x) total assets (excluding intercompany Indebtedness owing from the Borrower or any Subsidiary thereof) with a book value equal to 5% or less of the total assets (excluding intercompany Indebtedness) of the Borrower and its Subsidiaries, on a consolidated basis or (y) total revenue (excluding intercompany revenue) equal to 10% or less of the total revenue (excluding intercompany revenue) of the Borrower and its Subsidiaries, on a consolidated basis, in each case as determined in accordance with GAAP for the immediately preceding twelve-month period for which financial statements are available.

“Excluded Indebtedness”: all Indebtedness permitted by (a) Section 8.2, except Section 8.2(i), and (b) to the extent the proceeds of such Indebtedness are used to consummate an Investment permitted by Section 8.8(m) within five Business Days of the incurrence thereof, Section 8.2(i), in each case, as in effect on the Closing Date.

“Existing Credit Facility”: as defined in Section 6.1(b)(ii).

“Facility”: each of (a) the Tranche B Term Commitments and the Tranche B Term Loans made thereunder (the “Tranche B Term Facility”) and (b) the Revolving Commitments and the extensions of credit made thereunder (the “Revolving Facility”).

“Federal Funds Effective Rate”: for any day, the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for the day of such transactions received by the Reference Lender from three federal funds brokers of recognized standing selected by it.

“Flood Act”: the National Flood Insurance Act of 1968, the Flood Disaster Protection Act of 1973 or the National Flood Insurance Reform Act of 1994 (and any amendment or successor act to any of the foregoing).

“Foreign Subsidiary”: any Subsidiary of the Borrower that is not a Domestic Subsidiary.

“Funded Debt”: as to any Person, all Indebtedness of such Person (including Capital Leases) that matures more than one year from the date of its creation or matures within one year from such date but is renewable or extendible, at the option of such Person, to a date more than one year from such date or arises under a revolving credit or similar agreement that obligates the lender or lenders to extend credit during a period of more than one year from such date, including all current maturities and current sinking fund payments in respect of such Indebtedness whether or not required to be paid within one year from the date of its creation and, in the case of the Borrower, Indebtedness in respect of the Loans; Funded Debt shall not include Indebtedness consisting of letters of credit to the extent that such letters of credit would not be classified as a liability on the consolidated balance sheet of such Person, determined in accordance with GAAP.

“Funding Office”: the office of the Administrative Agent specified in Section 11.2 or such other office as may be specified from time to time by the Administrative Agent as its funding office by written notice to the Borrower and the Lenders.

“GAAP”: generally accepted accounting principles in the United States as in effect from time to time, except that for purposes of Section 8.1, GAAP shall be determined on the basis of such principles in effect on the date hereof and consistent with those used in the preparation of the most recent audited financial statements referred to in Section 5.1(b). In the event that any Accounting Change (as defined below) shall occur and such change results in a change in the method of calculation or in the calculation of the components of financial covenants, standards or terms in this Agreement, then the Borrower and the Administrative Agent agree to enter into good faith negotiations in order to amend such provisions of this Agreement so as to equitably reflect such Accounting Changes with the desired result that the criteria for evaluating the Borrower’s financial condition shall be the same after such Accounting Changes as if such Accounting Changes had not been made. Until such time as such an

amendment shall have been executed and delivered by the Borrower, Administrative Agent and the Required Lenders, all financial covenants, standards and terms in this Agreement shall continue to be calculated or construed as if such Accounting Changes had not occurred. “Accounting Changes” refers to changes in accounting principles required by the promulgation of any rule, regulation, pronouncement or opinion by the Financial Accounting Standards Board of the American Institute of Certified Public Accountants or, if applicable, the SEC.

“Governmental Authority”: any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization (including the National Association of Insurance Commissioners).

“Group Members”: the collective reference the Borrower and its Subsidiaries.

“Guarantee and Collateral Agreement”: the Guarantee and Collateral Agreement to be executed and delivered by the Borrower and each Guarantor, substantially in the form of Exhibit A.

“Guarantee Obligation”: as to any Person (the “guaranteeing person”), any obligation of (a) the guaranteeing person or (b) another Person (including any bank under any letter of credit) to induce the creation of which the guaranteeing person has issued a reimbursement, counterindemnity or similar obligation, in either case guaranteeing or in effect guaranteeing any Indebtedness, leases, dividends or other obligations (the “primary obligations”) of any other third Person (the “primary obligor”) in any manner, whether directly or indirectly, including any obligation of the guaranteeing person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (1) for the purchase or payment of any such primary obligation or (2) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof; provided, however, that the term Guarantee Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Guarantee Obligation of any guaranteeing person shall be deemed to be the lower of (a) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee Obligation is made and (b) the maximum amount for which such guaranteeing person may be liable pursuant to the terms of the instrument embodying such Guarantee Obligation, unless such primary obligation and the maximum amount for which such guaranteeing person may be liable are not stated or determinable, in which case the amount of such Guarantee Obligation shall be such guaranteeing person’s maximum reasonably anticipated liability in respect thereof as determined by the Borrower in good faith.

“Guarantors”: each Subsidiary of the Borrower other than any Excluded Foreign Subsidiary, any Tax Excluded Foreign Subsidiary and any Outsourcing Project Subsidiary so long as such Outsourcing Project Subsidiary has any Indebtedness that by its terms precludes such Outsourcing Project Subsidiary from becoming a party to the Guarantee and Collateral Agreement.

“Hedge Agreements”: any agreement with respect to any swap, forward, future or derivative transaction or option or similar agreement involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions; provided that no phantom stock or similar plan providing for payments only on account of services provided by current or former directors, officers, employees or consultants of the Borrower or the Subsidiaries shall be a Hedge Agreement.

“Indebtedness”: of any Person at any date, without duplication, (a) all indebtedness of such Person for borrowed money, (b) all obligations of such Person for the deferred purchase price of property or services (other than current trade payables incurred in the ordinary course of such Person’s business), (c) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all Capital Lease Obligations of such Person, (f) all obligations of such Person, contingent or otherwise, as an account party or applicant under or in respect of acceptances, letters of credit, surety bonds (except unsecured and unmatured reimbursement obligations in respect of surety bonds obtained in the ordinary course to secure the performance of obligations which are not Indebtedness (pursuant to the other provisions of this definition of Indebtedness)) or similar arrangements, (g) all obligations of such Person, contingent or otherwise, to purchase, redeem, retire or otherwise acquire for value any Capital Stock of such Person or any of its Affiliates, (h) all Guarantee Obligations of such Person in respect of obligations of the kind referred to in clauses (a) through (g) above, (i) all obligations of the kind referred to in clauses (a) through (h) above secured by (or for which the holder of such obligation has an existing right, contingent or otherwise, to be secured by) any Lien on property (including accounts and contract rights) owned by such Person, whether or not such Person has assumed or become liable for the payment of such obligation, and (j) for the purposes of Sections 8.2 and 9(e) only, all obligations of such Person in respect of Hedge Agreements. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person’s ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness expressly provide that such Person is not liable therefor.

“Insolvency”: with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of Section 4245 of ERISA.

“Insolvent”: pertaining to a condition of Insolvency.

“Intellectual Property”: the collective reference to all rights, priorities and privileges relating to intellectual property, whether arising under United States, multinational or foreign laws or otherwise, including copyrights, copyright applications, mask works, mask work

applications, patents, patent applications, trademarks (including all goodwill relating thereto), trademark applications, trade secrets, technology, know-how and processes, licenses of or to any of the foregoing, and all rights to sue at law or in equity for any past, present or future infringement or other impairment thereof, including the right to receive all proceeds and damages therefrom.

“Intellectual Property Security Agreement”: the Intellectual Property Security Agreement to be executed and delivered by each Loan Party substantially in the form of Annex III to the Guarantee and Collateral Agreement.

“Interest Payment Date”: (a) as to any Base Rate Loan (other than any Swingline Loan), the last day of each March, June, September and December to occur while such Loan is outstanding and the final maturity date of such Loan, (b) as to any Eurodollar Loan having an Interest Period of three months or less, the last day of such Interest Period, (c) as to any Eurodollar Loan having an Interest Period longer than three months, each day that is three months, or a whole multiple thereof, after the first day of such Interest Period and the last day of such Interest Period, (d) as to any Loan (other than any Revolving Loan that is a Base Rate Loan and any Swingline Loan), the date of any repayment or prepayment made in respect thereof and (e) as to any Swingline Loan, the day that such Loan is required to be paid.

“Interest Period”: as to any Eurodollar Loan, (a) initially, the period commencing on the borrowing or conversion date, as the case may be, with respect to such Eurodollar Loan and ending one, two, three, six or, with the consent of all Lenders holding Loans under the affected Facility, nine or twelve months thereafter, as selected by the Borrower in its notice of borrowing or notice of conversion, as the case may be, given with respect thereto; and (b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Loan and ending one, two, three, six or, with the consent of all Lenders holding Loans under the affected Facility, nine or twelve months thereafter, as selected by the Borrower by irrevocable notice to the Administrative Agent no later than 11:00 A.M., San Francisco time, on the date that is three Business Days prior to the last day of the then current Interest Period with respect thereto; provided that, all of the foregoing provisions relating to Interest Periods are subject to the following:

(i) if any Interest Period would otherwise end on a day that is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless the result of such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding Business Day;

(ii) the Borrower may not select an Interest Period under a particular Facility that would extend beyond the Revolving Termination Date or beyond the date final payment is due on the Tranche B Term Loans;

(iii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month; and

(iv) the Borrower shall select Interest Periods so as not to require a payment or prepayment of any Eurodollar Loan during an Interest Period for such Loan.

“Investments”: as defined in Section 8.8.

“Issuing Lender”: Wells Fargo Bank, National Association, in its capacity as issuer of any Letter of Credit and, with respect to the Letters of Credit set forth on Schedule 3.7, the financial institutions listed as issuers thereon.

“Joint Venture”: as defined in the recitals hereto.

“JV Acquisition”: the acquisition of up to 49% of the outstanding capital stock of the Joint Venture from either or both of Walsin Technology Corporation and Walsin Lihwa Corporation or affiliates thereof, for a maximum amount not to exceed \$500,000.

“L/C Commitment”: \$45,000,000.

“L/C Fee Payment Date”: the last day of each March, June, September and December and the last day of the Revolving Commitment Period.

“L/C Obligations”: at any time, an amount equal to the sum of (a) the aggregate then undrawn and unexpired amount of the then outstanding Letters of Credit and (b) the aggregate amount of drawings under Letters of Credit that have not then been reimbursed pursuant to Section 3.11.

“L/C Participants”: the collective reference to all the Revolving Lenders other than the Issuing Lender.

“Lead Arranger”: as defined in the preamble to this Agreement.

“Lenders”: as defined in the preamble hereto; provided, that unless the context otherwise requires, each reference herein to the Lenders shall be deemed to include any Conduit Lender.

“Letters of Credit”: as defined in Section 3.7(a).

“Lien”: any mortgage, pledge, hypothecation, deposit arrangement, encumbrance, lien (statutory or other), charge or other security interest or any other security agreement of any kind or nature whatsoever or any assignment, preference, priority or preferential arrangement having substantially the same practical effect as any of the foregoing (including any conditional sale or other title retention agreement and any capital lease having substantially the same economic effect as any of the foregoing).

“Loan”: any loan made by any Lender pursuant to this Agreement.

“Loan Documents”: this Agreement, the Security Documents and the Notes.

“Loan Parties”: each Group Member that is a party to a Loan Document.

“Majority Facility Lenders”: with respect to any Facility, the holders of more than 50% of the aggregate unpaid principal amount of the Term Loans or the Total Revolving Extensions of Credit, as the case may be, outstanding under such Facility (or, in the case of the Revolving Facility, prior to any termination of the Revolving Commitments, the holders of more than 50% of the Total Revolving Commitments).

“Material Adverse Effect”: a material adverse effect on (a) the Transaction, (b) the business, assets, property condition (financial or otherwise), results of operations or prospects of the Borrower and its Subsidiaries taken as a whole or (c) the validity or enforceability of any material provision of this Agreement or any of the other Loan Documents or the rights and remedies of the Agent or the Lenders hereunder or thereunder or, on and after the Closing Date, the validity, perfection, or priority of the Administrative Agent’s Liens upon any material portion of the Collateral.

“Materials of Environmental Concern”: any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any Environmental Law, including asbestos, polychlorinated biphenyls and urea-formaldehyde insulation.

“Mortgaged Properties”: the real properties listed on Schedule 1.1, as to which the Administrative Agent for the benefit of the Lenders shall be granted a Lien pursuant to the Mortgages.

“Mortgages”: each of the mortgages and deeds of trust made by any Loan Party in favor of, or for the benefit of, the Administrative Agent for the benefit of the Lenders, substantially in the form of Exhibit D (with such changes thereto as shall be advisable under the law of the jurisdiction in which such mortgage or deed of trust is to be recorded).

“Multiemployer Plan”: a Plan that is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“Net Cash Proceeds”: (a) in connection with any Asset Sale or any Recovery Event, the proceeds thereof in the form of cash and Cash Equivalents (including any such proceeds received by way of deferred payment of principal pursuant to a note or installment receivable or purchase price adjustment receivable or by the Disposition of any non-cash consideration received in connection therewith or otherwise, but only as and when received) of such Asset Sale or Recovery Event, net of attorneys’ fees, accountants’ fees, investment banking fees, amounts required to be applied to the repayment of Indebtedness secured by a Lien expressly permitted hereunder on any asset that is the subject of such Asset Sale or Recovery Event (other than any Lien pursuant to a Security Document) and other customary fees and expenses actually incurred in connection therewith and net of taxes paid or reasonably estimated to be payable as a result thereof (after taking into account any available tax credits or deductions and any tax sharing arrangements) and (b) in connection with any issuance or sale of Capital Stock or any incurrence of Indebtedness, the cash proceeds received from such issuance or incurrence, net of attorneys’ fees, investment banking fees, accountants’ fees, underwriting discounts and commissions and other customary fees and expenses actually incurred in connection therewith.

“Non-Excluded Taxes”: as defined in Section 4.10(a).

“Non-U.S. Lender”: as defined in Section 4.10(e).

“Notes”: the collective reference to any promissory note evidencing Loans.

“Obligations”: the unpaid principal of and interest on (including interest accruing after the maturity of the Loans and Reimbursement Obligations and interest accruing after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) the Loans and all other obligations and liabilities of the Borrower to any Agent or to any Lender (or, in the case of Specified Hedge Agreements, any Qualified Counterparty), whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, this Agreement, any other Loan Document, the Letters of Credit, any Specified Hedge Agreement or any other document made, delivered or given in connection herewith or therewith, whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses (including all fees, charges and disbursements of counsel to any Agent or to any Lender that are required to be paid by the Borrower pursuant hereto) or otherwise; provided, that (i) obligations of the Borrower or any Subsidiary under any Specified Hedge Agreement shall be secured and guaranteed pursuant to the Security Documents only to the extent that, and for so long as, the other Obligations are so secured and guaranteed and (ii) any release of Collateral or Guarantors effected in the manner permitted by this Agreement shall not require the consent of holders of obligations under Specified Hedge Agreements.

“Other Taxes”: any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

“Outsourcing Project”: a project under which an Outsourcing Project Subsidiary operates a meter reading system constructed by the Borrower or its Subsidiaries consisting of hardware and software within the service territory of a utility or the equivalent and enters into or succeeds to a contract with such Person for the construction or operation of the meter reading system and long-term operations and maintenance thereof for a price to be paid as output is delivered.

“Outsourcing Project Assets”: with respect to any Outsourcing Project Subsidiary described in clause (a) of the definition thereof, (a) any assets employed in the operation of an Outsourcing Project which are owned by such Outsourcing Project Subsidiary, including the hardware and software components of the meter reading system that comprise the related Outsourcing Project, together with the rights to Intellectual Property and licenses necessary to operate and maintain the meter reading system, the trade and contract receivables arising from the Outsourcing Project Subsidiary’s performance under the contracts relating to the Outsourcing Project, the contracts relating to the Outsourcing Project themselves and (b) the Capital Stock of such Outsourcing Project Subsidiary.

“Outsourcing Project Debt Documentation”: all documentation, including any loan agreement and any security agreement, executed by any Loan Party or any Outsourcing Project Subsidiary in connection with the incurrence of any Indebtedness permitted by Section 8.2(h).

“Outsourcing Project Guarantee”: with respect to any Outsourcing Project Indebtedness permitted by Section 8.2(h), an unsecured Guarantee Obligation in respect of such Outsourcing Project Indebtedness which is contingent upon either (a) the failure of the Borrower or the Outsourcing Project Subsidiary to perform its obligations under the contracts entered into with respect to the related Outsourcing Project or (b) a payment default by the Outsourcing Project Subsidiary of its obligations with respect to such Outsourcing Project Indebtedness.

“Outsourcing Project Indebtedness”: Indebtedness incurred by an Outsourcing Project Subsidiary as to which (a) neither the Borrower nor any of its other Subsidiaries: (i) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness) other than an Outsourcing Project Guarantee, (ii) is directly or indirectly liable as a guarantor or otherwise other than through an Outsourcing Project Guarantee, or (iii) constitutes the lender; and (b) the lenders thereof have no recourse to the stock or assets of the Borrower or any of its Subsidiaries other than the Outsourcing Project Assets and other than by enforcement of the Outsourcing Project Guarantee against the Borrower.

“Outsourcing Project Subsidiary”: (a) a wholly owned special purpose Subsidiary of the Borrower formed for the purpose of obtaining financing for an Outsourcing Project and (b) any holding company whose sole asset is the Capital Stock of Outsourcing Project Subsidiaries.

“Participant”: as defined in Section 11.6(c).

“PBGC”: the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA (or any successor).

“Permitted Title Encumbrances”: as defined in Section 6.1(p).

“Person”: an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

“Plan”: at a particular time, any employee benefit plan that is covered by ERISA and in respect of which the Borrower or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an “employer” as defined in Section 3(5) of ERISA.

“Pledged Stock”: as defined in the Guarantee and Collateral Agreement.

“Pricing Grid”: the pricing grid attached hereto as Annex A.

“Pro Forma Balance Sheet”: as defined in Section 5.1(a).

“Projections”: as defined in Section 7.2(c).

“Properties”: as defined in Section 5.17(a).

“Property”: any right or interest in or to property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible, including, without limitation, Capital Stock.

“Qualified Counterparty”: with respect to any Specified Hedge Agreement, any counterparty thereto that, at the time such Specified Hedge Agreement was entered into, was a Lender or an affiliate of a Lender.

“Recovery Event”: any settlement of or payment in respect of any property or casualty insurance claim or any condemnation proceeding relating to any asset of any Group Member.

“Reference Lender”: Wells Fargo Bank, National Association.

“Refunded Swingline Loans”: as defined in Section 3.4(b).

“Refunding Date”: as defined in Section 3.4(c).

“Register”: as defined in Section 11.6(b).

“Regulation U”: Regulation U of the Board as in effect from time to time.

“Reimbursement Obligation”: the obligation of the Borrower to reimburse the Issuing Lender pursuant to Section 3.11 for amounts drawn under Letters of Credit.

“Reinvestment Deferred Amount”: with respect to any Reinvestment Event, the aggregate Net Cash Proceeds received by any Group Member in connection therewith that are not applied to prepay the Term Loans or reduce the Revolving Commitments pursuant to Section 4.2(b) as a result of the delivery of a Reinvestment Notice.

“Reinvestment Event”: any Asset Sale or Recovery Event in respect of which the Borrower has delivered a Reinvestment Notice.

“Reinvestment Notice”: a written notice executed by a Responsible Officer stating that no Event of Default has occurred and is continuing and that the Borrower (directly or indirectly through a Subsidiary) intends and expects to use all or a specified portion of the Net Cash Proceeds of an Asset Sale or Recovery Event to acquire or repair fixed or capital assets useful in its business.

“Reinvestment Prepayment Amount”: with respect to any Reinvestment Event, the Reinvestment Deferred Amount relating thereto less any amount expended prior to the relevant Reinvestment Prepayment Date to acquire or repair fixed or capital assets useful in the Borrower’s business.

“Reinvestment Prepayment Date”: with respect to any Reinvestment Event, the earlier of (a) the date occurring one year after such Reinvestment Event and (b) the date on

which the Borrower shall have determined not to, or shall have otherwise ceased to, acquire or repair fixed or capital assets useful in the Borrower's business with all or any portion of the relevant Reinvestment Deferred Amount.

“Related Agreements”: the Acquisition Documentation and the Senior Subordinated Notes Documentation.

“Reorganization”: with respect to any Multiemployer Plan, the condition that such plan is in reorganization within the meaning of Section 4241 of ERISA.

“Reportable Event”: any of the events set forth in Section 4043(c) of ERISA, other than those events as to which the thirty day notice requirement of Section 4043(a) of ERISA is waived.

“Required Lenders”: (a) until the initial funding of the Term Loans, the holders of more than 50% of each of (i) the Tranche B Term Commitments and (ii) the Total Revolving Commitments, and (b) thereafter, the holders of more than 50% of each of (i) the aggregate unpaid principal amount of the Term Loans then outstanding and (ii) the Total Revolving Commitments then in effect or, if the Revolving Commitments have been terminated, the Total Revolving Extensions of Credit then outstanding.

“Requirement of Law”: as to any Person, the Certificate of Incorporation and By-Laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

“Responsible Officer”: the chief executive officer, president or chief financial officer of the Borrower, but in any event, with respect to financial matters, the chief financial officer of the Borrower.

“Restricted Payments”: as defined in Section 8.6.

“Revolving Commitment”: as to any Lender, the obligation of such Lender, if any, to make Revolving Loans and participate in Swingline Loans and Letters of Credit in an aggregate principal and/or face amount not to exceed the amount set forth under the heading “Revolving Commitment” under such Lender's name on such Lender's Addendum or in the Assignment and Assumption pursuant to which such Lender became a party hereto, as the same may be changed from time to time pursuant to the terms hereof. The original amount of the Total Revolving Commitments is \$55,000,000.

“Revolving Commitment Period”: the period from and including the Closing Date to the Revolving Termination Date.

“Revolving Extensions of Credit”: as to any Revolving Lender at any time, an amount equal to the sum of (a) the aggregate principal amount of all Revolving Loans held by such Lender then outstanding, (b) such Lender's Revolving Percentage of the L/C Obligations then outstanding and (c) such Lender's Revolving Percentage of the aggregate principal amount of Swingline Loans then outstanding.

“Revolving Lender”: each Lender that has a Revolving Commitment or that holds Revolving Loans.

“Revolving Loans”: as defined in Section 3.1(a).

“Revolving Percentage”: as to any Revolving Lender at any time, the percentage which such Lender’s Revolving Commitment then constitutes of the Total Revolving Commitments (or, at any time after the Revolving Commitments shall have expired or terminated, the percentage which the aggregate principal amount of such Lender’s Revolving Loans then outstanding constitutes of the aggregate principal amount of the Revolving Loans then outstanding).

“Revolving Termination Date”: the fifth year anniversary of the Closing Date.

“Schlumberger Business”: the design and manufacture of electricity meters and systems, automatic meter reading products and components, and electricity instrument transformers by SEI and its affiliates who are parties to the Acquisition Agreement in Taiwan, Canada, France and Mexico and the sale and distribution of such electricity meters and systems, automatic meter reading products and components, and electricity instrument transformers.

“SEC”: the Securities and Exchange Commission, any successor thereto and any analogous Governmental Authority.

“Secured Parties”: as defined in the Guarantee and Collateral Agreement.

“Security Documents”: the collective reference to the Guarantee and Collateral Agreement, the Mortgages and all other security documents hereafter delivered to the Administrative Agent granting a Lien on any property of any Person to secure the obligations and liabilities of any Loan Party under any Loan Document.

“SEI”: as defined in the recitals to this Agreement.

“SEI Acquisition”: as defined in the recitals to this Agreement.

“Senior Subordinated Note Indenture”: the Indenture entered into by the Borrower and certain of its Subsidiaries in connection with the issuance of the Senior Subordinated Notes, together with all instruments and other agreements entered into by the Borrower or such Subsidiaries in connection therewith.

“Senior Subordinated Notes”: the subordinated notes of the Borrower issued from time to time pursuant to the Senior Subordinated Note Indenture.

“Senior Subordinated Notes Documentation”: the Senior Subordinated Note Indenture and the Senior Subordinated Notes, together with any other instruments or agreements entered into by the Borrower or its Subsidiaries in connection therewith, as the same may be amended, supplemented, replaced or otherwise modified from time to time in accordance with this Agreement.

“Single Employer Plan”: any Plan that is covered by Title IV of ERISA, but that is not a Multiemployer Plan.

“Solvent”: with respect to any Person, as of any date of determination, (a) the amount of the “present fair saleable value” of the assets of such Person will, as of such date, exceed the amount of all “liabilities of such Person, contingent or otherwise”, as of such date, as such quoted terms are determined in accordance with applicable federal and state laws governing determinations of the insolvency of debtors, (b) the present fair saleable value of the assets of such Person will, as of such date, be greater than the amount that will be required to pay the liability of such Person on its debts as such debts become absolute and matured, (c) such Person will not have, as of such date, an unreasonably small amount of capital with which to conduct its business, and (d) such Person will be able to pay its debts as they mature. For purposes of this definition, (i) “debt” means liability on a “claim”, and (ii) “claim” means any (x) right to payment, whether or not such a right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured or (y) right to an equitable remedy for breach of performance if such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured or unmatured, disputed, undisputed, secured or unsecured.

“Specified Change of Control”: a “Change of Control” (or any other defined term having a similar purpose) as defined in the Senior Subordinated Note Indenture.

“Specified Fiscal Quarter”: each of the first three full fiscal quarters commencing after the Closing Date.

“Specified Hedge Agreement”: any Hedge Agreement (a) entered into by (i) the Borrower or any of its Subsidiaries and (ii) any Qualified Counterparty and (b) that has been designated by such Agent or Lender, as the case may be, and the Borrower, by notice to the Administrative Agent, as a Specified Hedge Agreement. The designation of any Hedge Agreement as a Specified Hedge Agreement shall not create in favor of the Qualified Counterparty that is a party thereto any rights in connection with the management or release of any Collateral or of the obligations of any Guarantor under the Guarantee and Collateral Agreement.

“Subsidiary”: as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a “Subsidiary” or to “Subsidiaries” in this Agreement shall refer to a Subsidiary or Subsidiaries of the Borrower.

“Swingline Commitment”: the obligation of the Swingline Lender to make Swingline Loans pursuant to Section 3.3 in an aggregate principal amount at any one time outstanding not to exceed \$10,000,000.

“Swingline Lender”: Wells Fargo Bank, National Association, in its capacity as the lender of Swingline Loans.

“Swingline Loans”: as defined in Section 3.3(a).

“Swingline Participation Amount”: as defined in Section 3.4(c).

“Syndication Agent”: as defined in the preamble to this Agreement.

“Tax Excluded Foreign Subsidiary”: the Joint Venture (so long as the Borrower and its Subsidiaries own not more than 51% of the Capital Stock thereof) and any Foreign Subsidiary in respect of which (a) the pledge of all of the Capital Stock of such Subsidiary as Collateral or (b) the guaranteeing by such Subsidiary of the Obligations, could, in the good faith judgment of the Borrower, result in adverse tax consequences to the Borrower.

“Term Lenders”: the collective reference to the Tranche B Term Lenders.

“Term Loans”: the collective reference to the Tranche B Term Loans.

“Total Revolving Commitments”: at any time, the aggregate amount of the Revolving Commitments then in effect.

“Total Revolving Extensions of Credit”: at any time, the aggregate amount of the Revolving Extensions of Credit of the Revolving Lenders outstanding at such time.

“Tranche B Term Commitment”: as to any Lender, the obligation of such Lender, if any, to make a Tranche B Term Loan to the Borrower hereunder in a principal amount not to exceed the amount set forth under the heading “Tranche B Term Commitment” under such Lender’s name on such Lender’s Addendum. The original aggregate amount of the Tranche B Term Commitments is \$185,000,000.

“Tranche B Term Lender”: each Lender that has a Tranche B Term Commitment or that holds a Tranche B Term Loan.

“Tranche B Term Loan”: as defined in Section 2.1.

“Tranche B Term Percentage”: as to any Tranche B Term Lender at any time, the percentage which such Lender’s Tranche B Term Commitment then constitutes of the aggregate Tranche B Term Commitments (or, at any time after the initial funding of the Tranche B Term Loans, the percentage which the aggregate principal amount of such Lender’s Tranche B Term Loans then outstanding constitutes of the aggregate principal amount of the Tranche B Term Loans then outstanding).

“Transaction”: as defined in Section 6.1(b).

“Transferee”: any Assignee or Participant.

“Type”: as to any Loan, its nature as an Base Rate Loan or a Eurodollar Loan.

“United States”: the United States of America.

“Wholly Owned Subsidiary”: as to any Person, any other Person all of the Capital Stock of which (other than directors’ qualifying shares required by law) is owned by such Person directly and/or through other Wholly Owned Subsidiaries.

“Wholly Owned Subsidiary Guarantor”: any Guarantor that is a Wholly Owned Subsidiary of the Borrower.

1.2. Other Definitional Provisions. (a) Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the other Loan Documents or any certificate or other document made or delivered pursuant hereto or thereto.

(b) As used herein and in the other Loan Documents, and any certificate or other document made or delivered pursuant hereto or thereto, (i) accounting terms relating to any Group Member not defined in Section 1.1 and accounting terms partly defined in Section 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP, (ii) the words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”, (iii) the word “incur” shall be construed to mean incur, create, issue, assume, become liable in respect of or suffer to exist (and the words “incurred” and “incurrence” shall have correlative meanings), (iv) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, Capital Stock, securities, revenues, accounts, leasehold interests and contract rights, and (v) references to agreements or other Contractual Obligations shall, unless otherwise specified, be deemed to refer to such agreements or Contractual Obligations as amended, supplemented, restated or otherwise modified from time to time (subject to any applicable restrictions hereunder).

(c) The words “hereof”, “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(d) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

(e) The expressions, “payment in full,” “paid in full” and any other similar terms or phrases when used herein with respect to the Obligations shall mean the payment in full, in immediately available funds, of all the Obligations.

SECTION 2. AMOUNT AND TERMS OF TERM COMMITMENTS

2.1. Term Commitments. Subject to the terms and conditions hereof, each Tranche B Term Lender severally agrees to make a term loan (a “Tranche B Term Loan”) to the

Borrower on the Closing Date in an amount not to exceed the amount of the Tranche B Term Commitment of such Lender. The Term Loans may from time to time be Eurodollar Loans or Base Rate Loans, as determined by the Borrower and notified to the Administrative Agent in accordance with Sections 2.2 and 4.3. If the conditions set forth in Section 6.1 have not been satisfied (or waived in accordance with Section 11.1) by March 16, 2004, time being of the essence, or, if the Acquisition Agreement is terminated, the Tranche B Term Commitments of each Lender shall terminate without further obligation or liability of the Lenders to the Borrower, but all obligations of the Borrower in respect of indemnities, fees or expenses shall survive such termination.

2.2. Procedure for Term Loan Borrowing. The Borrower shall give the Administrative Agent irrevocable notice (which notice must be received by the Administrative Agent prior to 12:00 Noon, New York City time, not less than one Business Day prior to the anticipated Closing Date) requesting that the Term Lenders make the Term Loans on the Closing Date and specifying the amount to be borrowed. The Term Loans made on the Closing Date shall initially be Base Rate Loans. Upon receipt of such notice the Administrative Agent shall promptly notify each Term Lender thereof. Not later than 12:00 Noon, New York City time, on the Closing Date each Term Lender shall make available to the Administrative Agent at the Funding Office an amount in immediately available funds equal to the Term Loan or Term Loans to be made by such Lender. The Administrative Agent shall credit the account of the Borrower on the books of such office of the Administrative Agent with the aggregate of the amounts made available to the Administrative Agent by the Term Lenders in immediately available funds.

2.3. Repayment of Term Loans. The Tranche B Term Loan of each Tranche B Term Lender shall mature in 27 consecutive quarterly installments, commencing on June 30, 2004, each of which shall be in an amount equal to such Lender's Tranche B Term Percentage multiplied by the amount set forth below opposite such installment:

<u>Installment</u>	<u>Principal Amount</u>
June 30, 2004	\$ 462,500
September 30, 2004	\$ 462,500
December 31, 2004	\$ 462,500
March 31, 2005	\$ 462,500
June 30, 2005	\$ 462,500
September 30, 2005	\$ 462,500
December 31, 2005	\$ 462,500
March 31, 2006	\$ 462,500
June 30, 2006	\$ 462,500
September 30, 2006	\$ 462,500
December 31, 2006	\$ 462,500
March 31, 2007	\$ 462,500
June 30, 2007	\$ 462,500
September 30, 2007	\$ 462,500
December 31, 2007	\$ 462,500
March 31, 2008	\$ 462,500
June 30, 2008	\$ 462,500
September 30, 2008	\$ 462,500
December 31, 2008	\$ 462,500
March 31, 2009	\$ 462,500
June 30, 2009	\$ 462,500
September 30, 2009	\$ 462,500
December 31, 2009	\$ 462,500
March 31, 2010	\$ 43,590,625
June 30, 2010	\$ 43,590,625
September 30, 2010	\$ 43,590,625
The date which is the seventh anniversary of the Closing Date	\$ 43,590,625

SECTION 3. AMOUNT AND TERMS OF REVOLVING COMMITMENTS

3.1. Revolving Commitments. (a) Subject to the terms and conditions hereof, each Revolving Lender severally agrees to make revolving credit loans ("Revolving Loans") to the Borrower from time to time during the Revolving Commitment Period in an aggregate principal amount at any one time outstanding which, when added to such Lender's Revolving Percentage of the sum of (i) the L/C Obligations then outstanding and (ii) the aggregate principal amount of the Swingline Loans then outstanding, does not exceed the amount of such Lender's Revolving Commitment. During the Revolving Commitment Period the Borrower may use the Revolving Commitments by borrowing, prepaying and reborrowing the Revolving Loans in whole or in part, all in accordance with the terms and conditions hereof. The Revolving Loans may from time to time be Eurodollar Loans or Base Rate Loans, as determined by the Borrower and notified to the Administrative Agent in accordance with Sections 3.2 and 4.3. If the Term Loans have not been funded by March 16, 2004, time being of the essence, or if the Acquisition Agreement is terminated, the Revolving Commitments of each Lender shall terminate without further obligation or liability of the Lenders to the Borrower, but all obligations of the Borrower in respect of indemnities, fees or expenses shall survive such termination.

(b) The Borrower shall repay all outstanding Revolving Loans on the Revolving Termination Date.

3.2. Procedure for Revolving Loan Borrowing. The Borrower may borrow under the Revolving Commitments during the Revolving Commitment Period on any Business Day, provided that the Borrower shall give the Administrative Agent irrevocable notice (which notice must be received by the Administrative Agent prior to 12:00 Noon, San Francisco time, (a) three Business Days prior to the requested Borrowing Date, in the case of Eurodollar Loans, or (b) one Business Day prior to the requested Borrowing Date, in the case of Base Rate Loans) (provided that any such notice of a borrowing of Base Rate Loans under the Revolving Facility to finance payments required to be made pursuant to Section 3.5 may be given not later than 12:00 Noon, San Francisco time, on the date of the proposed borrowing), specifying (i) the amount and Type of Revolving Loans to be borrowed, (ii) the requested Borrowing Date and (iii) in the case of Eurodollar Loans, the respective amounts of each such Type of Loan and the

respective lengths of the initial Interest Period therefor. Any Revolving Loans made on the Closing Date shall initially be Base Rate Loans. Each borrowing under the Revolving Commitments shall be in an amount equal to (x) in the case of Base Rate Loans, \$500,000 or a whole multiple of \$100,000 in excess thereof (or, if the then aggregate Available Revolving Commitments are less than \$500,000, such lesser amount) and (y) in the case of Eurodollar Loans, \$1,000,000 or a whole multiple of \$100,000 in excess thereof; provided, that the Swingline Lender may request, on behalf of the Borrower, borrowings under the Revolving Commitments that are Base Rate Loans in other amounts pursuant to Section 3.4. Upon receipt of any such notice from the Borrower, the Administrative Agent shall promptly notify each Revolving Lender thereof. Each Revolving Lender will make the amount of its pro rata share of each borrowing available to the Administrative Agent for the account of the Borrower at the Funding Office prior to 12:00 Noon, San Francisco time, on the Borrowing Date requested by the Borrower in funds immediately available to the Administrative Agent. Such borrowing will then be made available to the Borrower by the Administrative Agent crediting the account of the Borrower on the books of such office with the aggregate of the amounts made available to the Administrative Agent by the Revolving Lenders and in like funds as received by the Administrative Agent.

3.3. Swingline Commitment. (a) Subject to the terms and conditions hereof, the Swingline Lender agrees to make a portion of the credit otherwise available to the Borrower under the Revolving Commitments from time to time during the Revolving Commitment Period by making swing line loans ("Swingline Loans") to the Borrower; provided that (i) the aggregate principal amount of Swingline Loans outstanding at any time shall not exceed the Swingline Commitment then in effect (notwithstanding that the Swingline Loans outstanding at any time, when aggregated with the Swingline Lender's other outstanding Revolving Loans hereunder, may exceed the Swingline Commitment then in effect) and (ii) the Borrower shall not request, and the Swingline Lender shall not make, any Swingline Loan if, after giving effect to the making of such Swingline Loan, the aggregate amount of the Available Revolving Commitments would be less than zero. During the Revolving Commitment Period, the Borrower may use the Swingline Commitment by borrowing, repaying and reborrowing, all in accordance with the terms and conditions hereof. Swingline Loans shall be Base Rate Loans only.

(b) The Borrower shall repay each outstanding Swingline Loans on the earlier of (i) the tenth day after such Swingline Loan was made and (ii) the Revolving Termination Date.

3.4. Procedure for Swingline Borrowing; Refunding of Swingline Loans. (a) Whenever the Borrower desires that the Swingline Lender make Swingline Loans it shall give the Swingline Lender irrevocable written notice (which written notice must be received by the Swingline Lender not later than 1:00 P.M., San Francisco time, on the proposed Borrowing Date), specifying (i) the amount to be borrowed and (ii) the requested Borrowing Date (which shall be a Business Day during the Revolving Commitment Period). Each borrowing under the Swingline Commitment shall be in an amount equal to \$500,000 or a whole multiple of \$100,000 in excess thereof. Not later than 3:00 P.M., San Francisco time, on the Borrowing Date specified in a notice in respect of Swingline Loans, the Swingline Lender shall make available to the Administrative Agent at the Funding Office an amount in immediately available funds equal to the amount of the Swingline Loan to be made by the Swingline Lender. The Administrative

Agent shall make the proceeds of such Swingline Loan available to the Borrower on such Borrowing Date by depositing such proceeds in the account of the Borrower with the Administrative Agent on such Borrowing Date in immediately available funds.

(b) The Swingline Lender, at any time and from time to time in its sole and absolute discretion may, on behalf of the Borrower (which hereby irrevocably directs the Swingline Lender to act on its behalf), on one Business Day's notice given by the Swingline Lender no later than 12:00 Noon, San Francisco time, request each Revolving Lender to make, and each Revolving Lender hereby agrees to make, a Revolving Loan, in an amount equal to such Revolving Lender's Revolving Percentage of the aggregate amount of the Swingline Loans (the "Refunded Swingline Loans") outstanding on the date of such notice, to repay the Swingline Lender. Each Revolving Lender shall make the amount of such Revolving Loan available to the Administrative Agent at the Funding Office in immediately available funds, not later than 10:00 A.M., San Francisco time, one Business Day after the date of such notice. The proceeds of such Revolving Loans shall be immediately made available by the Administrative Agent to the Swingline Lender for application by the Swingline Lender to the repayment of the Refunded Swingline Loans. The Borrower irrevocably authorizes the Swingline Lender to charge the Borrower's accounts with the Administrative Agent (up to the amount available in each such account) in order to immediately pay the amount of such Refunded Swingline Loans to the extent amounts received from the Revolving Lenders are not sufficient to repay in full such Refunded Swingline Loans.

(c) If prior to the time a Revolving Loan would have otherwise been made pursuant to Section 3.4(b), one of the events described in Section 9(f) shall have occurred and be continuing with respect to the Borrower or if for any other reason, as determined by the Swingline Lender in its sole discretion, Revolving Loans may not be made as contemplated by Section 3.4(b), each Revolving Lender shall, on the date such Revolving Loan was to have been made pursuant to the notice referred to in Section 3.4(b) (the "Refunding Date"), purchase for cash an undivided participating interest in the then outstanding Swingline Loans by paying to the Swingline Lender an amount (the "Swingline Participation Amount") equal to (i) such Revolving Lender's Revolving Percentage multiplied by; (ii) the sum of the aggregate principal amount of Swingline Loans then outstanding that were to have been repaid with such Revolving Loans.

(d) Whenever, at any time after the Swingline Lender has received from any Revolving Lender such Lender's Swingline Participation Amount, the Swingline Lender receives any payment on account of the Swingline Loans, the Swingline Lender will distribute to such Lender its Swingline Participation Amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded and, in the case of principal and interest payments, to reflect such Lender's pro rata portion of such payment if such payment is not sufficient to pay the principal of and interest on all Swingline Loans then due); provided, however, that in the event that such payment received by the Swingline Lender is required to be returned, such Revolving Lender will return to the Swingline Lender any portion thereof previously distributed to it by the Swingline Lender.

(e) Each Revolving Lender's obligation to make the Loans referred to in Section 3.4(b) and to purchase participating interests pursuant to Section 3.4(c) shall be absolute

and unconditional and shall not be affected by any circumstance, including (i) any setoff, counterclaim, recoupment, defense or other right that such Revolving Lender or the Borrower may have against the Swingline Lender, the Borrower or any other Person for any reason whatsoever; (ii) the occurrence or continuance of a Default or an Event of Default or the failure to satisfy any of the other conditions specified in Section 6; (iii) any adverse change in the condition (financial or otherwise) of the Borrower; (iv) any breach of this Agreement or any other Loan Document by the Borrower, any other Loan Party or any other Revolving Lender; or (v) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

3.5. Commitment Fees, etc. (a) The Borrower agrees to pay the Lead Arranger, ratably for the account of each Lender, a non-refundable ticking fee for the period from and including the December 1, 2003 to the earlier of the Closing Date and the termination of the Commitments, calculated at the rate of .50% per annum on the aggregate principal amount of the Tranche B Term Commitments as of December 1, 2003, which fee shall be fully earned and payable on the earlier of the Closing Date and the date of termination of the Tranche B Term Commitments.

(b) The Borrower agrees to pay to the Administrative Agent for the account of each Revolving Lender a commitment fee for the period from and including the Closing Date to the last day of the Revolving Commitment Period, computed at the Commitment Fee Rate on the average daily amount of the Available Revolving Commitment of such Lender during the period for which payment is made, payable quarterly in arrears on the last day of each March, June, September and December and on the Revolving Termination Date, commencing on the first of such dates to occur after the Closing Date.

(c) The Borrower agrees to pay to the Administrative Agent the fees in the amounts and on the dates agreed to in writing by the Borrower and the Administrative Agent.

(d) The Borrower agrees to pay to the Lead Arranger the fees in the amounts and on the dates previously agreed to in writing by the Borrower and the Lead Arranger.

3.6. Termination or Reduction of Revolving Commitments. The Borrower shall have the right, upon not less than three Business Days' notice to the Administrative Agent, to terminate the Revolving Commitments or, from time to time, to reduce the amount of the Revolving Commitments; provided that no such termination or reduction of Revolving Commitments shall be permitted if, after giving effect thereto and to any prepayments of the Revolving Loans and Swingline Loans made on the effective date thereof, the Total Revolving Extensions of Credit would exceed the Total Revolving Commitments. Any such reduction shall be in an amount equal to \$1,000,000, or a whole multiple thereof, and shall reduce permanently the Revolving Commitments then in effect.

3.7. L/C Commitment. (a) Subject to the terms and conditions hereof, the Issuing Lender, in reliance on the agreements of the other Revolving Lenders set forth in Section 3.10(a), agrees to issue letters of credit ("Letters of Credit") for the account of the Borrower on any Business Day during the Revolving Commitment Period in such form as may be approved from time to time by the Issuing Lender; provided that the Issuing Lender shall have no

obligation to issue any Letter of Credit if, after giving effect to such issuance, (i) the L/C Obligations would exceed the L/C Commitment or (ii) the aggregate amount of the Available Revolving Commitments would be less than zero. Each Letter of Credit shall (i) be denominated in Dollars, and, except as provided in the following sentence, (ii) expire no later than the earlier of (x) the first anniversary of its date of issuance or (y) the date that is five Business Days prior to the Revolving Termination Date, provided that any Letter of Credit with a one-year term may provide for the renewal thereof for additional one-year periods (which shall in no event extend beyond the date referred to in clause (y) above). The Issuing Lender agrees to issue Letters of Credit with an expiration date later than the date specified in the preceding sentence if, upon the issuance of such Letter of Credit, such Letter of Credit is cash collateralized in the amount that would be required under Section 11.14(b) to deem such Letter of Credit not outstanding, except that until the Loans, the Reimbursement Obligations and the other Obligations under the Loan Documents are paid in full, the Commitments have been terminated and no other Letters of Credit shall be outstanding, such cash collateral shall be subject to the rights of each other Lender under Section 11.7. The Letters of Credit listed on Schedule 3.7, issued by the financial institutions indicated on said Schedule and outstanding on the Closing Date, shall be deemed to be issued hereunder as "Letters of Credit" and shall be subject to all of the provisions of this Agreement applicable to Letters of Credit.

(b) The Issuing Lender shall not at any time be obligated to issue any Letter of Credit hereunder if such issuance would conflict with, or cause the Issuing Lender or any L/C Participant to exceed any limits imposed by, any applicable Requirement of Law.

3.8. Procedure for Issuance of Letter of Credit. The Borrower may from time to time request that the Issuing Lender issue a Letter of Credit by delivering to the Issuing Lender at its address for notices specified herein an Application therefor, completed to the satisfaction of the Issuing Lender, and such other certificates, documents and other papers and information as the Issuing Lender may request. Upon receipt of any Application, the Issuing Lender will notify the Administrative Agent of the amount, the beneficiary and the requested expiration of the requested Letter of Credit, and upon receipt of confirmation from the Administrative Agent that after giving effect to the requested issuance, the Available Revolving Commitments would not be less than zero, the Issuing Lender will process such Application and the certificates, documents and other papers and information delivered to it in connection therewith in accordance with its customary procedures and shall promptly issue the Letter of Credit requested thereby (but in no event shall the Issuing Lender be required to issue any Letter of Credit earlier than three Business Days after its receipt of the Application therefor and all such other certificates, documents and other papers and information relating thereto) by issuing the original of such Letter of Credit to the beneficiary thereof or as otherwise may be agreed to by the Issuing Lender and the Borrower. The Issuing Lender shall furnish a copy of such Letter of Credit to the Borrower (with a copy to the Administrative Agent) promptly following the issuance thereof. The Issuing Lender shall promptly furnish to the Administrative Agent, which shall in turn promptly furnish to the Administrative Agent, which shall in turn promptly furnish to the Lenders, notice of the issuance of each Letter of Credit (including the amount thereof).

3.9. Fees and Other Charges. (a) The Borrower will pay a fee on all outstanding Letters of Credit at a per annum rate equal to the Applicable Margin then in effect with respect to Eurodollar Loans under the Revolving Facility, shared ratably among the

Revolving Lenders and payable quarterly in arrears on each L/C Fee Payment Date after the issuance date. In addition, the Borrower shall pay to each Issuing Lender for its own account a fronting fee calculated at the rate of 0.125% per annum on the undrawn and unexpired amount of each Letter of Credit issued by such Issuing Lender, payable quarterly in arrears on each L/C Fee Payment Date after the issuance date.

(b) In addition to the foregoing fees, the Borrower shall pay or reimburse each Issuing Lender for such normal and customary costs and expenses as are incurred or charged by such Issuing Lender in issuing, negotiating, effecting payment under, amending or otherwise administering any Letter of Credit.

3.10. L/C Participations. (a) Each Issuing Lender irrevocably agrees to grant and hereby grants to each L/C Participant, and, to induce such Issuing Lender to issue Letters of Credit hereunder, each L/C Participant irrevocably agrees to accept and purchase and hereby accepts and purchases from such Issuing Lender, on the terms and conditions set forth below, for such L/C Participant's own account and risk an undivided interest equal to such L/C Participant's Revolving Percentage in such Issuing Lender's obligations and rights under and in respect of each Letter of Credit issued hereunder by such Issuing Lender and the amount of each draft paid by such Issuing Lender thereunder. Each L/C Participant unconditionally and irrevocably agrees with each Issuing Lender that, if a draft is paid under any Letter of Credit for which such Issuing Lender is not reimbursed in full by the Borrower in accordance with the terms of this Agreement, such L/C Participant shall pay to the Administrative Agent upon demand of such Issuing Lender an amount equal to such L/C Participant's Revolving Percentage of the amount of such draft, or any part thereof, that is not so reimbursed. The Administrative Agent shall promptly forward such amounts to such Issuing Lender. Each L/C Participant's obligation under this Section 3.10 shall be absolute and unconditional and shall not be affected by any circumstance, including (i) any setoff, counterclaim, recoupment, defense or other right that such L/C Participant or the Borrower may have against the Issuing Lender, the Borrower or any other Person for any reason whatsoever; (ii) the occurrence or continuance of a Default or an Event of Default or the failure to satisfy any of the other conditions specified in Section 6; (iii) any adverse change in the condition (financial or otherwise) of the Borrower; (iv) any breach of this Agreement or any other Loan Document by the Borrower, any other Loan Party or any other L/C Participant; or (v) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

(b) If any amount required to be paid by any L/C Participant to the Administrative Agent for the account of an Issuing Lender pursuant to Section 3.10(a) in respect of any unreimbursed portion of any payment made by such Issuing Lender under any Letter of Credit is paid to the Administrative Agent for the account of such Issuing Lender within three Business Days after the date such payment is due, such L/C Participant shall pay to the Administrative Agent for the account of such Issuing Lender on demand an amount equal to the product of (i) such amount, times (ii) the daily average Federal Funds Effective Rate during the period from and including the date such payment is required to the date on which such payment is immediately available to such Issuing Lender, times (iii) a fraction the numerator of which is the number of days that elapse during such period and the denominator of which is 360. If any such amount required to be paid by any L/C Participant pursuant to Section 3.10(a) is not made available to the Administrative Agent for the account of the relevant Issuing Lender by such L/C

Participant within three Business Days after the date such payment is due, such Issuing Lender shall be entitled to recover from such L/C Participant, on demand, such amount with interest thereon calculated from such due date at the rate per annum applicable to Base Rate Loans under the Revolving Facility. A certificate of the relevant Issuing Lender submitted to any L/C Participant with respect to any amounts owing under this Section shall be conclusive in the absence of manifest error.

(c) Whenever, at any time after an Issuing Lender has made payment under any Letter of Credit and has received from any L/C Participant its pro rata share of such payment in accordance with Section 3.10(a), the Administrative Agent or such Issuing Lender receives any payment related to such Letter of Credit (whether directly from the Borrower or otherwise, including proceeds of collateral applied thereto by such Issuing Lender), or any payment of interest on account thereof, the Administrative Agent or such Issuing Lender, as the case may be, will distribute to such L/C Participant its pro rata share thereof; provided, however, that in the event that any such payment received by Administrative Agent or such Issuing Lender, as the case may be, shall be required to be returned by the Administrative Agent or such Issuing Lender, such L/C Participant shall return to the Administrative Agent for the account of such Issuing Lender the portion thereof previously distributed by the Administrative Agent or such Issuing Lender, as the case may be, to it.

3.11. Reimbursement Obligation of the Borrower. The Borrower agrees to reimburse each Issuing Lender on the same Business Day on which such Issuing Lender notifies the Borrower of the date and amount of a draft presented under any Letter of Credit and paid by such Issuing Lender for the amount of (a) such draft so paid and (b) any taxes, fees, charges or other costs or expenses incurred by such Issuing Lender in connection with such payment. Each such payment shall be made to such Issuing Lender at its address for notices referred to herein in Dollars and in immediately available funds. Interest shall be payable on any such amounts from the date on which the relevant draft is paid until payment in full at the rate set forth in (i) until the Business Day next succeeding the date of the relevant notice, Section 4.5(b) and (ii) thereafter, Section 4.5(c). Each drawing under any Letter of Credit shall (unless an event of the type described in clause (i) or (ii) of Section 9(f) shall have occurred and be continuing with respect to the Borrower, in which case the procedures specified in Section 3.10 for funding by L/C Participants shall apply) constitute a request by the Borrower to the Administrative Agent for a borrowing pursuant to Section 3.2 of Base Rate Loans (or, at the option of the Administrative Agent and the Swingline Lender in their sole discretion, a borrowing pursuant to Section 3.4 of Swingline Loans) in the amount of such drawing. The Borrowing Date with respect to such borrowing shall be the first date on which a borrowing of Revolving Loans (or, if applicable, Swingline Loans) could be made, pursuant to Section 3.2 or, if applicable, Section 3.4), if the Administrative Agent had received a notice of such borrowing at the time the Administrative Agent receives notice from the relevant Issuing Lender of such drawing under such Letter of Credit.

3.12. Obligations Absolute. The Borrower's obligations under Section 3.11 shall be absolute and unconditional under any and all circumstances and irrespective of any setoff, counterclaim or defense to payment that the Borrower may have or have had against the relevant Issuing Lender, any beneficiary of a Letter of Credit or any other Person. The Borrower also agrees with each Issuing Lender that no Issuing Lender shall be responsible for, and the

Borrower's Reimbursement Obligations under Section 3.11 shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon, even though such documents shall in fact prove to be invalid, fraudulent or forged, or any dispute between or among the Borrower and any beneficiary of any Letter of Credit or any other party to which such Letter of Credit may be transferred or any claims whatsoever of the Borrower against any beneficiary of such Letter of Credit or any such transferee. No Issuing Lender shall be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit, except for errors or omissions found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the relevant Issuing Lender. The Borrower agrees that any action taken or omitted by an Issuing Lender under or in connection with any Letter of Credit or the related drafts or documents, if done in the absence of gross negligence or willful misconduct and in accordance with the standards of care specified in the Uniform Commercial Code of the State of New York, shall be binding on the Borrower and shall not result in any liability of such Issuing Lender to the Borrower.

3.13. Letter of Credit Payments. If any draft shall be presented for payment under any Letter of Credit, the relevant Issuing Lender shall promptly notify the Borrower of the date and amount thereof. The responsibility of such Issuing Lender to the Borrower in connection with any draft presented for payment under any Letter of Credit shall, in addition to any payment obligation expressly provided for in such Letter of Credit, be limited to determining that the documents (including each draft) delivered under such Letter of Credit in connection with such presentment are substantially in conformity with such Letter of Credit.

3.14. Applications. To the extent that any provision of any Application related to any Letter of Credit is inconsistent with the provisions of this Section 3, the provisions of this Section 3 shall apply.

SECTION 4. GENERAL PROVISIONS APPLICABLE TO LOANS AND LETTERS OF CREDIT

4.1. Optional Prepayments. The Borrower may at any time and from time to time prepay the Loans, in whole or in part, without premium or penalty, upon irrevocable notice delivered to the Administrative Agent no later than 11:00 A.M., San Francisco time, three Business Days prior thereto in the case of Eurodollar Loans and no later than 11:00 A.M., San Francisco time, one Business Day prior thereto in the case of Base Rate Loans, which notice shall specify the date and amount of prepayment and whether the prepayment is of Eurodollar Loans or Base Rate Loans; provided, that if a Eurodollar Loan is prepaid on any day other than the last day of the Interest Period applicable thereto, the Borrower shall also pay any amounts owing pursuant to Section 4.11. Upon receipt of any such notice the Administrative Agent shall promptly notify each relevant Lender thereof. If any such notice is given, the amount specified in such notice shall be due and payable on the date specified therein, together with (except in the case of Revolving Loans that are Base Rate Loans and Swingline Loans) accrued interest to such date on the amount prepaid. Partial prepayments of Term Loans and Revolving Loans shall be in an aggregate principal amount of \$1,000,000 or a whole multiple thereof. Partial prepayments of Swingline Loans shall be in an aggregate principal amount of \$100,000 or a whole multiple thereof.

4.2. Mandatory Prepayments and Commitment Reductions. (a) If any Capital Stock or Indebtedness shall be issued or incurred by any Group Member (other than Excluded Indebtedness) after the Closing Date, an amount equal to, in the case of the issuance of Capital Stock, 75% of the Net Cash Proceeds thereof, or, in the case of the incurrence of Indebtedness, 100% of the Net Cash Proceeds thereof, shall be applied within one Business Day of the date of such issuance or incurrence toward the prepayment of the Term Loans and the reduction of the Revolving Commitments as set forth in Section 4.2(d).

(b) If on any date any Group Member shall receive Net Cash Proceeds from any Asset Sale or Recovery Event then, unless a Reinvestment Notice shall be delivered in respect thereof, such Net Cash Proceeds shall be applied within one Business Day of such date toward the prepayment of the Term Loans (or, if such date is prior to the Closing Date, toward the reduction of the Tranche B Term Commitments) and the reduction of the Revolving Commitments as set forth in Section 4.2(d); provided that, notwithstanding the foregoing, (i) the aggregate Net Cash Proceeds of Asset Sales and Recovery Events that may be excluded from the foregoing requirement pursuant to a Reinvestment Notice shall not exceed \$5,000,000 in any fiscal year of the Borrower and (ii) on each Reinvestment Prepayment Date, an amount equal to the Reinvestment Prepayment Amount with respect to the relevant Reinvestment Event shall be applied toward the prepayment of the Term Loans and the reduction of the Revolving Commitments as set forth in Section 4.2(d).

(c) If, for any fiscal year of the Borrower commencing with the fiscal year ending December 31, 2004, there shall be Excess Cash Flow, the Borrower shall, on the relevant Excess Cash Flow Application Date, apply the ECF Percentage of such Excess Cash Flow toward the prepayment of the Term Loans as set forth in Section 4.2(d). Each such prepayment and commitment reduction shall be made on a date (an "Excess Cash Flow Application Date") no later than five days after the earlier of (i) the date on which the financial statements of the Borrower referred to in Section 7.1(a), for the fiscal year with respect to which such prepayment is made, are required to be delivered to the Lenders and (ii) the date such financial statements are actually delivered. No prepayments pursuant to this Section 4.2(c) shall be required after the Term Loans have been paid in full.

(d) Amounts to be applied in connection with prepayments and Commitment reductions made pursuant to Section 4.2 shall be applied, first, to the prepayment of the Term Loans and, second, to reduce permanently the Revolving Commitments. Any such reduction of the Revolving Commitments shall be accompanied by prepayment of the Revolving Loans and/or Swingline Loans to the extent, if any, that the Total Revolving Extensions of Credit exceed the amount of the Total Revolving Commitments as so reduced, provided that if the aggregate principal amount of Revolving Loans and Swingline Loans then outstanding is less than the amount of such excess (because L/C Obligations constitute a portion thereof), the Borrower shall, to the extent of the balance of such excess, replace outstanding Letters of Credit and/or deposit an amount in cash in a cash collateral account established with the Administrative Agent for the benefit of the Lenders on terms and conditions satisfactory to the Administrative Agent. The application of any prepayment pursuant to Section 4.2 shall be made, first, to Base Rate Loans and, second, to Eurodollar Loans. Each prepayment of the Loans under Section 4.2 (except in the case of Revolving Loans that are Base Rate Loans and Swingline Loans) shall be accompanied by accrued interest to the date of such prepayment on the amount prepaid.

4.3. Conversion and Continuation Options. (a) The Borrower may elect from time to time to convert Eurodollar Loans to Base Rate Loans by giving the Administrative Agent prior irrevocable notice of such election no later than 11:00 A.M., San Francisco time, on the Business Day preceding the proposed conversion date, provided that any such conversion of Eurodollar Loans may only be made on the last day of an Interest Period with respect thereto. The Borrower may elect from time to time to convert Base Rate Loans to Eurodollar Loans by giving the Administrative Agent prior irrevocable notice of such election no later than 11:00 A.M., San Francisco time, on the Business Day preceding the proposed conversion date (which notice shall specify the length of the initial Interest Period therefor), provided that no Base Rate Loan under a particular Facility may be converted into a Eurodollar Loan when any Event of Default has occurred and is continuing and the Administrative Agent or the Majority Facility Lenders in respect of such Facility have determined in its or their sole discretion not to permit such conversions. Upon receipt of any such notice the Administrative Agent shall promptly notify each relevant Lender thereof.

(b) Any Eurodollar Loan may be continued as such upon the expiration of the then current Interest Period with respect thereto by the Borrower giving irrevocable notice to the Administrative Agent, in accordance with the applicable provisions of the term "Interest Period" set forth in Section 1.1, of the length of the next Interest Period to be applicable to such Loans, provided that no Eurodollar Loan under a particular Facility may be continued as such when any Event of Default has occurred and is continuing and the Administrative Agent or the Majority Facility Lenders in respect of such Facility have determined in its or their sole discretion not to permit such continuations, and provided, further, that if the Borrower shall fail to give any required notice as described above in this paragraph or if such continuation is not permitted pursuant to the preceding proviso such Loans shall be automatically converted to Base Rate Loans on the last day of such then expiring Interest Period. Upon receipt of any such notice the Administrative Agent shall promptly notify each relevant Lender thereof.

4.4. Limitations on Eurodollar Tranches. Notwithstanding anything to the contrary in this Agreement, all borrowings, conversions and continuations of Eurodollar Loans hereunder and all selections of Interest Periods hereunder shall be in such amounts and be made pursuant to such elections so that, (a) after giving effect thereto, the aggregate principal amount of the Eurodollar Loans comprising each Eurodollar Tranche shall be equal to \$500,000 or a whole multiple of \$100,000 in excess thereof and (b) no more than ten Eurodollar Tranches shall be outstanding at any one time.

4.5. Interest Rates and Payment Dates. (a) Each Eurodollar Loan shall bear interest for each day during each Interest Period with respect thereto at a rate per annum equal to the Eurodollar Rate determined for such day plus the Applicable Margin.

(b) Each Base Rate Loan shall bear interest at a rate per annum equal to the Base Rate plus the Applicable Margin.

(c) (i) If all or a portion of the principal amount of any Loan or Reimbursement Obligation shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum equal to (x) in the case of the Loans, the rate that would otherwise be applicable thereto pursuant to the

foregoing provisions of this Section plus 2.00% or (y) in the case of Reimbursement Obligations, the rate applicable to Base Rate Loans under the Revolving Facility plus 2.00%, and (ii) if all or a portion of any interest payable on any Loan or Reimbursement Obligation or any commitment fee or other amount payable hereunder shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum equal to the rate then applicable to Base Rate Loans under the relevant Facility plus 2.00% (or, in the case of any such other amounts that do not relate to a particular Facility, the rate then applicable to Base Rate Loans under the Revolving Facility plus 2.00%), in each case, with respect to clauses (i) and (ii) above, from the date of such non-payment until such amount is paid in full (as well after as before judgment).

(d) Interest shall be payable in arrears on each Interest Payment Date, provided that interest accruing pursuant to paragraph (c) of this Section shall be payable from time to time on demand.

4.6. Computation of Interest and Fees. (a) Interest and fees payable pursuant hereto shall be calculated on the basis of a 360-day year for the actual days elapsed, except that, with respect to Base Rate Loans the rate of interest on which is calculated on the basis of the Prime Rate, the interest thereon shall be calculated on the basis of a 365- (or 366-, as the case may be) day year for the actual days elapsed. The Administrative Agent shall as soon as practicable notify the Borrower and the relevant Lenders of each determination of a Eurodollar Rate. Any change in the interest rate on a Loan resulting from a change in the Base Rate or the Eurocurrency Reserve Requirements shall become effective as of the opening of business on the day on which such change becomes effective. The Administrative Agent shall as soon as practicable notify the Borrower and the relevant Lenders of the effective date and the amount of each such change in interest rate.

(b) Each determination of an interest rate by the Administrative Agent pursuant to any provision of this Agreement shall be conclusive and binding on the Borrower and the Lenders in the absence of manifest error. The Administrative Agent shall, at the request of the Borrower, deliver to the Borrower a statement showing the quotations used by the Administrative Agent in determining any interest rate pursuant to Section 4.5(a).

4.7. Inability to Determine Interest Rate. If prior to the first day of any Interest Period:

(a) the Administrative Agent shall have determined (which determination shall be conclusive and binding upon the Borrower) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period, or

(b) the Administrative Agent shall have received notice from the Majority Facility Lenders in respect of the relevant Facility that the Eurodollar Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to such Lenders (as conclusively certified by such Lenders) of making or maintaining their affected Loans during such Interest Period,

the Administrative Agent shall give telecopy or telephonic notice thereof (promptly followed by written confirmation) to the Borrower and the relevant Lenders as soon as practicable thereafter. If such notice is given (x) any Eurodollar Loans under the relevant Facility requested to be made on the first day of such Interest Period shall be made as Base Rate Loans, (y) any Loans under the relevant Facility that were to have been converted on the first day of such Interest Period to Eurodollar Loans shall be continued as Base Rate Loans and (z) any outstanding Eurodollar Loans under the relevant Facility shall be converted, on the last day of the then-current Interest Period, to Base Rate Loans. Until such notice has been withdrawn by the Administrative Agent (which the Administrative Agent shall promptly do if it determines that the conditions giving rise to the notice no longer exist), no further Eurodollar Loans under the relevant Facility shall be made or continued as such, nor shall the Borrower have the right to convert Loans under the relevant Facility to Eurodollar Loans.

4.8. Pro Rata Treatment and Payments. (a) Each borrowing by the Borrower from the Lenders hereunder, each payment by the Borrower on account of any commitment fee and any reduction of the Commitments of the Lenders shall be made pro rata according to the respective Tranche B Term Percentages or Revolving Percentages, as the case may be, of the relevant Lenders.

(b) Each payment (including each prepayment) by the Borrower on account of principal of and interest on the Term Loans shall be made pro rata according to the respective outstanding principal amounts of the Term Loans then held by the Term Lenders. The amount of each principal prepayment of the Term Loans shall be applied to reduce the then remaining installments of the Tranche B Term Loans pro rata based upon the then remaining principal amount thereof. Amounts prepaid on account of the Term Loans may not be reborrowed.

(c) Each payment (including each prepayment) by the Borrower on account of principal of and interest on the Revolving Loans shall be made pro rata according to the respective outstanding principal amounts of the Revolving Loans then held by the Revolving Lenders.

(d) All payments (including prepayments) to be made by the Borrower hereunder, whether on account of principal, interest, fees or otherwise, shall be made without setoff or counterclaim and shall be made prior to 12:00 Noon, San Francisco time, on the due date thereof to the Administrative Agent, for the account of the Lenders, at the Funding Office, in Dollars and in immediately available funds. The Administrative Agent shall distribute such payments to the Lenders promptly upon receipt in like funds as received. If any payment hereunder (other than payments on the Eurodollar Loans) becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day. If any payment on a Eurodollar Loan becomes due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day unless the result of such extension would be to extend such payment into another calendar month, in which event such payment shall be made on the immediately preceding Business Day. In the case of any extension of any payment of principal pursuant to the preceding two sentences, interest thereon shall be payable at the then applicable rate during such extension.

(e) Unless the Administrative Agent shall have been notified in writing by any Lender prior to a borrowing that such Lender will not make the amount that would constitute its share of such borrowing available to the Administrative Agent, the Administrative Agent may assume that such Lender is making such amount available to the Administrative Agent, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower a corresponding amount. If such amount is not made available to the Administrative Agent by the required time on the Borrowing Date therefor, such Lender shall pay to the Administrative Agent, on demand, such amount with interest thereon at a rate equal to the greater of (i) the Federal Funds Effective Rate and (ii) a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation for the period until such Lender makes such amount immediately available to the Administrative Agent. A certificate of the Administrative Agent submitted to any Lender with respect to any amounts owing under this paragraph shall be conclusive in the absence of manifest error. If such Lender's share of such borrowing is not made available to the Administrative Agent by such Lender within three Business Days of such Borrowing Date, the Administrative Agent shall also be entitled to recover such amount with interest thereon at the rate per annum applicable to Base Rate Loans under the relevant Facility, on demand, from the Borrower.

(f) Unless the Administrative Agent shall have been notified in writing by the Borrower prior to the date of any payment due to be made by the Borrower hereunder that the Borrower will not make such payment to the Administrative Agent, the Administrative Agent may assume that the Borrower is making such payment, and the Administrative Agent may, but shall not be required to, in reliance upon such assumption, make available to the Lenders their respective pro rata shares of a corresponding amount. If such payment is not made to the Administrative Agent by the Borrower within three Business Days after such due date, the Administrative Agent shall be entitled to recover, on demand, from each Lender to which any amount which was made available pursuant to the preceding sentence, such amount with interest thereon at the rate per annum equal to the daily average Federal Funds Effective Rate. Nothing herein shall be deemed to limit the rights of the Administrative Agent or any Lender against the Borrower.

4.9. Requirements of Law. (a) If the adoption of or any change in any Requirement of Law or in the interpretation or application thereof or compliance by any Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date hereof:

(i) shall subject any Lender to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any Application or any Eurodollar Loan made by it, or change the basis of taxation of payments to such Lender in respect thereof (except for Non-Excluded Taxes covered by Section 4.10, changes in the basis of taxation of, or the introduction of taxation on, the overall income of such Lender by any jurisdiction with respect to which a present or former connection exists between such Lender and such jurisdiction (other than any such connection arising solely from such Lender having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or any other Loan Document) and changes in the rate of tax on the overall income of such Lender);

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Lender that is not otherwise included in the determination of the Eurodollar Rate hereunder; or

(iii) shall impose on such Lender any other condition;

and the result of any of the foregoing is to increase the cost to such Lender, by an amount that such Lender deems to be material, of making, converting into, continuing or maintaining Eurodollar Loans or issuing or participating in Letters of Credit, or to reduce any amount receivable hereunder in respect thereof, then, in any such case, the Borrower shall promptly pay such Lender, upon its demand, any additional amounts necessary to compensate such Lender for such increased cost or reduced amount receivable. If any Lender becomes entitled to claim any additional amounts pursuant to this paragraph, it shall promptly notify the Borrower (with a copy to the Administrative Agent) of the event by reason of which it has become so entitled.

(b) If any Lender shall have determined in good faith that the adoption of or any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof or compliance by such Lender or any corporation controlling such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the date hereof shall have the effect of reducing the rate of return on such Lender's or such corporation's capital as a consequence of its obligations hereunder or under or in respect of any Letter of Credit to a level below that which such Lender or such corporation could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, after submission by such Lender to the Borrower (with a copy to the Administrative Agent) of a written request therefor, the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender or such corporation for such reduction.

(c) A certificate as to any additional amounts payable pursuant to this Section submitted by any Lender to the Borrower (with a copy to the Administrative Agent) shall be conclusive in the absence of manifest error. Notwithstanding anything to the contrary in this Section, the Borrower shall not be required to compensate a Lender pursuant to this Section for any amounts incurred more than six months prior to the date that such Lender notifies the Borrower of such Lender's intention to claim compensation therefor; provided that, if the circumstances giving rise to such claim have a retroactive effect, then such six-month period shall be extended to include the period of such retroactive effect. The obligations of the Borrower pursuant to this Section shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

4.10. Taxes. (a) All payments made by the Borrower under this Agreement shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding net income taxes (including, without limitation, value added

and minimum taxes), gross receipts and franchise taxes (imposed in lieu of net income taxes) imposed, in each case, on any Agent or any Lender as a result of a present or former connection between such Agent or such Lender and the jurisdiction of the Governmental Authority imposing such tax or any political subdivision or taxing authority thereof or therein (other than any such connection arising solely from such Agent or such Lender having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or any other Loan Document). If any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings ("Non-Excluded Taxes") or Other Taxes are required to be withheld from any amounts payable to any Agent or any Lender hereunder, the amounts so payable to such Agent or such Lender shall be increased to the extent necessary to yield to such Agent or such Lender (after payment of all Non-Excluded Taxes and Other Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement, provided, however, that the Borrower shall not be required to increase any such amounts payable to any Lender with respect to any Non-Excluded Taxes (i) that are attributable to such Lender's failure to comply with the requirements of paragraph (d) or (e) of this Section or (ii) that are United States (or any political subdivision thereof) withholding taxes imposed on amounts payable to such Lender at the time such Lender becomes a party to this Agreement, except to the extent that such Lender's assignor (if any) was entitled, at the time of assignment, to receive additional amounts from the Borrower with respect to such Non-Excluded Taxes pursuant to this paragraph.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Agents and any Lender for the full amount of Non-Excluded Taxes or Other Taxes arising in connection with payments made under this Agreement (including, without limitation, any Non-Excluded Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 4.10) paid by any Agent or Lender or any of their respective affiliates and any liability (including penalties, additions to tax interest and expenses) arising therefrom or with respect thereto. Payment under this indemnification shall be made within ten days from the date any Agent or any Lender or any of their respective affiliates makes written demand therefor. The Borrower shall not be obliged to make payment to any Agent or any Lender pursuant to this Section 4.10(c) in respect of penalties, interest and other liabilities attributable to any Non-Excluded Taxes or Other Taxes, to the extent that such penalties, interest and other liabilities are attributable directly to the gross negligence or willful misconduct of such Agents or such Lenders or such Affiliates as determined by a final and nonappealable decision of a court of competent jurisdiction.

(d) Whenever any Non-Excluded Taxes or Other Taxes are payable by the Borrower, as promptly as possible thereafter the Borrower shall send to the Administrative Agent for its own account or for the account of the relevant Agent or Lender, as the case may be, a certified copy of an original official receipt received by the Borrower showing payment thereof. If the Borrower fails to pay any Non-Excluded Taxes or Other Taxes when due to the appropriate taxing authority or fails to remit to the Administrative Agent the required receipts or other required documentary evidence, the Borrower shall indemnify the Agents and the Lenders for any incremental taxes, interest or penalties that may become payable by any Agent or any Lender as a result of any such failure.

(e) Each Lender (or Transferee) that is not a “U.S. Person” as defined in Section 7701(a)(30) of the Code (a “Non-U.S. Lender”) shall deliver to the Borrower and the Administrative Agent (or, in the case of a Participant, to the Lender from which the related participation shall have been purchased) two copies of either U.S. Internal Revenue Service Form W-8BEN or Form W-8ECI, or, in the case of a Non-U.S. Lender claiming exemption from U.S. federal withholding tax under Section 871(h) or 881(c) of the Code with respect to payments of “portfolio interest”, a statement substantially in the form of Exhibit G and a Form W-8BEN, or any subsequent versions thereof or successors thereto, properly completed and duly executed by such Non-U.S. Lender claiming complete exemption from, or a reduced rate of, U.S. federal withholding tax on all payments by the Borrower under this Agreement and the other Loan Documents. Such forms shall be delivered by each Non-U.S. Lender on or before the date it becomes a party to this Agreement (or, in the case of any Participant, on or before the date such Participant purchases the related participation). In addition, each Non-U.S. Lender shall deliver such forms promptly upon the obsolescence or invalidity of any form previously delivered by such Non-U.S. Lender. Each Non-U.S. Lender shall promptly notify the Borrower at any time it determines that it is no longer in a position to provide any previously delivered certificate to the Borrower (or any other form of certification adopted by the U.S. taxing authorities for such purpose). Notwithstanding any other provision of this paragraph, a Non-U.S. Lender shall not be required to deliver any form pursuant to this paragraph that such Non-U.S. Lender is not legally able to deliver.

(f) A Lender that is entitled to an exemption from or reduction of non-U.S. withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law and as reasonably requested in writing by the Borrower, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate, provided that such Lender is legally entitled to complete, execute and deliver such documentation and in such Lender’s reasonable judgment such completion, execution or submission would not materially prejudice the legal position of such Lender.

(g) If any Administrative Agent or any Lender receives a refund of any Non-Excluded Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 4.10, it shall pay over such refund to the Borrower (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section 4.10 with respect to the Non-Excluded Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of such Agent or such Lender and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); provided, that the Borrower, upon the request of such Agent or such Lender, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to such Agent or such Lender in the event such Agent or such Lender is required to repay such refund to such Governmental Authority. This paragraph shall not be construed to require any Agent or any Lender to make available its tax returns (or any other information relating to its taxes which it deems confidential) to the Borrower or any other Person.

(h) The agreements in this Section shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

4.11. Indemnity. The Borrower agrees to indemnify each Lender and to hold each Lender harmless from any loss or expense that such Lender may sustain or incur as a consequence of (a) default by the Borrower in making a borrowing of, conversion into or continuation of Eurodollar Loans after the Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (b) default by the Borrower in making any prepayment of or conversion from Eurodollar Loans after the Borrower has given a notice thereof in accordance with the provisions of this Agreement or (c) the making of a prepayment of Eurodollar Loans on a day that is not the last day of an Interest Period with respect thereto. Such indemnification may include an amount equal to the excess, if any, of (i) the amount of interest that would have accrued on the amount so prepaid, or not so borrowed, converted or continued, for the period from the date of such prepayment or of such failure to borrow, convert or continue to the last day of such Interest Period (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have commenced on the date of such failure) in each case at the applicable rate of interest for such Loans provided for herein (excluding, however, the Applicable Margin included therein, if any) over (ii) the amount of interest (as reasonably determined by such Lender) that would have accrued to such Lender on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank eurodollar market. A certificate as to any amounts payable pursuant to this Section submitted to the Borrower by any Lender shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

4.12. Change of Lending Office. Each Lender agrees that, upon the occurrence of any event giving rise to the operation of Section 4.9 or 4.10(a) with respect to such Lender, it will, if requested by the Borrower, use reasonable efforts (subject to overall policy considerations of such Lender) to designate another lending office for any Loans affected by such event with the object of avoiding the consequences of such event; provided, that such designation is made on terms that, in the sole judgment of such Lender, cause such Lender and its lending office(s) to suffer no economic, legal or regulatory disadvantage, and provided, further, that nothing in this Section shall affect or postpone any of the obligations of the Borrower or the rights of any Lender pursuant to Section 4.9 or 4.10(a).

4.13. Replacement of Lenders. The Borrower shall be permitted to replace any Lender that (a) requests reimbursement for amounts owing pursuant to Section 4.9 or 4.10(a) or (b) defaults in its obligation to make Loans hereunder, with a replacement financial institution; provided that (i) such replacement does not conflict with any Requirement of Law, (ii) no Event of Default shall have occurred and be continuing at the time of such replacement, (iii) prior to any such replacement, such Lender shall have taken no action under Section 4.12 so as to eliminate the continued need for payment of amounts owing pursuant to Section 4.9 or 4.10(a), (iv) the replacement financial institution shall purchase, at par, all Loans and other amounts owing to such replaced Lender on or prior to the date of replacement, (v) the Borrower shall be liable to such replaced Lender under Section 4.11 if any Eurodollar Loan owing to such replaced Lender shall be purchased other than on the last day of the Interest Period relating thereto, (vi) the replacement financial institution, if not already a Lender, shall be reasonably satisfactory to

the Administrative Agent, (vii) the replaced Lender shall be obligated to make such replacement in accordance with the provisions of Section 11.6 (provided that the Borrower shall be obligated to pay the registration and processing fee referred to therein), (viii) until such time as such replacement shall be consummated, the Borrower shall pay all additional amounts (if any) required pursuant to Section 4.9 or 4.10(a), as the case may be, and (ix) any such replacement shall not be deemed to be a waiver of any rights that the Borrower, the Administrative Agent or any other Lender shall have against the replaced Lender.

4.14. Evidence of Debt. (a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing Indebtedness of the Borrower to such Lender resulting from each Loan of such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time under this Agreement.

(b) The Administrative Agent, on behalf of the Borrower, shall maintain the Register pursuant to Section 11.6(b), and a subaccount therein for each Lender, in which shall be recorded (i) the amount of each Loan made hereunder and any Note evidencing such Loan, the Type of such Loan and each Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) both the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries made in the Register and the accounts of each Lender maintained pursuant to Section 4.14(a) shall, to the extent permitted by applicable law, be prima facie evidence of the existence and amounts of the obligations of the Borrower therein recorded; provided, however, that the failure of any Lender or the Administrative Agent to maintain the Register or any such account, or any error therein, shall not in any manner affect the obligation of the Borrower to repay (with applicable interest) the Loans made to the Borrower by such Lender in accordance with the terms of this Agreement.

(d) The Borrower agrees that, upon the request to the Administrative Agent by any Lender, the Borrower will execute and deliver to such Lender a promissory note of the Borrower evidencing any Term Loans, Revolving Loans or Swingline Loans, as the case may be, of such Lender, substantially in the forms of Exhibit H-1, H-2 or H-3, respectively, with appropriate insertions as to date and principal amount.

4.15. Illegality. Notwithstanding any other provision herein, if the adoption of or any change in any Requirement of Law or in the interpretation or application thereof shall make it unlawful for any Lender to make or maintain Eurodollar Loans as contemplated by this Agreement, (a) the commitment of such Lender hereunder to make Eurodollar Loans, continue Eurodollar Loans as such and convert Base Rate Loans to Eurodollar Loans shall forthwith be canceled and (b) such Lender's Loans then outstanding as Eurodollar Loans, if any, shall be converted automatically to Base Rate Loans on the respective last days of the then current Interest Periods with respect to such Loans or within such earlier period as required by law. If any such conversion of a Eurodollar Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, the Borrower shall pay to such Lender such amounts, if any, as may be required pursuant to Section 4.11.

SECTION 5. REPRESENTATIONS AND WARRANTIES

To induce the Agents and the Lenders to enter into this Agreement and to make the Loans and issue or participate in the Letters of Credit, the Borrower hereby represents and warrants as of the Agreement Execution Date (with respect to Sections 5.1 through 5.19 only) and, pursuant to Section 6.2, as of the date of each extension of credit, to each Agent and each Lender that:

5.1. Financial Condition. (a) The unaudited pro forma consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at June 30, 2003 (including the notes thereto) (the "Pro Forma Balance Sheet"), copies of which have heretofore been furnished to each Lender, has been prepared giving effect to (i) the consummation of the Acquisition, (ii) the Loans to be made and the Senior Subordinated Notes to be issued on the Closing Date and the use of proceeds thereof and (iii) the payment of fees and expenses in connection with the foregoing. The Pro Forma Balance Sheet has been prepared based on the best information available to the Borrower as of the date of delivery thereof, and presents fairly on a pro forma basis the estimated financial position of Borrower and its consolidated Subsidiaries as at June 30, 2003, assuming that the events specified in the preceding sentence had actually occurred at such date.

(b) The audited consolidated balance sheets of the Borrower as at December 31, 2002, December 31, 2001 and December 31, 2000, and the related consolidated statements of income and of cash flows for the fiscal years ended on such dates, reported on by and accompanied by an unqualified report from Deloitte & Touche LLP, present fairly the consolidated financial condition of the Borrower as at such date, and the consolidated results of its operations and its consolidated cash flows for the respective fiscal years then ended. The audited consolidated balance sheets of the Schlumberger Business as at December 31, 2002, December 31, 2001 and December 31, 2000, and the related consolidated statements of income and of cash flows for the fiscal years ended on such dates, reported on by and accompanied by an unqualified report from PricewaterhouseCoopers, present fairly the consolidated financial condition of the Schlumberger Business as at such date, and the consolidated results of its operations and its consolidated cash flows for the respective fiscal years then ended. The unaudited consolidated balance sheet of the Borrower as at September 30, 2003, and the related unaudited consolidated statements of income and cash flows for the 9-month period ended on such date, present fairly the consolidated financial condition of the Borrower as at such date, and the consolidated results of its operations and its consolidated cash flows for the 9-month period then ended (subject to normal year-end audit adjustments). The unaudited consolidated balance sheet of the Schlumberger Business as at September 30, 2003, and the related unaudited consolidated statements of income and cash flows for the 9-month period ended on such date, present fairly the consolidated financial condition of the Schlumberger Business as at such date, and the consolidated results of its operations and its consolidated cash flows for the 9-month period then ended (subject to normal year-end audit adjustments). All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved (except as approved by the aforementioned firm of accountants and disclosed therein). Except as described on Schedule 5.1, no Group Member has any material Guarantee Obligations, contingent liabilities and liabilities for taxes, or any long-term leases or unusual forward or long-term commitments, including any interest rate

or foreign currency swap or exchange transaction or other obligation in respect of derivatives, that are not reflected in the most recent financial statements referred to in this paragraph. During the period from January 1, 2003 to and including the date hereof there has been no Disposition by the Borrower of any material part of its business or property.

5.2. No Change. Since December 31, 2002, there has been no development or event that has had or would reasonably be expected to have a Material Adverse Effect except to the extent that the extended Hart-Scott-Rodino review would reasonably be expected to have a Material Adverse Effect on the timing of the closing of the Transaction.

5.3. Corporate Existence; Compliance with Law. Each Group Member (a) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has the power and authority, and the legal right, to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged, (c) is duly qualified as a foreign corporation and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification, except to the extent that the failure to do so would not, in the aggregate, reasonably be expected to have a Material Adverse Effect, and (d) is in compliance with all Requirements of Law except to the extent that the failure to comply therewith would not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.4. Power; Authorization; Enforceable Obligations. Each Loan Party has the power and authority, and the legal right, to make, deliver and perform the Loan Documents and the Related Agreements to which it is a party and, in the case of the Borrower, to obtain extensions of credit hereunder. Each Loan Party has taken all necessary organizational action to authorize the execution, delivery and performance of the Loan Documents and the Related Agreements to which it is a party and, in the case of the Borrower, to authorize the extensions of credit on the terms and conditions of this Agreement. No consent or authorization of, filing with, notice to or other act by or in respect of, any Governmental Authority or any other Person is required in connection with the Transactions and the extensions of credit hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement or any of the Loan Documents or of the Related Agreements, except (i) consents, authorizations, filings and notices described in Schedule 5.4, which consents, authorizations, filings and notices will be obtained or made by the Closing Date and, on and after the Closing Date, will be in full force and effect and (ii) the filings referred to in Section 5.19. This Agreement has been duly executed and delivered on behalf of the Borrower. On and after the Closing Date each Loan Document and each Related Agreement will have been duly executed and delivered on behalf of each Loan Party party thereto. This Agreement constitutes, and each other Loan Document upon the execution thereof will constitute, a legal, valid and binding obligation of each Loan Party party thereto, enforceable against each such Loan Party in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

5.5. No Legal Bar. The execution, delivery and performance of this Agreement and the other Loan Documents, the issuance of Letters of Credit, the borrowings hereunder and the use of the proceeds thereof will not violate any Requirement of Law or any

Contractual Obligation of any Group Member and will not result in, or require, the creation or imposition of any Lien on any of their respective properties or revenues pursuant to any Requirement of Law or any such Contractual Obligation (other than the Liens created by the Security Documents). No Requirement of Law or Contractual Obligation applicable to the Borrower or any of its Subsidiaries would reasonably be expected to have a Material Adverse Effect.

5.6. Litigation. No litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Borrower, threatened by or against any Group Member or against any of their respective properties or revenues (a) with respect to any of the Loan Documents or any of the transactions contemplated hereby or thereby, or (b) that would reasonably be expected to have a Material Adverse Effect.

5.7. No Default. No Group Member is in default under or with respect to any of its Contractual Obligations in any respect that would reasonably be expected to have a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

5.8. Ownership of Property; Liens. Each Group Member has good and legal title in fee simple to, or a valid leasehold interest in, all its real property, and good title to, or a valid leasehold interest in, all its other property, and, on and after the Closing Date, none of such property is subject to any Lien except as permitted by Section 8.3.

5.9. Intellectual Property. Schedule 5.9 lists all patents, trademark registrations, copyright registrations, mask work registrations, and all applications therefor, owned by each Group Member. On and after the Closing Date, each Group Member owns, or is licensed to use, free and clear of any Liens (except as permitted by Section 8.3), all Intellectual Property necessary for the conduct of its business as currently conducted. No material claim has been asserted and is pending by any Person challenging or questioning the use of any Intellectual Property or the validity or effectiveness of any Intellectual Property, nor does the Borrower know of any valid basis for any such claim. The use of Intellectual Property by each Group Member does not infringe on the rights of any Person in any material respect. Each Group Member has obtained from each of its employees who may be considered the inventor of material patentable inventions (invented within the scope of such employees' employment) an assignment to such Group Member of all rights to such inventions, including patents. Each Group Member has taken all commercially reasonable steps necessary to protect the secrecy and the validity under applicable law of all material trade secrets.

5.10. Taxes. Each Group Member has filed or caused to be filed all Federal and all material state and other tax returns that are required to be filed and all such tax returns are accurate and complete in all material respects; each Group Member has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its property and all other taxes, fees or other charges imposed on it or any of its property by any Governmental Authority (other than any the amount or validity of that are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Borrower or its Subsidiaries, as the case may be); no tax Lien has been filed, and, to the knowledge of the Borrower, no claim is being asserted, with respect to any such tax, fee or other charge.

5.11. Federal Regulations. No part of the proceeds of any Loans, and no other extensions of credit hereunder, will be used for “buying” or “carrying” any “margin stock” within the respective meanings of each of the quoted terms under Regulation U as now and from time to time hereafter in effect or for any purpose that violates the provisions of the Regulations of the Board. If requested by any Lender or the Administrative Agent, the Borrower will furnish to the Administrative Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form G-3 or FR Form U-1, as applicable, referred to in Regulation U.

5.12. Labor Matters. Except as, in the aggregate, would not reasonably be expected to have a Material Adverse Effect: (a) there are no strikes or other labor disputes against any Group Member pending or, to the knowledge of the Borrower, threatened; (b) hours worked by and payment made to employees of each Group Member have not been in violation of the Fair Labor Standards Act or any other applicable Requirement of Law dealing with such matters; and (c) all payments due from any Group Member on account of employee health and welfare insurance have been paid or accrued as a liability on the books of the relevant Group Member.

5.13. ERISA. Neither a Reportable Event nor an “accumulated funding deficiency” (within the meaning of Section 412 of the Code or Section 302 of ERISA) has occurred during the five-year period prior to the date on which this representation is made or deemed made with respect to any Plan, and each Plan has complied in all material respects with the applicable provisions of ERISA and the Code. To the extent they relate to a Multiemployer Plan, the representations contained in the preceding sentence are given only to the knowledge of the Borrower. No termination of a Single Employer Plan has occurred, and no Lien in favor of the PBGC or a Plan on the assets of any Group Member or any Commonly Controlled Entity has arisen, during such five-year period. The present value of all accrued benefits under each Single Employer Plan (based on those assumptions used to fund such Plans) did not, as of such Plan’s last annual valuation date prior to the date on which this representation is made or deemed made, exceed the value of the assets of such Plan allocable to such accrued benefits by a material amount. Neither the Borrower nor any Commonly Controlled Entity has had, or reasonably expects to incur, a complete or partial withdrawal from any Multiemployer Plan that has resulted or would reasonably be expected to result in a material liability under ERISA. To the knowledge of the Borrower, no Multiemployer Plan is in Reorganization or Insolvent.

5.14. Investment Company Act; Other Regulations. No Loan Party is an “investment company”, or a company “controlled” by an “investment company”, within the meaning of the Investment Company Act of 1940, as amended. No Loan Party is subject to regulation under any Requirement of Law (other than Regulation X of the Board) that limits its ability to incur Indebtedness.

5.15. Subsidiaries. Except as disclosed to the Administrative Agent by the Borrower in writing from time to time after the Closing Date, (a) Schedule 5.15 sets forth the name and jurisdiction of incorporation of each Subsidiary, pro forma for the Acquisition, and, as to each such Subsidiary, the percentage of each class of Capital Stock owned by any Loan Party and (b) there are no outstanding subscriptions, options, warrants, calls, rights or other agreements or commitments (other than stock options granted to employees or directors and directors’

qualifying shares) of any nature relating to any Capital Stock of the Borrower or any Subsidiary, except as created by the Loan Documents and, with respect to any day prior to the Closing Date, the Acquisition Documentation and the Existing Credit Facility. The Borrower has (i) filed with the Secretary of State of the State of Washington, and any other applicable Governmental Authority, all documents necessary to dissolve duly and validly Genesis Services Pittsburgh, Inc. and (ii) filed with the Secretary of State of the State of New Jersey, and any other applicable Governmental Authority, all documents necessary to dissolve duly and validly Energy Concepts, Inc.

5.16. Use of Proceeds. The proceeds of the Term Loans shall be used to finance a portion of the Acquisition and to pay related fees and expenses. The proceeds of the Revolving Loans shall be used to finance a portion of the Acquisition and to pay related fees and expenses and, following the consummation of the Acquisition, shall be used, together with the proceeds of the Swingline Loans, and the Letters of Credit, for general corporate purposes, except no such proceeds will be used for any optional or voluntary payment, prepayment, repurchase or redemption, or the defeasance or segregation of funds with respect to Outsourcing Project Indebtedness.

5.17. Environmental Matters. Except as, in the aggregate, would not reasonably be expected to have a Material Adverse Effect and as set forth on Schedule 5.17:

(a) the facilities and properties owned or leased by any Group Member (the "Properties", which Properties as of the date of this Agreement are set forth on Schedule 5.17(a)), to the best knowledge of such Group Members in the case of leased Properties, do not contain, and have not previously contained, any Materials of Environmental Concern in amounts or concentrations or under circumstances that constitute or constituted a violation of, or could give rise to liability under, any Environmental Law;

(b) no Group Member has received or is aware of any notice of violation, alleged violation, non-compliance, liability or potential liability regarding environmental matters or compliance with Environmental Laws with regard to any of the Properties or the business operated by any Group Member (the "Business"), nor does the Borrower have knowledge or reason to believe that any such notice will be received or is being threatened;

(c) Materials of Environmental Concern have not been transported or disposed of from the Properties in violation of, or in a manner or to a location that could give rise to liability under, any Environmental Law, nor have any Materials of Environmental Concern been generated, treated, stored or disposed of at, on or under any of the Properties in violation of, or in a manner that could give rise to liability under, any applicable Environmental Law;

(d) no judicial proceeding or governmental or administrative action is pending or, to the knowledge of the Borrower, threatened, under any Environmental Law to which any Group Member is or will be named as a party with respect to the Properties or the Business, nor are there any consent decrees or other decrees, consent orders, administrative orders or other orders, or other administrative or judicial requirements outstanding under any Environmental Law with respect to the Properties or the Business;

(e) there has been no release or threat of release of Materials of Environmental Concern at or from the Properties, or arising from or related to the operations of any Group Member in connection with the Properties, any facilities or properties formerly owned, leased or operated by any Group Member or otherwise in connection with the Business, in violation of or in amounts or in a manner that could give rise to liability under Environmental Laws;

(f) the Properties and all operations at the Properties are in compliance, and have in the last five years been in compliance, with all applicable Environmental Laws, and there is no contamination at, under or about the Properties or violation of any Environmental Law with respect to the Properties or the Business; and

(g) no Group Member has assumed any liability of any other Person under Environmental Laws.

5.18. Accuracy of Information, etc. No statement or information contained in this Agreement, any other Loan Document, the Confidential Information Memorandum or any other document, certificate or statement furnished by or on behalf of any Loan Party to the Administrative Agent or the Lenders, or any of them, for use in connection with the transactions contemplated by this Agreement or the other Loan Documents, contained as of the date such statement, information, document or certificate was so furnished (or, in the case of the Confidential Information Memorandum, as of the date of this Agreement), any untrue statement of a material fact or omitted to state a material fact necessary to make the statements contained herein or therein not misleading. The projections and pro forma financial information contained in the materials referenced above are based upon good faith estimates and assumptions believed by management of the Borrower to be reasonable at the time made, it being recognized by the Lenders that such financial information as it relates to future events is not to be viewed as fact and that actual results during the period or periods covered by such financial information may differ from the projected results set forth therein by a material amount. As of the date hereof, the representations and warranties contained in the Acquisition Documentation are true and correct in all material respects. There is no fact known to any Loan Party that would reasonably be expected to have a Material Adverse Effect that has not been expressly disclosed herein, in the other Loan Documents, in the Confidential Information Memorandum or in any other documents, certificates and statements furnished to the Administrative Agent and the Lenders for use in connection with the transactions contemplated hereby and by the other Loan Documents.

5.19. Security Documents. (a) When executed and delivered, the Guarantee and Collateral Agreement is effective to create in favor of the Administrative Agent, for the benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral described therein (other than Intellectual Property which is not United States Intellectual Property and Vehicles) and proceeds and products thereof. In the case of the Pledged Stock (other than the Capital Stock of Outsourcing Project Subsidiaries which have Outsourcing Project Indebtedness) described in the Guarantee and Collateral Agreement, when stock certificates representing such Pledged Stock are delivered to the Administrative Agent, and in the

case of the other Collateral described in the Guarantee and Collateral Agreement, when financing statements and other filings specified on Schedule 5.19(a) in appropriate form are filed in the offices specified on Schedule 5.19(a), the Guarantee and Collateral Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the Loan Parties in such Collateral and the proceeds thereof, as security for the Obligations (as defined in the Guarantee and Collateral Agreement), in each case prior and superior in right to any other Person (except, in the case of Collateral other than Pledged Stock, Liens permitted by Section 8.3 and in the case of Pledged Stock consisting of the Capital Stock of Outsourcing Project Subsidiaries which have Outsourcing Project Indebtedness, Liens securing the Outsourcing Project Indebtedness of such Outsourcing Subsidiary).

(b) When executed and delivered, each of the Mortgages is effective to create in favor of the Administrative Agent, for the benefit of the Secured Parties, a legal, valid and enforceable Lien on the Mortgaged Properties described therein and proceeds and products thereof, and when the Mortgages are filed in the offices specified on Schedule 5.19(b), each such Mortgage shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the Loan Parties in the Mortgaged Properties and the proceeds thereof, as security for the Obligations (as defined in the relevant Mortgage), in each case prior and superior in right to any other Person, except for Liens permitted by Section 8.3 which have priority as a matter of law, and subject to the Permitted Title Encumbrances. Schedule 1.1 lists, as of the Closing Date, each parcel of owned real property and each leasehold interest in real property located in the United States and held by the Borrower or any of its Subsidiaries.

(c) When executed and delivered, each Intellectual Property Security Agreement is effective to create in favor of the Administrative Agent, for the benefit of the Secured Parties, a legal, valid and enforceable security interest in the Intellectual Property Collateral described therein and the proceeds and products thereof. Upon the filing of (i) each Intellectual Property Security Agreement in the appropriate indexes of the United States Patent and Trademark Office relative to patents and trademarks, and the United States Copyright Office relative to copyrights and mask works, together with provision for payment of all requisite fees, and (ii) financing statements in appropriate form for filing in the offices specified on Schedule 5.19(a), each Intellectual Property Security Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the Loan Parties in the Intellectual Property Collateral and the proceeds and products thereof, as security for the Obligations (as defined in the Guarantee and Collateral Agreement), in each case prior and superior in right to any other Person (except Liens permitted by Section 8.3).

5.20. Solvency. Each Loan Party is, and after giving effect to the Acquisition and the incurrence of all Indebtedness and obligations being incurred in connection herewith and therewith will be and will continue to be, Solvent.

5.21. Senior Indebtedness. The Obligations constitute "Senior Debt" and "Designated Senior Debt" of the Borrower under and as defined in the Senior Subordinated Note Indenture. The obligations of each Guarantor under the Guarantee and Collateral Agreement constitute "Senior Debt" of such Guarantor under and as defined in the Senior Subordinated Note Indenture.

5.22. Regulation H. No Mortgage encumbers improved real property that is located in an area that has been identified by the Secretary of Housing and Urban Development as an area having special flood hazards and in which flood insurance has been made available under the National Flood Insurance Act of 1968 (except any Mortgaged Properties as to which such flood insurance as required by Regulation H has been obtained and is in full force and effect as required by this Agreement).

5.23. Certain Documents. The Borrower has delivered to the Administrative Agent a complete and correct copy of the Related Agreements, including any amendments, supplements or modifications with respect to any such Related Agreements.

SECTION 6. CONDITIONS PRECEDENT

6.1. Conditions to Initial Extension of Credit. The agreement of each Lender to make the initial extension of credit requested to be made by it is subject to the satisfaction, prior to or concurrently with the making of such extension of credit on or prior to March 15, 2004, of the following conditions precedent:

(a) Credit Agreement; Guarantee and Collateral Agreement. The Lead Arranger shall have received (i) the Guarantee and Collateral Agreement, executed and delivered by the Borrower and each Guarantor, (ii) Intellectual Property Security Agreements executed by the Borrower and any applicable Guarantor and (iii) an Acknowledgment and Consent in the form attached to the Guarantee and Collateral Agreement, executed and delivered by each Issuer (as defined therein), if any, that is not a Loan Party.

(b) Acquisition, etc. The following transactions (collectively, the "Transaction") shall have been consummated, in each case on terms and conditions reasonably satisfactory to the Lead Arranger, the Administrative Agent and the Required Lenders:

(i) the Borrower shall have received at least \$125,000,000 in gross proceeds from the issuance of the Senior Subordinated Notes on terms and pursuant to documentation satisfactory to the Lead Arranger and the Required Lenders and no provision thereof shall have been waived, amended, supplemented or otherwise modified without the prior written consent of the Lead Arranger, the Administrative Agent and the Required Lenders.

(ii) The Lead Arranger shall have received satisfactory evidence that the Credit Agreement dated March 4, 2003 between Itron, Inc., Wells Fargo Bank and the other institutions party thereto (the "Existing Credit Facility") shall be terminated and all amounts thereunder shall be paid in full and satisfactory arrangements shall have been made for the termination of all Liens granted in connection therewith.

(iii) The SEI Acquisition shall have been consummated in accordance with the Acquisition Documentation and all applicable requirements of law for aggregate consideration not exceeding \$255,000,000 pursuant to documentation

in form and substance satisfactory to the Lead Arranger and the Required Lenders, and no material provision thereof shall have been waived, amended, supplemented or otherwise modified without the prior written consent of each of the Lead Arranger, the Administrative Agent and the Required Lenders.

(iv) The capital and ownership structure of the Borrower and its Subsidiaries after giving effect to the Transaction shall be as set forth in Schedule 4.15.

(c) Related Agreements. The Borrower shall have delivered to the Lead Arranger complete, correct and conformed copies of the Acquisition Documentation and the Senior Subordinated Notes Documentation.

(d) Financial Statements. The Lead Arranger shall have received and shall be reasonably satisfied with the (i) audited consolidated financial statements, including balance sheets and income and cash flow statements, of the Borrower and its Subsidiaries and the Schlumberger Business for the 2000, 2001 and 2002 fiscal years, (ii) unaudited interim consolidated financial statements of the Borrower and its Subsidiaries for each fiscal month and quarterly period ended subsequent to the date of the latest applicable financial statements delivered pursuant to clause (i) of this paragraph as to which such financial statements are available, and (iii) unaudited interim consolidated financial statements of the Schlumberger Business for each fiscal quarter ended subsequent to the date of the latest applicable financial statements delivered pursuant to clause (i) of this paragraph (as to which such financial statements are available) and such financial statements shall not, in the reasonable judgment of the Lead Arranger, the Administrative Agent or the Required Lenders, reflect any material adverse change in the consolidated financial condition of the Borrower, as reflected in the financial statements or projections contained in the Confidential Information Memorandum.

(e) Pro Forma Financial Statements. The Lead Arranger shall have received and shall be reasonably satisfied with consolidating pro forma balance sheets and income statements of the Borrower: (i) as of September 30, 2003; and (ii) in addition (a) as of the date of the most recent consolidated quarterly balance sheet subsequent to September 30, 2003 with respect to the Schlumberger Business; and (b) as of the date of the most recent monthly balance sheet subsequent to September 30, 2003 with respect to the Borrower and its Subsidiaries, in each case as required to be delivered pursuant to paragraph (d) above, giving effect to the Transaction, and prepared in accordance with Regulation S-X of the Securities Act of 1933. The most recent of such pro forma financial statements delivered to the Lead Arranger on the Closing Date shall show a pro forma Consolidated Leverage Ratio as of the Closing Date (calculated in accordance with Regulation S-X of the Securities Act of 1933 and including only those adjustments that the Lead Arranger agrees are acceptable) of not greater than 4.25 : 1.00, based upon Consolidated EBITDA for the most recent twelve-month operating period for which financial statements are available.

(f) Approvals. All governmental and third party approvals (including landlords' and other consents) necessary, or in the discretion of the Lead Arranger,

advisable in connection with the Acquisition, the continuing operations of the Group Members and the transactions contemplated hereby shall have been obtained and be in full force and effect, and all applicable waiting periods shall have expired without any action being taken or threatened by any competent authority that would restrain, prevent or otherwise impose adverse conditions on the Acquisition or the financing contemplated hereby.

(g) Lien Searches. The Lead Arranger shall have received the results of a recent lien search in each of the jurisdictions where the Group Members are organized and where assets of the Loan Parties are located or registered, and such search shall reveal no liens on any of the assets of the Loan Parties except for liens permitted by Section 8.3 or discharged on or prior to the Closing Date pursuant to documentation satisfactory to the Lead Arranger.

(h) Environmental Audit. The Lead Arranger shall have received an environmental audit with respect to each of the real properties of the Borrower and its Subsidiaries set forth in Schedule 6.1(h).

(i) Fees. The Lenders and the Agents shall have received all fees required to be paid, and all expenses for which invoices have been presented (including the reasonable fees and expenses of legal counsel), on or before the Closing Date. All such amounts will be paid with proceeds of Loans made on the Closing Date and will be reflected in the funding instructions given by the Borrower to the Administrative Agent on or before the Closing Date.

(j) Closing Certificate. The Lead Arranger shall have received (i) a certificate of each Loan Party, dated the Closing Date, substantially in the form of Exhibit C, with appropriate insertions and attachments including the certificate of incorporation of each Loan Party that is a corporation certified by the relevant authority of the jurisdiction of organization of such Loan Party, and (ii) a long form good standing certificate for each Loan Party from its jurisdiction of organization. The Lead Arranger shall also have received telephonic confirmation from the Secretary of State or other applicable Governmental Authority of each jurisdiction in which such Loan Party is organized certifying that such Loan Party is duly organized and in good standing under the laws of such jurisdiction on the Closing Date, together with a written confirmatory report in respect thereof prepared by, or on behalf of, a filing service acceptable to the Lead Arranger.

(k) Additional Certifications, Confirmations. The Lead Arranger shall have received a long form good standing certificate for each Loan Party for each jurisdiction in which such Loan Party is required to be qualified as a foreign corporation, except where the failure to be so qualified would not have a Material Adverse Effect, and telephonic confirmation from the Secretary of State or other applicable Governmental Authority of each such jurisdiction on the Closing Date as to the due qualification and continued good standing of each such Loan Party as a foreign corporation or entity in such jurisdiction, together with a written confirmatory report in respect thereof prepared by, or on behalf of, a filing service acceptable to the Lead Arranger.

(l) Legal Opinions. The Lead Arranger shall have received the following executed legal opinions:

- (i) the legal opinion of Perkins Coie LLP, counsel to the Borrower and its Subsidiaries, substantially in the form of Exhibit F-1;
- (ii) to the extent consented to by the relevant counsel, each legal opinion, if any, delivered in connection with the Acquisition Agreement, accompanied by a reliance letter in favor of the Agents and the Lenders; and
- (iii) the legal opinion of local counsel in each of Minnesota and South Carolina and of such other special and local counsel as may be required by the Lead Arranger.

Each such legal opinion shall cover such other matters incident to the transactions contemplated by this Agreement as the Lead Arranger may reasonably require.

(m) Pledged Stock; Stock Powers; Pledged Notes. The Administrative Agent shall have received (i) the certificates representing the shares of Capital Stock pledged pursuant to the Guarantee and Collateral Agreement, together with an undated stock power for each such certificate executed in blank by a duly authorized officer of the pledgor thereof and (ii) each promissory note (if any) pledged to the Administrative Agent pursuant to the Guarantee and Collateral Agreement endorsed (without recourse) in blank (or accompanied by an executed transfer form in blank) by the pledgor thereof.

(n) Filings, Registrations and Recordings. Each document (including any Uniform Commercial Code financing statement) required by the Security Documents or under law or reasonably requested by the Lead Arranger to be filed, registered or recorded in order to create in favor of the Administrative Agent, for the benefit of the Lenders, a perfected Lien on the Collateral described therein, prior and superior in right to any other Person (other than with respect to Liens expressly permitted by Section 8.3), shall be in proper form for filing, registration or recordation.

(o) Solvency Certificate. The Lead Arranger shall have received and shall be reasonably satisfied with a solvency certificate of the chief financial officer of the Loan Parties substantially in the form of Exhibit J, which shall document the solvency of the Loan Parties after giving effect to the Acquisition and other transactions contemplated hereby.

(p) Mortgages, etc.

(i) The Administrative Agent shall have received a Mortgage with respect to each Mortgaged Property, executed and delivered by a duly authorized officer of each party thereto.

(ii) If requested by the Administrative Agent, the Administrative Agent shall have received, and the title insurance company issuing the policy referred to in clause (iii) below (the "Title Insurance Company") shall have

received, maps or plats of an as-built survey of the sites of the Mortgaged Properties certified to the Administrative Agent and the Title Insurance Company in a manner satisfactory to them, dated a date satisfactory to the Administrative Agent and the Title Insurance Company by an independent professional licensed land surveyor satisfactory to the Administrative Agent and the Title Insurance Company, which maps or plats and the surveys on which they are based shall be made in accordance with the Minimum Standard Detail Requirements for Land Title Surveys jointly established and adopted by the American Land Title Association and the American Congress on Surveying and Mapping in 1992, and, without limiting the generality of the foregoing, there shall be surveyed and shown on such maps, plats or surveys the following: (A) the locations on such sites of all the buildings, structures and other improvements and the established building setback lines; (B) the lines of streets abutting the sites and width thereof; (C) all access and other easements appurtenant to the sites; (D) all roadways, paths, driveways, easements, encroachments and overhanging projections and similar encumbrances affecting the site, whether recorded, apparent from a physical inspection of the sites or otherwise known to the surveyor; (E) any encroachments on any adjoining property by the building structures and improvements on the sites; (F) if the site is described as being on a filed map, a legend relating the survey to said map; and (G) the flood zone designations, if any, in which the Mortgaged Properties are located.

(iii) The Administrative Agent shall have received in respect of each Mortgaged Property a mortgagee's title insurance policy (or policies) or marked up unconditional binder for such insurance in form and substance reasonably acceptable to the Administrative Agent. Each such policy shall (A) be in an amount equal to the fair market value of the Mortgaged Property, as reasonably determined by the Administrative Agent; (B) be issued at ordinary rates; (C) insure that the Mortgage insured thereby creates a valid first Lien on such Mortgaged Property free and clear of all defects and encumbrances, except as disclosed therein (the "Permitted Title Encumbrances"); (D) name the Administrative Agent for the benefit of the Secured Parties as the insured thereunder; (E) be in the form of ALTA Loan Policy - 1970 (Amended 10/17/70 and 10/17/84) (or equivalent policies); (F) contain such endorsements and affirmative coverage as the Administrative Agent may reasonably request; and (G) be issued by title companies satisfactory to the Administrative Agent (including any such title companies acting as co-insurers or reinsurers, at the option of the Administrative Agent). The Administrative Agent shall have received evidence satisfactory to it that all premiums in respect of each such policy, all charges for mortgage recording tax, and all related expenses, if any, have been paid concurrently with the initial funding of the Loans.

(iv) If any Mortgaged Property is located in an area identified by the Federal Emergency Management Agency as an area having special flood hazards and in which flood insurance has been made available under any Flood Act, the Administrative Agent shall have received (A) a policy of flood insurance that (1) covers Mortgaged Property, (2) is written in an amount not less than the

outstanding principal amount of the indebtedness secured by a Mortgage that is reasonably allocable to such Mortgaged Property or the maximum limit of coverage made available with respect to the particular type of property under the applicable Flood Act, whichever is less, and (3) has a term ending not later than the maturity of the Indebtedness secured by such Mortgage and (B) confirmation that the Borrower has received the notice required pursuant to Section 208(e)(3) of Regulation H of the Board.

(v) The Administrative Agent shall have received a copy of all recorded documents referred to, or listed as exceptions to title in, the title policy or policies referred to in clause (iii) above and a copy of all other material documents affecting the Mortgaged Properties.

(q) Insurance. The Lead Arranger shall have received insurance certificates satisfying the requirements of Section 5.3 of the Guarantee and Collateral Agreement.

(r) Miscellaneous. The Lead Arranger shall have received such other documents, agreements, certificates and information as it shall reasonably request and the Administrative Agent shall have received a copy of each document, agreement or certificate delivered to the Lead Arranger pursuant to this Section 6.1.

6.2. Conditions to Each Extension of Credit. The agreement of each Lender to make any extension of credit requested to be made by it on any date (including its initial extension of credit) is subject to the satisfaction of the following conditions precedent:

(a) No Default. No Default or Event of Default has occurred and is continuing and, with respect to the initial funding of the Loans, would have occurred or existed on the date of such funding if all of the covenants in Sections 7 (except Section 7.11) and 8 (except Sections 8.2, 8.3 and 8.7, in each case, to the extent set forth on Schedule 6.2(a)) had been in effect from the Agreement Execution Date and the words "on or after the Closing Date" had been deleted from the preamble to Section 9;

(b) Representations and Warranties. Each of the representations and warranties made by any Loan Party in or pursuant to the Loan Documents shall be true and correct in all material respects on and as of such date as if made on and as of such date after giving effect to the extensions of credit requested to be made on such date; and

(c) Senior Debt. An officer of the Borrower shall certify in writing to the Administrative Agent that the incurrence of Indebtedness represented by the requested extensions of credit is permitted under the Senior Subordinated Note Indenture and that the indebtedness so incurred will constitute Senior Debt and Designated Senior Debt under and as defined in the Senior Subordinated Note Indenture.

Each borrowing by and issuance of a Letter of Credit on behalf of the Borrower hereunder shall constitute a representation and warranty by the Borrower as of the date of such extension of credit that the conditions contained in this Section 6.2 have been satisfied.

6.3. Conditions to Effectiveness.

This Agreement shall not become effective until the satisfaction of the following conditions precedent:

(a) The Lead Arranger shall have received this Agreement, or, in the case of the Lenders, an Addendum, executed and delivered by each Agent, the Borrower and each Person listed in Schedule 1.1A. In the event that any one or more Persons have not executed and delivered an Addendum on the date scheduled to be the Agreement Execution Date (each such Person being referred to herein as a “Non-Executing Person”), the condition referred to in the preceding sentence of this clause (a) shall nevertheless be deemed satisfied if on such date the Borrower and the Administrative Agent shall have designated one or more Persons (the “Designated Lenders”) to assume, in the aggregate, all of the Commitments that would have been held by the Non-Executing Persons (subject to each such Designated Lender’s consent and its execution and delivery of an Addendum).

(b) The Lead Arranger shall have received the legal opinion of Perkins Coie LLP, counsel to the Borrower and its Subsidiaries in a form reasonably acceptable to the Lead Arranger.

SECTION 7. AFFIRMATIVE COVENANTS

The Borrower hereby agrees that, so long as the Commitments remain in effect, any Letter of Credit remains outstanding (unless such Letter of Credit has been cash collateralized in accordance with Section 11.14) or any Loan or other amount is owing to any Lender or Agent hereunder, the Borrower shall and shall cause each of its Subsidiaries to:

7.1. Financial Statements. Furnish to the Administrative Agent and each Lender:

(a) as soon as available, but in any event within 90 days after the end of each fiscal year of the Borrower, a copy of the audited consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such year and the related audited consolidated statements of income and of cash flows for such year, setting forth in each case in comparative form the figures for the previous year, reported on without a “going concern” or like qualification or exception, or qualification arising out of the scope of the audit, by Deloitte & Touche LLP or other independent certified public accountants of nationally recognized standing; and

(b) as soon as available, but in any event not later than 45 days after the end of each of the first three quarterly periods of each fiscal year of the Borrower, the unaudited consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such quarter and the related unaudited consolidated statements of income and of cash flows for such quarter and the portion of the fiscal year through the end of such quarter, setting forth in each case in comparative form the figures for the previous year, certified by a Responsible Officer as being fairly stated in all material respects (subject to normal year-end audit adjustments).

All such financial statements shall be complete and correct in all material respects and shall be prepared in reasonable detail and in accordance with GAAP applied consistently throughout the periods reflected therein and with prior periods (except as approved by such accountants or officer, as the case may be, and disclosed therein).

7.2. Certificates; Other Information. Furnish to the Administrative Agent and each Lender (or, in the case of clause (g), to the relevant Lender):

(a) concurrently with the delivery of the financial statements referred to in Section 7.1(a), a certificate of the independent certified public accountants reporting on such financial statements stating that in making the examination necessary therefor no knowledge was obtained of any Default or Event of Default, except as specified in such certificate;

(b) concurrently with the delivery of any financial statements pursuant to Section 7.1, (i) a certificate of a Responsible Officer stating that, to the best of each such Responsible Officer's knowledge, each Loan Party during such period has observed or performed all of its covenants and other agreements, and satisfied every condition, contained in this Agreement and the other Loan Documents to which it is a party to be observed, performed or satisfied by it, and that such Responsible Officer has obtained no knowledge of any Default or Event of Default, except as specified in such certificate and (ii) in the case of quarterly or annual financial statements, (x) a Compliance Certificate containing all information and calculations necessary for determining compliance by each Group Member with the provisions of this Agreement referred to therein as of the last day of the fiscal quarter or fiscal year of the Borrower, as the case may be, and, if applicable, for determining the Applicable Margins and Commitment Fee Rate, and (y) to the extent not previously disclosed to the Administrative Agent, a listing of any Intellectual Property acquired by any Loan Party since the date of the most recent list delivered pursuant to this clause (y) (or, in the case of the first such list so delivered, since the Closing Date);

(c) as soon as available, and in any event no later than 45 days after the end of each fiscal year of the Borrower, a detailed consolidated quarterly budget for the following fiscal year (including, on a quarterly basis, (i) projected consolidated balance sheets of the Borrower and its Subsidiaries through the end of the following fiscal year, the related consolidated statements of projected cash flow, projected changes in financial position and projected income and a description of the underlying assumptions applicable thereto and (ii) projected compliance with each of the financial covenants set forth in Section 8.1), and, as soon as available, significant revisions approved by the senior management of the Borrower, if any, of such budget and projections with respect to such fiscal year (collectively, the "Projections"), which Projections shall in each case be accompanied by a certificate of a Responsible Officer stating that such Projections are based on reasonable estimates, information and assumptions and that such Responsible Officer has no reason to believe that such Projections are incorrect or misleading in any material respect;

(d) if the Borrower is not then a reporting company under the Securities Exchange Act of 1934, as amended, within 45 days after the end of each fiscal quarter of the Borrower, a narrative discussion and analysis of the financial condition and results of operations of the Borrower and its Subsidiaries for such fiscal quarter and for the period from the beginning of the then current fiscal year to the end of such fiscal quarter, as compared to the portion of the Projections covering such periods and to the comparable periods of the previous year;

(e) no later than 10 Business Days prior to the effectiveness thereof, copies of substantially final drafts of any proposed amendment, supplement, waiver or other modification with respect to the Senior Subordinated Note Indenture or the Acquisition Documentation;

(f) within five days after the same are sent, copies of all financial statements and reports that the Borrower sends to the holders of any class of its debt securities or public equity securities and, within five days after the same are filed, copies of all financial statements and reports that the Borrower may make to, or file with, the SEC; and

(g) promptly, such additional financial and other information as any Lender may from time to time reasonably request.

7.3. Payment of Obligations. Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all its material obligations of whatever nature (including taxes, assessments and governmental changes or levies imposed upon it or upon its income or profits or in respect of its property), except where the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the relevant Group Member.

7.4. Maintenance of Existence; Compliance. (a) (i) Preserve, renew and keep in full force and effect its organizational existence except the existence of Subsidiaries who are liquidated in accordance with Section 8.4(b) and (ii) take all reasonable action to maintain all rights, privileges and franchises necessary or desirable in the normal conduct of its business, except, in each case, as otherwise permitted by Section 8.4 and except, in the case of clause (ii) above, to the extent that failure to do so would not reasonably be expected to have a Material Adverse Effect; and (b) comply with all Contractual Obligations and Requirements of Law, except to the extent that failure to comply therewith would not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

7.5. Maintenance of Property; Insurance. (a) Keep all property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted and (b) maintain with financially sound and reputable insurance companies such public liability insurance, third party property damage insurance, business interruption insurance and casualty insurance with respect to liabilities, losses or damage in respect of the assets, properties and businesses of the Borrower and its Subsidiaries as may customarily be carried or maintained under similar circumstances by corporations of established reputation engaged in similar

businesses, in each case in such amounts (giving effect to self-insurance), with such deductibles, covering such risks and otherwise on such terms and conditions as shall be customary for corporations similarly situated in the industry.

7.6. Inspection of Property; Books and Records; Discussions. (a) Keep proper books of records and account in which full, true and correct entries in conformity with GAAP and all Requirements of Law shall be made of all dealings and transactions in relation to its business and activities and (b) upon reasonable notice, unless an Event of Default has occurred or is continuing in which case no such notice shall be required, permit representatives of the Administrative Agent and of any Lender to visit and inspect any of its properties and examine and make abstracts from any of its books and records at any reasonable time and as often as may reasonably be desired and to discuss the business, operations, properties and financial and other condition of the Group Members with officers and employees of the Group Members and with their independent certified public accountants.

7.7. Notices. Promptly give notice to the Administrative Agent and each Lender of:

(a) the occurrence of any Default or Event of Default that is known to any Responsible Officer of the Borrower;

(b) any (i) default or event of default under any Contractual Obligation of any Group Member or (ii) litigation, investigation or proceeding that may exist at any time between any Group Member and any Governmental Authority, that in either case, if not cured or if adversely determined, as the case may be, would reasonably be expected to have a Material Adverse Effect;

(c) any litigation or proceeding affecting any Group Member (i) in which the amount involved is \$5,000,000 or more and not covered by insurance, (ii) in which injunctive or similar relief is sought or (iii) which relates to any Loan Document;

(d) the following events, as soon as possible and in any event within 30 days after the Borrower knows or has reason to know thereof: (i) the occurrence of any Reportable Event with respect to any Plan, a failure by the Borrower or any Commonly Controlled Entity to make any required contribution to a Single Employer Plan or Multiemployer Plan, the creation of any Lien in favor of the PBGC or a Plan on the assets of any Group Member or any Commonly Controlled Entity, or any withdrawal from, or the termination, Reorganization or Insolvency of, any Multiemployer Plan or (ii) the institution of proceedings or the taking of any other action by the PBGC or the Borrower or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the termination, Reorganization or Insolvency of, any Single Employer Plan or Multiemployer Plan; and

(e) any development or event that has had or would reasonably be expected to have a Material Adverse Effect.

Each notice pursuant to this Section 7.7 shall be accompanied by a statement of a Responsible Officer setting forth details of the occurrence referred to therein and stating what action the Borrower or the relevant Subsidiary proposes to take with respect thereto.

7.8. Environmental Laws. (a) Comply in all material respects with, and ensure compliance in all material respects by all tenants and subtenants, if any, with, all applicable Environmental Laws, and obtain and comply in all material respects with and maintain, and ensure that all tenants and subtenants obtain and comply in all material respects with and maintain, any and all licenses, approvals, notifications, registrations or permits required by applicable Environmental Laws.

(b) Conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions required under Environmental Laws and promptly comply in all material respects with all lawful orders and directives of all Governmental Authorities regarding Environmental Laws.

7.9. Maintenance of Intellectual Property. With respect to all Intellectual Property that is material to the business of any Group Member:

(a) Take all necessary steps before the Patent and Trademark Office, the Copyright Office or any similar office or agency in any other country or any political subdivision thereof, to prosecute or maintain, as applicable, in a commercially reasonable manner, each application and registration of all material patents, trademarks, copyrights and mask works (excluding provisional patent applications), including paying all fees and filing of renewals, affidavits of use, affidavits of incontestability and opposition, and interference and cancellation proceedings.

(b) Use proper statutory notice in connection with its use of all material trademarks, copyrights and mask works; maintain consistent standards of quality in its manufacture of products sold under all material trademarks or provision of services in connection with all material trademarks; and take all commercially reasonable steps necessary to protect the secrecy and validity under applicable law of all material trade secrets.

7.10. Interest Rate Protection. In the case of the Borrower, within 90 days after the Closing Date, enter into, and thereafter maintain, Hedge Agreements to the extent necessary to provide that at least 50% of the aggregate principal amount of Consolidated Total Debt is subject to either a fixed interest rate or interest rate protection for a period of not less than three years, which Hedge Agreements shall have terms and conditions reasonably satisfactory to the Administrative Agent.

7.11. Additional Collateral, etc. (a) With respect to any property acquired, created, or developed (including the filing of any applications for the registration or issuance of any Intellectual Property) after the Closing Date by any Group Member (other than (x) any property described in paragraph (b), (c), (d) or (e) below, (y) any property subject to a Lien expressly permitted by Section 8.3(g) and (z) property acquired by any Excluded Foreign Subsidiary, a Tax Excluded Foreign Subsidiary or an Outsourcing Project Subsidiary or consisting of the Capital Stock of any Outsourcing Project Subsidiary described in clause (a) of

the definition thereof) as to which the Administrative Agent, for the benefit of the Lenders, does not have a perfected Lien, promptly (i) execute and deliver to the Administrative Agent such amendments to the Guarantee and Collateral Agreement or such other documents as the Administrative Agent deems necessary or advisable to grant to the Administrative Agent, for the benefit of the Secured Parties, a security interest in such property and (ii) take all actions necessary or advisable to grant to the Administrative Agent, for the benefit of the Secured Parties, a perfected first priority security interest in such property, including the filing of Uniform Commercial Code financing statements in such jurisdictions as may be required by the Guarantee and Collateral Agreement or by law or as may be requested by the Administrative Agent. If such property is Intellectual Property, the actions specified in this Section 7.11(a) will be deemed promptly completed if completed within forty-five Business Days of the last day of the fiscal quarter in which such filing occurs.

(b) With respect to any fee interest (or leasehold interest, to the extent such leasehold interest is created under a triple net ground lease or similar transaction) in any real property having a value (together with improvements thereof) of at least \$1,000,000 acquired after the Closing Date by any Group Member (other than (x) any such real property subject to a Lien expressly permitted by Section 8.3(g) and (z) real property acquired by any Excluded Foreign Subsidiary, a Tax Excluded Foreign Subsidiary or an Outsourcing Project Subsidiary that has Outsourcing Project Indebtedness), promptly (i) execute and deliver a first priority Mortgage, in favor of the Administrative Agent, for the benefit of the Secured Parties, covering such real property, (ii) if requested by the Administrative Agent, provide the Secured Parties with (x) title and extended coverage insurance covering such real property in an amount at least equal to the purchase price of such real property (or such other amount as shall be reasonably specified by the Administrative Agent) as well as a current ALTA survey thereof (to the extent required by the Administrative Agent), together with a surveyor's certificate and (y) any consents or estoppels reasonably deemed necessary or advisable by the Administrative Agent in connection with such Mortgage, each of the foregoing in form and substance reasonably satisfactory to the Administrative Agent, (iii) appraisals with respect to such real property reasonably requested by the Administrative Agent in accordance with applicable laws and regulations and (iv) if requested by the Administrative Agent, deliver to the Administrative Agent legal opinions relating to the matters described above, which opinions shall be in form and substance, and from counsel, reasonably satisfactory to the Administrative Agent.

(c) With respect to any new Subsidiary (other than an Excluded Foreign Subsidiary, a Tax Excluded Foreign Subsidiary or an Outsourcing Project Subsidiary) created or acquired after the Closing Date by any Group Member (which, for the purposes of this paragraph (c), shall include any existing Subsidiary that ceases to be an Excluded Foreign Subsidiary or any existing Outsourcing Project Subsidiary that ceases to have Outsourcing Project Indebtedness), promptly (i) execute and deliver to the Administrative Agent such amendments to the Guarantee and Collateral Agreement as the Administrative Agent deems necessary or advisable to grant to the Administrative Agent, for the benefit of the Secured Parties, a perfected first priority security interest in the Capital Stock of such new Subsidiary that is owned by any Group Member, (ii) deliver to the Administrative Agent the certificates representing such Capital Stock, together with undated stock powers, in blank, executed and delivered by a duly authorized officer of the relevant Group Member, (iii) cause such new Subsidiary (A) to become a party to the Guarantee and Collateral Agreement, (B) to take such actions necessary or advisable to grant to the

Administrative Agent for the benefit of the Secured Parties a perfected first priority security interest in the Collateral described in the Guarantee and Collateral Agreement with respect to such new Subsidiary, including the filing of Uniform Commercial Code financing statements in such jurisdictions as may be required by the Guarantee and Collateral Agreement or by law or as may be requested by the Administrative Agent and (C) to deliver to the Administrative Agent a certificate of such Subsidiary, substantially in the form of Exhibit C, with appropriate insertions and attachments, and (iv) if requested by the Administrative Agent, deliver to the Administrative Agent legal opinions relating to the matters described above, which opinions shall be in form and substance, and from counsel, reasonably satisfactory to the Administrative Agent.

(d) With respect to any new Tax Excluded Foreign Subsidiary (which is not an Excluded Foreign Subsidiary) created or acquired after the Closing Date by any Group Member (other than by any Group Member that is an Excluded Foreign Subsidiary), promptly (i) execute and deliver to the Administrative Agent such amendments to the Guarantee and Collateral Agreement as the Administrative Agent deems necessary or advisable to grant to the Administrative Agent, for the benefit of the Secured Parties, a perfected first priority security interest in the Capital Stock of such new Subsidiary that is owned by any such Group Member (provided that in no event shall more than 65% of the total outstanding Capital Stock of any new Tax Excluded Foreign Subsidiary be required to be so pledged), (ii) deliver to the Administrative Agent the certificates representing such Capital Stock, together with undated stock powers, in blank, executed and delivered by a duly authorized officer of the relevant Group Member, as the case may be, and take such other action as may be necessary or, in the opinion of the Administrative Agent, desirable to perfect the Administrative Agent's security interest therein, and (iii) if requested by the Administrative Agent, deliver to the Administrative Agent legal opinions relating to the matters described above, which opinions shall be in form and substance, and from counsel, reasonably satisfactory to the Administrative Agent.

7.12. Further Assurances. From time to time from and after the Closing Date, execute and deliver, or cause to be executed and delivered, such additional instruments, certificates or documents, and take all such actions, as the Administrative Agent may reasonably request for the purposes of implementing or effectuating the provisions of this Agreement and the other Loan Documents, or of more fully perfecting or renewing the rights of the Administrative Agent and the Lenders with respect to the Collateral (or with respect to any additions thereto or replacements or proceeds thereof or with respect to any other property or assets hereafter acquired by the Borrower or any Subsidiary which may be deemed to be part of the Collateral) pursuant hereto or thereto. Upon the exercise by the Administrative Agent or any Lender of any power, right, privilege or remedy pursuant to this Agreement or the other Loan Documents which requires any consent, approval, recording qualification or authorization of any Governmental Authority, the Borrower will execute and deliver, or will cause the execution and delivery of, all applications, certifications, instruments and other documents and papers that the Administrative Agent or such Lenders may be required to obtain from the Borrower or any of its Subsidiaries for such governmental consent, approval, recording, qualification or authorization.

SECTION 8. NEGATIVE COVENANTS

The Borrower hereby agrees that, on and after the Closing Date, so long as the Commitments remain in effect, any Letter of

Credit remains outstanding (unless such Letter of Credit has been cash collateralized in accordance with Section 11.14) or any Loan or other amount is owing to any Lender or Agent hereunder, the Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly:

8.1. Financial Condition Covenants. (a) Consolidated Leverage Ratio. Commencing with the last day of the first full fiscal quarter commencing after the Closing Date, permit the Consolidated Leverage Ratio as at the last day of any period of four consecutive fiscal quarters of the Borrower ending with any fiscal quarter set forth below to exceed the ratio set forth below opposite such fiscal quarter:

<u>Fiscal Quarter</u>	<u>Consolidated Leverage Ratio</u>
March 31, 2004	4.25:1.00
June 30, 2004	4.25:1.00
September 30, 2004	4.25:1.00
December 31, 2004	3.75:1.00
March 31, 2005	3.30:1.00
June 30, 2005	3.25:1.00
September 30, 2005	3.00:1.00
December 31, 2005	3.00:1.00
March 31, 2006	3.00:1.00
June 30, 2006	3.00:1.00
September 30, 2006	2.50:1.00
December 31, 2006	2.50:1.00
March 31, 2007	2.50:1.00
June 30, 2007	2.50:1.00
September 30, 2007	2.50:1.00
December 31, 2007	2.50:1.00
March 31, 2008	2.50:1.00
June 30, 2008	2.50:1.00
September 30, 2008	2.50:1.00
December 31, 2008	2.50:1.00
March 31, 2009	2.50:1.00
June 30, 2009	2.50:1.00
September 30, 2009	2.50:1.00
December 31, 2009	2.50:1.00
March 31, 2010	2.50:1.00
June 30, 2010	2.50:1.00
September 30, 2010	2.50:1.00
December 31, 2010	2.50:1.00

(b) **Consolidated Senior Debt Ratio.** Commencing with the last day of the first full fiscal quarter commencing after the Closing Date, permit the Consolidated Senior Debt Ratio as at the last day of any period of four consecutive fiscal quarters of the Borrower ending with any fiscal quarter set forth below to exceed the ratio set forth below opposite such fiscal quarter:

<u>Fiscal Quarter</u>	<u>Consolidated Senior Debt Ratio</u>
March 31, 2004	2.55:1.00
June 30, 2004	2.50:1.00
September 30, 2004	2.35:1.00
December 31, 2004	2.05:1.00
March 31, 2005	1.90:1.00
June 30, 2005	1.75:1.00
September 30, 2005	1.65:1.00
December 31, 2005	1.50:1.00
March 31, 2006	1.50:1.00
June 30, 2006	1.50:1.00
September 30, 2006	1.25:1.00
December 31, 2006	1.25:1.00
March 31, 2007	1.25:1.00
June 30, 2007	1.25:1.00
September 30, 2007	1.25:1.00
December 31, 2007	1.25:1.00
March 31, 2008	1.25:1.00
June 30, 2008	1.25:1.00
September 30, 2008	1.25:1.00
December 31, 2008	1.25:1.00
March 31, 2009	1.25:1.00
June 30, 2009	1.25:1.00
September 30, 2009	1.25:1.00
December 31, 2009	1.25:1.00
March 31, 2010	1.25:1.00
June 30, 2010	1.25:1.00
September 30, 2010	1.25:1.00
December 31, 2010	1.25:1.00

(c) Consolidated Interest Coverage Ratio. Commencing with the last day of the first full fiscal quarter commencing after the Closing Date, permit the Consolidated Interest Coverage Ratio for any period of four consecutive fiscal quarters of the Borrower ending with any fiscal quarter set forth below to be less than the ratio set forth below opposite such fiscal quarter:

<u>Fiscal Quarter</u>	<u>Consolidated Interest Coverage Ratio</u>
March 31, 2004	3.10:1.00
June 30, 2004	3.20:1.00
September 30, 2004	3.25:1.00
December 31, 2004	3.35:1.00
March 31, 2005	3.35:1.00
June 30, 2005	3.55:1.00
September 30, 2005	3.55:1.00
December 31, 2005	3.75:1.00
March 31, 2006	3.75:1.00
June 30, 2006	3.75:1.00
September 30, 2006	4.00:1.00
December 31, 2006	4.00:1.00
March 31, 2007	4.00:1.00
June 30, 2007	4.00:1.00
September 30, 2007	4.00:1.00
December 31, 2007	4.00:1.00
March 31, 2008	4.00:1.00
June 30, 2008	4.00:1.00
September 30, 2008	4.00:1.00
December 31, 2008	4.00:1.00
March 31, 2009	4.00:1.00
June 30, 2009	4.00:1.00
September 30, 2009	4.00:1.00
December 31, 2009	4.00:1.00
March 31, 2010	4.00:1.00
June 30, 2010	4.00:1.00
September 30, 2010	4.00:1.00
December 31, 2010	4.00:1.00

(d) Consolidated Fixed Charge Coverage Ratio. Commencing with the last day of the first full fiscal quarter commencing after the Closing Date, permit the Consolidated Fixed Charge Coverage Ratio for any period of four consecutive fiscal quarters of the Borrower ending with any fiscal quarter set forth below to be less than the ratio set forth below opposite such fiscal quarter:

<u>Fiscal Quarter</u>	<u>Consolidated Fixed Charge Coverage Ratio</u>
March 31, 2004	1.25:1.00
June 30, 2004	1.25:1.00
September 30, 2004	1.25:1.00
December 31, 2004	1.25:1.00
March 31, 2005	1.25:1.00
June 30, 2005	1.25:1.00
September 30, 2005	1.25:1.00
December 31, 2005	1.25:1.00
March 31, 2006	1.25:1.00
June 30, 2006	1.25:1.00
September 30, 2006	1.25:1.00
December 31, 2006	1.25:1.00
March 31, 2007	1.25:1.00
June 30, 2007	1.25:1.00
September 30, 2007	1.25:1.00
December 31, 2007	1.25:1.00
March 31, 2008	1.25:1.00
June 30, 2008	1.25:1.00
September 30, 2008	1.25:1.00
December 31, 2008	1.25:1.00
March 31, 2009	1.25:1.00
June 30, 2009	1.25:1.00
September 30, 2009	1.25:1.00
December 31, 2009	1.25:1.00
March 31, 2010	1.25:1.00
June 30, 2010	1.25:1.00
September 30, 2010	1.25:1.00
December 31, 2010	1.25:1.00

8.2. Indebtedness. Create, issue, incur, assume, become liable in respect of or suffer to exist any Indebtedness, except:

(a) Indebtedness of any Loan Party pursuant to any Loan Document;

(b) Indebtedness (i) of the Borrower to any Subsidiary, (ii) of any Wholly Owned Subsidiary Guarantor to the Borrower or any other Subsidiary, (iii) of any Foreign Subsidiary to any Foreign Subsidiary, (iv) subject to Section 8.8(h), of any Foreign Subsidiary to the Borrower or any Wholly Owned Subsidiary Guarantor and (v) subject to Section 8.8(i), of any Outsourcing Project Subsidiary to the Borrower or any Wholly Owned Subsidiary Guarantor;

(c) Guarantee Obligations incurred in the ordinary course of business by the Borrower or any of its Subsidiaries of obligations of the Borrower, any Wholly Owned Subsidiary Guarantor and, subject to Section 8.8(h), of any Foreign Subsidiary;

(d) Indebtedness outstanding on the date hereof and listed on Schedule 8.2(d) and any refinancings, refundings, renewals or extensions thereof (without increasing, or shortening the maturity of, the principal amount thereof);

(e) Indebtedness (including, without limitation, Capital Lease Obligations) secured by Liens permitted by Section 8.3(g) in an aggregate principal amount not to exceed \$5,000,000 at any one time outstanding;

(f) (i) Indebtedness of the Borrower in respect of the Senior Subordinated Notes in an aggregate principal amount not to exceed \$125,000,000 and any refinancings thereof if (x) such refinancing Indebtedness does not increase the principal amount thereof and is issued on terms and conditions reasonably satisfactory to the Syndication

Agent (including a maturity date not earlier than the maturity date of the Senior Subordinated Notes and subordination terms at least as favorable to the Agents and the Lenders as the subordination terms in the Senior Subordinated Notes) and (y) no Default or Event of Default has occurred and is continuing at the time of issuance thereof, and (ii) Guarantee Obligations of any Guarantor in respect of such Indebtedness, provided that such Guarantee Obligations are subordinated to the same extent as the obligations of the Borrower in respect of the Senior Subordinated Notes;

(g) Hedge Agreements permitted under Section 8.12;

(h) (i) Outsourcing Project Indebtedness incurred to finance the acquisition, construction or operation of Outsourcing Project Assets and any refinancings thereof if (x) such refinancing Indebtedness does not increase the principal amount thereof and is issued on terms and conditions reasonably satisfactory to the Syndication Agent (including a maturity date not earlier than the maturity date of the Outsourcing Project Indebtedness being refinanced) and (y) no Default or Event of Default has occurred and is continuing at the time of issuance thereof, in aggregate principal amount not to exceed, together with all other Indebtedness incurred pursuant to this paragraph (h), \$50,000,000 at any one time outstanding and (ii) Outsourcing Project Guarantees in respect of such Outsourcing Project Indebtedness;

(i) unsecured subordinated Indebtedness of the Borrower in an aggregate amount not exceeding \$100,000,000 at any one time outstanding and the unsecured guarantee by any Guarantor hereunder of the Borrower's obligations thereunder; provided that (1) the proceeds thereof are used either (i) to repay the Obligations hereunder or (ii) to consummate Investments permitted by Section 8.8(m) and (2) (a) no part of the principal part of such Indebtedness shall have a maturity date earlier than the final maturity of the Loans hereunder, (b) after giving effect to the incurrence of any such Indebtedness on a pro forma basis, as if such incurrence of Indebtedness had occurred on the first day of the twelve month period ending on the last day of the Borrower's then most recently completed fiscal quarter, the Borrower and its Subsidiaries would have been in compliance with all the financial covenants set forth in Section 8.1 and the Borrower shall have delivered to the Administrative Agent a certificate of a Responsible Officer of the Borrower to such effect setting forth in reasonable detail the computations necessary to determine such compliance, (c) at the time of the incurrence of such Indebtedness and after giving effect thereto, no Default or Event of Default shall exist or be continuing and (d) the documentation governing such Indebtedness contains customary market terms (including subordination terms reasonably acceptable to the Administrative Agent and the Syndication Agent); and

(j) additional unsecured Indebtedness of the Borrower or any Guarantors in an aggregate principal amount (for the Borrower and all Guarantors) not to exceed \$10,000,000 at any one time outstanding and Guarantee Obligations of any Guarantor in respect of such Indebtedness.

8.3. Liens. Create, incur, assume or suffer to exist any Lien upon any of its property, whether now owned or hereafter acquired, except for:

(a) Liens for taxes not yet due or that are being contested in good faith by appropriate proceedings, provided that adequate reserves with respect thereto are maintained on the books of the Borrower or its Subsidiaries, as the case may be, in conformity with GAAP;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business that are not overdue for a period of more than 30 days or that are being contested in good faith by appropriate proceedings, provided that, as of any date of determination, no foreclosure is reasonably likely to occur within 30 days of such date by the lien claimant;

(c) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation;

(d) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business, so long as the aggregate amount of deposits at any one time securing appeal bonds does not exceed \$10,000,000;

(e) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business that, in the aggregate, are not substantial in amount and that do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the Borrower or any of its Subsidiaries;

(f) Liens in existence on the date hereof listed on Schedule 8.3(f), securing Indebtedness permitted by Section 8.2(d), operating leases which have been incurred in the ordinary course of business or inventory on consignment to the Borrower or its Subsidiaries, provided that no such Lien is spread to cover any additional property (other than proceeds of the original property) after the Closing Date and that the amount of Indebtedness secured thereby is not increased;

(g) Liens securing Indebtedness of the Borrower or any other Subsidiary incurred pursuant to Section 8.2(e) to finance the acquisition of fixed or capital assets, provided that (i) such Liens shall be created substantially simultaneously with the acquisition of such fixed or capital assets, (ii) such Liens do not at any time encumber any property other than the property financed by such Indebtedness (together with the proceeds of such original property) and (iii) the amount of Indebtedness secured thereby is not increased;

(h) Liens created pursuant to the Security Documents;

(i) any interest or title of a lessor under any lease entered into by the Borrower or any other Subsidiary in the ordinary course of its business and covering only the assets so leased;

(j) Liens on the Outsourcing Project Assets of an Outsourcing Project Subsidiary securing the Outsourcing Project Indebtedness of such Outsourcing Project Subsidiary permitted by Section 8.2(h); and

(k) Liens not otherwise permitted by this Section so long as neither (i) the aggregate outstanding principal amount of the obligations secured thereby nor (ii) the aggregate fair market value (determined as of the date such Lien is incurred) of the assets subject thereto exceeds (as to the Borrower and all Subsidiaries) \$2,500,000 at any one time.

8.4. Fundamental Changes. Enter into any merger, consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or Dispose of, all or substantially all of its property or business, except that:

(a) any Solvent Subsidiary of the Borrower may be merged or consolidated with or into the Borrower (provided that the Borrower shall be the continuing or surviving corporation) or with or into any Wholly Owned Subsidiary Guarantor (provided that the Wholly Owned Subsidiary Guarantor shall be the continuing or surviving corporation) or, subject to Section 8.8(h), with or into any Foreign Subsidiary;

(b) any Subsidiary of the Borrower may Dispose of any or all of its assets (upon voluntary liquidation or otherwise) to the Borrower or any Wholly Owned Subsidiary Guarantor or, subject to Section 8.8(h), any Foreign Subsidiary; and

(c) any Subsidiary of the Borrower may Dispose of any or all of its assets in a Disposition permitted by Section 8.5.

8.5. Disposition of Property. Dispose of any of its property, whether now owned or hereafter acquired, or, in the case of any Subsidiary, issue or sell any shares of such Subsidiary's Capital Stock to any Person, except:

(a) the Disposition of obsolete or worn out property in the ordinary course of business;

(b) the sale of inventory in the ordinary course of business;

(c) Dispositions permitted by Section 8.4(b);

(d) the sale or issuance of any Subsidiary's Capital Stock to the Borrower or any Wholly Owned Subsidiary Guarantor;

(e) the license (or sublicense) of Intellectual Property in the ordinary course of business;

(f) Dispositions consisting of Investments permitted by 8.8(i); and

(g) the Disposition of other property having a fair market value not to exceed \$15,000,000 in the aggregate for any fiscal year of the Borrower.

8.6. Restricted Payments. Declare or pay any dividend (other than dividends payable solely in common stock of the Person making such dividend) on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any Capital Stock of any Group Member, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property, the Borrower or any Subsidiary (collectively, "Restricted Payments"), except that:

(i) any Subsidiary may make Restricted Payments to the Borrower or any Wholly Owned Subsidiary Guarantor;

(ii) so long as no Default or Event of Default shall have occurred and be continuing or would result therefrom, the Borrower may purchase common stock or common stock options from present or former officers or employees of any Group Member upon the death, disability or termination of employment of such officer or employee, provided, that the aggregate amount of payments under this clause (ii) (net of any proceeds received by the Borrower after the Agreement Execution Date in connection with resales of any common stock or common stock options so purchased) shall not exceed \$1,000,000 per fiscal year; provided that any such amount not expended in a particular fiscal year may be carried over for expenditure into any succeeding fiscal year so long as the aggregate amount expended in any one fiscal year pursuant to this Section 8.6(ii) does not exceed \$3,000,000; and

(iii) the Borrower may purchase common stock or common stock options from shareholders who are not present or former officers or employees of any Group Member, so long as (x) the aggregate amount of payments under this clause (iii) do not exceed \$5,000,000 plus, on a cumulative basis, commencing with fiscal year 2005, 25% of the aggregate Borrower ECF Amounts as of the date of such purchase and (y) no Default or Event of Default has occurred and is continuing or would result therefrom.

8.7. Capital Expenditures. Make or commit to make any Capital Expenditure, except (a) Capital Expenditures of the Borrower and its Subsidiaries in the ordinary course of business not exceeding \$35,000,000 with respect to fiscal year 2004 and, with respect to any fiscal year thereafter, an amount equal to 6% of budgeted revenue for such fiscal year, as approved by the board of directors of the Borrower and by the Administrative Agent; provided, that (i) up to 25% of any such amount referred to above, if not so expended in the fiscal year for which it is permitted, may be carried over for expenditure in the next succeeding fiscal year and (ii) Capital Expenditures made pursuant to this clause (a) during any fiscal year shall be deemed made, first, in respect of amounts permitted for such fiscal year as provided above and, second, in respect of amounts carried over from the prior fiscal year pursuant to subclause (i) above and (b) Capital Expenditures made with the proceeds of any Reinvestment Deferred Amount.

8.8. Investments. Make any advance, loan, extension of credit (by way of guaranty or otherwise) or capital contribution to, or purchase any Capital Stock, bonds, notes,

debentures or other debt securities of, or any assets constituting a business unit of, or make any other investment in, any Person (all of the foregoing, "Investments"), except:

- (a) extensions of trade credit in the ordinary course of business (including extensions of trade credit on extended terms in the ordinary course of business);
- (b) Investments in Cash Equivalents;
- (c) Guarantee Obligations permitted by Section 8.2;
- (d) loans and advances to employees of any Group Member of the Borrower in the ordinary course of business (including for travel, entertainment and relocation expenses) in an aggregate amount for all Group Members not to exceed \$1,000,000 at any one time outstanding;
- (e) the Acquisition;
- (f) Investments in assets useful in the business of the Borrower and its Subsidiaries made by the Borrower or any of its Subsidiaries with the proceeds of any Reinvestment Deferred Amount;
- (g) intercompany Investments by any Group Member in the Borrower or any Person that, prior to such Investment, is a Wholly Owned Subsidiary Guarantor;
- (h) intercompany Investments by the Borrower or any of its Subsidiaries in any Person, that, prior to such Investment, is a Foreign Subsidiary (including, without limitation, Guarantee Obligations with respect to obligations of any such Foreign Subsidiary, loans made to any such Foreign Subsidiary and Investments resulting from mergers with or sales of assets to any such Foreign Subsidiary) in an aggregate amount (valued at cost) not to exceed \$15,000,000 during the term of this Agreement;
- (i) intercompany Investments in cash and other property by the Borrower or any of its Subsidiaries in any Person, that, prior to such Investment, is an Outsourcing Project Subsidiary so long as the aggregate amount of such Investments does not exceed \$25,000,000, net of recoveries and distributions received in cash thereon by any Loan Party, at any time outstanding;
- (j) Investments consisting of promissory notes and other deferred payment obligations delivered as the purchase consideration for a Disposition permitted by Section 8.5, so long as such notes and deferred payment obligations (i) comprise less than 20% of the aggregate purchase consideration for such Disposition and (ii) do not exceed \$5,000,000 in the aggregate, net of recoveries and distributions received in cash thereon by any Loan Party, at any time outstanding;
- (k) Investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers;

(l) Investments in companies engaged in related businesses in an aggregate amount not to exceed \$5,000,000, net of recoveries and distributions received in cash thereon by any Loan Party, at any one time outstanding; and

(m) the acquisition by the Borrower or any other Loan Party, of any Person or of substantially all the assets of a business or line of business, in each case, as a going concern, if:

(i) such Person or going concern is engaged only in a business permitted by Section 8.16;

(ii) the Borrower has delivered to the Administrative Agent a certificate of a Responsible Officer demonstrating in reasonable detail pro forma compliance with the covenants set forth in Section 8.1, based upon the most recent 12-month period for which financial statements are available and after giving effect to such acquisition, the financing thereof and all related transactions as if completed on the first day of such period;

(iii) no Default or Event of Default exists at the time such acquisition is agreed upon or made or would result therefrom;

(iv) the provisions of Section 7.11 are complied with in respect of such acquisition; and

(v) the aggregate amount of all consideration paid, delivered or promised in connection with all such acquisitions (other than the Acquisition) at any time after the Agreement Execution Date does not exceed \$75,000,000 and the aggregate amount of cash consideration for any single acquisition, or series of related acquisitions, does not exceed \$10,000,000.

8.9. Optional Payments and Modifications of Certain Debt Instruments. (a) Make or offer to make any optional or voluntary payment, prepayment, repurchase or redemption of or otherwise optionally or voluntarily defease or segregate funds with respect to the Senior Subordinated Notes except for refinancings thereof expressly permitted by Section 8.2(f);

(b) make or offer to make any optional or voluntary payment, prepayment, repurchase or redemption of or otherwise optionally or voluntarily defease or segregate funds with respect to any Outsourcing Project Indebtedness, except if no Default or Event of Default shall have occurred and be continuing or would result therefrom;

(c) amend, modify, waive or otherwise change, or consent or agree to any amendment, modification, waiver or other change to, any of the terms of the Senior Subordinated Notes or any Indebtedness expressly permitted by Section 8.2(f) which refinances such Senior Subordinated Notes (other than any such amendment, modification, waiver or other change that (i) would extend the maturity or reduce the amount of any payment of principal thereof or reduce the rate or extend any date for payment of interest thereon and (ii) does not involve the payment of a consent fee); or

(d) designate any Indebtedness (other than obligations of the Loan Parties pursuant to the Loan Documents) as “Designated Senior Debt” (or any other defined term having a similar purpose) for the purposes of the Senior Subordinated Note Indenture.

8.10. Transactions with Affiliates. Enter into any transaction, including any purchase, sale, lease or exchange of property, the rendering of any service or the payment of any management, advisory or similar fees, with any Affiliate (other than the Borrower or any Wholly Owned Subsidiary Guarantor) unless (1) such transaction is (a) otherwise permitted under this Agreement, (b) in the ordinary course of business of the relevant Group Member, and (c) upon fair and reasonable terms no less favorable to the relevant Group Member, than it would obtain in a comparable arm’s length transaction with a Person that is not an Affiliate or (2) such transaction is with an Excluded Foreign Subsidiary or an Outsourcing Project Subsidiary and is otherwise expressly permitted under this Agreement.

8.11. Sales and Leasebacks. Enter into any arrangement or series of arrangements which generate, either individually or in the aggregate, gross cash proceeds to the Borrower and its Subsidiaries in excess of \$20,000,000 with any Person providing for the leasing by any Group Member of real or personal property that has been or is to be sold or transferred by such Group Member to such Person or to any other Person to whom funds have been or are to be advanced by such Person on the security of such property or rental obligations of such Group Member.

8.12. Hedge Agreements. Enter into any Hedge Agreement, except (a) Hedge Agreements entered into to hedge or mitigate risks to which the Borrower or any Subsidiary has actual exposure (other than those in respect of Capital Stock or the Senior Subordinated Notes or any Indebtedness expressly permitted by Section 8.2(f) which refinances such Senior Subordinated Notes) and (b) Hedge Agreements entered into in order to effectively cap, collar or exchange interest rates (from fixed to floating rates, from one floating rate to another floating rate or otherwise) with respect to any interest-bearing liability or investment of the Borrower or any Subsidiary.

8.13. Changes in Fiscal Periods. Permit the fiscal year of the Borrower to end on a day other than December 31 or change the Borrower’s method of determining fiscal quarters.

8.14. Negative Pledge Clauses. Enter into or suffer to exist or become effective any agreement that prohibits or limits the ability of any Group Member to create, incur, assume or suffer to exist any Lien upon any of its property or revenues, whether now owned or hereafter acquired, other than (a) this Agreement and the other Loan Documents, (b) any agreements governing any purchase money Liens or Capital Lease Obligations otherwise permitted hereby (in which case, any prohibition or limitation shall only be effective against the assets financed thereby and the proceeds thereof), (c) solely as to restrictions on Liens securing liabilities other than the Obligations, the Senior Subordinated Notes Documentation and (d) any Outsourcing Project Debt Documentation (in which case any prohibition or limitation shall only be effective against the Outsourcing Project Assets financed thereby).

8.15. Clauses Restricting Subsidiary Distributions. Enter into or suffer to exist or become effective any consensual encumbrance or restriction on the ability of any Subsidiary of the Borrower to (a) make Restricted Payments in respect of any Capital Stock of such Subsidiary held by, or pay any Indebtedness owed to, the Borrower or any other Subsidiary of the Borrower, (b) make loans or advances to, or other Investments in, the Borrower or any other Subsidiary of the Borrower or (c) transfer any of its assets to the Borrower or any other Subsidiary of the Borrower, except (as to clauses (a), (b) and (c)) for such encumbrances or restrictions existing under or by reason of (i) any restrictions existing under the Loan Documents, (ii) any restrictions with respect to a Subsidiary imposed pursuant to an agreement that has been entered into in connection with the Disposition of all or substantially all of the Capital Stock or assets of such Subsidiary, (iii) any restrictions existing under the Senior Subordinated Notes Documentation and (iv) any restrictions with respect to an Outsourcing Project Subsidiary pursuant to the applicable Outsourcing Project Debt Documentation.

8.16. Lines of Business. Enter into any business, either directly or through any Subsidiary, except for those businesses in which the Borrower and its Subsidiaries are engaged on the date of this Agreement (after giving effect to the Acquisition) or that are reasonably related thereto.

8.17. Amendments to Acquisition Documents. (a) Amend, supplement or otherwise modify (pursuant to a waiver or otherwise) the terms and conditions of the indemnities and licenses furnished to the Borrower or any of its Subsidiaries pursuant to the Acquisition Documentation such that after giving effect thereto such indemnities or licenses shall be materially less favorable to the interests of the Loan Parties or the Lenders with respect thereto or (b) otherwise amend, supplement or otherwise modify the terms and conditions of the Acquisition Documentation or any such other documents, except for any such amendment, supplement or modification that (i) becomes effective after the Closing Date and (ii) would not reasonably be expected to have a Material Adverse Effect.

8.18. Intellectual Property. Except as would not reasonably be expected to have a Material Adverse Effect: (a) do any act or omit to do any act whereby any material Intellectual Property may become invalidated, diluted, abandoned, or dedicated to the public domain, or whereby the remedies available against potential infringers may become weakened, or (b) register or cause to be registered with the United States Copyright Office any copyright registration with respect to any material proprietary software of any Group Member or with respect to any other material property of a Group Member that is subject to registration with the United States Copyright Office.

SECTION 9. EVENTS OF DEFAULT

If, on or after the Closing Date, any of the following events shall occur and be continuing:

(a) the Borrower shall fail to pay any principal of any Loan or Reimbursement Obligation when due in accordance with the terms hereof; or the Borrower shall fail to pay any interest on any Loan or Reimbursement Obligation, or any other amount payable hereunder or under any other Loan Document, within five days after any such interest or other amount becomes due in accordance with the terms hereof; or

(b) any representation or warranty made or deemed made by any Loan Party herein or in any other Loan Document or that is contained in any certificate, document or financial or other statement furnished by it at any time under or in connection with this Agreement or any such other Loan Document shall prove to have been inaccurate in any material respect on or as of the date made or deemed made; or

(c) (i) any Loan Party shall default in the observance or performance of any agreement contained in clause (i) or (ii) of Section 7.4(a) (with respect to the Borrower only), Section 7.7(a) or Section 8 of this Agreement or Sections 5.5 and 5.7(b) of the Guarantee and Collateral Agreement or (ii) an "Event of Default" under and as defined in any Mortgage shall have occurred and be continuing; or

(d) any Loan Party shall default in the observance or performance of any other agreement contained in this Agreement or any other Loan Document (other than as provided in paragraphs (a) through (c) of this Section), and such default shall continue unremedied for a period of 30 days after notice to the Borrower from the Administrative Agent or the Required Lenders; or

(e) any Group Member (i) defaults in making any payment of any principal of any Indebtedness (including any Guarantee Obligation, but excluding the Loans) on the scheduled or original due date with respect thereto beyond the period of grace, if any, provided in the instrument or agreement under which such Indebtedness was created; or (ii) defaults in making any payment of any interest on any such Indebtedness beyond the period of grace, if any, provided in the instrument or agreement under which such Indebtedness was created; or (iii) defaults in the observance or performance of any other agreement or condition relating to any such Indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or beneficiary of such Indebtedness (or a trustee or agent on behalf of such holder or beneficiary) to cause, with the giving of notice if required, such Indebtedness to become due prior to its stated maturity or to become subject to a mandatory offer to purchase by the obligor thereunder or (in the case of any such Indebtedness constituting a Guarantee Obligation) to become payable; provided, that a default, event or condition described in clause (i), (ii) or (iii) of this paragraph (e) shall not at any time constitute an Event of Default unless, at such time, one or more defaults, events or conditions of the type described in clauses (i), (ii) and (iii) of this paragraph (e) shall have occurred and be continuing with respect to (A) Indebtedness (other than Outsourcing Project Indebtedness but including any Outsourcing Project Guarantee) the outstanding principal amount of which exceeds in the aggregate \$5,000,000 or, with respect to Outsourcing Project Indebtedness, \$25,000,000 or (B) Outsourcing Project Indebtedness if the Borrower would not have been in compliance with the covenants set forth in Section 8.1 as of the last day of the most recent fiscal quarter for which financial statements are available if Consolidated EBITDA for the twelve month period ended on such day were calculated to exclude any income of such Group Member from Consolidated Net Income; or

(f) (i) any Group Member shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or any Group Member shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against any Group Member any case, proceeding or other action of a nature referred to in clause (i) above that (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of 60 days; or (iii) there shall be commenced against any Group Member any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets that results in the entry of an order for any such relief that shall not have been vacated, discharged, or stayed or bonded pending appeal within 60 days from the entry thereof; or (iv) any Group Member shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), or (iii) above; or (v) any Group Member shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(g) (i) any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, other than a prohibited transaction for which an exemption is available and all the conditions for which are satisfied, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan or any Lien in favor of the PBGC or a Plan shall arise on the assets of any Group Member or any Commonly Controlled Entity, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or commencement of proceedings or appointment of a trustee is, in the reasonable opinion of the Required Lenders, likely to result in the termination of such Plan for purposes of Title IV of ERISA, (iv) any Single Employer Plan shall terminate for purposes of Title IV of ERISA, (v) any Group Member or any Commonly Controlled Entity shall, or in the reasonable opinion of the Required Lenders is likely to, incur any liability in connection with a withdrawal from, or the Insolvency or Reorganization of, a Multiemployer Plan or (vi) any other event or condition shall occur or exist with respect to a Plan; and in each case in clauses (i) through (vi) above, such event or condition, together with all other such events or conditions, if any, could, in the good faith judgment of the Required Lenders, reasonably be expected to have a Material Adverse Effect; or

(h) one or more judgments or decrees shall be entered against any Group Member involving in the aggregate a liability (to the extent not covered by insurance as

to which the relevant insurance company has acknowledged coverage) of \$5,000,000 or more, and all such judgments or decrees shall not have been vacated, discharged, stayed (by agreement or otherwise) or bonded pending appeal within 30 days from the entry thereof; or

(i) any of the Security Documents shall cease, for any reason, to be in full force and effect, or any Loan Party or any Affiliate of any Loan Party shall so assert, or any Lien created by any of the Security Documents shall cease to be enforceable and of the same effect and priority purported to be created thereby and solely with respect to any Lien, the enforceability and priority of such Lien shall not have been reestablished, reinstated and in full force and effect within 10 days of such cessation; or

(j) the guarantee contained in Section 2 of the Guarantee and Collateral Agreement shall cease, for any reason, to be in full force and effect or any Loan Party or any Affiliate of any Loan Party shall so assert; or

(k) (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), shall become, or obtain rights (whether by means or warrants, options or otherwise) to become, the "beneficial owner" (as defined in Rules 13(d)-3 and 13(d)-5 under the Exchange Act), directly or indirectly, of more than 30% of the outstanding common stock of the Borrower; (ii) the board of directors of the Borrower shall cease to consist of a majority of Continuing Directors; or (iii) a Specified Change of Control shall occur; or

(l) the Senior Subordinated Notes, or any Indebtedness expressly permitted by Section 8.2(f) which refinances such Senior Subordinated Notes, or the guarantees thereof shall cease, for any reason, to be validly subordinated to the Obligations or the obligations of the Guarantors under the Guarantee and Collateral Agreement, as the case may be, as provided in the Senior Subordinated Note Indenture, or any Loan Party, any Affiliate of any Loan Party, the trustee in respect of the Senior Subordinated Notes or the holders of at least 25% in aggregate principal amount of the Senior Subordinated Notes shall so assert; or

(m) the Borrower becomes unconditionally obligated to make payment under one or more Outsourcing Project Guarantees in an amount in excess of the amount which the Borrower would then be permitted to invest in such Outsourcing Project Subsidiary pursuant to Section 8.8(i);

then, and in any such event, (A) if such event is an Event of Default specified in clause (i) or (ii) of paragraph (f) above with respect to the Borrower, automatically the Commitments shall immediately terminate and the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement and the other Loan Documents (including all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder) shall immediately become due and payable, and (B) if such event is any other Event of Default, either or both of the following actions may be taken: (i) with the consent of the Required Lenders, the Administrative Agent may, or upon the request of the Required Lenders, the Administrative Agent shall, by notice to the Borrower

declare the Revolving Commitments to be terminated forthwith, whereupon the Revolving Commitments shall immediately terminate; and (ii) with the consent of the Required Lenders, the Administrative Agent may, or upon the request of the Required Lenders, the Administrative Agent shall, by notice to the Borrower, declare the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement and the other Loan Documents (including all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder) to be due and payable forthwith, whereupon the same shall immediately become due and payable. With respect to all Letters of Credit with respect to which presentment for honor shall not have occurred at the time of an acceleration pursuant to this paragraph, the Borrower shall at such time deposit in a cash collateral account opened by the Administrative Agent an amount equal to the aggregate then undrawn and unexpired amount of such Letters of Credit. Amounts held in such cash collateral account shall be applied by the Administrative Agent to the payment of drafts drawn under such Letters of Credit, and the unused portion thereof after all such Letters of Credit shall have expired or been fully drawn upon, if any, shall be applied to repay other obligations of the Borrower hereunder and under the other Loan Documents. After all such Letters of Credit shall have expired or been fully drawn upon, all Reimbursement Obligations shall have been satisfied and all other obligations of the Borrower hereunder and under the other Loan Documents shall have been paid in full, the balance, if any, in such cash collateral account shall be returned to the Borrower (or such other Person as may be lawfully entitled thereto). Except as expressly provided above in this Section, presentment, demand, protest and all other notices of any kind are hereby expressly waived by the Borrower.

SECTION 10. THE AGENTS

10.1. Appointment. Each Lender hereby irrevocably designates and appoints each Agent as the agent of such Lender under this Agreement and the other Loan Documents, and each such Lender irrevocably authorizes such Agent, in such capacity, to take such action on its behalf under the provisions of this Agreement and the other Loan Documents and to exercise such powers and perform such duties as are expressly delegated to such Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, no Agent shall have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against any Agent.

10.2. Delegation of Duties. Each Agent may execute any of its duties under this Agreement and the other Loan Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. No Agent shall be responsible for the negligence or misconduct of any agents or attorneys in-fact selected by it with reasonable care.

10.3. Exculpatory Provisions. Neither any Agent nor any of their respective officers, directors, employees, agents, attorneys-in-fact or affiliates shall be (i) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement or any other Loan Document (except to the extent that any of the foregoing are found

by a final and nonappealable decision of a court of competent jurisdiction to have resulted from its or such Person's own gross negligence or willful misconduct) or (ii) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by any Loan Party or any officer thereof contained in this Agreement or any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Agents under or in connection with, this Agreement or any other Loan Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document or for any failure of any Loan Party a party thereto to perform its obligations hereunder or thereunder. The Agents shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of any Loan Party.

10.4. Reliance by Agents. Each Agent shall be entitled to rely, and shall be fully protected in relying, upon any instrument, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including counsel to the Borrower), independent accountants and other experts selected by such Agent. The Administrative Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Administrative Agent. Each Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders (or, if so specified by this Agreement, all Lenders) as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action. The Agents shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders (or, if so specified by this Agreement, all Lenders), and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders and all future holders of the Loans.

10.5. Notice of Default. No Agent shall be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless such Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Administrative Agent receives such a notice, the Administrative Agent shall give notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders (or, if so specified by this Agreement, all Lenders or any other instructing group of Lenders specified by this Agreement); provided that unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Lenders.

10.6. Non-Reliance on Agents and Other Lenders. Each Lender expressly acknowledges that neither the Agents nor any of their respective officers, directors, employees,

agents, attorneys-in-fact or affiliates have made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of a Loan Party or any affiliate of a Loan Party, shall be deemed to constitute any representation or warranty by any Agent to any Lender. Each Lender represents to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Loan Parties and their affiliates and made its own decision to make its Loans hereunder and enter into this Agreement. Each Lender also represents that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Loan Parties and their affiliates. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of any Loan Party or any affiliate of a Loan Party that may come into the possession of the Administrative Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

10.7. Indemnification. The Lenders agree to indemnify each Agent in its capacity as such (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to their respective Aggregate Exposure Percentages in effect on the date on which indemnification is sought under this Section (or, if indemnification is sought after the date upon which the Commitments shall have terminated and the Loans shall have been paid in full, ratably in accordance with such Aggregate Exposure Percentages immediately prior to such date), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever that may at any time (whether before or after the payment of the Loans) be imposed on, incurred by or asserted against such Agent in any way relating to or arising out of, the Commitments, this Agreement, any of the other Loan Documents or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by such Agent under or in connection with any of the foregoing; provided that no Lender shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements that are found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from such Agent's gross negligence or willful misconduct. The agreements in this Section shall survive the payment of the Loans and all other amounts payable hereunder.

10.8. Agent in Its Individual Capacity. Each Agent and its affiliates may make loans to, accept deposits from and generally engage in any kind of business with any Loan Party as though such Agent were not an Agent. With respect to its Loans made or renewed by it and with respect to any Letter of Credit issued or participated in by it, each Agent shall have the same rights and powers under this Agreement and the other Loan Documents as any Lender and may exercise the same as though it were not an Agent, and the terms "Lender" and "Lenders" shall include each Agent in its individual capacity.

10.9. Successor Administrative Agent. The Administrative Agent may resign as Administrative Agent upon 30 days' notice to the Lenders and the Borrower. If the Administrative Agent shall resign as Administrative Agent under this Agreement and the other Loan Documents, then the Required Lenders shall appoint from among the Lenders a successor agent for the Lenders, which successor agent shall (unless an Event of Default under Section 9(a) or Section 9(f) with respect to the Borrower shall have occurred and be continuing) be subject to approval by the Borrower (which approval shall not be unreasonably withheld or delayed), whereupon such successor agent shall succeed to the rights, powers and duties of the Administrative Agent, and the term "Administrative Agent" shall mean such successor agent effective upon such appointment and approval, and the former Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any holders of the Loans. If no successor agent has accepted appointment as Administrative Agent by the date that is 30 days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective and the Lenders shall assume and perform all of the duties of the Administrative Agent hereunder until such time, if any, as the Required Lenders appoint a successor agent as provided for above. The Syndication Agent may, at any time, by notice to the Lenders and the Administrative Agent, resign as Syndication Agent hereunder, whereupon the duties, rights, obligations and responsibilities of the Syndication Agent hereunder shall automatically be assumed by, and inure to the benefit of, the Administrative Agent, without any further act by the Syndication Agent, the Administrative Agent or any Lender. After any retiring Administrative Agent's resignation as Administrative Agent, the provisions of this Section 10 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement and the other Loan Documents.

10.10. Agents Generally. Except as expressly set forth herein, no Agent shall have any duties or responsibilities hereunder in its capacity as such.

10.11. The Lead Arranger. The Lead Arranger, in its capacity as such, shall have no duties or responsibilities, and shall incur no liability, under this Agreement and other Loan Documents.

10.12. Withholding Tax. (a) To the extent required by any applicable law, the Administrative Agent may withhold from any interest payment to any Lender an amount equivalent to any applicable withholding tax. If the forms or other documentation required by Section 4.10(e) are not delivered to the Administrative Agent, then the Administrative Agent may withhold from any interest payment to any Lender not providing such forms or other documentation, the maximum amount of the applicable withholding tax.

(b) If the Internal Revenue Service or any authority of the United States or other jurisdiction asserts a claim that the Administrative Agent did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered, was not properly executed, or because such Lender failed to notify the Administrative

Agent of a change of circumstances which rendered the exemption from, or reduction of, withholding tax ineffective), such Lender shall indemnify the Administrative Agent fully for all amounts paid, directly or indirectly, by the Administrative Agent as tax or otherwise, including penalties and interest, together with all expenses incurred, including legal expenses, allocated staff costs and any out-of-pocket expenses; provided that no Lender shall be liable for the payment of any portion of such amounts that are found by a final and nonappealable decision of a court of competent jurisdiction to have resulted solely and proximately from the Administrative Agent's gross negligence or willful misconduct. Nothing in this Section 10.12 reduces or eliminates the Borrower's obligations under Section 4.10.

SECTION 11. MISCELLANEOUS

11.1. Amendments and Waivers. Neither this Agreement, any other Loan Document, nor any terms hereof or thereof may be amended, supplemented or modified except in accordance with the provisions of this Section 11.1. The Required Lenders and each Loan Party party to the relevant Loan Document may, or, with the written consent of the Required Lenders, the Administrative Agent and each Loan Party party to the relevant Loan Document may, from time to time, (a) enter into written amendments, supplements or modifications hereto and to the other Loan Documents for the purpose of adding any provisions to this Agreement or the other Loan Documents or changing in any manner the rights of the Lenders or of the Loan Parties hereunder or thereunder or (b) waive, on such terms and conditions as the Required Lenders or the Administrative Agent, as the case may be, may specify in such instrument, any of the requirements of this Agreement or the other Loan Documents or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall (i) forgive the principal amount or extend the final scheduled date of maturity of any Loan, extend the scheduled date of any amortization payment in respect of any Term Loan, reduce the stated rate of any interest or fee payable hereunder (except (x) in connection with the waiver of applicability of any post-default increase in interest rates, which waiver shall be effective with the consent of the Majority Facility Lenders of each adversely affected Facility and (y) that any amendment or modification of defined terms used in the financial covenants in this Agreement shall not constitute a reduction in the rate of interest or fees for purposes of this clause (i)) or extend the scheduled date of any payment thereof, or increase the amount or extend the expiration date of any Lender's Commitment, or permit any Interest Period with a duration longer than 6 months, in each case without the written consent of each Lender directly affected thereby; (ii) eliminate or reduce the voting rights of any Lender under this Section 11.1 without the written consent of such Lender; (iii) reduce any percentage specified in the definition of Required Lenders, consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement and the other Loan Documents, release all or substantially all of the Collateral or release all or substantially all of the Guarantors from their obligations under the Guarantee and Collateral Agreement, in each case without the written consent of all Lenders; (iv) amend, modify or waive any condition precedent to any extension of credit under the Revolving Facility set forth in Section 6.2 (including in connection with any waiver of an existing Default or Event of Default) without the written consent of the Majority Facility Lenders with respect to the Revolving Facility; (v) amend, modify or waive any provision of Section 4.8 without the written consent of the Majority Facility Lenders in respect of each Facility adversely affected thereby; (vi) reduce the amount of Net Cash Proceeds or Excess Cash Flow required to be applied to prepay Loans under

this Agreement without the written consent of the Majority Facility Lenders with respect to each Facility; (vii) reduce the percentage specified in the definition of Majority Facility Lenders with respect to any Facility without the written consent of all Lenders under such Facility; (viii) amend, modify or waive any provision of Section 10 without the written consent of each Agent adversely affected thereby; (ix) amend, modify or waive any provision of Section 3.3 or 3.4 without the written consent of the Swingline Lender; or (x) amend, modify or waive any provision of Sections 3.7 to 3.14 without the written consent of the Issuing Lender. Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Lenders and shall be binding upon the Loan Parties, the Lenders, the Agents and all future holders of the Loans. In the case of any waiver, the Loan Parties, the Lenders and the Agents shall be restored to their former position and rights hereunder and under the other Loan Documents, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

Notwithstanding clauses (ii), (iii), (v), (vi) and (vii) in the foregoing paragraph, this Agreement may be amended (or amended and restated) with the written consent of the Required Lenders, the Arranger, the Administrative Agent and the Borrower (a) to add one or more additional credit facilities to this Agreement and to permit the extensions of credit from time to time outstanding thereunder and the accrued interest and fees in respect thereof (collectively, the "Additional Extensions of Credit") to share ratably in the benefits of this Agreement and the other Loan Documents with the Term Loans and Revolving Extensions of Credit and the accrued interest and fees in respect thereof and (b) to include appropriately the Lenders holding such credit facilities in any determination of the Required Lenders and Majority Facility Lenders; provided, that no such amendment shall permit the Additional Extensions of Credit to share ratably with or with preference to the Term Loans in the application of mandatory prepayments without the consent of the Majority Facility Lenders under each Facility (other than the Revolving Facility) or otherwise to share ratably with or with preference to the Revolving Extensions of Credit without the consent of the Majority Facility Lenders under the Revolving Facility.

In addition, notwithstanding the foregoing, this Agreement may be amended with the written consent of the Arranger, the Administrative Agent, the Borrower and the Lenders providing the relevant Replacement Term Loans (as defined below) to permit the refinancing of all outstanding Tranche B Term Loans ("Refinanced Term Loans") with a replacement "B" term loan tranche hereunder ("Replacement Term Loans"), provided that (a) the aggregate principal amount of such Replacement Term Loans shall not exceed the aggregate principal amount of such Refinanced Term Loans, (b) the Applicable Margin for such Replacement Term Loans shall not be higher than the Applicable Margin for such Refinanced Term Loans, (c) the weighted average life to maturity of such Replacement Term Loans shall not be shorter than the weighted average life to maturity of such Refinanced Term Loans at the time of such refinancing and (d) all other terms applicable to such Replacement Term Loans shall be substantially identical to, or less favorable to the Lenders providing such Replacement Term Loans than, those applicable to such Refinanced Term Loans, except to the extent necessary to provide for covenants and other terms applicable to any period after the latest final maturity of the Term Loans in effect immediately prior to such refinancing.

11.2. Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by telecopy), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered, or three Business Days after being deposited in the mail, postage prepaid, or, in the case of telecopy notice, when received, addressed as follows in the case the Borrower and the Agents, and as set forth in an administrative questionnaire delivered to the Administrative Agent in the case of the Lenders, or to such other address as may be hereafter notified by the respective parties hereto:

The Borrower:

Itron, Inc.
2818 North Sullivan Road
Spokane, WA 99216
Attention: Chief Financial Officer
Telecopy: (509) 891-3334
Telephone: (509) 891-3488

with a copy to:

Itron, Inc.
2818 North Sullivan Road
Spokane, WA 99216
Attention: Corporate Secretary
Telecopy: (509) 891-3334
Telephone: (509) 891-3272

and

Perkins Coie LLP
1201 Third Avenue, 48th flr.
Seattle, WA 98101-3099
Attention: James D. Gradel
Telecopy: (206) 359-8401
Telephone: (206) 359-9401

The Lead Arranger
and Syndication Agent:

Bear Stearns Corporate Lending Inc.
383 Madison Avenue
New York, NY 10179
Attention: Kevin Cullen
Telecopy: (212) 272-9184
Telephone: (212) 272-5724

with a copy to:

Latham & Watkins LLP
885 Third Avenue
New York, NY 10022
Attention: Melissa Alwang
Telecopy: (212) 751-4864
Telephone: (212) 906-1706

The Administrative Agent:

Wells Fargo Bank
Inland Northwest RCBO
Mac#6773-030
221 N. Wall, Suite 310
Spokane, WA 99201
Attention: Tom Beil
Telecopy: (509) 363-6875
Telephone: (509) 363-6860

provided that any notice, request or demand to or upon any Agent, the Issuing Lender or the Lenders shall not be effective until received.

Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communications pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices pursuant to Section 2 unless otherwise agreed by the Administrative Agent and the applicable Lender and provided further that any notices or deliveries required to be given to all the Lenders hereunder may be effected by delivery of notice to the Administrative Agent as provided above, followed by a distribution of such notice by the Administrative Agent to the Lenders through IntraLinks (or any similar electronic system customarily used by financial institutions), to the extent such system is being used by the Administrative Agent, it being understood that the Administrative Agent shall bear no responsibility for any failure of any Lender to receive any such notice or delivery and the Borrower shall remain responsible therefore. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

11.3. No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of any Agent or any Lender, any right, remedy, power or privilege hereunder or under the other Loan Documents shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

11.4. Survival of Representations and Warranties. All representations and warranties made hereunder, in the other Loan Documents and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement and the making of the Loans and other extensions of credit hereunder.

11.5. Payment of Expenses and Taxes. The Borrower agrees (a) to pay or reimburse each Agent for all its reasonable out-of-pocket costs and expenses incurred in connection with the development, preparation and execution of, and any amendment, supplement or modification to, this Agreement and the other Loan Documents and any other documents prepared in connection herewith or therewith, and the consummation and administration of the transactions contemplated hereby and thereby, including the reasonable fees and disbursements of counsel to such Agent and filing and recording fees and expenses, with statements with

respect to the foregoing to be submitted to the Borrower prior to the Closing Date (in the case of amounts to be paid on the Closing Date) and from time to time thereafter on a quarterly basis or such other periodic basis as such Agent shall deem appropriate (provided that fees and expenses of counsel to the Agents shall be limited to the fees and expenses of a single primary counsel and of such other local and specialist counsel as the Agents may require), (b) to pay or reimburse each Lender and Agent for all its costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, the other Loan Documents and any such other documents, including the fees and disbursements of counsel (including the allocated fees and expenses of in-house counsel) to each Lender and of counsel to such Agent, (c) to pay, indemnify, and hold each Lender and Agent harmless from, any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in paying, stamp, excise and other taxes, if any, that may be payable or determined to be payable in connection with the execution and delivery of, or consummation or administration of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, the other Loan Documents and any such other documents, and (d) to pay, indemnify, and hold each Lender and Agent and their respective officers, directors, employees, affiliates, agents and controlling persons (each, an "Indemnitee") harmless from and against any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, performance and administration of this Agreement, the other Loan Documents and any such other documents, including any of the foregoing relating to the use of proceeds of the Loans or the violation of, noncompliance with or liability under, any Environmental Law applicable to the operations of any Group Member or any of the Properties or the unauthorized use by Persons of information or other materials sent through electronic, telecommunications or other information transmission systems that are intercepted by such Persons and the reasonable fees and expenses of legal counsel in connection with claims, actions or proceedings by any Indemnitee against any Loan Party under any Loan Document (all the foregoing in this clause (d), collectively, the "Indemnified Liabilities"), provided, that the Borrower shall have no obligation hereunder to any Indemnitee with respect to Indemnified Liabilities to the extent such Indemnified Liabilities are found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of such Indemnitee. Without limiting the foregoing, and to the extent permitted by applicable law, the Borrower agrees not to assert and to cause its Subsidiaries not to assert, and hereby waives and agrees to cause its Subsidiaries to waive, all rights for contribution or any other rights of recovery with respect to all claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature, under or related to Environmental Laws, that any of them might have by statute or otherwise against any Indemnitee, except to the extent that the violation of, noncompliance with or liability under, any Environmental Law was caused by the Indemnitee after the Indemnitee obtained possession of the applicable property of any Group Member. All amounts due under this Section 11.5 shall be payable not later than 10 days after written demand therefor. Statements payable by the Borrower pursuant to this Section 11.5 shall be submitted at the address of the Borrower set forth in Section 11.2, or to such other Person or address as may be hereafter designated by the Borrower in a written notice to the Administrative Agent. The agreements in this Section 11.5 shall survive repayment of the Loans and all other amounts payable hereunder.

11.6. Successors and Assigns; Participations and Assignments. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any affiliate of the Issuing Lender that issues any Letter of Credit), except that (i) the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void) and (ii) no Lender may assign or otherwise transfer its rights or obligations hereunder except in accordance with this Section.

(b) (i) Subject to the conditions set forth in paragraph (b)(ii) below, any Lender may assign to one or more assignees (each, an “Assignee”) all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitments and the Loans at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld) of:

(A) the Borrower, provided that no consent of the Borrower shall be required (x) with respect to an assignment of funded Term Loans, (y) for an assignment to a Lender, an affiliate of a Lender, an Approved Fund, or (z) if an Event of Default has occurred and is continuing, any other Person; and

(B) the Administrative Agent, provided that no consent of the Administrative Agent shall be required for an assignment to an Assignee that is a Lender or Approved Fund managed or advised by the same investment advisor as such Lender (or by an Affiliate of such investment advisor) immediately prior to giving effect to such assignment, except in the case of an assignment of a Revolving Commitment to an Assignee that does not already have a Revolving Commitment.

(ii) Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Lender, an affiliate of a Lender or an Approved Fund or an assignment of the entire remaining amount of the assigning Lender’s Commitments or Loans under any Facility, the amount of the Commitments or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$1,000,000 unless each of the Borrower and the Administrative Agent otherwise consent, provided that (1) no such consent of the Borrower shall be required if an Event of Default has occurred and is continuing and (2) such amounts shall be aggregated in respect of each Lender and its affiliates or Approved Funds, if any;

(B) the Assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an administrative questionnaire;

(C) in the case of an assignment to a CLO of the assigning Lender, the assigning Lender shall retain the sole right to approve any amendment, modification or waiver of any provision of this Agreement and the other Loan Documents so long as the assigning Lender remains as a Lender, provided that the Assignment and Assumption between such Lender and such CLO may provide that such Lender will not, without the consent of such CLO, agree to any amendment, modification or waiver that (1) requires the consent of each Lender directly affected thereby pursuant to the proviso to the second sentence of Section 11.1 and (2) directly affects such CLO; and

(D) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500; except that no such assignment and processing fee shall be payable in connection with an Assignment by the Lead Arranger or any of its affiliates and only one such fee shall be payable for multiple contemporaneous assignments to or from Approved Funds of a single Lender.

(iii) Subject to acceptance and recording thereof pursuant to paragraph (b)(iv) below, from and after the effective date specified in each Assignment and Assumption the Assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 4.9, 4.10, 4.11 and 11.5). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 11.6 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (c) of this Section.

(iv) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amount of the Loans and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent, the Issuing Lender and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Lender and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(v) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an Assignee, the Assignee's completed administrative questionnaire (unless the Assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any

written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall (x) accept such Assignment and Assumption and record the information contained therein in the Register and (y) deliver a copy of such Assignment and Acceptance to the Syndication Agent. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(c) (i) Any Lender may, without the consent of the Borrower or the Administrative Agent, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitments and the Loans owing to it); provided that (A) such Lender's obligations under this Agreement shall remain unchanged, (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (C) the Borrower, the Administrative Agent, the Issuing Lender and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver that (1) requires the consent of each Lender directly affected thereby pursuant to the proviso to the second sentence of Section 11.1 and (2) directly affects such Participant. Subject to paragraph (c)(ii) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 4.9, 4.10 or 4.11 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 11.7(b) as though it were a Lender, provided such Participant shall be subject to Section 11.7(a) as though it were a Lender.

(ii) A Participant shall not be entitled to receive any greater payment under Section 4.9 or 4.10 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. Any Participant that is a Non-U.S. Lender shall not be entitled to the benefits of Section 4.10 unless such Participant complies with Section 4.10(e).

(d) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or Assignee for such Lender as a party hereto.

(e) The Borrower, upon receipt of written notice from the relevant Lender, agrees to issue Notes to any Lender requiring Notes to facilitate transactions of the type described in paragraph (d) above.

(f) Notwithstanding the foregoing, any Conduit Lender may assign any or all of the Loans it may have funded hereunder to its designating Lender without the consent of the Borrower or the Administrative Agent and without regard to the limitations set forth in Section 11.6(b). The Borrower, each Lender and the Administrative Agent hereby confirms that it will not institute against a Conduit Lender or join any other Person in instituting against a Conduit Lender any bankruptcy, reorganization, arrangement, insolvency or liquidation proceeding under any state bankruptcy or similar law, for one year and one day after the payment in full of the latest maturing commercial paper note issued by such Conduit Lender; provided, however, that each Lender designating any Conduit Lender hereby agrees to indemnify, save and hold harmless each other party hereto for any loss, cost, damage or expense arising out of its inability to institute such a proceeding against such Conduit Lender during such period of forbearance.

11.7. Adjustments; Set-off. (a) Except to the extent that this Agreement expressly provides for payments to be allocated to a particular Lender or to the Lenders under a particular Facility, if any Lender (a "Benefited Lender") shall receive any payment of all or part of the Obligations owing to it, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set-off, pursuant to events or proceedings of the nature referred to in Section 9(f), or otherwise), in a greater proportion than any such payment to or collateral received by any other Lender, if any, in respect of the Obligations owing to such other Lender, such Benefited Lender shall purchase for cash from the other Lenders a participating interest in such portion of the Obligations owing to each such other Lender, or shall provide such other Lenders with the benefits of any such collateral, as shall be necessary to cause such Benefited Lender to share the excess payment or benefits of such collateral ratably with each of the Lenders; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such Benefited Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest.

(b) In addition to any rights and remedies of the Lenders provided by law, each Lender shall have the right, without prior notice to the Borrower, any such notice being expressly waived by the Borrower to the extent permitted by applicable law, upon any amount becoming due and payable by the Borrower hereunder (whether at the stated maturity, by acceleration or otherwise), to set off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Lender or any branch or agency thereof to or for the credit or the account of the Borrower. Each Lender agrees promptly to notify the Borrower and the Administrative Agent after any such setoff and application made by such Lender, provided that the failure to give such notice shall not affect the validity of such setoff and application.

11.8. Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed signature page of this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and the Administrative Agent.

11.9. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11.10. Integration. This Agreement and the other Loan Documents represent the entire agreement of the Borrower, the Agents and the Lenders with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or warranties by any Agent or any Lender relative to subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents. The Commitments supersede all prior commitments and obligations to make loans or otherwise extend credit delivered to the Borrower at any time prior to the Agreement Execution Date by any Agent or Lender or any of their Affiliates. The agreements of the Borrower contained in the fee letter agreement, dated July 15, 2003, survive the execution and delivery of this Agreement and the funding of the Term Loans.

11.11. **GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.**

11.12. Submission To Jurisdiction; Waivers. The Borrower hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the courts of the State of New York located in the County of New York, the courts of the United States for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts, agrees not to commence any such action or proceeding relating to this Agreement and the other Loan Documents other than in such courts, except to the extent mandated by applicable law, and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Borrower, at its address set forth in Section 11.2 or at such other address of which the Administrative Agent shall have been notified pursuant thereto;

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right of any other Person to sue in any other jurisdiction; and

(e) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section any special, exemplary, punitive or consequential damages.

11.13. Acknowledgments. The Borrower hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents;

(b) no Agent or Lender has any fiduciary relationship with or duty to the Borrower arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between the Agents and Lenders, on one hand, and the Borrower, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture is created hereby or by the other Loan Documents or otherwise exists by virtue of the transactions contemplated hereby among the Lenders or among the Borrower and the Lenders.

11.14. Releases of Guarantees and Liens. (a) Notwithstanding anything to the contrary contained herein or in any other Loan Document, the Administrative Agent is hereby irrevocably authorized by each Lender (without requirement of notice to or consent of any Lender except as expressly required by Section 11.1) to take any action requested by the Borrower having the effect of releasing any Collateral or guarantee obligations (i) to the extent necessary to permit consummation of any transaction not prohibited by any Loan Document or that has been consented to in accordance with Section 11.1 or (ii) under the circumstances described in paragraph (b) below. In furtherance of the foregoing, upon request of the Borrower, the Administrative Agent shall (without notice to or vote or consent of any Lender, or any affiliate of any Lender that is a party to any Specified Hedge Agreement) take such actions as shall be required to release (1) the guarantee obligations of an Outsourcing Project Subsidiary under the Guaranty and Collateral Agreement in connection with the incurrence of Outsourcing Project Indebtedness by such Outsourcing Project Subsidiary and (2) the Administrative Agent's security interest in (i) any Collateral being Disposed of in a Disposition of Property permitted by the Loan Documents and (ii) any Outsourcing Project Assets in connection with the creation and perfection of any Lien thereon permitted by Section 8.3(j), to secure Outsourcing Project Indebtedness, in each case under clause (1) and (2), to the extent necessary to permit consummation of such Disposition or the incurrence of such Outsourcing Project Indebtedness; provided that the Borrower shall have delivered to the Administrative Agent, at least 10 Business Days prior to the date of the proposed release, a written request therefore and the terms of such Disposition or Outsourcing Project Indebtedness, in reasonable detail, together with a certificate stating that such Disposition or such incurrence is in compliance with this Agreement and the other Loan Documents and that the proceeds therefrom will be applied in accordance with this Agreement and the other Loan Documents and if the Administrative Agent determines in good faith that no dispute exists or is likely to arise between the Lenders, the Administrative Agent and the Borrower with respect to such Disposition or such incurrence.

(b) At such time as the Loans, the Reimbursement Obligations and the other obligations under the Loan Documents (other than obligations under or in respect of Hedge Agreements) shall have been paid in full, the Commitments have been terminated and no Letters of Credit shall be outstanding, the Collateral shall be released from the Liens created by the Security Documents, and the Security Documents and all obligations (other than those obligations relating to the payment of fees and expenses and indemnification or any other obligation expressly stated to survive such termination) of the Administrative Agent and each Loan Party under the Security Documents shall terminate, all without delivery of any instrument or performance of any act by any Person. Notwithstanding the foregoing, for purposes of this Section 11.14, a Letter of Credit shall not be deemed outstanding if (i) the Loans, the Reimbursement Obligations and the other Obligations under the Loan Documents shall have been paid in full and the Commitments have been terminated and (ii) the Borrower has (x) deposited with each Issuing Lender cash to be held by such Issuing Lender as cash collateral in an amount equal to 105% of the face amount of each Letter of Credit issued by such Issuing Lender to be available to such Issuing Lender to reimburse payments of drafts drawn under such Letter of Credit and pay any fees and expenses related thereto and (y) prepaid to each Issuing Lender the entire fee payable under Section 3.9(a) with respect to any Letters of Credit issued by such Issuing Lender for the full remaining term of such Letters of Credit. Upon termination of a Letter of Credit which has been cash collateralized as provided in this Section, the unearned portion of such prepaid fee attributable to such Letter of Credit shall be refunded to the Borrower, together with the deposit described in the preceding clause (x) with respect to such Letter of Credit to the extent not previously applied by the applicable Issuing Lender in the manner described herein. Each Issuing Lender hereby acknowledges and agrees that if a Letter of Credit has been cash collateralized as provided in this Section and the Loans, the Reimbursement Obligations and the other Obligations under the Loan Documents shall have been paid in full and the Commitments have been terminated, all obligations of the Lenders with respect to such Letters of Credit shall have terminated, including the obligations of the Lenders to purchase L/C Participations pursuant to Section 3.10 and the obligations of the Lenders to make Revolving Loans pursuant to Section 3.2.

11.15. Confidentiality. Each Agent and each Lender agrees to keep confidential all non-public information provided to it by any Loan Party pursuant to this Agreement that is designated by such Loan Party as confidential; provided that nothing herein shall prevent any Agent or any Lender from disclosing any such information (a) to any Agent, any other Lender or any Lender affiliate, (b) subject to an agreement to comply with the provisions of this Section, to any actual or prospective Transferee or any direct or indirect counterparty to any Hedge Agreement (or any professional advisor to such counterparty), (c) to its employees, directors, agents, attorneys, accountants and other professional advisors or those of any of its affiliates, (d) upon the request or demand of any Governmental Authority, (e) in response to any order of any court or other Governmental Authority or as may otherwise be required pursuant to any Requirement of Law, (f) if requested or required to do so in connection with any litigation or similar proceeding, (g) that has been publicly disclosed, (h) to the National Association of Insurance Commissioners or any similar organization or any nationally recognized rating agency that requires access to information about a Lender's investment portfolio in connection with

ratings issued with respect to such Lender, (i) in connection with the exercise of any remedy hereunder or under any other Loan Document or (j) to any direct or indirect contractual counterparty in swap agreements or such contractual counterparty's professional advisor (so long as such contractual counterparty or professional advisor to such contractual counterparty agrees to be bound by the provisions of this Section 11.15.). Notwithstanding anything to the contrary in the foregoing sentence or any other express or implied agreement, arrangement or understanding, the parties hereto hereby agree that, from the commencement of discussions with respect to the financing provided hereunder, any party hereto (and each of its employees, representatives, or agents) is permitted to disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the loans and other transactions contemplated hereby, and all materials of any kind (including opinions or other tax analyses) that are provided to the Loan Parties or the Lenders, the Lead Arranger or the Agent related to such tax structure and tax aspects. To the extent not inconsistent with the immediately preceding sentence, this authorization does not extend to disclosure of any other information or any other term or detail not related to the tax treatment or tax aspects of the Loans, the Acquisition or the other transactions contemplated hereby.

11.16. WAIVERS OF JURY TRIAL. THE BORROWER, THE AGENTS AND THE LENDERS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

11.17. Delivery of Addenda. Each initial Lender shall become a party to this Agreement by delivering to the Lead Arranger and the Administrative Agent an Addendum duly executed by such Lender.

11.18. Termination Prior to the Closing Date. If any of the events specified in paragraphs (a) through (m) of Section 9 hereof shall occur and be continuing at any time prior to the funding of the Term Loans then (a) if such event is an Event of Default specified in clause (i) or (ii) of Section 9(f) with respect to the Borrower, automatically the Commitments shall immediately terminate and all amounts owing under this Agreement shall immediately become due and payable, and (b) if such event is any other event specified in paragraphs (a) through (m) of Section 9 then, with the consent of the Required Lenders the Administrative Agent may, or upon the request of the Required Lenders the Administrative Agent shall, by notice to the Borrower declare the Commitments to be terminated forthwith whereupon the Commitments shall immediately terminate and all amounts owing under this Agreement shall immediately become due and payable. The obligations of the Borrower relating to the payment of fees and expenses or indemnification shall survive the termination of the Commitments hereunder whether pursuant to this Section 11.18 or Sections 2.1 or 3.1, it being understood that the Lenders hereunder are not indemnified for any claim by the Lenders for lost profits if the Commitments are terminated prior to the Closing Date.

11.19. Subordination of Intercompany Indebtedness

The Borrower agrees that it will not become obligated or otherwise liable for any intercompany Indebtedness (other than intercompany accounts receivable and payable in the

ordinary course of business) that is owed to any Subsidiary of the Borrower, unless such Subsidiary agrees that (a) such Indebtedness is completely subordinated to the Obligations and subject in rights of payment to the prior payment in full of the Obligations, and (b) if an Event of Default has occurred and is continuing, no payment on any such Indebtedness shall be made until the payment in full of the Obligations. If any payment on intercompany Indebtedness is received by such Subsidiary prior to such time as the Obligations are paid in full, then such Subsidiary shall receive and hold the same in trust, as trustee, for the benefit of the Administrative Agent and the Secured Parties, and shall forthwith deliver the same to the Administrative Agent in precisely the form received (except for the endorsement or assignment of such Subsidiary where necessary or advisable in the Administrative Agent's reasonable judgment) for application to any of the Obligations, due or not due, and, until so delivered, the same shall be segregated from the other assets of such Subsidiary and held in trust by such Subsidiary as the property of the Administrative Agent for the benefit of the Secured Parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

ITRON, INC.,
as Borrower

By: /s/ Dave Remington

Name: Dave Remington
Title: Chief Financial Officer

BEAR, STEARNS & CO. INC.,
as Sole Lead Arranger and Sole Bookrunner

By: /s/ Lawrence B. Alletto

Name: Lawrence B. Alletto
Title: Senior Managing Director

BEAR STEARNS CORPORATE LENDING INC.,
as Syndication Agent and as a Lender

By: /s/ Lawrence B. Alletto

Name: Lawrence B. Alletto
Title: Vice President

(Signatures continue on next page)

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent and as a Lender

By: /s/ Tom Beil

Name: Tom Beil

Title: Vice President

PRICING GRID FOR REVOLVING LOANS AND
SWINGLINE LOANS

Pricing Level	Applicable Margin for Eurodollar Loans	Applicable Margin for Base Rate Loans
I	3.00%	2.00%
II	2.75%	1.75%
III	2.50%	1.50%
IV	2.25%	1.25%
V	2.00%	1.00%

The Applicable Margin for Revolving Loans and Swingline Loans shall be adjusted, on and after the first Adjustment Date (as defined below) occurring after the completion of two full fiscal quarters of the Borrower after the Closing Date, based on changes in the Consolidated Leverage Ratio, with such adjustments to become effective on the date (the "Adjustment Date") that is three Business Days after the date on which the relevant financial statements are delivered to the Lenders pursuant to Section 7.1 and to remain in effect until the next adjustment to be effected pursuant to this paragraph. If any financial statements referred to above are not delivered within the time periods specified in Section 7.1, then, until the date that is three Business Days after the date on which such financial statements are delivered, the highest rate set forth in each column of the Pricing Grid shall apply. On each Adjustment Date, the Applicable Margin for Revolving Loans and Swingline Loans shall be adjusted to be equal to the Applicable Margins and Commitment Fee Rate opposite the Pricing Level determined to exist on such Adjustment Date from the financial statements relating to such Adjustment Date.

As used herein, the following rules shall govern the determination of Pricing Levels on each Adjustment Date:

"Pricing Level I" shall exist on an Adjustment Date if the Consolidated Leverage Ratio for the relevant period is greater than or equal to 3.50 to 1.00.

"Pricing Level II" shall exist on an Adjustment Date if the Consolidated Leverage Ratio for the relevant period is less than 3.50 to 1.00 but greater than or equal to 3.00 to 1.00.

"Pricing Level III" shall exist on an Adjustment Date if the Consolidated Leverage Ratio for the relevant period is less than 3.00 to 1.00 but greater than or equal to 2.50 to 1.00.

“Pricing Level IV” shall exist on an Adjustment Date if the Consolidated Leverage Ratio for the relevant period is less than 2.50 to 1.00 but greater than or equal to 2 to 1.00.

“Pricing Level V” shall exist on an Adjustment Date if the Consolidated Leverage Ratio for the relevant period is less than 2.00 to 1.00.

STATEMENT RE: COMPUTATION OF RATIOS

	Year ended December 31,				
	2003	2002	2001	2000	1999
	(in thousands, except ratios)				
Earnings:					
Pre-tax income (loss)	\$ 17,899	\$ 18,859	\$ 21,366	\$ 8,538	\$ (94,636)
Less: equity in affiliates	79	126	(616)	1,069	(600)
	17,820	18,733	21,982	7,469	(94,036)
Fixed Charges:					
Interest expense, gross ⁽¹⁾	2,638	2,061	5,112	5,313	6,585
Interest portion of rent expense	2,661	1,902	1,062	920	949
a) Fixed charges	5,299	3,963	6,174	6,233	7,534
b) Earnings for ratio	23,119	22,696	28,156	13,702	(86,502)
Ratios:					
Earnings to fixed charges (b/a)	4.4	5.7	4.6	2.2	—
Deficit of earnings to fixed charges	n/a	n/a	n/a	n/a	(94,036)

⁽¹⁾ Interest expense, gross includes amortization of prepaid debt fees.

Itron Domestic Subsidiaries

<p>Itron, Inc. Corporate Headquarters 2818 N. Sullivan Rd. Spokane, WA 99216-1897</p>	<p>Itron International, Inc. 2818 N. Sullivan Rd. Spokane, WA 99216-1897</p>
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P.O. Box 15288, Spokane, WA 99215-5288

<p>Itron Connecticut Finance, Inc. 2818 N. Sullivan Rd. Spokane, WA 99216-1897</p>	<p>Itron Finance, Inc. 2818 N. Sullivan Rd. Spokane, WA 99216-1897</p>
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<p>Itron Spectrum Holdings, Inc. 2818 N. Sullivan Rd. Spokane, WA 99216-1897</p>	<p>EMD Holding, Inc. 2818 N. Sullivan Rd. Spokane, WA 99216-1897</p>
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Itron International Subsidiaries

<p>Itron S.A. 66, Rue de la Villette BAT.VIP 69425 Lyon Cedex 3 FRANCE</p>	<p>Itron France SARL 3, rue du Colonel Moll 75017 Paris FRANCE</p>
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<p>Itron Limited 100 New Bridge Street London EC4V 6JA UNITED KINGDOM</p>	<p>SLCN Limited 2818 N. Sullivan Rd. Spokane, WA 99216-1897</p>
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<p>Itron Australasia Party Limited Level 5, 33 Erskine Street Sydney, NSW 2000 AUSTRALIA</p>	<p>Itron Australasia Technologies Pty. Limited Level 5, 33 Erskine Street Sydney, NSW 2000 AUSTRALIA</p>
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<p>Itron Australasia Holdings Pty. Limited Level 5, 33 Erskine Street Sydney, NSW 2000 AUSTRALIA</p>	<p>Itron Canada, Inc. #220-10711 Cambie Rd. Vancouver, BC V6E 3G2 CANADA</p>
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<p>Itron B.C. Corporation 2100-1075 West Georgia Street Richmond, BC V6X3G5 CANADA</p>	<p>Itron Guam, Inc. 2818 N. Sullivan Rd. Spokane, WA 99216-1897</p>
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<p>Itron de Mexico, S.A. de C.V. Nogal de Castilla 7 Col. Pueblo Nuevo Alto 10640 Mexico, D.F. MEXICO</p>	<p>Electricity Metering Distribucion, S.A. DE C.V. 2818 N. Sullivan Rd. Spokane, WA 99216-1897</p>
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<p>Electricity Metering Servicios, S.A. DE C.V. 2818 N. Sullivan Rd. Spokane, WA 99216-1897</p>	<p>Silicon Energy Corp. (BVI), Ltd. 2818 N. Sullivan Rd. Spokane, WA 99216-1897</p>
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SLCN Netherlands B.V.
Teleportboulevard 110
1043-EJ Amsterdam
The Netherlands

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 333-04685, 333-28933, 333-63147, 333-81925, 333-86581, 333-40356, 333-89966, 333-97571 and 333-110703 of Itron, Inc. on Form S-8 of our report dated March 8, 2004 (which expresses an unqualified opinion and includes an explanatory paragraph relating to the change in the method of accounting for goodwill and other intangible assets in 2002) appearing in this Annual Report on Form 10-K of Itron, Inc. for the year ended December 31, 2003.

/s/ DELOITTE & TOUCHE LLP

Seattle, Washington
March 8, 2004

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, LeRoy D. Nosbaum, certify that:

1. I have reviewed this annual report on Form 10-K of Itron, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ LEROY D. NOSBAUM

LeRoy D. Nosbaum
Chairman of the Board and Chief Executive Officer

Date: March 12, 2004

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David G. Remington, certify that:

1. I have reviewed this annual report on Form 10-K of Itron, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ DAVID G. REMINGTON

David G. Remington
Vice President and Chief Financial Officer

Date: March 12, 2004

**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 annual report on Form 10-K 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.

LeRoy D. Nosbaum, the Chief Executive Officer and David G. Remington, the Chief Financial Officer of Itron, Inc., each certifies that to the best of his knowledge:

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

/s/ LEROY D. NOSBAUM

**LeRoy D. Nosbaum
Chairman of the Board and Chief Executive Officer
March 12, 2004**

/s/ DAVID G. REMINGTON

**David G. Remington
Vice President and Chief Financial Officer
March 12, 2004**