

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

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2021

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-22418

**ITRON, INC.**

(Exact name of registrant as specified in its charter)

Washington  
(State of Incorporation)

91-1011792  
(I.R.S. Employer Identification No.)

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

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

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of October 31, 2021, there were outstanding 45,272,251 shares of the registrant's common stock, no par value, which is the only class of common stock of the registrant.

**Itron, Inc.**  
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## PART I: FINANCIAL INFORMATION

## Item 1: Financial Statements (Unaudited)

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

<i>In thousands, except per share data</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Revenues</b>				
Product revenues	\$ 410,947	\$ 470,658	\$ 1,265,470	\$ 1,437,780
Service revenues	76,002	69,526	230,465	210,413
Total revenues	486,949	540,184	1,495,935	1,648,193
<b>Cost of revenues</b>				
Product cost of revenues	306,168	358,297	908,923	1,072,271
Service cost of revenues	45,818	38,636	135,130	122,588
Total cost of revenues	351,986	396,933	1,044,053	1,194,859
Gross profit	134,963	143,251	451,882	453,334
<b>Operating expenses</b>				
Sales, general and administrative	71,838	64,982	221,974	215,018
Research and development	46,889	46,224	147,379	148,999
Amortization of intangible assets	8,944	11,183	26,914	33,488
Restructuring	958	44,462	(830)	41,531
Loss on sale of business	2,171	380	28,274	57,295
Total operating expenses	130,800	167,231	423,711	496,331
Operating income (loss)	4,163	(23,980)	28,171	(42,997)
<b>Other income (expense)</b>				
Interest income	352	354	1,326	2,165
Interest expense	(2,628)	(10,810)	(27,107)	(33,771)
Other income (expense), net	(1,761)	(2,607)	(16,684)	(3,414)
Total other income (expense)	(4,037)	(13,063)	(42,465)	(35,020)
Income (loss) before income taxes	126	(37,043)	(14,294)	(78,017)
Income tax benefit (provision)	(1,136)	11,985	(5,581)	(366)
Net loss	(1,010)	(25,058)	(19,875)	(78,383)
Net income attributable to noncontrolling interests	859	299	2,514	1,092
Net loss attributable to Itron, Inc.	\$ (1,869)	\$ (25,357)	\$ (22,389)	\$ (79,475)
Net loss per common share - Basic	\$ (0.04)	\$ (0.63)	\$ (0.51)	\$ (1.98)
Net loss per common share - Diluted	\$ (0.04)	\$ (0.63)	\$ (0.51)	\$ (1.98)
Weighted average common shares outstanding - Basic	45,240	40,337	43,983	40,199
Weighted average common shares outstanding - Diluted	45,240	40,337	43,983	40,199

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

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

<i>In thousands</i>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Net loss	\$ (1,010)	\$ (25,058)	\$ (19,875)	\$ (78,383)
<b>Other comprehensive income (loss), net of tax:</b>				
Foreign currency translation adjustments	(7,764)	13,988	(17,118)	(147)
Foreign currency translation adjustment reclassified to net income (loss) on sale of business	—	(14)	—	52,074
Net unrealized gain (loss) on derivative instruments, designated as cash flow hedges	510	(1)	1,818	(2,157)
Pension benefit obligation adjustment	687	(159)	2,087	889
Total other comprehensive income (loss), net of tax	<u>(6,567)</u>	<u>13,814</u>	<u>(13,213)</u>	<u>50,659</u>
Total comprehensive income (loss), net of tax	<u>(7,577)</u>	<u>(11,244)</u>	<u>(33,088)</u>	<u>(27,724)</u>
Comprehensive income attributable to noncontrolling interests, net of tax	859	299	2,514	1,092
Comprehensive income (loss) attributable to Itron, Inc.	<u>\$ (8,436)</u>	<u>\$ (11,543)</u>	<u>\$ (35,602)</u>	<u>\$ (28,816)</u>

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

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

<i>In thousands</i>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 188,691	\$ 206,933
Accounts receivable, net	320,994	369,828
Inventories	175,432	182,377
Other current assets	117,270	171,124
Total current assets	<u>802,387</u>	<u>930,262</u>
Property, plant, and equipment, net	189,748	207,816
Deferred tax assets, net	101,907	76,142
Other long-term assets	41,666	51,656
Operating lease right-of-use assets, net	67,599	76,276
Intangible assets, net	103,763	132,955
Goodwill	1,115,697	1,131,916
Total assets	<u>\$ 2,422,767</u>	<u>\$ 2,607,023</u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Accounts payable	\$ 188,663	\$ 215,639
Other current liabilities	74,718	72,591
Wages and benefits payable	99,347	86,249
Taxes payable	13,674	15,804
Current portion of debt	—	18,359
Current portion of warranty	18,089	28,329
Unearned revenue	101,263	112,928
Total current liabilities	<u>495,754</u>	<u>549,899</u>
Long-term debt, net	449,629	902,577
Long-term warranty	16,598	13,061
Pension benefit obligation	114,771	119,457
Deferred tax liabilities, net	1,792	1,921
Operating lease liabilities	59,149	66,823
Other long-term obligations	85,248	113,012
Total liabilities	<u>1,222,941</u>	<u>1,766,750</u>
Equity		
Preferred stock, no par value, 10,000 shares authorized, no shares issued or outstanding	—	—
Common stock, no par value, 75,000 shares authorized, 45,260 and 40,444 shares issued and outstanding	1,782,060	1,389,419
Accumulated other comprehensive loss, net	(151,739)	(138,526)
Accumulated deficit	(456,734)	(434,345)
Total Itron, Inc. shareholders' equity	<u>1,173,587</u>	<u>816,548</u>
Noncontrolling interests	26,239	23,725
Total equity	<u>1,199,826</u>	<u>840,273</u>
Total liabilities and equity	<u>\$ 2,422,767</u>	<u>\$ 2,607,023</u>

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

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

<i>In thousands</i>	Common Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Itron, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount					
Balances at January 1, 2021	40,444	\$ 1,389,419	\$ (138,526)	\$ (434,345)	\$ 816,548	\$ 23,725	\$ 840,273
Net income				12,603	12,603	977	13,580
Other comprehensive income (loss), net of tax			(11,783)		(11,783)		(11,783)
Net stock issued and repurchased	206	2,009			2,009		2,009
Stock-based compensation expense		6,270			6,270		6,270
Stock issued related to equity offering	4,472	389,419			389,419		389,419
Proceeds from sale of warrants		45,349			45,349		45,349
Purchases of convertible note hedge contracts, net of tax		(63,576)			(63,576)		(63,576)
Registration fee		(373)			(373)		(373)
Balances at March 31, 2021	45,122	1,768,517	(150,309)	(421,742)	1,196,466	24,702	1,221,168
Net income (loss)				(33,123)	(33,123)	678	(32,445)
Other comprehensive income (loss), net of tax			5,137		5,137		5,137
Net stock issued and repurchased	28	458			458		458
Stock-based compensation expense		6,316			6,316		6,316
Registration fee		24			24		24
Balances at June 30, 2021	45,150	1,775,315	(145,172)	(454,865)	1,175,278	25,380	1,200,658
Net income (loss)				(1,869)	(1,869)	859	(1,010)
Other comprehensive income (loss), net of tax			(6,567)		(6,567)		(6,567)
Net stock issued and repurchased	110	1,080			1,080		1,080
Stock-based compensation expense		5,665			5,665		5,665
Balances at September 30, 2021	45,260	\$ 1,782,060	\$ (151,739)	\$ (456,734)	\$ 1,173,587	\$ 26,239	\$ 1,199,826

<i>In thousands</i>	Common Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Itron, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount					
Balances at January 1, 2020	39,941	\$ 1,357,600	\$ (204,672)	\$ (376,390)	\$ 776,538	\$ 24,277	\$ 800,815
Net income				8,684	8,684	478	9,162
Other comprehensive income (loss), net of tax			(25,211)		(25,211)		(25,211)
Net stock issued and repurchased	235	2,247			2,247		2,247
Stock-based compensation expense		8,482			8,482		8,482
Balances at March 31, 2020	40,176	1,368,329	(229,883)	(367,706)	770,740	24,755	795,495
Net income (loss)				(62,802)	(62,802)	315	(62,487)
Other comprehensive income (loss), net of tax			62,056		62,056		62,056
Net stock issued and repurchased	58	706			706		706
Stock-based compensation expense		7,099			7,099		7,099
Balances at June 30, 2020	40,234	1,376,134	(167,827)	(430,508)	777,799	25,070	802,869
Net income (loss)				(25,357)	(25,357)	299	(25,058)
Other comprehensive income (loss), net of tax			13,814		13,814		13,814
Net stock issued and repurchased	122	583			583		583
Stock-based compensation expense		5,057			5,057		5,057
Balances at September 30, 2020	40,356	\$ 1,381,774	\$ (154,013)	\$ (455,865)	\$ 771,896	\$ 25,369	\$ 797,265

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

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

<i>In thousands</i>	<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>
<b>Operating activities</b>		
Net loss	\$ (19,875)	\$ (78,383)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	64,252	72,306
Non-cash operating lease expense	12,962	15,252
Stock-based compensation	18,251	20,638
Amortization of prepaid debt fees	17,383	3,029
Deferred taxes, net	(5,170)	(9,439)
Loss on sale of business	28,274	57,295
Loss on extinguishment of debt	10,000	—
Restructuring, non-cash	951	6,518
Other adjustments, net	3,720	3,856
Changes in operating assets and liabilities, net of sale of business:		
Accounts receivable	40,624	82,087
Inventories	2,150	8,978
Other current assets	26,072	(12,862)
Other long-term assets	5,058	(2,547)
Accounts payable, other current liabilities, and taxes payable	(27,124)	(82,775)
Wages and benefits payable	14,110	(28,446)
Unearned revenue	(13,158)	15,098
Warranty	(5,969)	(10,894)
Other operating, net	(31,364)	10,860
Net cash provided by operating activities	141,147	70,571
<b>Investing activities</b>		
Net proceeds (payments) related to the sale of business	3,142	(748)
Acquisitions of property, plant, and equipment	(27,781)	(36,297)
Other investing, net	2,820	3,573
Net cash used in investing activities	(21,819)	(33,472)
<b>Financing activities</b>		
Proceeds from borrowings	460,000	400,000
Payments on debt	(946,094)	—
Issuance of common stock	4,351	5,059
Proceeds from common stock offering	389,419	—
Proceeds from sale of warrants	45,349	—
Purchases of convertible note hedge contracts	(84,139)	—
Prepaid debt fees	(12,021)	(184)
Other financing, net	6,327	(2,285)
Net cash (used in) provided by financing activities	(136,808)	402,590
Effect of foreign exchange rate changes on cash and cash equivalents	(762)	(3,426)
Increase (decrease) in cash and cash equivalents	(18,242)	436,263
Cash and cash equivalents at beginning of period	206,933	149,904
Cash and cash equivalents at end of period	\$ 188,691	\$ 586,167
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid (received) during the period for:		
Income taxes, net	\$ 5,989	\$ (349)
Interest	8,655	34,327

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

**ITRON, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2021**  
**(UNAUDITED)**

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

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

*Financial Statement Preparation*

The consolidated financial statements presented in this Quarterly Report on Form 10-Q are unaudited and reflect entries necessary for the fair presentation of the Consolidated Statements of Operations and the Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2021 and 2020, Consolidated Statements of Equity for the three months ended September 30, 2021 and 2020, June 30, 2021 and 2020, and March 31, 2021 and 2020, the Consolidated Statements of Cash Flows for the nine months ended September 30, 2021 and 2020, and the Consolidated Balance Sheets as of September 30, 2021 and December 31, 2020, of Itron, Inc. and its subsidiaries. All entries required for the fair presentation of the financial statements are of a normal recurring nature, except as disclosed. The results of operations for the three and nine months ended September 30, 2021 are not necessarily indicative of the results expected for the full year or for any other period.

Certain information and notes normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been partially or completely omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) regarding interim results. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the fiscal year ended December 31, 2020 filed with the SEC in our Annual Report on Form 10-K on February 24, 2021 (2020 Annual Report). There have been no significant changes in financial statement preparation or significant accounting policies since December 31, 2020.

*Risks and Uncertainties*

The COVID-19 pandemic has had global economic impacts including disrupting customer demand and global supply chains, resulting in market volatility. The extent of the recent pandemic and its ongoing impact on our operations is volatile, but is being monitored closely by our management. During portions of the first half of 2020 certain of our European factories were closed due to government actions and local conditions, and any further closures that may be imposed on us could impact our results for 2021. New variants of the virus may cause previously lifted restrictions to be reinstated, which could result in more disruptions. Incremental costs we have incurred related to COVID-19, such as personal protective equipment, increased cleaning and sanitizing of our facilities, and other such items, have not been material to date. As economies have reopened, global supply chains have struggled to keep pace with rapidly changing demand. The resulting supply constraints have manifested across a variety of areas including mechanical, electrical and logistics portions of the supply chain, which has impacted our ability to ship products in a timely manner. In particular, our ability to obtain adequate supply of semiconductor components has impacted our ability to service recovering customer demand. While the current imbalance in supply and demand is temporal, the timeline to recovery is uncertain. Efforts are ongoing with suppliers to increase supply, including the approval of alternate sources. At this time, we have not identified any significant decrease in long-term customer demand for our products and services. However, certain of our customer projects have experienced delay in deliveries, with originally forecasted 2021 revenue pushed to future periods.

*Recently Adopted Accounting Standards*

In December 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which modifies certain provisions of Accounting Standards Codification (ASC) 740, to reduce the complexity of accounting for income taxes. ASU 2019-12 was effective for us beginning with our interim financial reports in 2021. The adoption of this standard had no impact to our year-to-date consolidated financial position, results of operations, or cash flows and is not expected to have a material impact on full year 2021 financial results.



In August 2020, the FASB issued ASU 2020-06, *Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40) - Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* (ASU 2020-06). This amendment simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. We chose to early adopt ASU 2020-06 beginning January 1, 2021, due to the issuance of our convertible debt on March 9, 2021. This amendment had no retrospective changes but impacts how our newly issued convertible debt is both recognized and disclosed. ASU 2020-06 also amends the diluted earnings per share calculation for convertible instruments by requiring the use of the if-converted method. The treasury stock method is no longer available.

#### *Recent Accounting Standards Not Yet Adopted*

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform. ASU 2020-04 applies to contracts that reference LIBOR or another reference rate expected to be terminated because of reference rate reform. An entity may elect certain optional expedients for hedging relationships that exist as of December 31, 2022 and maintain those optional expedients through the end of the hedging relationship. ASU 2020-04 could be adopted as of March 12, 2020 or thereafter. In January 2021, the FASB issued ASU 2021-01, which further updates the scope of Topic 848. We do not currently have any contracts that have been changed to a new reference rate, but we will continue to evaluate our contracts and the effects of this standard on our consolidated financial position, results of operations, and cash flows prior to adoption.

In July 2021, the FASB issued ASU 2021-05, *Leases (Topic 842): Lessors-Certain Leases with Variable Lease Payments*. The amendments in this update modify the lease classification requirements for lessors to align them with practice under Topic 840, particularly in the area of day-one loss accounting. Lessors should classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if certain criteria are met. The effective date for this amendment is January 1, 2022 and all interim periods thereafter. We have determined under existing leases where we are the lessor, this amendment will not have a material impact on our financial statements.

## **Note 2: Earnings Per Share**

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

<i>In thousands, except per share data</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Net loss available to common shareholders	\$ (1,869)	\$ (25,357)	\$ (22,389)	\$ (79,475)
Weighted average common shares outstanding - Basic	45,240	40,337	43,983	40,199
Dilutive effect of stock-based awards	—	—	—	—
Dilutive effect of convertible notes	—	—	—	—
Weighted average common shares outstanding - Diluted	45,240	40,337	43,983	40,199
Net loss per common share - Basic	\$ (0.04)	\$ (0.63)	\$ (0.51)	\$ (1.98)
Net loss per common share - Diluted	\$ (0.04)	\$ (0.63)	\$ (0.51)	\$ (1.98)

#### *Stock-based Awards*

For stock-based awards, the dilutive effect is calculated using the treasury stock method. Under this method, the dilutive effect is computed as if the awards were exercised at the beginning of the period (or at time of issuance, if later) and assumes the related proceeds were used to repurchase our common stock at the average market price during the period. Related proceeds include the amount the employee must pay upon exercise and the future compensation cost associated with the stock award. Approximately 0.4 million and 0.5 million stock-based awards were excluded from the calculation of diluted EPS for the three and nine months ended September 30, 2021 because they were anti-dilutive. Approximately 0.8 million stock-based awards were excluded from the calculation of diluted EPS for the three and nine months ended September 30, 2020 because they were anti-dilutive. These stock-based awards could be dilutive in future periods.

#### *Convertible Notes and Warrants*

For our Convertible Notes issued in March 2021, the dilutive effect is calculated using the if-converted method. We are required, pursuant to the indenture governing our Convertible Notes, to settle the principal amount of the Convertible Notes in cash and may elect to settle the remaining conversion obligation (stock price in excess of conversion price) in cash, shares, or a combination thereof. Under the if-converted method, we include the number of shares required to satisfy the remaining conversion obligation, assuming all the Convertible Notes were converted. The average closing price of our common stock for the quarter ended September 30, 2021 is used as the basis for determining the dilutive effect on EPS. The average price of our common stock for the quarter ended September 30, 2021 was less than the conversion price of \$126.00, and all associated shares were anti-dilutive.

In conjunction with the issuance of the Convertible Notes, we sold warrants to purchase 3.7 million shares of Itron common stock. The warrants have a strike price of \$180.00 per share. For calculating the dilutive effect of the warrants, we use the treasury stock method. With this method, we assume exercise of the warrants at the beginning of the period, or at time of issuance if later, and the issuance of common stock upon exercise. Proceeds from the exercise of the warrants are assumed to be used to repurchase shares of our stock at the average market price during the period. The incremental shares, representing the number of shares assumed to be exercised with the warrants less the number of shares repurchased, are included in diluted weighted average common shares outstanding. For periods where the warrants strike price of \$180.00 per share is greater than the average share price of Itron stock for the period, the warrants would be anti-dilutive. For the three and nine months ended September 30, 2021, the average share price was below the warrant strike price and therefore 3.7 million shares were considered anti-dilutive.

#### *Convertible Note Hedge Transactions*

In connection with the issuance of the Convertible Notes, we entered into privately negotiated call option contracts on our common stock (the Convertible Note Hedge Transactions) with certain commercial banks (the Counterparties). We paid an aggregate amount of \$84.1 million for the Convertible Note Hedge Transactions. The Convertible Note Hedge Transactions cover, subject to anti-dilution adjustments substantially similar to those in the Convertible Notes, approximately 3.7 million shares of our common stock, the same number of shares initially underlying the Convertible Notes, at a strike price of approximately \$126.00, subject to customary adjustments. The Convertible Note Hedge Transactions will expire upon the maturity of the Convertible Notes, subject to earlier exercise or termination. Exercise of the Convertible Note Hedge Transactions would reduce the number of shares of our common stock outstanding and therefore would be anti-dilutive.

**Note 3: Certain Balance Sheet Components**

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

<i>Accounts receivable, net</i>		<b>September 30, 2021</b>		<b>December 31, 2020</b>	
<i>In thousands</i>					
Trade receivables (net of allowance of \$2,798 and \$1,312)	\$	274,385	\$	318,269	
Unbilled receivables		46,609		51,559	
Total accounts receivable, net	\$	320,994	\$	369,828	

<i>Allowance for credit losses account activity</i>		<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
<i>In thousands</i>		<b>2021</b>		<b>2020</b>	
Beginning balance	\$	1,107	\$	2,102	\$
Provision for (release of) doubtful accounts, net		2,164		(21)	2,122
Accounts written-off		(440)		(278)	(582)
Effect of change in exchange rates		(33)		43	(54)
Ending balance	\$	2,798	\$	1,846	\$

<i>Inventories</i>		<b>September 30, 2021</b>		<b>December 31, 2020</b>	
<i>In thousands</i>					
Raw materials	\$	117,549	\$	114,058	
Work in process		8,539		8,094	
Finished goods		49,344		60,225	
Total inventories	\$	175,432	\$	182,377	

<i>Property, plant, and equipment, net</i>		<b>September 30, 2021</b>		<b>December 31, 2020</b>	
<i>In thousands</i>					
Machinery and equipment	\$	333,584	\$	334,050	
Computers and software		117,067		115,776	
Buildings, furniture, and improvements		146,052		155,676	
Land		11,976		14,303	
Construction in progress, including purchased equipment		40,082		31,425	
Total cost		648,761		651,230	
Accumulated depreciation		(459,013)		(443,414)	
Property, plant, and equipment, net	\$	189,748	\$	207,816	

<i>Depreciation expense</i>		<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
<i>In thousands</i>		<b>2021</b>		<b>2020</b>	
Depreciation expense	\$	12,389	\$	12,893	\$
				37,338	\$
					38,818

**Note 4: Intangible Assets and Liabilities**

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

<i>In thousands</i>	September 30, 2021			December 31, 2020		
	Gross	Accumulated (Amortization) Accretion	Net	Gross	Accumulated (Amortization) Accretion	Net
<b>Intangible Assets</b>						
Core-developed technology	\$ 511,885	\$ (495,799)	\$ 16,086	\$ 525,051	\$ (498,113)	\$ 26,938
Customer contracts and relationships	376,572	(291,783)	84,789	383,245	(280,497)	102,748
Trademarks and trade names	78,448	(75,933)	2,515	79,716	(76,912)	2,804
Other	12,023	(11,650)	373	12,025	(11,560)	465
Total intangible assets	<u>\$ 978,928</u>	<u>\$ (875,165)</u>	<u>\$ 103,763</u>	<u>\$ 1,000,037</u>	<u>\$ (867,082)</u>	<u>\$ 132,955</u>
<b>Intangible Liabilities</b>						
Customer contracts and relationships	<u>\$ (23,900)</u>	<u>\$ 22,950</u>	<u>\$ (950)</u>	<u>\$ (23,900)</u>	<u>\$ 21,479</u>	<u>\$ (2,421)</u>

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

<i>In thousands</i>	Nine Months Ended September 30,	
	2021	2020
Intangible assets, gross beginning balance	\$ 1,000,037	\$ 979,814
Intangibles disposed in sale of business	—	(18,140)
Effect of change in exchange rates	(21,109)	9,974
Intangible assets, gross ending balance	<u>\$ 978,928</u>	<u>\$ 971,648</u>
Intangible liabilities, gross beginning balance	\$ (23,900)	\$ (23,900)
Effect of change in exchange rates	—	—
Intangible liabilities, gross ending balance	<u>\$ (23,900)</u>	<u>\$ (23,900)</u>

Assumed intangible liabilities reflect the present value of the projected cash outflows for an existing contract where remaining costs are expected to exceed projected revenues.

The disposal of intangible assets was related to the sale of our Latin America business in June 2020. The net book value of these assets was \$0.8 million at the disposal date. Refer to Note 17: Sale of Business for additional information on the transaction.

Estimated future annual amortization (accretion) is as follows:

Year Ending December 31,	Amortization	Accretion	Estimated Annual Amortization, net
<i>In thousands</i>			
2021 (amount remaining at September 30, 2021)	\$ 9,450	\$ (491)	\$ 8,959
2022	27,393	(459)	26,934
2023	19,811	—	19,811
2024	15,631	—	15,631
2025	14,655	—	14,655
Thereafter	16,823	—	16,823
Total intangible assets subject to amortization (accretion)	<u>\$ 103,763</u>	<u>\$ (950)</u>	<u>\$ 102,813</u>

**Note 5: Goodwill**

The following table reflects changes in the carrying amount of goodwill for the nine months ended September 30, 2021:

<i>In thousands</i>	<b>Device Solutions</b>	<b>Networked Solutions</b>	<b>Outcomes</b>	<b>Total Company</b>
Goodwill balance at January 1, 2021	\$ 53,214	\$ 933,814	\$ 144,888	\$ 1,131,916
Effect of change in exchange rates	(658)	(13,467)	(2,094)	(16,219)
Goodwill balance at September 30, 2021	\$ 52,556	\$ 920,347	\$ 142,794	\$ 1,115,697

**Note 6: Debt**

The components of our borrowings were as follows:

<i>In thousands</i>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Credit facility		
USD denominated term loan	\$ —	\$ 536,094
Multicurrency revolving line of credit	—	—
Senior notes	—	400,000
Convertible notes	460,000	—
Total debt	460,000	936,094
Less: current portion of debt	—	18,359
Less: unamortized prepaid debt fees - term loan	—	3,469
Less: unamortized prepaid debt fees - senior notes	—	11,689
Less: unamortized prepaid debt fees - convertible notes	10,371	—
Long-term debt, net	\$ 449,629	\$ 902,577

*Credit Facility*

On October 18, 2019, we amended our credit facility that was initially entered on January 5, 2018 (as amended the 2018 credit facility). The 2018 credit facility provides for committed credit facilities in the amount of \$1.2 billion U.S. dollars. The 2018 credit facility consists of a \$650 million U.S. dollar term loan (the term loan) and a multicurrency revolving line of credit (the revolver) with a principal amount of up to \$500 million. The revolver also contains a \$300 million standby letter of credit sub-facility and a \$50 million swingline sub-facility. The October 18, 2019 amendment extended the maturity date to October 18, 2024 and re-amortized the term loan based on the new balance as of the amendment date. The amendment also modified the required interest payments and made it based on total net leverage instead of total leverage. Through the third quarter of 2020, amounts not borrowed under the revolver were subject to a commitment fee, which was paid in arrears on the last day of each fiscal quarter, ranging from 0.15% to 0.25% and drawn amounts were subject to a margin ranging from 1.00% to 1.75%.

On October 19, 2020, we completed a second amendment to our 2018 credit facility. This amendment adjusts the maximum total net leverage ratio thresholds for the period beginning with the fourth quarter of 2020 through the fourth quarter of 2021 to allow for increased operational flexibility. The maximum leverage ratio is increased to 4.75:1 for the fourth quarter of 2020 and the first quarter of 2021 and 4.50:1 for the second quarter through the fourth quarter of 2021. An additional level of pricing was added to the existing pricing grid and is effective throughout the remaining term of the 2018 credit facility. Beginning with the fourth quarter of 2020, the commitment fee ranges from 0.15% to 0.30% and drawn amounts are subject to a margin ranging from 1.00% to 2.00%. Debt fees of approximately \$1.4 million were incurred for the amendment, as well as other legal and advisory fees. Both the term loan and the revolver can be repaid without penalty. Amounts repaid on the term loan may not be reborrowed, and amounts borrowed under the revolver may be repaid and reborrowed until the revolver's maturity, at which time all outstanding loans together with all accrued and unpaid interest must be repaid.

On March 8, 2021, we entered into a third amendment to our 2018 credit facility, which modified provisions to permit cash settlement upon the conversion of the Convertible Notes, the Convertible Senior Note Hedge Transactions and Warrant Transactions and also to adjust certain settlement provisions for convertible indebtedness. See Note 7: Derivative Financial Instruments for further details of the Convertible Note Hedge Transactions and Warrant Transactions.

The 2018 credit facility permits us and certain of our foreign subsidiaries to borrow in U.S. dollars, euros, British pounds, or, with lender approval, other currencies readily convertible into U.S. dollars. All obligations under the 2018 credit facility are guaranteed by Itron, Inc. and material U.S. domestic subsidiaries and are secured by a pledge of substantially all of the assets of Itron, Inc. and material U.S. domestic subsidiaries. This includes a pledge of 100% of the capital stock of material U.S.

domestic subsidiaries and up to 66% of the voting stock (100% of the non-voting stock) of first-tier foreign subsidiaries. In addition, the obligations of any foreign subsidiary who is a foreign borrower, as defined by the 2018 credit facility, are guaranteed by the foreign subsidiary and by its direct and indirect foreign parents. The 2018 credit facility includes debt covenants, which contain certain financial thresholds and place certain restrictions on the incurrence of debt, investments, and the issuance of dividends. We were in compliance with the debt covenants under the 2018 credit facility at September 30, 2021.

Under the 2018 credit facility, we elect applicable market interest rates for both the term loan and any outstanding revolving loans. We also pay an applicable margin, which is based on our total net leverage ratio as defined in the credit agreement. The applicable rates per annum may be based on either: (1) the LIBOR rate or EURIBOR rate (subject to a floor of 0%), plus an applicable margin, or (2) the Alternate Base Rate, plus an applicable margin. The Alternate Base Rate election is equal to the greatest of three rates: (i) the prime rate, (ii) the Federal Reserve effective rate plus 0.50%, or (iii) one-month LIBOR plus 1.00%. On August 12, 2021, the term loan was fully paid. At September 30, 2021, there were no outstanding loan balances under the Credit Facility.

In March 2020, we drew \$400 million in U.S. dollars under the revolving line of credit within the 2018 credit facility to increase our cash position and preserve future financial flexibility, which was fully repaid as of December 31, 2020. At September 30, 2021, there was no amount outstanding under the revolver, and \$64.4 million was utilized by outstanding standby letters of credit, resulting in \$435.6 million available for additional borrowings or standby letters of credit. At September 30, 2021, \$235.6 million was available for additional standby letters of credit under the letter of credit sub-facility, and no amounts were outstanding under the swingline sub-facility.

#### *Senior Notes*

In December 2017 and January 2018, we issued \$300 million and \$100 million of aggregate principal amount of 5.00% senior notes maturing January 15, 2026 (Senior Notes). The proceeds were used to refinance existing indebtedness related to the acquisition of Silver Spring Networks, Inc., pay related fees and expenses, and for general corporate purposes. Interest on the Senior Notes was payable semi-annually in arrears on January 15 and July 15. The Senior Notes were fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by each of our subsidiaries that guarantee the senior credit facilities.

On March 9, 2021, we submitted a Notice of Redemption to the trustee to redeem all outstanding Senior Notes at a redemption price of 102.50%, in accordance with the indenture governing the Senior Notes, totaling \$410.0 million. As of April 8, 2021 the Senior Notes were fully discharged, and no principal or unpaid interest remains outstanding. The 2.5%, or \$10.0 million, early redemption premium and write off of \$11.1 million prepaid debt fees were recognized upon redemption in the second quarter of 2021.

#### *Convertible Notes*

On March 12, 2021, we closed the sale of the Convertible Notes in a private placement to qualified institutional buyers, resulting in net proceeds to us of \$448.5 million after deducting initial purchasers' discounts of the offering. The Convertible Notes do not bear regular interest, and the principal amount does not accrete. The Convertible Notes will mature on March 15, 2026, unless earlier repurchased, redeemed, or converted in accordance with their terms. No sinking fund is provided for the Convertible Notes.

The initial conversion rate of the Convertible Notes is 7.9365 shares of our common stock per \$1,000 principal amount of notes, which is equivalent to an initial conversion price of approximately \$126.00 per share. The conversion rate of the Convertible Notes is subject to adjustment upon the occurrence of certain specified events. In addition, upon the occurrence of a make-whole fundamental change (as defined in the indenture governing the Convertible Notes) or upon a notice of redemption, we will, in certain circumstances, increase the conversion rate for a holder that elects to convert its Convertible Notes in connection with such make-whole fundamental change or notice of redemption, as the case may be.

Prior to the close of business on the business day immediately preceding December 15, 2025, the Convertible Notes are convertible at the option of the holders only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2021 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business-day period after any five consecutive trading-day period (the measurement period) in which the trading price per \$1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the common stock and the conversion rate on each such trading day; (3) upon the occurrence of specified corporate events; or (4) upon redemption by us. On or after December 15, 2025, until the close of business on the second scheduled trading day immediately preceding March 15, 2026,

holders of the Convertible Notes may convert all or a portion of their notes at any time. Upon conversion, we will pay cash up to the aggregate principal amount of Convertible Notes to be converted and pay and/or deliver, as the case may be, cash, shares of common stock or a combination of cash and shares of common stock, at our election, in respect of the remainder, if any, of our conversion obligation in excess of the aggregate principal amount of the Convertible Notes being converted.

On or after March 20, 2024 and prior to December 15, 2025, we may redeem for cash all or part of the Convertible Notes, at our option, if the last reported sales price of common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which we provide notice of redemption, during any 30 consecutive trading days ending on, and including, the trading day immediately before the date we send the related notice of the redemption. The redemption price of each Convertible Notes to be redeemed will be the principal amount of such note, plus accrued and unpaid special interest, if any. Upon the occurrence of a fundamental change (as defined in the indenture governing the Convertible Notes), subject to a limited exception described in the indenture governing the Convertible Notes, holders may require us to repurchase all or a portion of their notes for cash at a price equal to plus accrued and unpaid special interest to, but not including, the fundamental change repurchase date (as defined in the indenture governing the Convertible Notes).

The Convertible Notes are senior unsecured obligations and rank equally in right of payment with all of our existing and future unsubordinated debt and senior in right of payment to any future debt that is expressly subordinated in right of payment to the Convertible Notes. The Convertible Notes will be effectively subordinated to any of our existing and future secured debt to the extent of the assets securing such indebtedness. The Convertible Notes will be structurally subordinated to all existing debt and any future debt and any other liabilities of our subsidiaries.

#### *Debt Maturities*

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

<b>Year Ending December 31,</b>	<b>Minimum Payments</b>
<i>In thousands</i>	
2021 (amount remaining at September 30, 2021)	\$ —
2022	—
2023	—
2024	—
2025	—
Thereafter	460,000
Total minimum payments on debt	\$ 460,000

#### **Note 7: Derivative Financial Instruments**

As part of our risk management strategy, we use derivative instruments to hedge certain foreign currency and interest rate exposures. Refer to Note 13: Shareholders' Equity and Note 14: Fair Value of Financial Instruments for additional disclosures on our derivative instruments.

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

The fair values of our derivative instruments were as follows:

Derivatives Assets	Balance Sheet Location	Fair Value	
		September 30, 2021	December 31, 2020
<b>Derivatives designated as hedging instruments under ASC 815-20</b>		<i>In thousands</i>	
Foreign exchange options	Other current assets	\$ 329	\$ —
<b>Derivatives not designated as hedging instruments under ASC 815-20</b>			
Foreign exchange forward contracts	Other current assets	49	52
<b>Total asset derivatives</b>		<b>\$ 378</b>	<b>\$ 52</b>
<b>Derivatives Liabilities</b>			
<b>Derivatives designated as hedging instruments under ASC 815-20</b>			
Interest rate swap contracts	Other current liabilities	\$ —	\$ 1,025
Interest rate swap contracts	Other long-term obligations	—	957
Cross currency swap contract	Other current liabilities	—	526
<b>Derivatives not designated as hedging instruments under ASC 815-20</b>			
Foreign exchange forward contracts	Other current liabilities	166	128
<b>Total liability derivatives</b>		<b>\$ 166</b>	<b>\$ 2,636</b>

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

<i>In thousands</i>	2021	2020
Net unrealized loss on hedging instruments at January 1,	\$ (16,001)	\$ (15,103)
Unrealized gain (loss) on derivative instruments	1,085	(4,727)
Realized (gains) losses reclassified into net income (loss)	733	2,570
Net unrealized loss on hedging instruments at September 30,	<b>\$ (14,183)</b>	<b>\$ (17,260)</b>

Reclassification of amounts related to hedging instruments are included in interest expense in the Consolidated Statements of Operations. Included in the net unrealized gain (loss) on hedging instruments at September 30, 2021 and 2020 is a loss of \$14.4 million, net of tax, related to our nonderivative net investment hedge, which terminated in 2011. This loss on our net investment hedge will remain in AOCI until earnings are impacted by a sale or liquidation of the associated foreign operation.

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

<i>Offsetting of Derivative Assets</i>	Gross Amounts of Recognized Assets Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
		Derivative Financial Instruments	Cash Collateral Received	Net Amount
<i>In thousands</i>				
September 30, 2021	\$ 378	\$ (28)	\$ —	\$ 350
December 31, 2020	52	(52)	—	—
<b>Offsetting of Derivative Liabilities</b>				
<i>Offsetting of Derivative Liabilities</i>	Gross Amounts of Recognized Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
		Derivative Financial Instruments	Cash Collateral Pledged	Net Amount
<i>In thousands</i>				
September 30, 2021	\$ 166	\$ (28)	\$ —	\$ 138
December 31, 2020	2,636	(52)	—	2,584

Our derivative assets and liabilities subject to netting arrangements include foreign exchange forward and interest rate contracts with four counterparties at September 30, 2021 and six counterparties at December 31, 2020. No derivative asset or liability balance with any of our counterparties was individually significant at September 30, 2021 or December 31, 2020. Our derivative contracts with each of these counterparties exist under agreements that provide for the net settlement of all contracts through a single payment in a single currency in the event of default. We have no pledges of cash collateral against our



obligations, and we have not received pledges of cash collateral from our counterparties under the associated derivative contracts.

#### *Cash Flow Hedges*

As a result of our floating rate debt under our current credit facility, we are exposed to variability in our cash flows from changes in the applicable interest rate index. We enter into interest rate caps and swaps to reduce the variability of cash flows from increases in the LIBOR-based borrowing rates on our floating rate credit facility. These instruments do not protect us from changes to the applicable margin under our credit facility. On August 12, 2021, the term loan under the credit facility was fully repaid. At September 30, 2021, we have no LIBOR-based debt.

In October 2015, we entered into one interest rate swap, which was effective from August 31, 2016 and expired on June 23, 2020, to convert \$214 million of our LIBOR-based debt from a floating LIBOR interest rate to a fixed interest rate of 1.42% (excluding the applicable margin on the debt). The notional balance amortized to maturity at the same rate as required minimum payments on the outstanding term loan. This cash flow hedge was expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk through the term of the hedge. Consequently, effective changes in the fair value of the interest rate swap were recognized as a component of other comprehensive income (loss) (OCI) and recognized in earnings when the hedged item affected earnings. The amounts paid or received on the hedge were recognized as adjustment to interest expense.

In March 2020, we entered into one interest rate swap, which was effective from June 30, 2020 to June 30, 2023, and converted \$240 million of our LIBOR-based debt from a floating LIBOR interest rate to a fixed interest rate of 0.617% (excluding the applicable margin). The notional balance amortized to maturity at the same rate of originally required amortizations on our outstanding term loan. Changes in the fair value of the interest rate swap were recognized as a component of OCI and recognized in earnings when the hedged item affected earnings. The amounts paid or received on the hedge was recognized as an adjustment to interest expense along with the earnings effect of the hedged item. On March 17, 2021 following the paydown of the term loan within the 2018 credit facility, we terminated the interest rate swap, and paid a fee of \$1.7 million to settle it, since the likelihood of LIBOR-based interest payments was no longer probable of occurring.

In April 2018, we entered into one cross-currency swap, which converted \$56.0 million of floating LIBOR-based U.S. dollar-denominated debt into 1.38% fixed rate euro-denominated debt. This cross-currency swap matured on April 30, 2021 and mitigated the risk associated with fluctuations in currency rates impacting cash flows related to U.S. dollar-denominated debt in a euro functional currency entity. Changes in the fair value of the cross-currency swap were recognized as a component of OCI and were recognized in earnings when the hedged item affected earnings. The amounts paid or received on the hedge were recognized as an adjustment to interest expense along with the earnings effect of the hedged item.

As a result of our forecasted inventory purchases in a non-functional currency, we are exposed to foreign exchange risk. We hedge portions of these purchases. During February 2021, we entered into foreign exchange option contracts for a total notional amount of \$77 million at a cost of \$1.1 million. The contracts mature ratably through the year with final maturity in October 2021. Changes in the fair values of the option contracts are recognized as a component of OCI and are recognized in product cost of revenues when the hedged item affects earnings.

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

Derivatives in ASC 815-20 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative		Gain (Loss) Reclassified from AOCI into Income			
			Location		Amount	
<i>In thousands</i>	2021	2020			2021	2020
<b>Three Months Ended September 30,</b>						
Interest rate swap contracts	\$ —	\$ (302)	Interest expense	\$ —	\$ (274)	
Foreign exchange options	478	(252)	Product cost of revenues	(32)	(450)	
Cross currency swap contract	—	(2,326)	Interest expense	—	88	
Cross currency swap contract	—	—	Other income (expense), net	—	(2,242)	
<b>Nine Months Ended September 30,</b>						
Interest rate swap contract	\$ 73	\$ (2,818)	Interest expense	\$ (229)	\$ (467)	
Interest rate swap contract	—	—	Other income (expense), net	(1,681)	—	
Interest rate cap contracts	—	782	Interest expense	—	392	
Foreign exchange options	367	(1,221)	Product cost of revenues	(40)	(612)	
Cross currency swap contract	669	(1,969)	Interest expense	94	537	
Cross currency swap contract	—	—	Other income (expense), net	656	(2,438)	

#### *Derivatives Not Designated as Hedging Relationships*

We are also exposed to foreign exchange risk when we enter into non-functional currency transactions, both intercompany and third party. At each period-end, non-functional currency monetary assets and liabilities are revalued with the change recognized within other income (expense) in our Consolidated Statements of Operations. We enter into monthly foreign exchange forward contracts, which are not designated for hedge accounting, with the intent to reduce earnings volatility associated with currency exposures. As of September 30, 2021, a total of 37 contracts were offsetting our exposures from the euro, pound sterling, Indonesian rupiah, Canadian dollar, Australian dollar and various other currencies, with notional amounts ranging from \$150,000 to \$56.4 million.

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

Derivatives Not Designated as Hedging Instrument under ASC 815-20	Location	Gain (Loss) Recognized on Derivatives in Other Income (Expense)	
		2021	2020
<i>In thousands</i>			
<b>Three Months Ended September 30,</b>			
Foreign exchange forward contracts	Other income (expense), net	\$ 673	\$ (1,646)
<b>Nine Months Ended September 30,</b>			
Foreign exchange forward contracts	Other income (expense), net	\$ 210	\$ (1,056)

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

#### *Convertible Note Hedge Transactions*

We paid an aggregate amount of \$84.1 million for the Convertible Note Hedge Transactions. The Convertible Note Hedge Transactions cover, subject to anti-dilution adjustments substantially similar to those in the Convertible Notes, approximately 3.7 million shares of our common stock, the same number of shares initially underlying the Convertible Notes, at a strike price of approximately \$126.00, subject to customary adjustments. The Convertible Note Hedge Transactions will expire upon the maturity of the Convertible Notes, subject to earlier exercise or termination. The Convertible Note Hedge Transactions are expected generally to reduce the potential dilutive effect of the conversion of the Convertible Notes and/or offset any cash payments we are required to make in excess of the principal amount of the converted notes, as the case may be, in the event that the market price per share of our common stock, as measured under the terms of the Convertible Note Hedge Transactions, is greater than the strike price of those Convertible Note Hedge Transactions. The Convertible Note Hedge Transactions meet the

criteria in ASC 815-40 to be classified within Stockholders' Equity, and therefore the transactions are not revalued after their issuance.

We made a tax election to integrate the Convertible Notes and the call options. We are retaining the identification statements in our books and records, together with a schedule providing the accruals on the synthetic debt instruments. The accounting impact of this tax election makes the call options deductible as original issue discount for tax purposes over the term of the Convertible Note, and results in a \$20.6 million deferred tax asset recognized through equity.

#### Warrant Transactions

In addition, concurrently with entering into the Convertible Note Hedge Transactions, we separately entered into privately-negotiated Warrant Transactions (the Warrant Transactions), whereby we sold to the Counterparties warrants to acquire, collectively, subject to anti-dilution adjustments, 3.7 million shares of our common stock at an initial strike price of \$180.00 per share, which represents a premium of 100% over the public offering price in the common stock issuance. We received aggregate proceeds of \$45.3 million from the Warrant Transactions with the Counterparties, with such proceeds partially offsetting the costs of entering into the Convertible Note Hedge Transactions. The warrants expire in June 2026. If the market value per share of our common stock, as measured under the Warrants Transactions, exceeds the strike price of the warrants, the warrants will have a dilutive effect on our earnings per share, unless we elect, subject to certain conditions, to settle the warrants in cash. The warrants meet the criteria in ASC 815-40 to be classified within Stockholders' Equity, therefore the warrants are not revalued after issuance.

#### Note 8: Defined Benefit Pension Plans

We sponsor both funded and unfunded defined benefit pension plans offering death and disability, retirement, and special termination benefits for certain of our international employees, primarily in Germany, France, Indonesia, India, and Italy. The defined benefit obligation is calculated annually by using the projected unit credit method. The measurement date for the pension plans was December 31, 2020.

Amounts recognized on the Consolidated Balance Sheets consist of:

<i>In thousands</i>	September 30, 2021	December 31, 2020
<b>Liabilities</b>		
Current portion of pension benefit obligation in wages and benefits payable	\$ 3,822	\$ 3,069
Long-term portion of pension benefit obligation	114,771	119,457
Pension benefit obligation, net	<u>\$ 118,593</u>	<u>\$ 122,526</u>

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

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

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Service cost	\$ 1,125	\$ 1,007	\$ 3,376	\$ 3,000
Interest cost	345	434	1,046	1,364
Expected return on plan assets	(87)	(85)	(264)	(365)
Amortization of prior service costs	17	17	51	49
Amortization of actuarial net loss	681	482	2,070	1,390
Settlement	—	286	—	286
Net periodic benefit cost	<u>\$ 2,081</u>	<u>\$ 2,141</u>	<u>\$ 6,279</u>	<u>\$ 5,724</u>

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

**Note 9: Stock-Based Compensation**

We grant stock-based compensation awards, including stock options, restricted stock units, phantom stock, and unrestricted stock units, under the Second Amended and Restated 2010 Stock Incentive Plan (Stock Incentive Plan). In the Stock Incentive Plan, we have 12,623,538 shares of common stock reserved and authorized for issuance subject to stock splits, dividends, and other similar events. At September 30, 2021, 5,346,245 shares were available for grant. We issue new shares of common stock upon the exercise of stock options or when vesting conditions on restricted stock units are fully satisfied. These shares are subject to a fungible share provision such that the authorized share available for grant is reduced by (i) one share for every one share subject to a stock option or share appreciation right granted under the Plan and (ii) 1.7 shares for every one share of common stock that was subject to an award other than an option or share appreciation right.

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

In addition, we maintain the Employee Stock Purchase Plan (ESPP), for which 151,221 shares of common stock were available for future issuance at September 30, 2021.

ESPP activity and stock-based grants other than stock options and restricted stock units were not significant for the three and nine months ended September 30, 2021 and 2020.

*Stock-Based Compensation Expense*

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

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Stock options	\$ 344	\$ 452	\$ 1,055	\$ 1,445
Restricted stock units	5,104	4,399	16,546	18,575
Unrestricted stock awards	217	206	650	618
Phantom stock units	519	582	2,861	2,075
Total stock-based compensation	\$ 6,184	\$ 5,639	\$ 21,112	\$ 22,713
Related tax benefit	\$ 1,159	\$ 1,070	\$ 3,840	\$ 4,257

*Stock Options*

A summary of our stock option activity is as follows:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value	Weighted Average Grant Date Fair Value
	(in thousands)		(years)	(in thousands)	
Outstanding, January 1, 2020	458	\$ 56.38	7.0	\$ 12,641	
Granted	80	84.38			\$ 26.21
Exercised	(49)	50.90		1,189	
Forfeited	(5)	83.80			
Outstanding, September 30, 2020	484	\$ 61.30	7.0	\$ 3,816	
Outstanding, January 1, 2021	433	\$ 61.95	6.9	\$ 14,697	
Granted	—				\$ —
Exercised	(34)	67.21		1,215	
Forfeited	(6)	83.33			
Outstanding, September 30, 2021	393	\$ 61.18	6.1	\$ 6,496	
Exercisable, September 30, 2021	317	\$ 56.51	5.6	\$ 6,361	

At September 30, 2021, total unrecognized stock-based compensation expense related to nonvested stock options was \$1.4 million, which is expected to be recognized over a weighted average period of approximately 1.3 years.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Expected volatility	— %	41.5 %	— %	32.1 %
Risk-free interest rate	— %	0.3 %	— %	1.3 %
Expected term (years)	N/A	5.3	N/A	5.3

There were no employee stock options granted for the three and nine months ended September 30, 2021.

#### Restricted Stock Units

The following table summarizes restricted stock unit activity:

<i>In thousands, except fair value</i>	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Outstanding, January 1, 2020	684		
Granted	209	\$ 83.34	
Released <sup>(1)</sup>	(338)		\$ 21,947
Forfeited	(23)		
Outstanding, September 30, 2020	532		
Outstanding, January 1, 2021	544	\$ 71.79	
Granted	212	97.96	
Released <sup>(1)</sup>	(288)	70.20	\$ 28,494
Forfeited	(46)	77.79	
Outstanding, September 30, 2021	422	85.75	
Vested but not released, September 30, 2021	10		\$ 733

<sup>(1)</sup> Shares released is presented as gross shares and does not reflect shares withheld by us for employee payroll tax obligations.

At September 30, 2021, total unrecognized compensation expense on restricted stock units was \$30.9 million, which is expected to be recognized over a weighted average period of approximately 1.8 years.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Expected volatility	— %	52.6 %	50.5 %	38.2 %
Risk-free interest rate	— %	0.2 %	0.2 %	1.5 %
Expected term (years)	N/A	2.3	2.9	1.8
Weighted average fair value	\$ —	\$ 61.45	\$ 113.75	\$ 93.05

There were no performance-based restricted stock units granted for the three months ended September 30, 2021.

**Note 10: Income Taxes**

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

Our tax rate for the three and nine months ended September 30, 2021 of 902% and (39)%, respectively, differed from the federal statutory rate of 21% due to losses in jurisdictions for which no benefit is recognized because of valuation allowances on deferred tax assets, the forecasted mix of earnings in domestic and international jurisdictions, a benefit related to stock-based compensation, uncertain tax positions, and reserves recognized on deferred purchase price receivables.

Our tax rate for the three and nine months ended September 30, 2020 of 32% and 0%, respectively, differed from the federal statutory rate of 21% primarily due to a significant loss recognized in the second quarter for the divestiture of the majority of our Latin American business activities. This loss was recognized for tax as a discrete item and resulted in no tax benefit. A discrete tax benefit was recognized in the third quarter for \$10.1 million related to the release of a valuation allowance on U.S. foreign tax credit deferred tax assets. This release was triggered by the carryforward of tax attributes due to the filing of amended tax returns in the third quarter. Other rate drivers included losses in jurisdictions for which no benefit is recognized because of valuation allowances on deferred tax assets as well as the forecasted mix of earnings in domestic and international jurisdictions, a benefit related to stock-based compensation, and uncertain tax positions.

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

<i>In thousands</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Net interest and penalties expense	\$ 195	\$ (198)	\$ 153	\$ 422

Accrued interest and penalties recognized were as follows:

<i>In thousands</i>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Accrued interest	\$ 3,663	\$ 3,432
Accrued penalties	1,405	1,645

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

<i>In thousands</i>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Unrecognized tax benefits related to uncertain tax positions	\$ 134,110	\$ 135,910
The amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate	132,992	134,473

At September 30, 2021, we are under examination by certain tax authorities. We believe we have appropriately accrued for the expected outcome of all tax matters and do not currently anticipate that the ultimate resolution of these examinations will have a material adverse effect on our financial condition, future results of operations, or cash flows.

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

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

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

The CARES Act also provides employer payroll tax credits for wages paid to employees who are unable to work during the COVID-19 outbreak and options to defer payroll tax payments. The Company has elected to defer remittances of payroll and other taxes into the future as provided for under the Act.

On October 8, 2021 the G20/OECD Inclusive Framework on Base Erosion and Profit Shifting ("BEPS") published a statement on the components of global tax reform agreed to by most member countries. The key components would allocate a portion of profits of the largest businesses amongst their markets, curtail new digital services taxes, and introduce a new global minimum tax of 15%. These components do not result in any financial impact until enacted, which is not currently expected until 2023. The Company is monitoring developments and additional details as they are released to determine the impacts these new components will have on our business.

## Note 11: Commitments and Contingencies

### *Guarantees and Indemnifications*

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

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

<i>In thousands</i>	September 30, 2021	December 31, 2020
Credit facility		
Multicurrency revolving line of credit	\$ 500,000	\$ 500,000
Standby LOCs issued and outstanding	(64,448)	(64,948)
Net available for additional borrowings under the multicurrency revolving line of credit	<u>\$ 435,552</u>	<u>\$ 435,052</u>
Net available for additional standby LOCs under sub-facility	<u>\$ 235,552</u>	<u>\$ 235,052</u>
Unsecured multicurrency revolving lines of credit with various financial institutions		
Multicurrency revolving lines of credit	\$ 97,113	\$ 99,201
Standby LOCs issued and outstanding	(24,245)	(24,966)
Short-term borrowings	(8,764)	—
Net available for additional borrowings and LOCs	<u>\$ 64,104</u>	<u>\$ 74,235</u>
Unsecured surety bonds in force	<u>\$ 169,293</u>	<u>\$ 162,912</u>

In the event any such standby LOC or bond is called, we would be obligated to reimburse the issuer of the standby LOC or bond; however, as of November 4, 2021, we do not believe any outstanding standby LOCs or bonds will be called.

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

### *Legal Matters*

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

### Warranty

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

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Beginning balance	\$ 36,210	\$ 44,757	\$ 41,390	\$ 53,242
New product warranties	1,925	785	3,611	2,855
Other adjustments and expirations, net	(975)	1,643	631	5,436
Claims activity	(2,156)	(5,044)	(10,040)	(19,349)
Effect of change in exchange rates	(317)	946	(905)	903
Ending balance	34,687	43,087	34,687	43,087
Less: current portion of warranty	18,089	32,118	18,089	32,118
Long-term warranty	\$ 16,598	\$ 10,969	\$ 16,598	\$ 10,969

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

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Total warranty expense	\$ 950	\$ 2,428	\$ 4,242	\$ 8,321

Warranty expense decreased during the nine months ended September 30, 2021 compared with the same period in 2020. The lower costs in 2021 are primarily the result of incremental specific reserves recognized in 2020, including \$1.7 million for electric and gas products in Europe, Middle East, and Africa (EMEA) Device Solutions and \$1.1 million for electric and water products in North America (NAM) Networked Solutions.

### Note 12: Restructuring

#### 2020 Projects

In September 2020, our Board of Directors approved a restructuring plan (the 2020 Projects), which includes activities that continue our efforts to optimize our global supply chain and manufacturing operations, sales and marketing organizations, and other overhead. These projects are scheduled to be substantially complete by the end of 2022. Many of the affected employees are represented by unions or works councils, which require consultation, and potential restructuring projects may be subject to regulatory approval, both of which could impact the timing of charges, total expected charges, cost recognized, and planned savings in certain jurisdictions.

In the third quarter of 2021, expected remaining costs to be recognized were reduced by \$13.0 million due to the removal of a previously planned non-cash cumulative translation adjustment charge, resulting from our recent reassessment of the legal entity and its related operations.

The total expected restructuring costs, the restructuring costs recognized, and the remaining expected restructuring costs related to the 2020 Projects were as follows:

<i>In thousands</i>	Total Expected Costs at September 30, 2021	Costs Recognized in Prior Periods	Costs Recognized During the Nine Months Ended September 30, 2021	Expected Remaining Costs to be Recognized at September 30, 2021
Employee severance costs	\$ 32,583	\$ 36,225	\$ (3,642)	\$ —
Asset impairments & net loss (gain) on sale or disposal	6,893	6,944	(51)	—
Other restructuring costs	4,546	63	1,920	2,563
Total	\$ 44,022	\$ 43,232	\$ (1,773)	\$ 2,563

#### 2018 Projects

In February 2018, our Board of Directors approved a restructuring plan (the 2018 Projects) to continue our efforts to optimize our global supply chain and manufacturing operations, research and development, and sales and marketing organizations. Actions under the 2018 Projects were substantially completed as of the end of 2020.



During the nine months ended September 30, 2021, we incurred additional legal costs related to a facility closure, partially offset by reduced severance costs.

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

<i>In thousands</i>	<b>Total Expected Costs at September 30, 2021</b>	<b>Costs Recognized in Prior Periods</b>	<b>Costs Recognized During the Nine Months Ended September 30, 2021</b>	<b>Expected Remaining Costs to be Recognized at September 30, 2021</b>
Employee severance costs	\$ 59,229	\$ 63,173	\$ (3,944)	\$ —
Asset impairments & net loss (gain) on sale or disposal	3,788	2,786	1,002	—
Other restructuring costs	19,752	15,217	3,885	650
Total	<u>\$ 82,769</u>	<u>\$ 81,176</u>	<u>\$ 943</u>	<u>\$ 650</u>

The following table summarizes the activity within the restructuring-related balance sheet accounts for the 2020 Projects and 2018 Projects during the nine months ended September 30, 2021:

<i>In thousands</i>	<b>Accrued Employee Severance</b>	<b>Asset Impairments &amp; Net Loss (Gain) on Sale or Disposal</b>	<b>Other Accrued Costs</b>	<b>Total</b>
Beginning balance, January 1, 2021	\$ 70,005	\$ —	\$ 2,621	\$ 72,626
Costs charged to expense	(7,586)	951	5,805	(830)
Cash payments	(16,431)	—	(4,725)	(21,156)
Cash receipts	—	2,007	—	2,007
Net assets disposed and impaired	—	(2,958)	—	(2,958)
Effect of change in exchange rates	(2,377)	—	(47)	(2,424)
Ending balance, September 30, 2021	<u>\$ 43,611</u>	<u>\$ —</u>	<u>\$ 3,654</u>	<u>\$ 47,265</u>

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

Other restructuring costs include expenses for employee relocation, professional fees associated with employee severance, costs to exit the facilities once the operations in those facilities have ceased, and other costs associated with the liquidation of any affected legal entities. Costs associated with restructuring activities are generally presented in the Consolidated Statements of Operations as restructuring, except for certain costs associated with inventory write-downs, which are classified within cost of revenues, and accelerated depreciation expense, which is recognized according to the use of the asset. Restructuring expense is part of the Corporate unallocated segment and does not impact the results of our operating segments.

The current portions of restructuring liabilities were \$28.7 million and \$31.7 million as of September 30, 2021 and December 31, 2020 and are classified within other current liabilities on the Consolidated Balance Sheets. The long-term portions of restructuring liabilities were \$18.6 million and \$40.9 million as of September 30, 2021 and December 31, 2020. The long-term portions of restructuring liabilities are classified within other long-term obligations on the Consolidated Balance Sheet and includes severance accruals and facility exit costs.

### **Note 13: Shareholders' Equity**

#### *Preferred Stock*

We have authorized the issuance of 10 million shares of preferred stock with no par value. In the event of a liquidation, dissolution, or winding up of the affairs of the corporation, whether voluntary or involuntary, the holders of any outstanding preferred stock would be entitled to be paid a preferential amount per share to be determined by the Board of Directors prior to any payment to holders of common stock. There was no preferred stock issued or outstanding at September 30, 2021 or December 31, 2020.

### Issuance of Common Stock

On March 12, 2021, we closed the sale of 4,472,222 shares of our common stock in a public offering, resulting in net proceeds to us of approximately \$389.4 million, after deducting underwriters' discounts of the offering.

### Convertible Note Hedge Transactions

We paid an aggregate amount of \$84.1 million for the Convertible Note Hedge Transactions. The Convertible Note Hedge Transactions cover, subject to anti-dilution adjustments substantially similar to those in the Convertible Notes, approximately 3.7 million shares of our common stock, the same number of shares initially underlying the Convertible Notes, at a strike price of approximately \$126.00, subject to customary adjustments. The Convertible Note Hedge Transactions will expire upon the maturity of the Convertible Notes, subject to earlier exercise or termination. The Convertible Note Hedge Transactions are expected generally to reduce the potential dilutive effect of the conversion of our Convertible Notes and/or offset any cash payments we are required to make in excess of the principal amount of the converted notes, as the case may be, in the event the price per share of our common stock, as measured under the terms of the Convertible Note Hedge Transactions, is greater than the strike price of the Convertible Note Hedge Transactions. The Convertible Note Hedge Transactions meet the criteria in ASC 815-40 to be classified within Stockholders' Equity, therefore the Convertible Note Hedge Transactions are not revalued after their issuance.

We made a tax election to integrate the Convertible Notes and the call options. We are retaining the identification statements in our books and records, together with a schedule providing the accruals on the synthetic debt instruments. The accounting impact of this tax election makes the call options deductible as original issue discount for tax purposes over the term of the Convertible Note, and results in a \$20.6 million deferred tax asset recognized through equity.

### Warrant Transactions

In addition, concurrently with entering into the Convertible Note Hedge Transactions, we separately entered into privately-negotiated Warrant Transactions, whereby we sold to the Counterparties warrants to acquire, collectively, subject to anti-dilution adjustments, 3.7 million shares of our common stock at an initial strike price of \$180.00 per share, which represents a premium of 100% over the public offering price in the common stock issuance. We received aggregate proceeds of \$45.3 million from the Warrant Transactions with the Counterparties, with such proceeds partially offsetting the costs of entering into the Convertible Note Hedge Transactions. The warrants expire in June 2026. If the market value per share of our common stock, as measured under the Warrant Transactions, exceeds the strike price of the warrants, the warrants will have a dilutive effect on our earnings per share, unless we elect, subject to certain conditions, to settle the warrants in cash. The warrants meet the criteria in ASC 815-40 to be classified within Stockholders' Equity, and therefore the warrants are not revalued after issuance.

### Accumulated Other Comprehensive Income (Loss)

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

<i>In thousands</i>	Foreign Currency Translation Adjustments	Net Unrealized Gain (Loss) on Derivative Instruments	Net Unrealized Gain (Loss) on Nonderivative Instruments	Pension Benefit Obligation Adjustments	Accumulated Other Comprehensive Income (Loss)
Balances at January 1, 2020	\$ (157,999)	\$ (723)	\$ (14,380)	\$ (31,570)	\$ (204,672)
OCI before reclassifications	(147)	(4,727)	—	(1,151)	(6,025)
Amounts reclassified from AOCI	52,074	2,570	—	2,040	56,684
Total other comprehensive income (loss)	51,927	(2,157)	—	889	50,659
Balances at September 30, 2020	<u>\$ (106,072)</u>	<u>\$ (2,880)</u>	<u>\$ (14,380)</u>	<u>\$ (30,681)</u>	<u>\$ (154,013)</u>
Balances at January 1, 2021	\$ (84,843)	\$ (1,621)	\$ (14,380)	\$ (37,682)	\$ (138,526)
OCI before reclassifications	(17,118)	1,085	—	—	(16,033)
Amounts reclassified from AOCI	—	733	—	2,087	2,820
Total other comprehensive income (loss)	(17,118)	1,818	—	2,087	(13,213)
Balances at September 30, 2021	<u>\$ (101,961)</u>	<u>\$ 197</u>	<u>\$ (14,380)</u>	<u>\$ (35,595)</u>	<u>\$ (151,739)</u>

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

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Before-tax amount</b>				
Foreign currency translation adjustment	\$ (7,827)	\$ 15,521	\$ (16,941)	\$ (387)
Foreign currency translation adjustment reclassified to net income (loss) on sale of business	—	(14)	—	52,074
Net unrealized gain (loss) on derivative instruments, designated as cash flow hedges	478	(2,887)	1,103	(5,228)
Net hedging (gain) loss reclassified to net income (loss)	32	2,879	1,200	2,588
Net unrealized gain (loss) on defined benefit plans	—	(893)	—	(812)
Net defined benefit plan (gain) loss reclassified to net income (loss)	698	499	2,121	1,439
<b>Total other comprehensive income (loss), before tax</b>	<b>\$ (6,619)</b>	<b>\$ 15,105</b>	<b>\$ (12,517)</b>	<b>\$ 49,674</b>
<b>Tax (provision) benefit</b>				
Foreign currency translation adjustment	\$ 63	\$ (1,533)	\$ (177)	\$ 240
Foreign currency translation adjustment reclassified to net income (loss) on sale of business	—	—	—	—
Net unrealized gain (loss) on derivative instruments, designated as cash flow hedges	—	74	(18)	501
Net hedging (gain) loss reclassified to net income (loss)	—	(67)	(467)	(18)
Net unrealized gain (loss) on defined benefit plans	—	(341)	—	(339)
Net defined benefit plan (gain) loss reclassified to net income (loss)	(11)	576	(34)	601
<b>Total other comprehensive income (loss) tax (provision) benefit</b>	<b>\$ 52</b>	<b>\$ (1,291)</b>	<b>\$ (696)</b>	<b>\$ 985</b>
<b>Net-of-tax amount</b>				
Foreign currency translation adjustment	\$ (7,764)	\$ 13,988	\$ (17,118)	\$ (147)
Foreign currency translation adjustment reclassified to net income (loss) on sale of business	—	(14)	—	52,074
Net unrealized gain (loss) on derivative instruments, designated as cash flow hedges	478	(2,813)	1,085	(4,727)
Net hedging (gain) loss reclassified to net income (loss)	32	2,812	733	2,570
Net unrealized gain (loss) on defined benefit plans	—	(1,234)	—	(1,151)
Net defined benefit plan (gain) loss reclassified to net income (loss)	687	1,075	2,087	2,040
<b>Total other comprehensive income (loss), net of tax</b>	<b>\$ (6,567)</b>	<b>\$ 13,814</b>	<b>\$ (13,213)</b>	<b>\$ 50,659</b>

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

The fair values at September 30, 2021 and December 31, 2020 do not reflect subsequent changes in the economy, interest rates, tax rates, and other variables that may affect the determination of fair value.

In thousands	September 30, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Credit facility				
USD denominated term loan	\$ —	\$ —	\$ 532,625	\$ 520,347
Multicurrency revolving line of credit	—	—	—	—
Senior notes	—	—	388,311	410,000
Convertible notes	449,629	434,130	—	—

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

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

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

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

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

**Note 15: Segment Information**

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

We have three GAAP measures of segment performance: revenues, gross profit (gross margin), and operating income (operating margin). Intersegment revenues are minimal. Certain operating expenses are allocated to the operating segments based upon internally established allocation methodologies. Corporate operating expenses, interest income, interest expense, other income (expense), and the income tax provision (benefit) are neither allocated to the segments, nor are they included in the measure of segment performance. In addition, we allocate only certain production assets and intangible assets to our operating segments. We do not manage the performance of the segments on a balance sheet basis.

**Segment Products**

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

*Networked Solutions* – This segment primarily includes a combination of communicating devices (e.g., smart meters, modules, endpoints, and sensors), network infrastructure, and associated application software designed and sold as a complete solution for acquiring and transporting robust application-specific data. Networked Solutions includes products and software for the implementation, installation, and management of communicating devices and data networks. Examples from the Networked

Solutions portfolio include: communicating measurement, control, or sensing endpoints such as our Itron® OpenWay® Centron and Riva meters, Itron traditional ERT® technology, Intelis smart gas meters, 500G gas communication modules, 500W water communication modules; GenX networking infrastructure products and network interface cards (NICs); Smart City control and management software; Distribution Automation bridge devices, and specific network control and management software applications. The Industrial Internet of Things (IIoT) solutions supported by this segment include automated meter reading (AMR), advanced metering infrastructure (AMI), smart grid and distribution automation, smart street lighting and an ever-growing set of smart city applications such as traffic management, smart parking, air quality monitoring, electric vehicle charging, customer engagement, digital signage, acoustic (e.g., gunshot) detection, and leak detection and mitigation for both gas and water systems. Our IIoT platform allows all of these industry and smart city applications to be run and managed on a single, multi-purpose network.

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

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

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Product revenues</b>				
Device Solutions	\$ 149,830	\$ 174,039	\$ 480,808	\$ 501,157
Networked Solutions	242,527	282,677	736,397	898,465
Outcomes	18,590	13,942	48,265	38,158
Total Company	\$ 410,947	\$ 470,658	\$ 1,265,470	\$ 1,437,780
<b>Service revenues</b>				
Device Solutions	\$ 2,404	\$ 2,089	\$ 7,174	\$ 6,415
Networked Solutions	31,971	23,982	91,473	73,519
Outcomes	41,627	43,455	131,818	130,479
Total Company	\$ 76,002	\$ 69,526	\$ 230,465	\$ 210,413
<b>Total revenues</b>				
Device Solutions	\$ 152,234	\$ 176,128	\$ 487,982	\$ 507,572
Networked Solutions	274,498	306,659	827,870	971,984
Outcomes	60,217	57,397	180,083	168,637
Total Company	\$ 486,949	\$ 540,184	\$ 1,495,935	\$ 1,648,193
<b>Gross profit</b>				
Device Solutions	\$ 22,480	\$ 20,528	\$ 85,228	\$ 64,843
Networked Solutions	89,915	102,295	298,627	332,368
Outcomes	22,568	20,428	68,027	56,123
Total Company	\$ 134,963	\$ 143,251	\$ 451,882	\$ 453,334
<b>Operating income (loss)</b>				
Device Solutions	\$ 12,095	\$ 11,017	\$ 53,784	\$ 28,095
Networked Solutions	61,150	71,404	205,071	237,466
Outcomes	11,774	12,044	34,647	29,468
Corporate unallocated	(80,856)	(118,445)	(265,331)	(338,026)
Total Company	4,163	(23,980)	28,171	(42,997)
Total other income (expense)	(4,037)	(13,063)	(42,465)	(35,020)
Income (loss) before income taxes	\$ 126	\$ (37,043)	\$ (14,294)	\$ (78,017)

For the three and nine months ended September 30, 2021 and the three months ended September 30, 2020, no customer represented more than 10% of total company revenue. During the nine months ended September 30, 2020, one customer represented 11% of total company revenues.

Revenues by region were as follows:

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
United States and Canada	\$ 323,784	\$ 354,841	\$ 957,993	\$ 1,110,028
Europe, Middle East, and Africa	126,548	156,810	437,768	431,593
Asia Pacific and Latin America <sup>(1)</sup>	36,617	28,533	100,174	106,572
Total Company	\$ 486,949	\$ 540,184	\$ 1,495,935	\$ 1,648,193

<sup>(1)</sup> On June 25, 2020, we sold our Latin American operations. We continue to sell into the region through an exclusive distributor.

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

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Device Solutions	\$ 5,911	\$ 5,926	\$ 17,708	\$ 18,423
Networked Solutions	4,274	4,377	12,801	12,447
Outcomes	1,068	1,327	3,431	4,132
Corporate unallocated	10,080	12,446	30,312	37,304
Total Company	\$ 21,333	\$ 24,076	\$ 64,252	\$ 72,306

## Note 16: Revenues

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

<i>In thousands</i>	Contract Liabilities, Less Contract Assets
Beginning balance, January 1, 2021	\$ 98,388
Revenues recognized from beginning contract liability	(95,096)
Cumulative catch-up adjustments	16,722
Increases due to amounts collected or due	215,549
Revenues recognized from current period increases	(136,122)
Other	(908)
Ending balance, September 30, 2021	\$ 98,533

On January 1, 2021, total contract assets were \$49.8 million and total contract liabilities were \$148.2 million. On September 30, 2021, total contract assets were \$35.3 million and total contract liabilities were \$133.8 million. The contract assets primarily relate to contracts that include a retention clause and allocations related to contracts with multiple performance obligations. The contract liabilities primarily relate to deferred revenue, such as extended warranty and maintenance cost. The cumulative catch-up adjustments relate to contract modifications, measure-of-progress changes, and changes in the estimate of the transaction price.

### *Transaction price allocated to the remaining performance obligations*

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

Total transaction price allocated to remaining performance obligations related to contracts is approximately \$1.3 billion for the next twelve months and approximately \$1.5 billion for periods longer than 12 months. The total remaining performance obligations consist of product and service components. The service component relates primarily to maintenance agreements for which customers pay a full year's maintenance in advance, and service revenues are generally recognized over the service period. Total transaction price allocated to remaining performance obligations also includes our extended warranty contracts,

for which revenue is recognized over the warranty period, and hardware, which is recognized as units are delivered. The estimate of when remaining performance obligations will be recognized requires significant judgment.

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

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

*Disaggregation of revenue*

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

**Note 17: Sale of Business**

*Latin America Divestiture*

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

The total sales price of \$35.0 million included deferred payments of \$21.1 million for working capital, which was to be paid in full by December 31, 2020, as evidenced by a promissory note, and the remainder in cash (\$4.5 million) and other deferred consideration.

In January 2021, we agreed to extend the payment terms on the remaining outstanding working capital balance of \$18.4 million. Accell had agreed to make monthly payments, including interest, through September 2022, under which we received full payments for January through March and partial payments in April and May (totaling \$3.8 million including \$0.7 million in interest). In July 2021, we received a revised payment plan for the remaining working capital note receivable, as well as the other deferred transaction receivables. Based on Accell's failure to make timely payments, continued requests to defer payments significantly beyond the original maturity of the working capital note, and the unfavorable impact of the COVID-19 pandemic on the Latin American markets, we determined to fully reserve the working capital and other deferred receivables, recognizing an additional loss on sale of business of \$24.7 million during the second quarter of 2021.

**Note 18: Subsequent Events**

*Business Acquisition*

Subsequent to September 30, 2021, we completed the acquisition of 100% of the shares of SELC Group Limited (SELC), a private limited company incorporated in Ireland, on October 12, 2021. SELC was previously a technology supplier to Itron. The acquisition provides value to Itron through the leverage of SELC's streetlight controls technology coupled with Itron's Smart Cities network and software platform. The acquisition will increase the pace of Smart City growth and innovation within Itron's Networked Solutions business for the benefit of our customers. The purchase was funded through cash on hand and resulted in immaterial additions of intangible assets and goodwill.

*Sale of Business*

On November 2, 2021, Itron entered into a definitive securities and asset purchase agreement to sell certain of its Gas device manufacturing and business operations in Europe and North America to Dresser Utility Solutions (Dresser). The sale includes one German subsidiary – Itron GmbH along with its business operations, personnel, and the owned manufacturing facility in Karlsruhe; the business operations, personnel, and assets associated with the leased manufacturing facility in Argenteuil, France; and the business and manufacturing assets maintained at one of our contract manufacturers in North America. The sale of these assets and operations is part of Itron's continued strategy to improve profitability and focus on growing its higher value businesses throughout the world.



Based on the sales price and the net assets of the businesses sold, Itron concluded on November 2, 2021 that it will recognize a pre-tax loss with a range of \$30-40 million upon closure of the sale, which is expected in the first half of 2022. The impairment is driven primarily by the required recognition of \$58-62 million in foreign currency translation losses accumulated since the acquisition of the German subsidiary in 2007. The base sale price of this divestiture is \$75 million, with adjustments for (1) pension liabilities assumed by Dresser for the active employees estimated at \$12-13 million and (2) the final working capital balance, which will be determined as of the close date, and, if the balance is outside the targeted amount, the difference will be settled shortly thereafter. Net assets of the businesses, including allocated goodwill, are \$35-40 million. Cash proceeds from the sale are currently estimated at \$62-63 million.

#### *Restructuring Plan Associated with Sale of Business*

On October 29, 2021, the Board of Directors of Itron approved a restructuring plan (the 2021 Projects). The 2021 Projects include activities, in conjunction with the announcement of the sale of certain of our Gas device manufacturing operations, which drive reductions in certain locations and functional support areas. These projects are to be substantially complete by the end of 2024. Itron estimates pre-tax restructuring charges of \$65-75 million. Of the total estimated charge, approximately \$60-65 million will result in cash expenditures, and the remainder to non-cash impairment charges. The majority of the expense will be recognized during the fourth quarter of 2021. Once the 2021 Projects are substantially completed, Itron estimates \$15-20 million in annualized savings. Certain of Itron's employees are represented by unions or works councils, which requires consultation, and potential restructuring projects may be subject to regulatory approval, both of which could impact the timing of planned savings in certain jurisdictions.

#### *Approval of Share Repurchase Program*

Effective November 1, 2021, the Board of Directors of Itron authorized a new share repurchase program of up to \$100 million of Itron's common stock over a 18-month period. Repurchases will be made in the open market and pursuant to the terms of any Rule 10b5-1 plans that Itron may enter into, and in accordance with applicable securities laws. The repurchase program is intended to comply with Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended. Depending on market conditions and other factors, these repurchases may be commenced or suspended from time to time without prior notice.

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

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and notes included in this report and with the consolidated financial statements and the notes thereto for the fiscal year ended December 31, 2020 filed with the Securities and Exchange Commission (SEC) in our Annual Report on Form 10-K on February 24, 2021 (2020 Annual Report).

The objective of Management's Discussion and Analysis is to provide our assessment of the financial condition and results of operations including an evaluation of our liquidity and capital resources along with material events occurring during the year. The discussion and analysis focuses on material events and uncertainties known to management that are reasonably likely to cause reported financial information not to be necessarily indicative of future operating results or of future financial condition. In addition, we address matters that are reasonably likely based on management's assessment to have a material impact on future operations. We expect that the analysis will enhance a reader's understanding of our financial condition, cash flows, and other changes in financial condition and results of operations.

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

### **Certain Forward-Looking Statements**

*This report contains, and our officers and representatives may from time to time make, "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are neither historical factors nor assurances of future performance. These statements are based on our expectations about, among others, revenues, operations, financial performance, earnings, liquidity, earnings per share, cash flows and restructuring activities including headcount reductions and other cost savings initiatives. This document reflects our current strategy, plans and expectations and is based on information currently available as of the date of this Quarterly Report on Form 10-Q. When we use words such as "expect", "intend", "anticipate", "believe", "plan", "goal", "seek", "project", "estimate", "future", "strategy", "objective", "may", "likely", "should", "will", "will continue", and similar expressions, including related to future periods, they are intended to identify forward-looking statements. Forward-looking statements rely on a number of assumptions and estimates. Although we believe the estimates and assumptions upon which these forward-looking statements are based are reasonable, any of these estimates or assumptions could prove to be inaccurate and the forward-looking statements based on these estimates and assumptions could be incorrect. Our operations involve risks and uncertainties, many of which are outside our control, and any one of which, or a combination of which, could materially affect our results of operations and whether the forward-looking statements ultimately prove to be correct. Actual results and trends*

*in the future may differ materially from those suggested or implied by the forward-looking statements depending on a variety of factors. Therefore, you should not rely on any of these forward-looking statements. Some of the factors that we believe could affect our results include our ability to execute on our restructuring plan, our ability to achieve estimated cost savings, the rate and timing of customer demand for our products, rescheduling of current customer orders, changes in estimated liabilities for product warranties, adverse impacts of litigation, changes in laws and regulations, our dependence on new product development and intellectual property, future acquisitions, changes in estimates for stock-based and bonus compensation, increasing volatility in foreign exchange rates, international business risks, uncertainties caused by adverse economic conditions, including, without limitation those resulting from extraordinary events or circumstances such as the COVID-19 pandemic and other factors that are more fully described in Part I, Item 1A: Risk Factors included in our 2020 Annual Report and other reports on file with the SEC. We undertake no obligation to update or revise any forward-looking statement, whether written or oral.*

*The impact caused by the ongoing COVID-19 pandemic includes uncertainty as to the duration, spread, severity, and any resurgence of the COVID-19 pandemic including other factors contributing to infection rates, such as reinfection or mutation of the virus, the effectiveness or widespread availability and application of vaccines, the duration and scope of related government orders and restrictions, impact on overall demand, impact on our customers' businesses and workforce levels, disruptions of our business and operations, including the impact on our employees, limitations on, or closures of, our facilities, or the business and operations of our customers or suppliers. Our estimates and statements regarding the impact of COVID-19 are made in good faith to provide insight to our current and future operating and financial environment and any of these may materially change due to factors outside our control. For more information on risks associated with the COVID-19 pandemic, please see our risk in Part I, Item 1A: Risk Factors in our 2020 Annual Report.*

## **Overview**

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

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

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

*Networked Solutions* – This segment primarily includes a combination of communicating devices (e.g., smart meters, modules, endpoints, and sensors), network infrastructure, and associated application software designed and sold as a complete solution for acquiring and transporting robust application-specific data. Networked Solutions includes products and software for the implementation, installation, and management of communicating devices and data networks. Examples from the Networked Solutions portfolio include: communicating measurement, control, or sensing endpoints such as our Itron® OpenWay® Centron and Riva meters, Itron traditional ERT® technology, Intelis smart gas meters, 500G gas communication modules, 500W water communication modules; GenX networking infrastructure products and network interface cards (NICs); Smart City control and management software; Distribution Automation bridge devices, and specific network control and management software applications. The Industrial Internet of Things (IIoT) solutions supported by this segment include automated meter reading (AMR), advanced metering infrastructure (AMI), smart grid and distribution automation, smart street lighting and an ever-growing set of smart city applications such as traffic management, smart parking, air quality monitoring, electric vehicle charging, customer engagement, digital signage, acoustic (e.g., gunshot) detection, and leak detection and mitigation for both gas and water systems. Our IIoT platform allows all of these industry and smart city applications to be run and managed on a single, multi-purpose network.

*Outcomes* – This segment primarily includes our value-added, enhanced software and services in which we manage, organize, analyze, and interpret data to improve decision making, maximize operational profitability, drive resource efficiency, and

deliver results for consumers, utilities, and smart cities. Outcomes places an emphasis on delivering to Itron customers high-value, turn-key, digital experiences by leveraging the footprint of our Device Solutions and Networked Solutions segments. The revenues from these offerings are primarily recurring in nature and would include any direct management of Device Solutions, Networked Solutions, and other products on behalf of our end customers. Examples from the Outcomes portfolio include: our meter data management and analytics offerings; our managed service solutions including Network-as-a-Service (NaaS) and Platform-as-a-Service (PaaS), forecasting software and services; our Distributed Intelligence suite of applications and services; and any consulting-based engagement. Within the Outcomes segment, we also identify new business models, including performance-based contracting, to drive broader portfolio offerings across utilities and cities.

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

#### *Non-GAAP Measures*

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

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

Refer to the *Non-GAAP Measures* section below on pages 49-51 for information about these non-GAAP measures and the detailed reconciliation of items that impacted free cash flow, non-GAAP operating expense, non-GAAP operating income, non-GAAP net income, adjusted EBITDA, and non-GAAP diluted EPS in the presented periods.

### **Total Company Highlights**

*Highlights and significant developments for the three months ended September 30, 2021 compared with the three months ended September 30, 2020*

- Revenues were \$486.9 million compared with \$540.2 million in 2020, a decrease of \$53.2 million, or 10%
- Gross margin was 27.7%, compared with 26.5% in 2020
- Operating expenses decreased \$36.4 million, or 22%, compared with 2020
- Net loss attributable to Itron, Inc. was \$1.9 million compared with net loss of \$25.4 million in 2020
- GAAP diluted EPS increased by \$0.59 to a diluted loss per share of \$0.04 in 2021
- Non-GAAP net income attributable to Itron, Inc. was \$9.5 million compared with \$24.6 million in 2020
- Non-GAAP diluted EPS was \$0.21, a decrease of \$0.40 compared with 2020
- Adjusted EBITDA was \$26.1 million compared with \$39.7 million in 2020
- Total backlog was \$3.4 billion and twelve-month backlog was \$1.4 billion at September 30, 2021, compared with \$2.8 billion and \$1.1 billion at September 30, 2020

*Highlights and significant developments for the nine months ended September 30, 2021 compared with the nine months ended September 30, 2020*

- Revenues were \$1.5 billion compared with \$1.6 billion in 2020, a decrease of \$152.3 million, or 9%
- Gross margin was 30.2% compared with 27.5% in 2020
- Operating expenses decreased \$72.6 million, or 15%, compared with 2020
- Net loss attributable to Itron, Inc. was \$22.4 million, compared with net loss of \$79.5 million in 2020
- GAAP diluted EPS increased by \$1.47 to a diluted loss per share of \$0.51 in 2021
- Non-GAAP net income attributable to Itron, Inc. was \$44.0 million compared with \$48.9 million in 2020
- Non-GAAP diluted EPS was \$0.99, a decrease of \$0.22 compared with 2020
- Adjusted EBITDA was \$112.0 million compared with \$122.9 million in 2020

*2018 Credit Facility*

On August 12, 2021, we fully paid the remaining balance of \$31.1 million on the term loan. At September 30, 2021, there were no outstanding loan balances under the 2018 Credit Facility.

*Business Acquisition*

Subsequent to September 30, 2021, Itron, through its subsidiary Itron Management Services Ireland, Limited, completed the acquisition of 100% of the shares of SELC Group Limited (SELC), a private limited company incorporated in Ireland since 2014, from Sensus Metering Systems (LUXCO3) S.à.r.l on October 12, 2021. SELC was previously a technology supplier to Itron. The acquisition provides value to Itron through the leverage of SELC's streetlight controls technology coupled with Itron's Smart Cities network and software platform. The acquisition will increase the pace of Smart City growth and innovation within Itron's Networked Solutions business for the benefit of our customers. The purchase was funded through cash on hand.

*Sale of Business*

On November 2, 2021, Itron entered into a definitive securities and asset purchase agreement to sell certain of its Gas device manufacturing and business operations in Europe and North America to Dresser Utility Solutions (Dresser). The sale includes one German subsidiary – Itron GmbH along with its business operations, personnel, and the owned manufacturing facility in Karlsruhe; the business operations, personnel, and assets associated with the leased manufacturing facility in Argenteuil, France; and the business and manufacturing assets maintained at one of our contract manufacturers in North America. The sale of these assets and operations is part of Itron's continued strategy to improve profitability and focus on growing its higher value businesses throughout the world.

Based on the sales price and the net assets of the businesses sold, Itron concluded on November 2, 2021 that it will recognize a pre-tax loss with a range of \$30-40 million upon closure of the sale, which is expected in the first half of 2022. The impairment is driven primarily by the required recognition of \$58-62 million in foreign currency translation losses accumulated since the acquisition of the German subsidiary in 2007. The base sale price of this divestiture is \$75 million, with adjustments for (1) pension liabilities assumed by Dresser for the active employees estimated at \$12-13 million and (2) the final working capital balance, which will be determined as of the close date, and, if the balance is outside the targeted amount, the difference will be settled shortly thereafter. Net assets of the businesses, including allocated goodwill, are \$35-40 million. Cash proceeds from the sale are currently estimated at \$62-63 million.

*Restructuring Plan Associated with Sale of Business*

On October 29, 2021, the Board of Directors of Itron approved a restructuring plan (the 2021 Projects). The 2021 Projects include activities, in conjunction with the announcement of the sale of certain of our Gas device manufacturing operations, which drive reductions in certain locations and functional support areas. These projects are to be substantially complete by the end of 2024. Itron estimates pre-tax restructuring charges of \$65-75 million. Of the total estimated charge, approximately \$60-65 million will result in cash expenditures, and the remainder to non-cash impairment charges. The majority of the expense will be recognized during the fourth quarter of 2021. Once the 2021 Projects are substantially completed, Itron estimates \$15-20 million in annualized savings. Certain of Itron's employees are represented by unions or works councils, which requires consultation, and potential restructuring projects may be subject to regulatory approval, both of which could impact the timing of planned savings in certain jurisdictions.

*Approval of Share Repurchase Program*

Effective November 1, 2021, the Board of Directors of Itron authorized a new share repurchase program of up to \$100 million of Itron's common stock over an 18-month period. Repurchases will be made in the open market and pursuant to the terms of any Rule 10b5-1 plans that Itron may enter into, and in accordance with applicable securities laws. The repurchase program is

intended to comply with Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended. Depending on market conditions and other factors, these repurchases may be commenced or suspended from time to time without prior notice.

*Impact of COVID-19 and Supply Chain Challenges*

The COVID-19 pandemic has had global economic impacts including disrupting customer demand and global supply chains, resulting in market volatility. The extent of the recent pandemic and its ongoing impact on our operations is volatile, but is being monitored closely by our management. During portions of the first half of 2020 certain of our European factories were closed due to government actions and local conditions, and any further closures that may be imposed on us could impact our results for 2021. New variants of the virus may cause previously lifted restrictions to be reinstated, which could result in more disruptions. Incremental costs we have incurred related to COVID-19, such as personal protective equipment, increased cleaning and sanitizing of our facilities, and other such items, have not been material to date. As economies have reopened, global supply chains have struggled to keep pace with rapidly changing demand. The resulting supply constraints have manifested across a variety of areas including mechanical, electrical and logistics portions of the supply chain, which has impacted our ability to ship products in a timely manner. In particular, our ability to obtain adequate supply of semiconductor components has impacted our ability to service recovering customer demand. While the current imbalance in supply and demand is temporal, the timeline to recovery is uncertain. Efforts are ongoing with suppliers to increase supply, including the approval of alternate sources. At this time, we have not identified any significant decrease in long-term customer demand for our products and services. However, certain of our customer projects have experienced delay in deliveries, with originally forecasted 2021 revenue pushed to future periods. For more information on risks associated with the COVID-19 pandemic, please see our risk in Part I, Item 1A, Risk Factors in our 2020 Annual Report.

The COVID-19 pandemic remains a rapidly evolving situation with varying impacts on the locations in which we do business. Changes in the mix of earnings or losses from our different geographical operations, as well as any future enactment of tax legislation and other factors, may result in more volatile quarterly and annual effective tax rates. The detrimental impacts to financial results may be partially offset by financial assistance from the U.S. or the municipalities in which we operate, including employer payroll tax credits for wages paid to employees who are unable to work during the COVID-19 pandemic. Other benefits, including options to defer payroll tax payments and additional deductions, resulted in reduced cash costs in 2020, but will increase cash outlays during the fourth quarter of 2021 and into 2022.

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

<i>In thousands, except margin and per share data</i>	<b>Three Months Ended September 30,</b>			<b>Nine Months Ended September 30,</b>		
	<b>2021</b>	<b>2020</b>	<b>% Change</b>	<b>2021</b>	<b>2020</b>	<b>% Change</b>
<b>GAAP</b>						
Revenues						
Product revenues	\$ 410,947	\$ 470,658	(13)%	\$ 1,265,470	\$ 1,437,780	(12)%
Service revenues	76,002	69,526	9%	230,465	210,413	10%
Total revenues	486,949	540,184	(10)%	1,495,935	1,648,193	(9)%
Gross profit	134,963	143,251	(6)%	451,882	453,334	—%
Operating expenses	130,800	167,231	(22)%	423,711	496,331	(15)%
Operating income (loss)	4,163	(23,980)	NM	28,171	(42,997)	NM
Other income (expense)	(4,037)	(13,063)	(69)%	(42,465)	(35,020)	21%
Income tax benefit (provision)	(1,136)	11,985	NM	(5,581)	(366)	NM
Net loss attributable to Itron, Inc.	(1,869)	(25,357)	(93)%	(22,389)	(79,475)	(72)%
<b>Non-GAAP<sup>(1)</sup></b>						
Non-GAAP operating expenses	\$ 118,609	\$ 113,554	4%	\$ 369,721	\$ 364,788	1%
Non-GAAP operating income	16,354	29,697	(45)%	82,161	88,546	(7)%
Non-GAAP net income attributable to Itron, Inc.	9,452	24,634	(62)%	44,043	48,929	(10)%
Adjusted EBITDA	26,123	39,684	(34)%	111,982	122,858	(9)%
<b>GAAP Margins and Earnings Per Share</b>						
Gross margin						
Product gross margin	25.5 %	23.9 %		28.2 %	25.4 %	
Service gross margin	39.7 %	44.4 %		41.4 %	41.7 %	
Total gross margin	27.7 %	26.5 %		30.2 %	27.5 %	
Operating margin	0.9 %	(4.4)%		1.9 %	(2.6)%	
Net loss per common share - Basic	\$ (0.04)	\$ (0.63)		\$ (0.51)	\$ (1.98)	
Net loss per common share - Diluted	\$ (0.04)	\$ (0.63)		\$ (0.51)	\$ (1.98)	
<b>Non-GAAP Earnings Per Share<sup>(1)</sup></b>						
Non-GAAP diluted EPS	\$ 0.21	\$ 0.61		\$ 0.99	\$ 1.21	

<sup>(1)</sup> These measures exclude certain expenses that we do not believe are indicative of our core operating results. See pages 49-51 for information about these non-GAAP measures and reconciliations to the most comparable GAAP measures.

**Definition of an Endpoint Under Management**

An "endpoint under management" is a unique endpoint, or data from that endpoint, which Itron manages via our networked platform or a third party's platform that is connected to one or multiple types of endpoints. Itron's management of an endpoint occurs when on behalf of our client, we manage one or more of the physical endpoints, operating system, data, application, data analytics, and/or outcome deriving from this unique endpoint. Itron has the ability to monitor and/or manage endpoints or the data from the endpoints via NaaS, Software-as-a-Service (SaaS), and/or a licensed offering at a remote location designated by our client. Our offerings typically, but not exclusively, provide an Itron product or Itron certified partner product to our clients that has the capability of one-way communication or two-way communication of data that may include remote product configuration and upgradability. Examples of these offerings include our Temetra, OpenWay®, OpenWay® Riva and Gen X.

This metric primarily includes Itron or third-party endpoints deployed within the electricity, water, and gas utility industries, as well as within cities and municipalities around the globe. Endpoints under management also include smart communication modules and network interface cards (NICs) within Itron's platforms. At times, these NICs are communicating modules that were sold separately from an Itron product directly to our customers or to third party manufacturers for use in endpoints such as

electric, water, and gas meters; streetlights and other types of IIoT sensors and actuators; sensors and other capabilities that the end customer would like Itron to connect and manage on their behalf.

The "endpoint under management" metric only accounts for the specific, unique endpoint itself, though that endpoint may have multiple applications, services, outcomes, and higher margin recurring offerings associated with it. This metric does not reflect the multi-application value that can be derived from the individual endpoint itself. Additionally, this metric excludes those endpoints that are non-communicating, non-Itron system hardware component sales or licensed applications that Itron does not manage the unit or the data from that unit directly.

While the one-time sale of the platform and endpoints are primarily delivered via our Networked Solutions segment, our enhanced solutions, on-going monitoring, maintenance, software, analytics, and distributed intelligent applications are predominantly recognized in our Outcomes segment. We would anticipate the opportunity to increase our penetration of Outcomes applications, software, and managed applications will increase as our endpoints under management increases. Management believes using the endpoints under management metric enhances insight to the strategic and operational direction of our Networked Solutions and Outcomes segments to serve clients for years after their one-time installation of an endpoint.

A summary of our endpoints under management is as follows:

<i>Units in thousands</i>	September 30,	
	2021	2020
Endpoints under management	78,487	74,652

## Results of Operations

### Revenues and Gross Margin

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

<i>In thousands</i>	Three Months Ended September 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2021	2020			
<b>Total Company</b>					
Revenues	\$ 486,949	\$ 540,184	\$ 4,157	\$ (57,392)	\$ (53,235)
Gross profit	134,963	143,251	557	(8,845)	(8,288)

<i>In thousands</i>	Nine Months Ended September 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2021	2020			
<b>Total Company</b>					
Revenues	\$ 1,495,935	\$ 1,648,193	\$ 37,455	\$ (189,713)	\$ (152,258)
Gross profit	451,882	453,334	4,684	(6,136)	(1,452)

#### *Revenues - Three months ended September 30, 2021 vs. Three months ended September 30, 2020*

Total revenues decreased \$53.2 million, or 10%, compared with the same period in 2020. We have been unfavorably impacted by COVID-19 related global component constraints, which limited our ability to fulfill customer demand. Product revenues decreased by \$59.7 million, while service revenues increased \$6.5 million. Device Solutions decreased by \$23.9 million; Networked Solution decreased by \$32.2 million; and Outcomes increased by \$2.8 million when compared with the same period last year. Changes in exchange rates favorably impacted total revenues by \$4.2 million, of which \$2.5 million favorably impacted Device Solutions.

#### *Revenues - Nine months ended September 30, 2021 vs. Nine Months Ended September 30, 2020*

Total revenues decreased \$152.3 million, or 9%, compared with the same period in 2020. We have been unfavorably impacted by the timing of customer projects and COVID-19, particularly global component constraints, which limited our ability to fulfill customer demand. Product revenues decreased by \$172.3 million, while service revenues increased by \$20.1 million. Device Solutions decreased by \$19.6 million; Networked Solutions decreased by \$144.1 million; and Outcomes increased by

\$11.4 million when compared with the same period last year. Changes in exchange rates favorably impacted total revenues by \$37.5 million, of which \$25.7 million favorably impacted Device Solutions.

*Gross Margin - Three months ended September 30, 2021 vs. Three months ended September 30, 2020*

Gross margin was 27.7%, compared with 26.5% in 2020. We were favorably impacted by product and solution mix and manufacturing efficiencies in 2021 compared with 2020, which was more unfavorably impacted by COVID-19. Product sales gross margin increased to 25.5%, compared with 23.9% in 2020. Gross margin on service revenues decreased to 39.7%, compared with 44.4% in 2020.

*Gross Margin - Nine months ended September 30, 2021 vs. Nine Months Ended September 30, 2020*

Gross margin was 30.2%, compared with 27.5% in 2020. We were favorably impacted by product and solution mix and operating efficiencies in 2021 compared with 2020, which was more unfavorably impacted by COVID-19. Product sales gross margin increased to 28.2%, compared with 25.4% in 2020, and gross margin on service revenues decreased to 41.4%, compared with 41.7% in 2020.

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

### Operating Expenses

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

<i>In thousands</i>	<b>Three Months Ended September 30,</b>		<b>Effect of Changes in Foreign Currency Exchange Rates</b>	<b>Constant Currency Change</b>	<b>Total Change</b>
	<b>2021</b>	<b>2020</b>			
<b>Total Company</b>					
Sales, general and administrative	\$ 71,838	\$ 64,982	\$ 262	\$ 6,594	\$ 6,856
Research and development	46,889	46,224	90	575	665
Amortization of intangible assets	8,944	11,183	46	(2,285)	(2,239)
Restructuring	958	44,462	(3)	(43,501)	(43,504)
Loss on sale of business	2,171	380	(159)	1,950	1,791
Total operating expenses	\$ 130,800	\$ 167,231	\$ 236	\$ (36,667)	\$ (36,431)

<i>In thousands</i>	<b>Nine Months Ended September 30,</b>		<b>Effect of Changes in Foreign Currency Exchange Rates</b>	<b>Constant Currency Change</b>	<b>Total Change</b>
	<b>2021</b>	<b>2020</b>			
<b>Total Company</b>					
Sales, general and administrative	\$ 221,974	\$ 215,018	\$ 5,960	\$ 996	\$ 6,956
Research and development	147,379	148,999	1,864	(3,484)	(1,620)
Amortization of intangible assets	26,914	33,488	384	(6,958)	(6,574)
Restructuring	(830)	41,531	(250)	(42,111)	(42,361)
Loss on sale of business	28,274	57,295	3,502	(32,523)	(29,021)
Total operating expenses	\$ 423,711	\$ 496,331	\$ 11,460	\$ (84,080)	\$ (72,620)

Operating expenses decreased \$36.4 million for the third quarter of 2021 as compared with the same period in 2020. This was primarily the result of a reduction of \$43.5 million in restructuring due to a new plan announced in 2020.

Operating expenses decreased \$72.6 million for the nine months ended September 30, 2021 as compared with the same period in 2020. This was primarily the result of \$42.4 million in lower restructuring costs due to the new plan announced in 2020 and \$29.0 million decrease in the loss on sale of business.



### Other Income (Expense)

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

<i>In thousands</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Interest income	\$ 352	\$ 354	(1)%	\$ 1,326	\$ 2,165	(39)%
Amortization of prepaid debt fees	(1,949)	(1,016)	92%	(17,383)	(3,029)	NM
Other interest expense	(679)	(9,794)	(93)%	(9,724)	(30,742)	(68)%
Interest expense	(2,628)	(10,810)	(76)%	(27,107)	(33,771)	(20)%
Other income (expense), net	(1,761)	(2,607)	(32)%	(16,684)	(3,414)	NM
Total other income (expense)	\$ (4,037)	\$ (13,063)	(69)%	\$ (42,465)	\$ (35,020)	21%

Total other income (expense) for the three and nine months ended September 30, 2021 was a net expense of \$4.0 million and \$42.5 million, compared with net expense of \$13.1 million and \$35.0 million in the same period in 2020.

The lower total expense for the three months ended September 30, 2021, as compared with the same period in 2020, was primarily driven by repayment of all interest bearing debt, except \$31.1 million of the term loan, prior to the start of the third quarter of 2021.

The higher total expense for the nine months ended September 30, 2021, as compared with the same period in 2020, was primarily driven by a \$14.3 million increase related to a write-off of prepaid debt fees in 2021 associated with the repayment of senior subordinated notes and the term loan as well as increased amortization, and a \$11.7 million charge related to the 2021 extinguishment of debt that is included in other income (expense). The increase was partially offset by lower interest costs of \$9.6 million for the senior subordinated notes, \$7.4 million for the term loan, and \$3.8 million for the revolving credit.

### Income Tax Provision

For the three and nine months ended September 30, 2021, our income tax expense was \$1.1 million and \$5.6 million, respectively, compared with income tax expense (benefit) of \$(12.0) million and \$0.4 million for the same period in 2020. Our tax rate for the three and nine months ended September 30, 2021 of 902% and (39)%, differed from the federal statutory rate of 21% due to losses in jurisdictions for which no benefit is recognized because of valuation allowances on deferred tax assets, the forecasted mix of earnings in domestic and international jurisdictions, a benefit related to stock-based compensation, uncertain tax positions, and reserves recognized on deferred purchase price receivables. Our tax rate for the three and nine months ended September 30, 2020 of 32% and 0% differed from the federal statutory rate of 21% primarily due to a significant loss recognized in the second quarter for the divestiture of the majority of our Latin American business activities. This loss was recognized for tax as a discrete item and resulted in no tax benefit. A discrete tax benefit was recognized in the third quarter for \$10.1 million related to the release of a valuation allowance on U.S. foreign tax credit deferred tax assets. This release was triggered by the carryforward of tax attributes due to the filing of amended tax returns in the third quarter. Other rate drivers include losses in jurisdictions for which no benefit is recognized because of valuation allowances on deferred tax assets as well as the forecasted mix of earnings in domestic and international jurisdictions, a benefit related to stock-based compensation, and uncertain tax positions.

For additional discussion related to income taxes, see Item 1: Financial Statements (Unaudited), Note 10: Income Taxes included in this Quarterly Report on Form 10-Q.

## Operating Segment Results

For a description of our operating segments, refer to Item 1: Financial Statements (Unaudited), Note 15: Segment Information included in this Quarterly Report on Form 10-Q. The following tables and discussion highlight significant changes in trends or components of each operating segment:

<i>In thousands</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
<b>Segment revenues</b>						
Device Solutions	\$ 152,234	\$ 176,128	(14)%	\$ 487,982	\$ 507,572	(4)%
Networked Solutions	274,498	306,659	(10)%	827,870	971,984	(15)%
Outcomes	60,217	57,397	5%	180,083	168,637	7%
Total revenues	<u>\$ 486,949</u>	<u>\$ 540,184</u>	(10)%	<u>\$ 1,495,935</u>	<u>\$ 1,648,193</u>	(9)%

<i>In thousands</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021		2020		2021		2020	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Gross Profit	Gross Margin
<b>Segment gross profit and margin</b>								
Device Solutions	\$ 22,480	14.8%	\$ 20,528	11.7%	\$ 85,228	17.5%	\$ 64,843	12.8%
Networked Solutions	89,915	32.8%	102,295	33.4%	298,627	36.1%	332,368	34.2%
Outcomes	22,568	37.5%	20,428	35.6%	68,027	37.8%	56,123	33.3%
Total gross profit and margin	<u>\$ 134,963</u>	27.7%	<u>\$ 143,251</u>	26.5%	<u>\$ 451,882</u>	30.2%	<u>\$ 453,334</u>	27.5%

<i>In thousands</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
<b>Segment operating expenses</b>						
Device Solutions	\$ 10,385	\$ 9,511	9%	\$ 31,444	\$ 36,748	(14)%
Networked Solutions	28,765	30,891	(7)%	93,556	94,902	(1)%
Outcomes	10,794	8,384	29%	33,380	26,655	25%
Corporate unallocated	80,856	118,445	(32)%	265,331	338,026	(22)%
Total operating expenses	<u>\$ 130,800</u>	<u>\$ 167,231</u>	(22)%	<u>\$ 423,711</u>	<u>\$ 496,331</u>	(15)%

<i>In thousands</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021		2020		2021		2020	
	Operating Income (Loss)	Operating Margin	Operating Income (Loss)	Operating Margin	Operating Income (Loss)	Operating Margin	Operating Income (Loss)	Operating Margin
<b>Segment operating income (loss) and operating margin</b>								
Device Solutions	\$ 12,095	7.9%	\$ 11,017	6.3%	\$ 53,784	11.0%	\$ 28,095	5.5%
Networked Solutions	61,150	22.3%	71,404	23.3%	205,071	24.8%	237,466	24.4%
Outcomes	11,774	19.6%	12,044	21.0%	34,647	19.2%	29,468	17.5%
Corporate unallocated	(80,856)	NM	(118,445)	NM	(265,331)	NM	(338,026)	NM
Total operating income (loss) and operating margin	<u>\$ 4,163</u>	0.9%	<u>\$ (23,980)</u>	(4.4)%	<u>\$ 28,171</u>	1.9%	<u>\$ (42,997)</u>	(2.6)%

## Device Solutions

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

<i>In thousands</i>	Three Months Ended September 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2021	2020			
<b>Device Solutions Segment</b>					
Revenues	\$ 152,234	\$ 176,128	\$ 2,514	\$ (26,408)	\$ (23,894)
Gross profit	22,480	20,528	231	1,721	1,952
Operating expenses	10,385	9,511	31	843	874

<i>In thousands</i>	Nine Months Ended September 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2021	2020			
<b>Device Solutions Segment</b>					
Revenues	\$ 487,982	\$ 507,572	\$ 25,740	\$ (45,330)	\$ (19,590)
Gross profit	85,228	64,843	2,073	18,312	20,385
Operating expenses	31,444	36,748	710	(6,014)	(5,304)

### Revenues - Three months ended September 30, 2021 vs. Three months ended September 30, 2020

Revenues decreased \$23.9 million, or 14%. Changes in foreign currency exchange rates favorably impacted revenues by \$2.5 million. Revenue was unfavorably impacted by decreased shipments in Europe, Middle East, and Africa (EMEA) in 2021 compared with 2020 primarily due to global component shortages, which limited our ability to ship all our customer demand.

### Revenues - Nine months ended September 30, 2021 vs. Nine months ended September 30, 2020

Revenues decreased \$19.6 million, or 4%, compared with 2020. Changes in foreign currency exchange rates favorably impacted revenues by \$25.7 million. The first nine months of 2021 were impacted by COVID-19 reduced demand and global component shortages.

### Gross Margin - Three months ended September 30, 2021 vs. Three months ended September 30, 2020

For the three months ended September 30, 2021, gross margin was 14.8%, compared with 11.7% for the same period in 2020. The 310 basis point improvement over the prior year was primarily due to favorable product mix and reduced manufacturing inefficiencies related to COVID-19.

### Gross Margin - Nine months ended September 30, 2021 vs. Nine months ended September 30, 2020

For the nine months ended September 30, 2021, gross margin was 17.5%, compared with 12.8% for the same period in 2020. The 470 basis point increase over the prior year was primarily due to favorable product mix and reduced manufacturing inefficiencies as 2020 was impacted by COVID-19.

### Operating Expenses - Three months ended September 30, 2021 vs. Three months ended September 30, 2020

Operating expenses in 2021 compared with the same period in 2020 increased \$0.9 million, or 9%, due to higher sales and marketing and research and development expenses.

### Operating Expenses - Nine months ended September 30, 2021 vs. Nine months ended September 30, 2020

Operating expenses decreased \$5.3 million, or 14%, for the first nine months of 2021 compared with the same period in 2020. The decrease was primarily a result of lower research and development costs.

## Networked Solutions

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

<i>In thousands</i>	Three Months Ended September 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2021	2020			
<b>Networked Solutions Segment</b>					
Revenues	\$ 274,498	\$ 306,659	\$ 973	\$ (33,134)	\$ (32,161)
Gross profit	89,915	102,295	(77)	(12,303)	(12,380)
Operating expenses	28,765	30,891	25	(2,151)	(2,126)

<i>In thousands</i>	Nine Months Ended September 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2021	2020			
<b>Networked Solutions Segment</b>					
Revenues	\$ 827,870	\$ 971,984	\$ 7,784	\$ (151,898)	\$ (144,114)
Gross profit	298,627	332,368	977	(34,718)	(33,741)
Operating expenses	93,556	94,902	229	(1,575)	(1,346)

### Revenues - Three months ended September 30, 2021 vs. Three months ended September 30, 2020

Revenues decreased \$32.2 million, or 10%, compared with 2020. The change was primarily due to global component shortages, which limited our ability to ship all our customer demand, partially offset by customer project timing. Lower product revenue of \$40.2 million was partially offset by higher maintenance service revenue of \$8.0 million.

### Revenues - Nine months ended September 30, 2021 vs. Nine months ended September 30, 2020

Revenues decreased \$144.1 million, or 15%, for the first nine months of 2021 compared with the same period in 2020. The change was primarily due to COVID-19 demand impacts and global component shortages, which limited our ability to ship all our customer demand. Lower product revenue of \$162.1 million was partially offset by higher maintenance service revenue of \$18.0 million.

### Gross Margin - Three months ended September 30, 2021 vs. Three months ended September 30, 2020

Gross margin decreased to 32.8% for the period ending September 30, 2021, compared with 33.4% in 2020. The 60 basis point decrease was primarily driven by inefficiencies related to component shortages, partially offset by favorable product mix.

### Gross Margin - Nine months ended September 30, 2021 vs. Nine months ended September 30, 2020

Gross margin increased to 36.1% for the 2021 period, compared with 34.2% in 2020. The 190 basis point increase was primarily driven by favorable product mix and reduced manufacturing inefficiencies related to COVID-19, partially offset by inefficiencies related to component shortages.

### Operating Expenses - Three months ended September 30, 2021 vs. Three months ended September 30, 2020

Operating expenses decreased \$2.1 million, or 7%, for the quarter in 2021, compared with the same period in 2020. The decrease was primarily related to reduced research and development expenses.

### Operating Expenses - Nine months ended September 30, 2021 vs. Nine months ended September 30, 2020

Operating expenses decreased \$1.3 million, or 1%, for the first nine months of 2021, compared with the same period in 2020. The decrease was primarily driven by a decreased investment in research and development.

## Outcomes

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

<i>In thousands</i>	Three Months Ended September 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2021	2020			
<b>Outcomes Segment</b>					
Revenues	\$ 60,217	\$ 57,397	\$ 670	\$ 2,150	\$ 2,820
Gross profit	22,568	20,428	404	1,736	2,140
Operating expenses	10,794	8,384	6	2,404	2,410

<i>In thousands</i>	Nine Months Ended September 30,		Effect of Changes in Foreign Currency Exchange Rates	Constant Currency Change	Total Change
	2021	2020			
<b>Outcomes Segment</b>					
Revenues	\$ 180,083	\$ 168,637	\$ 3,931	\$ 7,515	\$ 11,446
Gross profit	68,027	56,123	1,634	10,270	11,904
Operating expenses	33,380	26,655	72	6,653	6,725

### *Revenues - Three months ended September 30, 2021 vs. Three months ended September 30, 2020*

Revenues increased \$2.8 million, or 5%, compared with 2020. This increase was driven by an increase in product sales and software licensing.

### *Revenues - Nine months ended September 30, 2021 vs. Nine months ended September 30, 2020*

Revenues increased \$11.4 million, or 7%, for the first nine months of 2021 compared with the same period in 2020. This increase was driven by an increase in software license sales and higher managed and professional services.

### *Gross Margin - Three months ended September 30, 2021 vs. Three months ended September 30, 2020*

Gross margin increased to 37.5% for the third quarter of 2021, compared with 35.6% for the same period last year. The 190 basis point increase was driven by favorable product and services mix and other cost efficiencies.

### *Gross Margin - Nine months ended September 30, 2021 vs. Nine months ended September 30, 2020*

Gross margin increased to 37.8% for the period ending in 2021, compared with 33.3% for last year. The 450 basis point increase was driven by cost efficiencies.

### *Operating Expenses - Three months ended September 30, 2021 vs. Three months ended September 30, 2020*

Operating expenses for the 2021 period increased \$2.4 million, compared with the same period last year. The increase was primarily related to increased research and development investment of \$2.0 million and higher product marketing expenses of \$0.4 million.

### *Operating Expenses - Nine months ended September 30, 2021 vs. Nine months ended September 30, 2020*

Operating expenses for the first nine months of 2021 increased \$6.7 million, or 25%, compared with the same period last year. This increase was primarily related to increased research and development investment of \$5.2 million and higher product marketing expenses of \$1.5 million.

## Corporate Unallocated

### *Corporate Unallocated Expenses - Three months ended September 30, 2021 vs. Three months ended September 30, 2020*

Operating expenses not directly associated with an operating segment are classified as Corporate unallocated. These expenses decreased \$37.6 million, or 32%, for the three months ended September 30, 2021 compared with the same period in 2020. This was primarily the result of \$43.5 million in reduced restructuring charges related to the plan announced in 2020.

*Corporate Unallocated Expenses - Nine months ended September 30, 2021 vs. Nine months ended September 30, 2020*

For the first nine months of 2021, Corporate unallocated expenses decreased \$72.7 million, or 22%, as compared with the same period in 2020. This was primarily the result of decreases of \$42.4 million in restructuring related to the plan announced in 2020 and \$29.0 million related to the sale of business.

### Bookings and Backlog of Orders

Bookings for a reported period represent customer contracts and purchase orders received during the period for hardware, software, and services that have met certain conditions, such as regulatory and/or contractual approval. Total backlog represents committed but undelivered products and services for contracts and purchase orders at period-end. Twelve-month backlog represents the portion of total backlog that we estimate will be recognized as revenue over the next 12 months. Backlog is not a complete measure of our future revenues as we also receive significant book-and-ship orders, as well as frame contracts. Bookings and backlog may fluctuate significantly due to the timing of large project awards. In addition, annual or multi-year contracts are subject to rescheduling and cancellation by customers due to the long-term nature of the contracts. Beginning total backlog, plus bookings, minus revenues, will not equal ending total backlog due to miscellaneous contract adjustments, foreign currency fluctuations, and other factors. Total bookings and backlog include certain contracts with termination for convenience clause, which will not agree to the total transaction price allocated to the remaining performance obligations disclosed in Item 1: Financial Statements (Unaudited), Note 16: Revenues included in this Quarterly Report on Form 10-Q.

Quarter Ended	Quarterly Bookings	Ending Total Backlog	Ending 12-Month Backlog
<i>In millions</i>			
September 30, 2021	\$ 395	\$ 3,433	\$ 1,442
June 30, 2021	596	3,530	1,378
March 31, 2021	688	3,421	1,293
December 31, 2020	973	3,259	1,204
September 30, 2020	432	2,795	1,107

### Financial Condition

#### Cash Flow Information

<i>In thousands</i>	Nine Months Ended September 30,	
	2021	2020
Net cash provided by operating activities	\$ 141,147	\$ 70,571
Net cash used in investing activities	(21,819)	(33,472)
Net cash (used in) provided by financing activities	(136,808)	402,590
Effect of foreign exchange rate changes on cash and cash equivalents	(762)	(3,426)
Increase (decrease) in cash and cash equivalents	\$ (18,242)	\$ 436,263

Cash and cash equivalents were \$188.7 million at September 30, 2021, compared with \$206.9 million at December 31, 2020. The \$18.2 million decrease in cash and cash equivalents in the 2021 period was primarily the result of repayment of the term loan and the senior subordinated notes, purchases of equity classified derivative contract, and the acquisitions of property, plant, and equipment, partially offset by proceeds from the convertible senior note and equity offering in March 2021, along with cash flows from operating activities.

#### *Operating activities*

Cash provided by operating activities during the nine months in 2021 was \$141.1 million compared with \$70.6 million during the same period in 2020. The increase was primarily due to lower variable compensation payouts, net cash inflows for working capital, and lower interest payments.

#### *Investing activities*

Cash used in investing activities during the nine months in 2021 was \$11.7 million lower than in 2020. This decrease in use of cash was primarily related to \$8.5 million less purchases of property, plant, and equipment.

### *Financing activities*

Net cash provided by financing activities during the nine months in 2021 was \$136.8 million, compared with net cash provided of \$402.6 million for the same period in 2020. In March 2021, we received \$389.4 million from issuance of common stock related to the equity offering, after deducting underwriters' discounts of the offering, purchased \$84.1 million of the convertible note hedge contracts, and proceeds of \$45.3 million from the sale of warrants. Also in March, we entered into the convertible senior notes with gross proceeds of \$460 million, which was used to pay off the outstanding term loan balance. In April, we repaid the senior subordinated notes totaling \$410 million (including \$10 million early repayment premium) with proceeds from the equity offering and cash on hand. For the nine months ended September 30, 2021, we had net repayments of \$486.1 million of debt. Cash payments for prepaid debt fees were \$12.0 million.

### *Effect of exchange rates on cash and cash equivalents*

The effect of exchange rates on the cash balances of currencies held in foreign denominations at September 30, 2021 was a decrease of \$0.8 million, compared with a decrease of \$3.4 million for the same period in 2020. Our foreign currency exposure relates to non-U.S. dollar denominated balances in our international subsidiary operations.

### *Free cash flow (Non-GAAP)*

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

<i>In thousands</i>	<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>
Net cash provided by operating activities	\$ 141,147	\$ 70,571
Acquisitions of property, plant, and equipment	(27,781)	(36,297)
Free cash flow	\$ 113,366	\$ 34,274

Free cash flow fluctuated primarily as a result of changes in cash provided by operating activities. See the cash flow discussion of operating activities above.

### *Off-balance sheet arrangements*

We have no off-balance sheet financing agreements or guarantees as defined by Item 303 of Regulation S-K at September 30, 2021 and December 31, 2020 that we believe could reasonably likely have a current or future effect on our financial condition, results of operations, or cash flows.

### *Liquidity and Capital Resources*

Our principal sources of liquidity are cash flows from operations, borrowings, and the sale of our common stock. Cash flows may fluctuate and are sensitive to many factors including changes in working capital and the timing and magnitude of capital expenditures and payments of debt. Working capital, which represents current assets less current liabilities, continues to be in a net favorable position.

### *Stock Offering*

On March 12, 2021, we closed the sale of 4,472,222 shares of our common stock in a public offering, resulting in net proceeds to us of \$389.4 million, after deducting underwriters' discounts of the offering, as well as the sale of the Convertible Notes in a private placement to qualified institutional buyers, resulting in net proceeds to us of \$448.5 million after deducting initial purchasers' discounts of the offering. Concurrently with the issuance of the Convertible Notes, we entered into the Convertible Note Hedge Transactions and Warrant Transactions. For further description of these transactions, refer to Item 1: Financial Statements (Unaudited), Note 6: Debt and Item 1: Financial Statements (Unaudited), Note 7: Derivative Financial Instruments included in this Quarterly Report on Form 10-Q.

### *Borrowings*

On October 18, 2019 we amended our credit facility that was initially entered on January 5, 2018 (together with the amendment, the "2018 credit facility"). The 2018 credit facility provides for committed credit facilities in the amount of \$1.2 billion U.S. dollars. The 2018 credit facility consists of a \$650 million U.S. dollar term loan (the term loan) and a multicurrency revolving line of credit (the revolver) with a principal amount of up to \$500 million. The revolver also contains a

\$300 million standby letter of credit sub-facility and a \$50 million swingline sub-facility. The October 18, 2019, amendment extended the maturity date to October 18, 2024 and re-amortized the term loan based on the new balance as of the amendment date.

On October 19, 2020, we completed a second amendment to our 2018 credit facility. This amendment adjusts the maximum total net leverage ratio thresholds for the period beginning with the fourth quarter of 2020 through the fourth quarter of 2021 to allow for increased operational flexibility. The maximum leverage ratio is increased to 4.75:1 for the fourth quarter of 2020 and the first quarter of 2021 and 4.50:1 for the second quarter through the fourth quarter of 2021. An additional level of pricing was added to the existing pricing grid and is effective throughout the remaining term of the 2018 credit facility. Beginning with the fourth quarter of 2020, the commitment fee ranges from 0.15% to 0.30% and drawn amounts are subject to a margin ranging from 1.00% to 2.00%. Debt fees of approximately \$1.4 million were incurred for the amendment, as well as other legal and advisory fees. Both the term loan and the revolver can be repaid without penalty. Amounts repaid on the term loan may not be reborrowed, and amounts borrowed under the revolver may be repaid and reborrowed until the revolver's maturity, at which time all outstanding loans together with all accrued and unpaid interest must be repaid.

On March 8, 2021, we entered into a third amendment to our 2018 credit facility, which modified provisions to permit cash settlement upon the conversion of the Convertible Notes, the Convertible Senior Note Hedge Transactions and Warrant Transactions and also to adjust certain settlement provisions for convertible indebtedness. See Item 1: Financial Statements (Unaudited), Note 7: Derivative Financial Instruments for further details of the Convertible Note Hedge Transactions and Warrant Transactions.

On March 9, 2021, we submitted a Notice of Redemption to the trustee to redeem all outstanding Senior Notes at a redemption price of 102.50%, in accordance with the indenture governing the Senior Notes, totaling \$410 million. As of April 8, 2021, the Senior Notes were fully discharged and no principal or unpaid interest remains outstanding.

For further description of our borrowings, refer to Item 1: Financial Statements (Unaudited), Note 6: Debt included in this Quarterly Report on Form 10-Q.

For a description of our letters of credit and performance bonds, and the amounts available for additional borrowings or letters of credit under our lines of credit, including the revolver that is part of our credit facility, refer to Item 1: Financial Statements (Unaudited), Note 11: Commitments and Contingencies included in this Quarterly Report on Form 10-Q.

#### *Silver Spring Networks, Inc. Acquisition*

As part of the acquisition of SSNI, we achieved approximately \$65 million of annualized savings by the end of the third quarter in 2021. For the nine months ended September 30, 2021, we paid out \$1.1 million and we are expecting the remaining cash payment on the integration plan to be paid out in the next 12 months.

#### *Restructuring*

On September 17, 2020, our Board of Directors approved a restructuring plan (the 2020 Projects). The 2020 Projects include activities that continue our efforts to optimize its global supply chain and manufacturing operations, sales and marketing organizations, and other overhead. These projects are scheduled to be substantially complete by the end of 2022. At the time of the approval, we estimated pre-tax restructuring charges of \$55 million to \$65 million. Of the total estimated charge, approximately \$35 million to \$45 million will result in cash expenditures, and the remainder related to non-cash charges. In the third quarter of 2021, expected remaining costs to be recognized were reduced by \$13.0 million due to the removal of a previously planned non-cash cumulative translation adjustment charge, resulting from our recent reassessment of the legal entity and its related operations. The adjusted pre-tax restructuring charge expected would be \$42 million to \$52 million.

For the nine months ended September 30, 2021, we paid \$21.2 million related to all our restructuring projects. As of September 30, 2021, \$47.3 million was accrued for these restructuring projects, of which \$28.7 million is expected to be paid within the next 12 months.

For further details regarding our restructuring activities, refer to Item 1: Financial Statements (Unaudited), Note 12: Restructuring included in this Quarterly Report on Form 10-Q.



On October 29, 2021, the Board of Directors of Itron approved a restructuring plan (the 2021 Projects). The 2021 Projects include activities, in conjunction with the announcement of the sale of certain of our Gas device manufacturing operations, which drive reductions in certain locations and functional support areas. These projects are to be substantially complete by the end of 2024. Itron estimates pre-tax restructuring charges of \$65-75 million. Of the total estimated charge, approximately \$60-65 million will result in cash expenditures, and the remainder to non-cash impairment charges. The majority of the expense will be recognized during the fourth quarter of 2021. Once the 2021 Projects are substantially completed, Itron estimates \$15-20 million in annualized savings. Certain of Itron's employees are represented by unions or works councils, which requires consultation, and potential restructuring projects may be subject to regulatory approval, both of which could impact the timing of planned savings in certain jurisdictions.

#### *Reserve of Receivables from Sale of Business*

On June 25, 2020, we closed on the sale of five subsidiaries comprising our manufacturing and sales operations in Latin America to buyers led by Instalación Profesional y Tecnologías del Centro S.A. de C.V., a Mexican company doing business as Accell in Brazil (Accell), through the execution of various definitive stock purchase agreements. The total sales price of \$35.0 million included deferred payments of \$21.1 million for working capital, which was to be paid in full by December 31, 2020, as evidenced by a promissory note, and the remainder in cash (\$4.5 million) and other deferred consideration. In January 2021, we agreed to extend the payment terms on the remaining outstanding working capital balance of \$18.4 million. Accell had agreed to make monthly payments, including interest, through September 2022, under which we received full payments for January through March and partial payments in April and May (totaling \$3.8 million including \$0.7 million in interest). In July 2021, we received a revised payment plan for the remaining working capital note receivable, as well as the other deferred transaction receivables. Based on Accell's failure to make timely payments, continued requests to defer payments significantly beyond the original maturity of the working capital note, and the unfavorable impact of the COVID-19 pandemic on the Latin American markets, we determined to fully reserve the working capital and other deferred consideration in the second quarter of 2021.

#### *Approval of Share Repurchase Program*

Effective November 1, 2021, the Board of Directors of Itron authorized a new share repurchase program of up to \$100 million of Itron's common stock over an 18-month period. Repurchases will be made in the open market and pursuant to the terms of any Rule 10b5-1 plans that Itron may enter into, and in accordance with applicable securities laws. The repurchase program is intended to comply with Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended. Depending on market conditions and other factors, these repurchases may be commenced or suspended from time to time without prior notice.

#### *Other Liquidity Considerations*

We have tax credits and net operating loss carryforwards in various jurisdictions that are available to reduce cash taxes. However, utilization of tax credits and net operating losses are limited in certain jurisdictions. Based on current projections, we expect to pay, net of refunds, approximately \$1 million in state taxes, and \$8 million in local and foreign taxes during 2021. We do not expect to pay any U.S. federal taxes. For a discussion of our tax provision and unrecognized tax benefits, see Item 1: Financial Statements (Unaudited), Note 10: Income Taxes included in this Quarterly Report on Form 10-Q.

As of September 30, 2021, we are under examination by certain tax authorities. We believe we have appropriately accrued for the expected outcome of all tax matters and do not currently anticipate that the ultimate resolution of these examinations will have a material adverse effect on our financial condition, future results of operations, or liquidity.

As of September 30, 2021, there was \$46.8 million of cash and short-term investments held by certain foreign subsidiaries in which we are permanently reinvested for tax purposes. As a result of recent changes in U.S. tax legislation, any repatriation in the future would not result in U.S. federal income tax. Accordingly, there is no provision for U.S. deferred taxes on this cash. If this cash were repatriated to fund U.S. operations, additional withholding tax costs may be incurred. Tax is only one of the many factors that we consider in the management of global cash. Accordingly, the amount of taxes that we would need to accrue and pay to repatriate foreign cash could vary significantly.

On October 8, 2021 the G20/OECD Inclusive Framework on BEPS published a statement on the components of global tax reform agreed to by most member countries. The key components would allocate a portion of profits of the largest businesses amongst their markets, curtail new digital services taxes, and introduce a new global minimum tax of 15%. These components do not result in any financial impact until enacted, which is not currently expected until 2023. The Company is monitoring developments and additional details as they are released to determine the impacts these new components will have on our business.

In several of our consolidated international subsidiaries, we have joint venture partners, who are minority shareholders. Although these entities are not wholly-owned by Itron, Inc., we consolidate them because we have a greater than 50% ownership interest and/or because we exercise control over the operations. The noncontrolling interest balance in our

Consolidated Balance Sheets represents the proportional share of the equity of the joint venture entities, which is attributable to the minority shareholders. At September 30, 2021, \$18.5 million of our consolidated cash balance was held in our joint venture entities. As a result, the minority shareholders of these entities have rights to their proportional share of this cash balance, and there may be limitations on our ability to repatriate cash to the United States from these entities.

#### *General Liquidity Overview*

Notwithstanding the expected short to mid-term impacts of the COVID-19 pandemic, we expect to grow through a combination of internal new research and development, licensing technology from and to others, distribution agreements, partnering arrangements, and acquisitions of technology or other companies. We expect these activities to be funded with existing cash, cash flow from operations, borrowings, or the sale of our common stock or other securities. We believe existing sources of liquidity will be sufficient to fund our existing operations and obligations for the next 12 months and into the foreseeable future, but offer no assurances. Our liquidity could be affected by the stability of the electricity, gas, and water utility industries, competitive pressures, our dependence on certain key vendors and components, changes in estimated liabilities for product warranties and/or litigation, duration of the COVID-19 pandemic, future business combinations, capital market fluctuations, international risks, and other factors described under Risk Factors within Item 1A of Part I of our 2020 Annual Report, as well as Quantitative and Qualitative Disclosures About Market Risk within Item 3 of Part I included in this Quarterly Report on Form 10-Q.

#### **Contingencies**

Refer to Item 1: Financial Statements (Unaudited), Note 11: Commitments and Contingencies included in this Quarterly Report on Form 10-Q.

#### **Critical Accounting Estimates and Policies**

Our consolidated financial statements and accompanying notes are prepared in accordance with GAAP. Preparing consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Our critical accounting policies that require the use of estimates and assumptions were discussed in detail in the 2020 Annual Report and have not changed materially.

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

## Non-GAAP Measures

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

We use these non-GAAP financial measures for financial and operational decision making and/or as a means for determining executive compensation. Management believes that these non-GAAP financial measures provide meaningful supplemental information regarding our performance and ability to service debt by excluding certain expenses that may not be indicative of our recurring core operating results. These non-GAAP financial measures facilitate management's internal comparisons to our historical performance, as well as comparisons to our competitors' operating results. Our executive compensation plans exclude non-cash charges related to amortization of intangibles and certain discrete cash and non-cash charges, such as acquisition and integration related expenses, loss on sale of business, or restructuring charges. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods. We believe these non-GAAP financial measures are useful to investors because they provide greater transparency with respect to key metrics used by management in its financial and operational decision making and because they are used by our institutional investors and the analyst community to analyze the health of our business.

*Non-GAAP operating expenses and non-GAAP operating income* – We define non-GAAP operating expenses as operating expenses excluding certain expenses related to the amortization of intangible assets, restructuring, loss on sale of business, corporate transition cost, and acquisition and integration. We define non-GAAP operating income as operating income (loss) excluding the expenses related to the amortization of intangible assets, restructuring, loss on sale of business, corporate transition cost, and acquisition and integration. Acquisition and integration related expenses include costs, which are incurred to affect and integrate business combinations, such as professional fees, certain employee retention and salaries related to integration, severances, contract terminations, travel costs related to knowledge transfer, system conversion costs, and asset impairment charges. We consider these non-GAAP financial measures to be useful metrics for management and investors because they exclude the effect of expenses that are related to acquisitions and restructuring projects. By excluding these expenses, we believe that it is easier for management and investors to compare our financial results over multiple periods and analyze trends in our operations. For example, in certain periods, expenses related to amortization of intangible assets may decrease, which would improve GAAP operating margins, yet the improvement in GAAP operating margins due to this lower expense is not necessarily reflective of an improvement in our core business. There are some limitations related to the use of non-GAAP operating expenses and non-GAAP operating income versus operating expenses and operating income calculated in accordance with GAAP. We compensate for these limitations by providing specific information about the GAAP amounts excluded from non-GAAP operating expense and non-GAAP operating income and evaluating non-GAAP operating expense and non-GAAP operating income together with GAAP operating expense and operating income.

*Non-GAAP net income and non-GAAP diluted EPS* – We define non-GAAP net income as net income (loss) attributable to Itron, Inc. excluding the expenses associated with amortization of intangible assets, amortization of debt placement fees, debt extinguishment, restructuring, loss on sale of business, corporate transition cost, acquisition and integration, and the tax effect of excluding these expenses. We define non-GAAP diluted EPS as non-GAAP net income divided by diluted weighted-average shares outstanding during the period calculated on a GAAP basis and then reduced to reflect the anti-dilutive impact of the convertible note hedge transaction entered into in connection with the 0% Convertible Notes due 2026 issued in March 2021. We consider these financial measures to be useful metrics for management and investors for the same reasons that we use non-GAAP operating income. The same limitations described above regarding our use of non-GAAP operating income apply to our use of non-GAAP net income and non-GAAP diluted EPS. We compensate for these limitations by providing specific information regarding the GAAP amounts excluded from these non-GAAP measures and evaluating non-GAAP net income and non-GAAP diluted EPS together with GAAP net income attributable to Itron, Inc. and GAAP diluted EPS.

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

throughout the year and use the most recent AETR anytime it increases or decreases by 200 basis points or more from the prior interim period.

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

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

*Constant currency* – We refer to the impact of foreign currency exchange rate fluctuations in our discussions of financial results, which references the differences between the foreign currency exchange rates used to translate operating results from the entity's functional currency into U.S. dollars for financial reporting purposes. We also use the term "constant currency", which represents financial results adjusted to exclude changes in foreign currency exchange rates as compared with the rates in the comparable prior year period. We calculate the constant currency change as the difference between the current period results and the comparable prior period's results restated using current period foreign currency exchange rates.

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

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

<b>TOTAL COMPANY RECONCILIATIONS</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
<i>In thousands, except per share data</i>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>NON-GAAP OPERATING EXPENSES</b>				
GAAP operating expenses	\$ 130,800	\$ 167,231	\$ 423,711	\$ 496,331
Amortization of intangible assets	(8,944)	(11,183)	(26,914)	(33,488)
Restructuring	(958)	(44,462)	830	(41,531)
Loss on sale of business	(2,171)	(380)	(28,274)	(57,295)
Corporate transition cost	—	—	—	33
Acquisition and integration	(118)	2,348	368	738
Non-GAAP operating expenses	<u>\$ 118,609</u>	<u>\$ 113,554</u>	<u>\$ 369,721</u>	<u>\$ 364,788</u>
<b>NON-GAAP OPERATING INCOME</b>				
GAAP operating income (loss)	\$ 4,163	\$ (23,980)	\$ 28,171	\$ (42,997)
Amortization of intangible assets	8,944	11,183	26,914	33,488
Restructuring	958	44,462	(830)	41,531
Loss on sale of business	2,171	380	28,274	57,295
Corporate transition cost	—	—	—	(33)
Acquisition and integration	118	(2,348)	(368)	(738)
Non-GAAP operating income	<u>\$ 16,354</u>	<u>\$ 29,697</u>	<u>\$ 82,161</u>	<u>\$ 88,546</u>
<b>NON-GAAP NET INCOME &amp; DILUTED EPS</b>				
GAAP net loss attributable to Itron, Inc.	\$ (1,869)	\$ (25,357)	\$ (22,389)	\$ (79,475)
Amortization of intangible assets	8,944	11,183	26,914	33,488
Amortization of debt placement fees	1,905	972	17,252	2,898
Debt extinguishment	—	—	11,681	—
Restructuring	958	44,462	(830)	41,531
Loss on sale of business	2,171	380	28,274	57,295
Corporate transition cost	—	—	—	(33)
Acquisition and integration	118	(2,348)	(368)	(738)
Income tax effect of non-GAAP adjustments	(2,775)	(4,658)	(16,491)	(6,037)
Non-GAAP net income attributable to Itron, Inc.	<u>\$ 9,452</u>	<u>\$ 24,634</u>	<u>\$ 44,043</u>	<u>\$ 48,929</u>
Non-GAAP diluted EPS	<u>\$ 0.21</u>	<u>\$ 0.61</u>	<u>\$ 0.99</u>	<u>\$ 1.21</u>
Non-GAAP weighted average common shares outstanding - Diluted	<u>45,506</u>	<u>40,559</u>	<u>44,330</u>	<u>40,507</u>
<b>ADJUSTED EBITDA</b>				
GAAP net loss attributable to Itron, Inc.	\$ (1,869)	\$ (25,357)	\$ (22,389)	\$ (79,475)
Interest income	(352)	(354)	(1,326)	(2,165)
Interest expense	2,628	10,810	27,107	33,771
Income tax provision (benefit)	1,136	(11,985)	5,581	366
Debt extinguishment	—	—	11,681	—
Depreciation and amortization	21,333	24,076	64,252	72,306
Restructuring	958	44,462	(830)	41,531
Loss on sale of business	2,171	380	28,274	57,295
Corporate transition cost	—	—	—	(33)
Acquisition and integration	118	(2,348)	(368)	(738)
Adjusted EBITDA	<u>\$ 26,123</u>	<u>\$ 39,684</u>	<u>\$ 111,982</u>	<u>\$ 122,858</u>
<b>FREE CASH FLOW</b>				
Net cash provided by operating activities	\$ 18,467	\$ 44,785	\$ 141,147	\$ 70,571
Acquisitions of property, plant, and equipment	(7,305)	(7,248)	(27,781)	(36,297)
Free Cash Flow	<u>\$ 11,162</u>	<u>\$ 37,537</u>	<u>\$ 113,366</u>	<u>\$ 34,274</u>

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

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

#### *Interest Rate Risk*

We may be exposed to interest rate risk through our variable rate debt instruments. On August 12, 2021, the term loan under the credit facility was fully paid. At September 30, 2021, we had no outstanding variable rate debt.

We continually monitor and assess our interest rate risk and may institute additional interest rate swaps or other derivative instruments to manage such risk in the future if we were to have variable rate debt outstanding.

#### *Foreign Currency Exchange Rate Risk*

We conduct business in a number of countries. Revenues denominated in functional currencies other than the U.S. dollar were 36% and 38% of total revenues for the three and nine months ended September 30, 2021 compared with 37% and 36% for the same respective periods in 2020. These transactions expose our account balances to movements in foreign currency exchange rates that could have a material effect on our financial results. Our primary foreign currency exposure relates to non-U.S. dollar denominated transactions in our international subsidiary operations, the most significant of which is the euro.

We are also exposed to foreign exchange risk when we enter into non-functional currency transactions, both intercompany and third-party. At each period-end, non-functional currency monetary assets and liabilities are revalued with the change recognized within other income (expense) in our Consolidated Statements of Operations. We enter into monthly foreign exchange forward contracts, which are not designated for hedge accounting, with the intent to reduce earnings volatility associated with currency exposures. As of September 30, 2021, a total of 37 contracts were offsetting our exposures from the euro, pound sterling, Indonesian rupiah, Canadian dollar, Australian dollar and various other currencies, with notional amounts ranging from \$150,000 to \$56.4 million. Based on a sensitivity analysis as of September 30, 2021, we estimate that, if foreign currency exchange rates average ten percentage points higher in 2021 for these financial instruments, our financial results in 2021 would not be materially impacted.

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

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

#### *Evaluation of disclosure controls and procedures*

An evaluation was performed under the supervision and with the participation of our Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e)) under the Securities Exchange Act of 1934 as amended. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that as of September 30, 2021, the Company's disclosure controls and procedures were effective to ensure the information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

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

There have been no changes in our internal control over financial reporting during the three months ended September 30, 2021 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

**PART II: OTHER INFORMATION****Item 1: Legal Proceedings**

Refer to Item 1: Financial Statements (Unaudited), Note 11: Commitments and Contingencies included in this Quarterly Report on Form 10-Q.

**Item 1A: Risk Factors**

For a complete list of Risk Factors, refer to Part I, Item 1A: Risk Factors of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, which was filed with the Securities and Exchange Commission on February 24, 2021.

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

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

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share <sup>(2)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
				<i>In thousands</i>
July 1, 2021 through July 31, 2021	—	\$ —	—	\$ —
August 1, 2021 through August 31, 2021	194	77.74	—	—
September 1, 2021 through September 30, 2021	—	—	—	—
Total	194		—	

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

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

**Item 5: Other Information**

- (a) No information was required to be disclosed in a report on Form 8-K during the third quarter of 2021 that was not reported.
- (b) Not applicable.

**Item 6: Exhibits**

<b>Exhibit Number</b>	<b>Description of Exhibits</b>
31.1	<a href="#">Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2	<a href="#">Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1	<a href="#">Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101	The following financial information from Itron, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 formatted in Inline XBRL (Extensible Business Reporting Language) includes: (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income (Loss), (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to the Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).



**SIGNATURE**

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

ITRON, INC.

November 4, 2021

**Date**

By:

/s/ JOAN S. HOOPER

**Joan S. Hooper**

**Senior Vice President and Chief Financial Officer**





