

ITRON INC /WA/
Form DEF 14A
March 26, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary proxy statement

Confidential, For Use of the Commission
Only (as permitted by Rule 14a-6(e)(2))

Definitive proxy statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

ITRON, INC.

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(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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No fee required.

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement no.:

(3) Filing Party

(4) Date Filed:

Your prompt return of the enclosed proxy card will save the postage expense of additional mailings. Your immediate attention to these materials is greatly appreciated.

March 28, 2007

Dear Shareholder:

On behalf of the Board of Directors, I invite you to attend the Itron, Inc. 2007 Annual Meeting of Shareholders. We hope you can join us. The annual meeting will be held:

At: Principal Executive Offices of the Company

Itron, Inc. in the Atrium

2111 N. Molter Road

Liberty Lake, Washington 99019

On: Tuesday, May 15, 2007

Time: 8:00 a.m., local time

For our shareholders convenience, we will provide a continental breakfast beginning at 7:30 a.m. At that time, shareholders will also have an opportunity to meet personally with our directors and officers to discuss any questions they may have. The annual meeting will begin promptly at 8:00 a.m. The Notice of Annual Meeting of Shareholders, the Proxy Statement, our Annual Report on Form 10-K and our Annual Report to Shareholders accompanies this letter.

We know that many of our shareholders will be unable to attend the annual meeting. We are soliciting proxies so that each shareholder has an opportunity to vote on all matters that are scheduled to come before the shareholders at the annual meeting. Whether or not you plan to attend, please take the time now to read the proxy statement and vote and submit your proxy by telephone, the internet or by signing, dating and returning your proxy card promptly in the enclosed postage-paid envelope. You may revoke your proxy at any time before it is exercised. Regardless of the number of Itron shares you own, your presence in person or by proxy is important for quorum purposes and your vote is important for proper corporate action.

Thank you for your continuing interest in Itron. We look forward to seeing you at our annual meeting.

Sincerely,
LeRoy D. Nosbaum
Chairman and Chief Executive Officer

Itron, Inc., 2111 N. Molter Road, Liberty Lake, Washington 99019-9469; (509) 924-9900 or (800) 635-5461

ITRON, INC.

2111 N. Molter Road

Liberty Lake, Washington 99019

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 15, 2007

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Itron, Inc. will be held at the principal executive offices of Itron, Inc., in the Atrium, at 2111 N. Molter Road, Liberty Lake, Washington, at 8:00 a.m., local time, on Tuesday, May 15, 2007, for the following purposes:

- (1) to elect five directors;
- (2) to approve the Amended and Restated 2000 Stock Incentive Plan, including an increase in the number of shares authorized under the plan;
- (3) to ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2007 fiscal year; and
- (4) to transact any other business that may properly come before the annual meeting.

The Board of Directors has established the close of business on March 6, 2007 as the record date for the determination of shareholders entitled to notice of and to vote at the annual meeting.

All shareholders are cordially invited to attend the annual meeting in person.

To ensure representation at the annual meeting, shareholders are urged to submit their proxy as promptly as possible by telephone, the internet or by signing, dating and returning the enclosed proxy card, even if they plan to attend the annual meeting. A return envelope, which requires no postage if mailed in the United States, is enclosed for this purpose. Any shareholder attending the annual meeting may vote in person even if that shareholder has returned a proxy.

By order of the Board of Directors,

John W. Holleran
Corporate Secretary

Liberty Lake, Washington

March 28, 2007

PROXY STATEMENT

This proxy statement is being furnished to shareholders of Itron, Inc. in connection with the solicitation by the Board of Directors of proxies for use at the 2007 Annual Meeting of Shareholders. The meeting will be held at the principal executive offices of Itron, Inc. (Itron or the Company), in the Atrium, at 2111 N. Molter Road, Liberty Lake, Washington, at 8:00 a.m., local time, on Tuesday, May 15, 2007, for the purposes listed in the accompanying Notice of Annual Meeting of Shareholders. We expect to mail this proxy statement and accompanying proxy to our shareholders on or about March 28, 2007.

Matters to Be Considered at the Annual Meeting

At the annual meeting, we will consider and vote on the following matters:

- (1) the election of one director for a term of one year (until 2008), the election of one director for a term of two years (until 2009) and the election of three directors for terms of three years (until 2010);
- (2) the approval of the Amended and Restated 2000 Stock Incentive Plan (the Plan), including an increase in the number of shares authorized under the Plan;
- (3) the ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2007 fiscal year; and
- (4) such other business that may properly come before the annual meeting.

Record Date and Outstanding Shares

Holders of record of our common stock at the close of business on March 6, 2007, are entitled to notice of, and to vote at, the annual meeting. On the record date, there were 29,942,000 shares of our common stock outstanding. Each of our directors and executive officers intends to vote or direct the vote of all shares of common stock over which he or she has voting control in favor of (i) the election of the nominees for director, (ii) the approval of the amendments to the Plan and (iii) the ratification of the independent registered public accounting firm.

Revocability of Proxies

Shares represented at the annual meeting by properly signed proxies in the accompanying form will be voted at the annual meeting in accordance with the instructions given in the proxy. A shareholder may revoke a proxy given by the shareholder for use at the annual meeting at any time before the vote. Mere attendance at the annual meeting will not revoke a proxy. A proxy may be revoked by:

- n submitting a later-dated proxy for the same shares at any time before the proxy is voted;
- n delivering written notice of revocation to the Corporate Secretary of Itron at any time before the vote; or
- n attending the annual meeting and voting in person.

If the annual meeting is postponed or adjourned for any reason, at any subsequent reconvening of the annual meeting, all proxies will be voted in the same manner as the proxies would have been voted at the original convening of the annual meeting (except for any proxies that have at that time effectively been revoked or withdrawn), even if the proxies had been effectively voted on the same or any other matter at a previous meeting.

Quorum and Voting

Each shareholder will be entitled to one vote per share of common stock held on each matter to be voted on. The presence at the annual meeting, in person or represented by proxy, of holders of a majority of the outstanding

common stock on the record date will constitute a quorum. Abstentions and broker non-votes (shares held by a broker or nominee that does not have the authority, express or discretionary, to vote on a particular matter) on any of the proposals to be voted on will be counted for purposes of determining the presence of a quorum.

Proposal One: with respect to the election of directors, the nominees receiving the greatest number of votes duly cast will be elected as directors. Holders of common stock are not entitled to cumulative votes in the election of directors. Abstentions from voting on this matter will have no effect on its outcome because abstentions do not represent votes cast by shareholders in favor of any nominee. There will be no broker non-votes on the election of directors because brokers who hold shares for the accounts of their clients have discretionary authority to vote such shares in this matter.

Proposal Two: the Plan will be approved if the number of votes cast in favor of the proposal exceeds the number of votes cast against the proposal. Abstentions from voting and broker non-votes on the proposal will not affect the outcome of the proposal because abstentions and broker non-votes do not represent votes cast by shareholders either for or against the proposal.

Proposal Three: the appointment of the Company's independent registered public accounting firm for 2007 will be ratified if the number of votes cast in favor of the proposal exceeds the number of votes cast against the proposal. Abstentions from voting on the proposal will not affect the outcome of the proposal because abstentions do not represent votes cast by shareholders either for or against the proposal. There will be no broker non-votes on the ratification of the Company's independent registered public accounting firm for 2007 because brokers who hold shares for the accounts of their clients have discretionary authority to vote such shares in this matter.

Proxy Solicitation Costs

We have retained Georgeson, Inc., 17 State Street, New York, New York, to aid in the solicitation of proxies. We will bear the cost of such solicitation of proxies, which we estimate will be approximately \$6,000 plus expenses. Proxies may be solicited by personal interview, mail, telephone or facsimile. In addition, we may reimburse brokerage firms and other persons representing beneficial owners of our common stock for their reasonable expenses in forwarding solicitation materials to the beneficial owners. Our directors, officers and employees may also solicit proxies personally or by telephone, without additional compensation.

ITEM 1 ELECTION OF DIRECTORS

The Board of Directors is divided into three classes, with each director generally holding office for a three-year term or until his or her successor has been elected and qualified. At the annual meeting, one director is to be elected for a term of one year (until 2008), one director is to be elected for a term of two years (until 2009) and three directors are to be elected for a term of three years (until 2010) or until his or her successor is duly elected and qualified. Two directors are being nominated each for a one-year or two-year term instead of a three-year term because Washington law requires the number of directors in each class to be as equal as possible. Unless authority is withheld, the persons named as proxies in the accompanying proxy will vote for the election of the nominees listed below. The Board of Directors has no reason to believe that any of these nominees will be unable to serve as a director. If any of the nominees becomes unavailable to serve, however, the persons named as proxies will have discretionary authority to vote for a substitute nominee. Ambassador Thomas S. Foley, who served as a director since 2002, retired in February 2007.

Nominee to Serve Until 2008

Gary E. Pruitt (age 57) was appointed as a director by the board of directors effective October 1, 2006. Mr. Pruitt is chief executive officer of Univar N.V. (Univar), a chemical distribution company, listed on the Euronext exchange and headquartered in Seattle, Washington. He began his relationship with the company when he joined Univar Corporation in October 1978. Mr. Pruitt held a variety of senior management positions within Univar and Van Waters & Rogers Inc., which ultimately became Vopak USA Inc. In January 2002, he was appointed chairman of Vopak N.V., prior to which he served on the executive board. Mr. Pruitt is on the board of directors of Public Storage, Inc. Mr. Pruitt worked at Arthur Andersen & Co. as a chartered accountant from 1973 through 1977.

Nominee to Serve Until 2009

Kirby A. Dyess (age 60) was appointed as a director by the board of directors on May 9, 2006. Ms. Dyess is a principal in Austin Capital Management LLC where she invests in and assists early stage companies. Prior to Austin Capital, Ms. Dyess spent 23 years in various executive and management positions at Intel Corporation; most recently serving as corporate vice president and director of operations for Intel Capital and vice president and director of new business development. Ms. Dyess is on the board of directors of Merix Corporation, a public company, which manufactures high end PCB boards; Prolifiq Software, Inc., a privately held enterprise software company; and two early stage private companies, Octavian Scientific and Compli Inc. She serves as vice president of the Oregon Board of Higher Education and as a member of the governing board of Oregon Health Sciences University.

Nominees to Serve Until 2010

Thomas S. Glanville (age 48) has been a director of Itron since 2001. Mr. Glanville is managing partner of Eschelon Energy Partners, LP, an energy industry focused private equity firm based in Houston, Texas. He is also managing partner of Eschelon Advisors, which provides financial, operating and strategic advice to energy/utility industry principals. Mr. Glanville is also on the board of directors of Chroma Exploration and Production, Inc., an Eschelon Energy Partners portfolio company. From 1999-2002, Mr. Glanville served as vice president of technology and new ventures for Reliant Energy, Inc. (Reliant), one of the world's largest international energy services companies, and its affiliate, Reliant Resources, Inc. Mr. Glanville first joined Reliant in 1998 as vice president of corporate development. He also served as president of Reliant Energy Ventures, Inc. and of Reliant Energy Communications, Inc.

Sharon L. Nelson (age 60) has been a director of Itron since March 2003. Sharon Nelson is an attorney and served as chief of the Consumer Protection Division of the Washington State Attorney General's Office and director of the Shidler Center for Law, Commerce and Technology at the University of Washington. In addition, Ms. Nelson was a consultant to both corporations and nonprofit organizations, specializing in advice on public policy and regulation. She has extensive experience with issues affecting the utility industry, having served as both chairman of the Washington Utilities and Transportation Commission and president of the National Association of Regulatory Utility Commissioners. She currently serves as chair of the board of directors of

Consumers Union, is a member of the board of trustees of the North American Electric Reliability Council (NERC) and sits on the National Energy Policy Commission, which is funded by the Hewlett Foundation.

LeRoy D. Nosbaum (age 60) has been a director and chief executive officer of Itron since March 2000 and chairman of the board since May 2002. Mr. Nosbaum joined Itron in March 1996 and had executive responsibilities covering manufacturing, product development, operations and marketing before being promoted to president and chief executive officer. Before joining Itron, Mr. Nosbaum was executive vice president and general manager of Metricom, Inc.'s UtiliNet Division and he held a variety of positions with Metricom from 1989 to 1996. Prior to joining Metricom, he was employed by Schlumberger, Ltd. and Sangamo Electric for 20 years.

Continuing Directors

Michael B. Bracy (age 65) has been a director of Itron since 1992. Mr. Bracy's term as a director expires in 2009. Until his retirement in August 1997, Mr. Bracy was executive vice president, chief financial officer and a director of NorAm Energy Corp. (NorAm), previously known as Arkla, Inc., an integrated natural gas company engaged in gathering and processing natural gas, inter-and intra-state pipeline transportation and retail natural gas distribution. After joining NorAm in 1984, he held various executive positions, including chief executive officer of the Arkla Pipeline Group. Before joining NorAm, Mr. Bracy served as executive vice president and chief financial officer of El Paso Natural Gas Company, which he joined in 1977. Mr. Bracy is also a member of the board of directors of TEPPCO Partners, L.P., a publicly traded limited partnership.

Ted C. DeMerritt (age 75) has been a director of Itron since 1994. Mr. DeMerritt's term as a director expires in 2008. Until his retirement in 1998, Mr. DeMerritt was chairman of the board and chief executive officer of Olsy North America (formerly ISC Systems Corporation), which develops and implements system solutions for the financial services and retail industries. From 1963 to 1980, he was employed at Sacramento Savings and Loan Association, where he served as controller/senior vice president in charge of the Savings and Operations division. Mr. DeMerritt is also a trustee of the Washington State University Foundation.

Jon E. Eliassen (age 60) has been a director of Itron since 1987. Mr. Eliassen's term as a director expires in 2008. Mr. Eliassen is managing director of Terrapin Capital Group, LLP (Terrapin). Prior to forming Terrapin, he was president and chief executive officer of the Spokane Area Economic Development Council and held numerous positions within Avista Corporation, an energy company involved in the production, transmission and distribution of energy, before retiring in April 2003 as senior vice president and chief financial officer, a position he held since 1986. He is a member of the board of directors of Red Lion Hotels Corporation, a NYSE traded company, the Washington Technology Center, IT Lifeline, a privately held technology company, The Washington State University Research Foundation, and NVA Holdings, LLC.

Charles H. Gaylord, Jr. (age 61) has been a director since 2006. Mr. Gaylord's term as a director expires in 2008. Mr. Gaylord is a retired, private technology investor focusing on software and communications. Until his retirement in September 1994, Mr. Gaylord was executive vice president for Intuit Inc., a leading developer of personal and small business finance software programs, Quicken and QuickBooks and chairman of ChipSoft, Inc., publisher of the tax preparation software program TurboTax. Mr. Gaylord is a member of the board of directors of Proximity Inc., a private company and a member of the advisory board of Technology Crossover Ventures I, which seeks investments in later-stage private and public information technology companies.

Graham M. Wilson (age 62) has been a director of Itron since 1990. Mr. Wilson's term as a director expires in 2009. Mr. Wilson is currently chairman of GraWil Consultants Inc., a management and financial consultancy. From 1988 to 2002, Mr. Wilson was employed by Westcoast Energy Inc., an integrated energy company, where he was executive vice president and chief financial officer and president and CEO, Services. Mr. Wilson is also on the board of directors of British Columbia Ferries Services Inc. and Daylight Energy Inc. and a trustee of Hardwoods Distribution Income Trust.

The Board of Directors recommends that you vote FOR the election of the five nominees for director.

Compensation of Directors

We use a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve on the Board of Directors. In setting director compensation, we consider the significant amount of time that directors spend in fulfilling their duties as well as the skill level required of members of the Board of Directors.

During the 2006 fiscal year, directors who were not officers of the Company received an annual retainer of \$70,000, with \$40,000 paid in cash and \$30,000 paid in shares of our common stock. Members of the Audit/Finance Committee received an additional annual retainer of \$8,000, paid in cash, and each of our committee chairs received an additional annual retainer of \$10,000, paid half in cash and half in shares of our common stock.

New non-employee directors receive an initial option grant to purchase 5,000 shares of our common stock as of the date of the director's initial election or appointment to the Board of Directors with vesting over a three-year period. Shares of our common stock and options granted to non-employee directors that are issued as compensation are issued under our Amended and Restated 2000 Stock Incentive Plan.

We adopted a stock ownership guideline for directors that does not allow directors to sell their initial stock grants while active members of the board and also requires the directors to purchase (or hold) shares equal to three times the annual cash retainer fee over a period of three years from the initial appointment or election to director.

The following table sets forth the annual compensation of our non-employee directors for 2006. Employee directors do not receive any separate compensation for their services as a director.

2006 Director Compensation Table

Name	Fees Earned or Paid in Cash	Stock Awards (7)	Option Awards (8)(9)	Total
Michael Bracy (1)	\$ 45,000	\$ 34,924	\$ -	\$ 79,924
Ted DeMerritt (2)	\$ 44,000	\$ 29,955	\$ -	\$ 73,955
Kirby Dyess (2)	\$ 32,000	\$ 19,936	\$ 30,614	\$ 82,550
Jon Eliassen (3)	\$ 53,000	\$ 34,924	\$ -	\$ 87,924
Thomas Foley (6)	\$ 40,000	\$ 29,955	\$ -	\$ 69,955
Charles Gaylord	\$ 26,667	\$ 19,936	\$ 30,614	\$ 77,217
Thomas Glanville (2)	\$ 48,000	\$ 29,955	\$ -	\$ 77,955
Sharon Nelson (4)	\$ 45,000	\$ 34,924	\$ -	\$ 79,924
Mary Ann Peters (6)	\$ 20,000	\$ 14,988	\$ -	\$ 34,988
Gary Pruitt	\$ 10,000	\$ 7,477	\$ 9,554	\$ 27,031
Graham Wilson (5)	\$ 53,000	\$ 34,924	\$ -	\$ 87,924

- (1) Chairman of the Compensation Committee.
- (2) Member of the Audit/Finance Committee. T. DeMerritt served on the Audit/Finance Committee until May 2006.
- (3) Chairman of the Corporate Governance Committee and member of the Audit/Finance Committee.
- (4) Chairman of the Health, Safety, Environmental and Litigation Committee.
- (5) Chairman of the Audit/Finance Committee.

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- (6) M. Peters did not stand for re-election at the annual meeting of shareholders on May 9, 2006. T. Foley retired as director effective February 2007.

- (7) The amounts in this column reflect the dollar amounts recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006, in accordance with Statement of Financial Accounting Standards No. 123(R), *Share-based Payments*, which is also equal to the grant date fair value of the awards because the awards vest immediately upon grant. See Note 15 of the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2006 regarding assumptions underlying valuation of equity awards.

- (8) The amounts in this column reflect the dollar amounts recognized for financial statement purposes for the fiscal year ended December 31, 2006, in accordance with Statement of Financial Accounting Standards No. 123(R), *Share-based Payments*. See Note 15 of the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2006 regarding assumptions underlying valuation of equity awards. Based on the assumptions used to value the options granted to new non-employee directors in 2006, the grant date fair value of these options totaled \$142,014 for K. Dyess and C. Gaylord and \$114,943 for G. Pruitt, and vest over a three year period. As of December 31, 2006, the new directors, K. Dyess, C. Gaylord, and G. Pruitt each had 5,000 options outstanding, none of which were exercisable.
- (9) As of December 31, 2006 directors had the following options outstanding and exercisable: M. Bracy 33,500; T. DeMerritt 19,000; J. Eliassen 10,500; T. Foley 10,000; T. Glanville 21,000; S. Nelson 23,000; M. Peters 2,500; G. Wilson 18,250. As these directors were fully vested in their options prior to 2006, no expense is shown in this column.

ITEM 2 APPROVAL OF THE AMENDED AND RESTATED 2000 STOCK INCENTIVE PLAN

The Board of Directors believes that our future success and the continued growth in shareholder value depends, in large part, on our ability to attract, retain, and motivate key employees. The Board further believes that stock ownership helps align employee interests with shareholder value creation. As a result, the Board has adopted certain amendments to the Itron, Inc. Amended and Restated 2000 Stock Incentive Plan, subject to shareholder approval.

The plan includes the following amendments:

- n An increase in the number of shares authorized for issuance under the plan by 750,000 shares, from 5,125,000 to 5,875,000 shares. As of December 31, 2006, approximately 473,685 shares of our common stock remained available for issuance under the plan.
- n The elimination of the plan administrator's ability to permit a participant to pay the exercise price of a stock option with a promissory note and the elimination of the plan administrator's ability to guarantee a loan obtained from a third party in connection with a stock option exercise.
- n The addition of a limitation on the plan administrator's ability to waive any terms or conditions of outstanding awards of common stock or awards denominated in units of common stock, so that the number of shares that may be subject to such waivers is less than 10% of the total number of shares authorized for issuance under the plan.
- n An increase in the limit on the number of shares that may be issued pursuant to grants of awards, other than stock options, from 300,000 to 1 million.
- n The addition of a requirement that all members of any committee appointed by the Board to administer the plan must meet the independence standards set forth by the NASDAQ Global Select Market.

A copy of the plan, as proposed to be amended, subject to shareholder approval, is attached to this proxy statement as Appendix A. The following description of the plan, as proposed to be amended subject to shareholder approval, is a summary and does not purport to be fully descriptive. Please refer to Appendix A for more detailed information.

Description of the Amended and Restated 2000 Stock Incentive Plan

Awards. The plan allows us to grant incentive and nonqualified stock options, shares of common stock or units denominated in common stock, performance shares and performance units. Awards may consist of one or more of these grant types.

Stock Subject to the Plan. A maximum of 5,875,000 shares of common stock will be authorized for issuance under the plan if shareholders approve the amendment; 5,125,000 shares are currently authorized for issuance. If approved by the shareholders, the plan will limit the number of shares to be issued as awards, other than stock options to 1 million. Currently under the plan the limit is 300,000. The limits are all adjusted automatically for stock splits and similar events.

Any shares of common stock that have been made subject to an award that cease to be subject to the award (generally because the award terminates or expires), other than by reason of exercise or payment of the Award to the extent it is exercised for or settled in vested and non-forfeitable shares, will be available for future issuance in connection with future grants under the plan.

Administration. Our Compensation Committee administers the plan (the plan administrator), unless the Board of Directors appoints another committee to administer the plan. Subject to the terms of the plan, the plan administrator selects the individuals to receive awards, determines the terms and conditions of all awards and interprets the provisions of the plan. Committee members administering the plan serve for such term as the Board may determine, subject to removal by the Board at any time. To the extent consistent with applicable law, the Board may also authorize one or more senior executive officers to grant awards under the plan to designated classes of eligible persons, within limits set by the Board.

Except for adjustments to reflect stock splits and similar events, the plan administrator may not, without shareholder approval, cancel an outstanding stock option for the purpose of repricing, replacing or regranteeing the option with an exercise price that is less than the exercise price of the original option or amend an outstanding option for the purpose of reducing the exercise price. The plan administrator also may not grant a stock option with any feature that allows for the automatic grant of a new option upon the exercise of the original option, a reload, nor may the plan administrator amend or modify any outstanding option to provide such a feature.

Eligible Participants. Awards may be granted to those officers, employees, consultants and independent contractors of Itron and our subsidiaries that the plan administrator selects. In consideration of services provided as members of the Board of Directors, non-employee directors receive stock awards and stock options under the plan. These stock awards and stock options are described under *Compensation of Directors* on page 7 of this proxy statement. As of February 28, 2007, approximately 2,300 employees and all our non-employee directors were eligible to participate in the plan.

Stock Options. Options granted under the plan may be incentive stock options (as defined in Section 422 of the Code) or nonqualified stock options. Under the plan, the exercise price for each option is determined by the plan administrator, but cannot be less than 100% of the common stock's fair market value on the date of grant. For purposes of the plan, fair market value means the closing sales price for our common stock as reported by The NASDAQ Global Select for a single trading day. On February 28, 2007, the closing sales price of our common stock was \$64.62 per share.

The exercise price for shares purchased under stock options must be paid by cash or check, except that the plan administrator may authorize payment in any combination of cash or check, shares of already owned common stock, and, to the extent permitted by law, broker-assisted cashless exercise, or which other consideration as the plan administrator may permit.

Unless the plan administrator determines otherwise, the term of each option is ten years from the date of grant and the option vests at a rate of 25% per year over a four-year period. The plan administrator determines how long options will remain exercisable following an optionee's termination of employment or services. Unless the plan administrator determines otherwise, options vested as of the date of termination by reason of death, disability or retirement generally will be exercisable for one year after the date of such termination and for three months after all other terminations. If an optionee is terminated for cause, the options terminate upon the participant's notification of such termination.

Stock Awards. The plan administrator is authorized to make awards of common stock or awards denominated in units of common stock to participants on such terms and conditions and subject to such restrictions as the plan administrator may determine (whether based on periods of continuous service with Itron or performance goals). The number of stock awards granted will be determined by the plan administrator.

Performance Share and Performance Unit Awards. The plan administrator may grant performance shares, which are units valued by reference to shares of our common stock, and performance units, which are units valued by reference to property other than our common stock. Performance criteria relating to any performance share or performance unit award are determined by the plan administrator. Performance share or performance unit awards may be paid entirely, or in any combination, of cash or our common stock at the discretion of the plan administrator.

Performance-Based Compensation under Section 162(m). The plan administrator may determine that awards of performance shares, performance units, restricted stock and restricted stock units under the plan will be made subject to the attainment of performance goals relating to one or a combination of business criteria for purposes of qualifying the award under of Section 162(m) of the Code. These business criteria include: cash flows (including, but not limited to, operating cash flow, free cash flow or cash flow return on capital); working capital; earnings per share; book value per share; operating income (including or excluding depreciation, amortization or other expenses); revenues; operating margins; return on assets; return on equity; debt; debt plus

equity; market or economic value added; stock price appreciation; total shareholder return; cost control; strategic initiatives; market share; net income; return on invested capital; improvements in capital structure; or customer satisfaction, employee satisfaction, services performance, subscriber, cash management or asset management metrics. Any performance criteria may be used to measure the performance of the Company as a whole or any business unit of the Company. The plan administrator may adjust downwards, but not upwards, the amount payable pursuant to such awards and may not waive the achievement of the applicable performance goals except in the case of the death or disability of the participant.

During any calendar year, the maximum amount of shares of our common stock granted to any individual under the plan subject to stock options, stock awards and performance share awards intended to qualify as performance-based awards under Section 162(m) of the Code is 300,000 shares, except that we can make additional one-time grants of up to 600,000 shares to newly hired individuals in any fiscal year. The individual maximum dollar value payable to any individual under the plan with respect to performance units is limited to \$1 million during any calendar year.

Transferability. Except as otherwise determined by the plan administrator and to the extent permitted by Section 422 of the Code, awards are not assignable or transferable other than by will or the laws of descent and distribution, except that a participant may designate a beneficiary who may exercise an award or receive payment under an award after the participant's death. During the participant's lifetime, awards may be exercised only by the participant.

Adjustment of Shares. In the event of stock dividends, stock splits, spin-offs or similar changes in our corporate or capital structure, the plan administrator, in its sole discretion, will make equitable adjustments in (a) the maximum number and kind of securities subject to the plan and the maximum number and kind of securities that may be made subject to awards to any participant, (b) the number and kind of securities that are subject to any outstanding award and the per share price of such securities, without any change in the aggregate price to be paid therefore and (c) the number and kind of securities automatically granted pursuant to a formula program established under the plan. Such adjustments will not be deemed an option repricing under the plan.

Corporate Transactions. If certain corporate transactions occur, such as a merger, consolidation, sale, lease, exchange or transfer of all or substantially all of our assets (corporate transactions), a successor company or its parent, will either assume all outstanding options or issue equivalent substitute options to purchase common stock of the successor company or its parent. Except for certain related party transactions (such as a reincorporation of Itron or a merger in which the shareholders immediately prior to the merger hold at least a majority of the shares in the successor company or its parent), all options assumed or replaced by the successor company or its parent will become fully vested and exercisable regardless of whether the vesting requirements have been satisfied. If the successor company or its parent does not assume or replace outstanding options, all outstanding options will become 100% vested and exercisable immediately prior to the corporate transaction. In such case, the right to exercise options will terminate at the end of a specified time period, subject to completion of the corporate transaction.

In the event of a corporate transaction, shares subject to stock awards, except as provided in an award or other written agreement, will become vested and exercisable if and to the same extent that the vesting and exercisability of outstanding options accelerate in connection with the corporate transaction. The vesting and payout of performance shares and performance units in the event of a corporate transaction will be as determined by the plan administrator and reflected in the award agreement.

Termination and Amendment. The Board of Directors may terminate or suspend the plan at any time. The Board may also amend the plan, subject to shareholder approval if such approval is required by applicable law or regulation. The plan does not have a fixed expiration date, except that no incentive stock options may be granted more than ten years after the later of (a) the plan's adoption by the Board and (b) the adoption of any amendment to the plan that constitutes a new plan for purposes of Section 422 of the Code.

Federal Income Tax Consequences. The following is a summary of the material U.S. federal income tax consequences to us and to participants in the plan. The summary is based on the Code and the U.S. Treasury regulations promulgated thereunder as in effect as of the date of this proxy statement, all of which may change with retroactive effect. The summary is not intended to be a complete analysis or discussion of all potential tax consequences that may be important to participants in the plan. Therefore, we strongly encourage participants to consult their own tax advisors as to the specific federal income tax or other tax consequences of their participation in the plan.

Incentive Stock Options. The incentive stock options granted under the Plan are intended to qualify for the favorable federal income tax treatment accorded incentive stock options under the Code. The grant or exercise of an incentive stock option does not result in any federal income tax consequences to the participant or to us. However, the exercise of an incentive stock option will generally increase the participant's alternative minimum tax liability, if any.

The federal income tax consequences of a disposition of stock acquired through exercise of an incentive stock option will depend on the period such stock is held prior to disposition. If a participant holds stock acquired through exercise of an incentive stock option for at least two years from the date on which the option is granted and at least one year from the date of exercise of the option, the participant will recognize long-term capital gain or loss in the year of disposition, equal to the difference between the amount realized on the disposition of the stock and the amount paid for the stock on exercise of the option.

If the participant disposes of the stock before the expiration of either of the statutory holding periods described above (a disqualifying disposition), the participant will recognize ordinary income equal to the lesser of (a) the excess of the fair market value of the stock on the date of exercise over the exercise price or (b) the excess of the amount realized on the disposition of the stock over the exercise price. Subject to certain limitations, to the extent the participant recognizes ordinary income by reason of a disqualifying disposition, we generally will be entitled to a corresponding business expense deduction in the taxable year during which the disqualifying disposition occurs.

In the taxable year of a disqualifying disposition, the participant will also recognize capital gain or loss equal to the difference between the amount realized on the disposition of such stock over the sum of the amount paid for such stock plus any amount recognized as ordinary income by reason of the disqualifying disposition. Such capital gain or loss will be characterized as short-term or long-term, depending on how long the stock was held. Long-term capital gains generally are subject to lower tax rates than ordinary income and short-term capital gains.

Nonqualified Stock Options. The grant of a nonqualified stock option at fair market value will not result in any federal income tax consequences to the participant or to us. Upon exercise of a nonqualified stock option, the participant generally will recognize ordinary income equal to the excess of the fair market value of the stock on the date of exercise over the amount paid for the stock upon exercise of the option. Subject to certain limitations, we generally will be entitled to a corresponding business expense deduction equal to the ordinary income recognized by the participant.

Upon disposition of the stock, the participant will recognize capital gain or loss equal to the difference between the amount realized on the disposition of the stock over the sum of the amount paid for the stock plus any amount recognized as ordinary income upon exercise of the option. Such capital gain or loss will be characterized as short-term or long-term, depending on how long the stock was held.

Stock Awards. When a participant receives shares of stock that are not subject to restrictions, the participant will generally recognize taxable ordinary income at the time of receipt of the shares equal to the fair market value of the shares at the time of grant minus the amount, if any, paid for the shares.

Performance Shares, Performance Units, Restricted Stock and Stock Units. A participant who receives an award of performance shares, performance units, restricted stock or stock units does not generally recognize taxable income at the time the award is granted. Instead, the participant recognizes ordinary income in the first

taxable year in which his or her interest in the shares underlying the award becomes either (a) freely transferable or (b) no longer subject to substantial risk of forfeiture. The amount of taxable income is equal to the fair market value on the date of issuance (or date of grant) of the shares less the cash, if any, paid for the shares.

A participant may elect to recognize income at the time he or she receives restricted stock in an amount equal to the fair market value of the restricted stock (less any cash paid for the shares) on the date the award is granted. The Company receives a compensation expense deduction in an amount equal to the ordinary income recognized by the participant in the taxable year in which restrictions lapse (or in the taxable year of the award if, at that time, the participant had filed a timely election to accelerate recognition of income).

Potential Limitation on Our Deductions. Section 162(m) of the Code precludes a deduction for compensation paid to our chief executive officer and our four other most highly compensated executive officers to the extent that such compensation exceeds \$1 million for a taxable year. If certain requirements are met, qualified performance-based compensation is disregarded for purposes of the \$1 million limitation. We believe that the plan has been structured in a manner that complies with Section 162(m) of the Code. Therefore, assuming certain requirements are met, amounts received by such executive officers pursuant to awards of options, performance-vested restricted stock or stock units, performance shares and performance units granted under the plan generally will be deductible.

New Plan Benefits. A new plan benefits table, as described in the federal proxy rules, is not provided because all awards made under the plan are discretionary. However, please refer to the *Summary Compensation Table* and the *2006 Grants of Plan-Based Award Table* on pages 27 and 28 of this proxy statement, which set forth information regarding the restricted stock and stock option grants made to named executive officers in last fiscal year and please refer to the description of grants made to our non-employee directors in the last fiscal year under the heading *Compensation of Directors* on page 5 of this proxy statement.

The Board of Directors recommends that you vote FOR approval of the Amendments to the Amended and Restated 2000 Stock Incentive Plan.

EQUITY COMPENSATION PLAN INFORMATION

The following table gives certain information about our equity compensation plans in effect as of December 31, 2006.

Plan Category	Number of Shares to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Shares
			Remaining Available for Issuance Under Equity Compensation Plans (excluding shares reflected in column (a)) (c)
Equity Compensation Plans Approved by Shareholders	2,247,523	\$ 29.48	855,531(1)(2)(3)(4)
Equity Compensation Plans Not Approved by Shareholders			
Total	2,247,523	\$ 29.48	855,531

This table does not include cash-denominated awards granted under the Long-Term Performance Plan (LTPP) that are payable in restricted stock under the Amended and Restated 2000 Stock Incentive Plan (Plan).

- (1) This number does not include 750,000 new shares proposed to be added to the Plan.
- (2) This number includes 381,846 available for issuance under the 2002 Employee Stock Purchase Plan.
- (3) Effective January 1, 2006, each of our non-employee directors receives (a) an initial option grant to purchase 5,000 shares of the Company's common stock as of the date of the director's initial election or appointment to the Board and (b) an annual retainer of \$70,000, with \$30,000 paid in shares of the Company's common stock in lieu of a cash payment. In addition, each committee chair receives an additional annual retainer stock award of \$10,000, paid half (\$5,000) in shares of the Company's common stock in lieu of a cash payment of such retainer.
- (4) Under the Plan, the Company may also grant stock awards, stock units, performance shares and performance units, subject to certain terms and conditions and other restrictions.

ITEM 3 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors, upon the recommendation of its Audit/Finance Committee, has selected Deloitte & Touche LLP to serve as the Company's independent registered public accounting firm for 2007, subject to ratification by our shareholders. Although not required to do so, the Board is submitting the selection of this firm for ratification by the Company's shareholders for their views on the Company's independent registered public accounting firm and as a matter of good corporate practice. Deloitte & Touche LLP has advised the Company that it has no direct, nor any material indirect, financial interest in the Company or any of its subsidiaries. Representatives of Deloitte & Touche LLP will be present at the annual meeting to answer questions and will have the opportunity to make a statement if they desire to do so.

In the event that our shareholders fail to ratify the selection, it will be considered as a direction to the Board of Directors and the Audit/Finance Committee to consider the selection of a different firm. Even if the selection is ratified, the Audit/Finance Committee in its discretion may select a different independent registered public accounting firm, subject to ratification by the Board, at any time during the year if it determines that such a change would be in the best interest of the Company and our shareholders.

The Board of Directors recommends that you vote FOR the ratification of Deloitte & Touche LLP as our independent registered public accounting firm for 2007

CORPORATE GOVERNANCE

Corporate Governance Guiding Principles

The Company has adopted Corporate Governance Principles, which are available on our Internet site, www.itron.com, by clicking on the sections Investors, Corporate Governance.

Board Matters

Our business, property and affairs are managed under the direction of our Board of Directors. Members of our Board are kept informed of our business through discussions with our Chairman and Chief Executive Officer (CEO) and other officers, by reviewing materials provided to them, by visiting our offices and by participating in meetings of the Board and its Committees. All members of the Board of Directors are independent under the rules promulgated by the Securities and Exchange Commission (SEC) and The NASDAQ Stock Market (NASDAQ) listing standards, except for our Chairman and CEO.

The Company does not have a policy regarding director attendance at the annual meeting of shareholders. However, the Company does schedule the annual meeting of the Board of Directors to follow the annual meeting of shareholders. Nine directors attended the 2006 annual meeting of shareholders. During 2006, the Board of Directors met ten times. Each of the directors attended at least 75% of the meetings of the Board and of each committee on which he or she was a member, except for Thomas Foley who attended less than 75% of the aggregate Board and pertinent committee meetings.

Lead Independent Director

In March 2003, the Board of Directors appointed Jon Eliassen as lead director. Candidates for lead director are chosen from the independent directors of the Board of Directors and elected by the independent directors. The lead director is the designated committee chair of the corporate governance committee and chairs the sessions of the independent directors, which are typically held following each board meeting. In addition to corporate governance duties, the lead director is responsible for taking the lead role in annually reviewing the performance of the CEO, the search process for a new CEO should that become necessary and the annual performance review of the Board of Directors and individual board members. Additional responsibilities include acting as advisor to the CEO, as a mediator in disputes between the Board and the CEO and as a mentor to new board members.

Committees of the Board of Directors

The Board of Directors has established various committees to assist the board in fulfilling its responsibilities. These committees currently consist of

- n Audit/Finance Committee;

- n Compensation Committee;

- n Corporate Governance Committee; and

- n Health, Safety, Environmental and Litigation Committee.

The current charters of each of these committees are available on our Internet site, www.itron.com, by clicking on the sections Investors, Corporate Governance.

Audit/Finance Committee

The Audit/Finance Committee monitors our accounting practices, internal accounting controls and financial results and engages our independent auditors. The charter of the Audit/Finance Committee, as amended, is set forth as Appendix B to this proxy statement. The Audit/Finance Committee members are Kirby Dyess, Jon Eliassen, Tom Glanville and Graham Wilson, who serves as chairman. The Board of Directors has

determined that all of the members of the Audit/Finance Committee are independent under rules promulgated by the SEC and NASDAQ listing standards. The Board of Directors has determined that Messrs. Eliassen, Glanville and Wilson are each an audit committee financial expert as defined in Item 407(d)(5) of Regulation S-K promulgated by the SEC under the Securities Exchange Act of 1934, as amended, (the Exchange Act). The Audit/Finance Committee held ten meetings during 2006.

Compensation Committee

The Compensation Committee is responsible for making recommendations to the Board for the CEO's total annual and long-term incentive compensation and setting compensation levels for our other executive officers, overseeing the administration of various incentive compensation and benefit plans and performing any other functions regarding compensation that the Board of Directors may delegate.

The Committee shall be composed of at least three directors, as appointed by the Board, each of whom shall:

- n meet the independence requirements established by the Board;

- n be a non-employee director within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934; and

- n be an outside director within the meaning of Section 162(m) of the Internal Revenue Code.

The Compensation Committee has authority under its charter to retain, approve fees for and terminate advisors, consultants and agents as it deems necessary to assist in the fulfillment of its responsibilities. During 2006, the Committee retained the services of Pearl Meyer & Partners, who assisted with the review of the long-term incentive and equity compensation programs, as well as updated the competitive analysis of executive compensation. The Committee also has the authority under its charter to delegate that authority to one or more designated members of the Board or Company officers.

The Compensation Committee periodically requests executives to be present at Committee meetings where executive compensation, Company and individual performance are discussed and evaluated. Executives are free to provide insight, suggestions or recommendations regarding executive compensation if present during meetings or at other times; however, only the Committee members are allowed to vote on decisions regarding executive compensation.

The charter of the Compensation Committee, as amended, is set forth as Appendix C to this proxy statement. The members of the Compensation Committee are Ted DeMerritt, Charles Gaylord, Sharon Nelson, Gary Pruitt and Mike Bracy, who serves as chairman. The Board of Directors has determined that all of the members of the Compensation Committee are independent under rules promulgated by the SEC and NASDAQ listing standards. The Compensation Committee held five meetings during 2006.

Corporate Governance Committee

The Corporate Governance Committee is responsible for reviewing corporate governance issues, soliciting recommendations for candidates for the Board of Directors, making recommendations to the Board regarding such candidates and reviewing and making recommendations to the Board with respect to candidates for directors proposed by shareholders. The charter of the Corporate Governance Committee, as amended, is set forth as Appendix D to this proxy statement. The members of the Corporate Governance Committee are Kirby Dyess, Sharon Nelson, Graham Wilson and Jon Eliassen, who serves as chairman. The Board of Directors has determined that all of the members of the Corporate Governance Committee are independent under rules promulgated by the SEC and NASDAQ listing standards. The Corporate Governance Committee held five meetings during 2006.

Health, Safety, Environmental and Litigation Committee

The Health, Safety, Environmental and Litigation Committee monitors certain health, safety, environmental and litigation matters that are important to the Company. The charter of the Health, Safety, Environmental and Litigation Committee, as amended, is set forth as Appendix E to this proxy statement. The members of the Health, Safety, Environmental and Litigation Committee are Michael Bracy, Charles Gaylord, Gary Pruitt and Sharon Nelson, who serves as chairman. The Board of Directors has determined that all of the members of the Health, Safety, Environmental and Litigation Committee are independent under rules promulgated by the SEC and NASDAQ listing standards. The Health, Safety, Environmental and Litigation Committee held four meetings during 2006.

Director Nominations and Qualification

In accordance with the Company's Amended and Restated Bylaws, to nominate a director for election to the Board of Directors at an annual meeting of shareholders, a shareholder must deliver written notice of such nomination to the Secretary of the Company at the Company's executive offices not fewer than 60 days nor more than 90 days prior to the date of the annual meeting (or if less than 60 days' notice or prior public disclosure of the date of such annual meeting is given or made to the shareholders, not later than the tenth day following the day on which notice of the date of the annual meeting was mailed or public disclosure was made). The notice of a shareholder's intention to nominate a director must include:

- n the name and address of the shareholder;
- n a representation that the shareholder is entitled to vote at the meeting at which directors will be elected;
- n a statement of the number of shares of the Company that are beneficially owned by the shareholder;
- n a representation that the shareholder intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice;

and the following information with respect to the person nominated by the shareholder:

- n name and address;
- n other information regarding such nominee as would be required in a proxy statement filed pursuant to applicable rules promulgated by the SEC;
- n a description of any arrangements or understandings between the shareholder and the nominee and any other persons (including their names), pursuant to which the nomination is made; and
- n the consent of each such nominee to serve as a director if elected.