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ITRON INC /WA/
Form 10-Q/A
March 11, 2002

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

FORM 10-Q/A

(mark one)

AMENDMENT NO.1 TO QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from to

Commission file number 0-22418

ITRON, INC.

(Exact name of registrant as specified in its charter)

Washington
(State of Incorporation)

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

2818 North Sullivan Road
Spokane, Washington 99216-1897
(509) 924-9900

(Address and telephone number of registrant's principal executive offices)

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

The number of shares outstanding of the registrant's common stock as of October 31, 2001 was 15,916,103.

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This amendment on Form 10-Q of Itron, Inc. incorporates certain revisions to historical financial data and related descriptions but is not intended to update other information presented in this report as originally filed, except where specifically noted. The amendment reflects the restatement of the Registrant's condensed consolidated financial statements for the three and nine months ended September 30, 2001 and 2000 included in its Form 10-Q for the three and nine months ended September 30, 2001 and 2000, filed on

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November 8, 2001, related to its accounting for certain outsourcing contracts under which the Company retains title to the related equipment. See Note 8 to our condensed consolidated financial statements for further discussion of the matter.

Itron, Inc.

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Part I: FINANCIAL INFORMATION

Item 1: FINANCIAL STATEMENTS (UNAUDITED)

ITRON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS) (AS RESTATED)

(Unaudited, in thousands, except per share data)	Three months ended September 30,		Nine m
	2001	2000	20
Revenues			
Sales	\$ 50,424	\$ 31,468	\$ 1
Service	10,431	9,224	
Total revenues	----- 60,855	----- 40,692	----- 1
Cost of revenues			
Sales	27,127	18,538	
Service	6,675	5,825	
Total cost of revenues	----- 33,802	----- 24,363	-----
Gross profit	----- 27,053	----- 16,329	-----
Operating expenses			
Sales and marketing	7,390	5,086	
Product development	8,210	4,632	
General and administrative	3,778	4,363	
Amortization of intangibles	377	465	
Restructuring	-	-	
Total operating expenses	----- 19,755	----- 14,546	-----
Operating income	----- 7,298	----- 1,783	-----
Other income (expense)			
Equity in affiliates	(74)	138	
Interest and other, net	(911)	(915)	
Total other income (expense)	----- (985)	----- (777)	-----
Income before income taxes and extraordinary item	----- 6,313	----- 1,006	-----
Income tax provision	(2,409)	(382)	
Income before extraordinary item and cumulative effect of a change in accounting principle	----- 3,904	----- 624	-----
Extraordinary gain on early extinguishment of debt, net of income taxes of \$570	-	-	
Cumulative effect of a change in accounting principle, net of income taxes of \$1,581	-	-	
Net income	----- \$ 3,904	----- \$ 624	----- \$
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	339	(159)	

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Unrealized holding gains	45	-	
	-----	-----	-----
Other comprehensive income	384	(159)	
	-----	-----	-----
Comprehensive income	\$ 4,288	\$ 465	\$
	=====	=====	=====

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

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ITRON, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS) (AS RESTATED)
(continued)

(Unaudited, in thousands, except per share data)	Three months ended September 30,		Nine
	2001	2000	Months
Earnings per share			
Basic			
Income before extraordinary item	\$ 0.25	\$ 0.04	\$
Extraordinary item	-	-	
Cumulative effect	-	-	
	-----	-----	-----
Basic net income per share	\$ 0.25	\$ 0.04	\$
	=====	=====	=====
Diluted			
Income before extraordinary item	\$ 0.21	\$ 0.04	\$
Extraordinary item	-	-	
Cumulative effect	-	-	
	-----	-----	-----
Diluted net income per share	\$ 0.21	\$ 0.04	\$
	=====	=====	=====
Average number of shares outstanding			
Basic	15,667	15,237	
Diluted	19,071	15,512	

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

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ITRON, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)

ASSETS

September 30,

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	2001 (As Restated)

Current assets	
Cash and cash equivalents	\$ 13,043
Short-term investments	15,675
Accounts receivable, net	44,796
Inventories, net	16,929
Deferred income taxes	2,909
Other	906

Total current assets	94,258
Property, plant and equipment, net	23,715
Equipment used in outsourcing, net	13,163
Intangible assets, net	11,412
Restricted cash	5,100
Deferred income taxes	24,189
Other	6,485

Total assets	\$ 178,322
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	
Accounts payable and accrued expenses	\$ 25,611
Wages and benefits payable	8,984
Mortgage notes and leases payable	235
Deferred revenue	5,757

Total current liabilities	40,587
Convertible subordinated debt	53,429
Mortgage notes and leases payable	4,945
Project financing	6,234
Warranty and other obligations	11,275

Total liabilities	116,470

Shareholders' equity	
Common stock	111,046
Accumulated other comprehensive loss	(1,947)
Accumulated deficit	(47,247)

Total shareholders' equity	61,852

Total liabilities and shareholders' equity	\$ 178,322
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (AS RESTATED)

(Unaudited, in thousands)	Nine months en 2001 -----
OPERATING ACTIVITIES	
Net income	\$ 8,551
Noncash charges (credits) to income:	
Depreciation and amortization	7,548
Deferred income tax provision	5,041
Equity in affiliates, net	115
Extraordinary gain on early extinguishment of debt	-
Cumulative effect of a change in accounting principle	-
Changes in operating accounts:	
Accounts receivable	5,063
Inventories	267
Accounts payable and accrued expenses	(4,503)
Wages and benefits payable	(260)
Deferred revenue	(3,268)
Other, net	711

Cash provided by operating activities	19,265

INVESTING ACTIVITIES	
Purchase of short-term investments	(15,675)
Reclassification of restricted cash balance	(5,100)
Acquisition of property, plant and equipment	(3,713)
Equipment used in outsourcing	2
Proceeds from sale of equipment used in outsourcing, net	-
Proceeds from sale of business interest	-
Other, net	(3,630)

Cash provided (used) by investing activities	(28,116)

FINANCING ACTIVITIES	
Change in short-term borrowings, net	-
Proceeds from (payments on) project financing, net	(437)
Convertible subordinated debt repurchase	(30)
Issuance of common stock, net of repurchases	1,316
Other, net	(171)

Cash provided (used) by financing activities	678

Increase (decrease) in cash and cash equivalents	(8,173)
Cash and cash equivalents at beginning of period	21,216

Cash and cash equivalents at end of period	\$ 13,043
	=====

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

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ITRON, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2001 and 2000
 (Unaudited)

Note 1: Basis of Presentation

The consolidated financial statements presented in this Form 10-Q/A are unaudited and reflect, in the opinion of management, all normal recurring adjustments necessary for a fair presentation of operations for the three- and nine-month periods ended September 30, 2001 and 2000. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim results. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes included in our Form 10-K/A for the year ended December 31, 2000, as filed with the Securities and Exchange Commission on March 1, 2002. The results of operations for the three- and nine-month periods ended September 30, 2001 are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period.

During the fourth quarter of 2000, the Company implemented SEC Staff Accounting Bulletin No. 101 (SAB 101), which outlines the Staff's views on revenue recognition. As a result, we have changed our revenue recognition for certain transactions related to customer acceptance and F.O.B. destination shipments. The implementation has been accounted for as a cumulative change in accounting principle in 2000. We restated our financial results for each quarter of 2000 to conform revenue recognition to the requirements of SAB 101.

In addition, subsequent to the issuance of our consolidated financial statements for the year ended December 31, 2000, we changed our revenue recognition practice retroactively to January 1, 2000 for our two outsourcing contracts under which we retain title to the related equipment. See Note 8.

We have invested in short-term securities in 2001 and account for these investments in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. We consider our short-term securities to be available-for-sale and, in accordance with SFAS No., 115, the securities are reported at fair value, with unrealized gains and losses excluded from earnings and recorded net of deferred taxes directly to stockholders' equity as accumulated other comprehensive income.

Note 2: Earnings Per Share and Capital Structure

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

(Unaudited, in thousands except per share data)

	Three months ended September 30,		
	2001	2000	2000
Basic earnings per share:			
Net income available to common shareholders	\$ 3,904	\$ 624	\$
Weighted average shares outstanding	15,667	15,237	1
	\$ 0.25	\$ 0.04	\$

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	=====	=====	=====
Diluted earnings per share:			
Net income available to common shareholders	\$ 3,904	\$ 624	\$
Non-discretionary adjustment, net of income taxes	(7)	-	
Interest on convertible debt, net of income taxes	159	-	
	-----	-----	-----
Adjusted net income available to common shareholders, assuming conversion	\$ 4,056	\$ 624	\$
	=====	=====	=====
Weighted average shares outstanding	15,667	15,237	1
Effect of dilutive securities:			
Stock options	1,853	275	
Convertible debt	1,551	-	
	-----	-----	-----
Adjusted weighted average shares and assumed conversions	19,071	15,512	1
	=====	=====	=====
Diluted net income per share	\$ 0.21	\$ 0.04	\$
	=====	=====	=====

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We have granted options to purchase shares of our common stock to directors, employees and other key personnel at fair market value on the date of grant. The average price of Itron common stock was \$19.17 in the third quarter of 2001, compared to \$13.98 in the second quarter of 2001 and \$6.60 in the third quarter of 2000.

The dilutive effect of options is calculated using the "treasury stock" method. The dilutive earnings per share impact of the additional 1.9 million shares was \$0.024, or 10%, for the third quarter of 2001.

We also have subordinated convertible debt outstanding with conversion prices of \$9.65, representing 1.5 million shares, and \$23.70, representing an additional 1.6 million shares. The dilutive effect of these notes is calculated using the "if converted" method. Under this method, the after-tax amount of interest expense related to the convertible debt is added back to net income. In addition, net income is adjusted for non-discretionary items based on income that would have been computed differently had interest on the convertible debt not been recognized. The dilutive earnings per share impact of convertible debt was \$0.012, or 5%, for the third quarter of 2001.

During the third quarter of 2001, we announced a plan to repurchase up to 300,000 shares of our common stock. As of September 30, 2001, we had repurchased 52,000 shares at an average price of \$17.58.

Note 3: Balance Sheet Components

(Unaudited, in thousands)

September 30
2001

Accounts Receivable		
Trade (net of allowance for doubtful accounts of \$1,544 and \$1,144)		\$ 36,
Unbilled revenue		8,

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Total accounts receivable	\$ 44,
Inventories, net	
Material	\$ 4,
Work in process	
Finished goods	11,
Total manufacturing inventories	16,
Service inventories	
Total inventories	\$ 16,

Note 4: Segment Information

We are internally organized around six strategic business units ("SBUs") focused on the customer segments that we serve. These SBUs are Electric Systems, Natural Gas Systems, Water & Public Power Systems, Energy Information Systems ("EIS"), International Systems, and Client Services.

Revenues for Electric, Natural Gas, and Water & Public Power Systems include hardware, custom and licensed software, project management, installation and support activities, and outsourcing services, where we own and operate, or simply operate, systems for a periodic fee. Client Services revenues include post-sale support activities, primarily for our Electric, Natural Gas, and Water & Public Power Systems SBUs. EIS has two main areas of focus: advanced software solutions for commercial and industrial users of energy; and advanced software systems for financial settlements, load analysis and billing for wholesale energy markets. EIS also provides consulting services in these areas as well. Revenues for EIS and International generally include all of the above types of revenues. Inter-segment revenues are immaterial.

Management has three primary measures for each of our operating segments: revenue, gross margin, and operating income. Of these three measures, operating income is our primary profit and loss measure. It is defined as operating income after the allocation of basic services (such as floor space and communication expense), excluding the allocation of corporate product development, marketing, miscellaneous manufacturing and certain other corporate expenses. Operating income is calculated as revenue, less direct costs associated with that revenue, less operating expenses directly incurred by the segment and less the allocations mentioned above. Operating expenses directly associated with each segment may include sales, marketing, development, or administrative expenses. Corporate consists of operating expenses not allocated to the other segments. Certain amounts in the 2000 financial statements have been reclassified to conform with the 2001 presentation, including all amounts related to Client Services, which was newly formed, effective January 1, 2001.

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Segment revenues and operating results for the comparable quarters are detailed below.

(Unaudited, In thousands)	Three months ended September 30, (in thousands)					
	Electric	Natural Gas	Water & PP	EIS	Internat'l	Client

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2001						
Revenues	\$ 18,760	\$ 8,649	\$ 16,922	\$ 3,651	\$ 5,322	\$ 7,000
Cost of sales	10,407	3,844	8,573	1,958	2,930	5,000
Gross profit	8,353	4,805	8,349	1,693	2,392	2,000
Operating exp.	1,391	696	888	2,200	2,435	1,000
Operating income/(loss)	\$ 6,962	\$ 4,109	\$ 7,461	\$ (507)	\$ (43)	\$ 1,000
2000						
Revenues	\$ 7,656	\$ 8,328	\$ 9,815	\$ 4,578	\$ 3,776	\$ 6,000
Cost of sales	3,524	3,812	5,363	2,551	2,135	5,000
Gross profit	4,132	4,516	4,452	2,027	1,641	1,000
Operating exp.	822	560	686	1,494	1,182	1,000
Operating income/(loss)	\$ 3,310	\$ 3,956	\$ 3,766	\$ 533	\$ 459	\$ 1,000

Nine months ended September 30,
(in thousands)

	Electric	Natural Gas	Water & PP	EIS	Internat'l	Client
2001						
Revenues	\$ 47,321	\$ 23,049	\$ 35,787	\$ 12,621	\$ 20,105	\$ 22,000
Cost of sales	25,800	10,127	18,322	6,632	12,220	16,000
Gross profit	21,521	12,922	17,465	5,989	7,885	5,000
Operating exp.	3,623	1,938	2,478	5,481	5,750	1,000
Operating income/(loss)	\$ 17,898	\$ 10,984	\$ 14,987	\$ 508	\$ 2,135	\$ 5,000
2000						
Revenues	\$ 24,315	\$ 28,662	\$ 33,353	\$ 15,661	\$ 9,436	\$ 20,000
Cost of sales	11,109	12,296	17,640	8,091	5,186	18,000
Gross profit	13,206	16,366	15,713	7,570	4,250	2,000
Operating exp.	2,633	1,889	2,100	4,559	4,204	1,000
Operating income/(loss)	\$ 10,573	\$ 14,477	\$ 13,613	\$ 3,011	\$ 46	\$ 1,000

Note 5: Restructuring

We recorded charges totaling \$16.3 million in 1999 for restructuring activities that have improved efficiencies and reduced costs. Our restructuring actions included the consolidation of high volume manufacturing to our plant in

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Minnesota, a reduction of products and software platforms supported by the Company, consolidation of product development locations, and a reduction in activities in Europe not related to our core business. The majority of our restructuring charges were related to a reduction in force of approximately 300 people of which approximately 50% were in manufacturing, 25% in product development and the remainder throughout the Company. Twenty-five percent of the reductions were management positions. The remaining charges relate to impairment of equipment and estimated future lease payments for abandoned facilities. In the second quarter of 2001, we increased our severance reserve by \$0.2 million for remaining obligations that will be fully realized by the third quarter of 2002, and decreased our consolidation of facilities reserve by \$1million based on our sublease of vacated space and related issues. Restructuring reserve balance adjustments and payments for the first nine months of 2001 are detailed below (in thousands):

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(Unaudited, in thousands)	Cash/ Non-Cash	Reserve Balance 12/31/00	Reserve Balance Adjustments	Pay
	-----	-----	-----	-----
Severance and related charges	Cash	\$ 159	\$ 206	\$
Consolidation of facilities	Cash	2,616	(1,013)	\$
		-----	-----	-----
Totals		\$ 2,775	\$ (807)	\$
		=====	=====	=====

Note 6: Contingencies

We enter into performance and bid bonds for certain customers. Performance bonds usually cover the installation phase of a contract and may on occasion cover the operations and maintenance phase of outsourcing contracts. Bonds in force were \$39.7 million and \$48.0 million at September 30, 2001 and 2000, respectively. Additionally, we have standby letters of credit to guarantee our performance under certain contracts. The outstanding amounts of standby letters of credit were \$12.3 million and \$11.3 million at September 30, 2001 and 2000, respectively. \$5.1 million of cash is restricted and backs a \$5.0 million standby letter of credit.

We are a party to various lawsuits and claims, both as plaintiff and defendant, and have contingent liabilities arising from the conduct of business, none of which, in the opinion of management, is expected to have a material effect on our financial position or results of operations.

In addition, we are both a plaintiff and a defendant in litigation concerning potential patent infringement. We are also both a plaintiff and a defendant in litigation relating to the sublease of our Lakeville, Minnesota facility. While the ultimate outcome and its impact on our financial statements is undeterminable at this time, if we do not prevail or reach a favorable settlement in either of these cases, the impact could have a material adverse affect on our financial condition.

We have a long-term outsourcing contract with Southern California Edison ("SCE") in which we own, operate and maintain a Mobile Automated Meter Reading System for approximately 360,000 of their meters, and sell meter reading data to them. At September 30, 2001, we had trade and contracts receivable totaling \$393,000

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from SCE and net capitalized equipment related to this contract of \$9.2 million. In January 2001, in response to the California energy market situation, SCE announced it was suspending payments on certain debt and purchased power obligations. SCE has not notified us of any intention to suspend payments on our contract and has continued to make timely monthly payments. If SCE were to suspend payments to us, we believe the outsourcing contract provides us with the right to cease operations, which cessation would mean SCE would not have meter reading data to use in billing approximately 360,000 customers unless they were to hire manual meter readers. However, if SCE were to enter into bankruptcy proceedings, such action could result in a full or partial write-off of the assets and receivables. No loss contingency for this uncertainty has been accrued in our financial statements, as management believes that events resulting in a full or partial write-off of assets related to SCE are not probable.

Note 7: Recent Accounting Pronouncements

In late July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS 141 requires that all business combinations be accounted for using the purchase method of accounting; therefore, the pooling-of-interests method of accounting is prohibited. SFAS No. 141 also requires that intangible assets acquired in a business combination be recognized apart from goodwill if: (i) the intangible assets arise from contractual or other legal rights or (ii) the acquired intangible assets are capable of being separated from the acquired enterprise, as defined in SFAS No. 141. SFAS No. 141 is effective for all business combinations completed after June 30, 2001 and accounted for as a purchase and for all business combinations "initiated" after June 30, 2001.

SFAS No. 142 requires that goodwill should not be amortized but should be tested for impairment at the "reporting unit level" (Reporting Unit) at least annually and more frequently upon the occurrence of certain events, as defined by SFAS No. 142. A Reporting Unit is the same level as or one level below an "operating segment," as defined by SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information. Identifiable intangible assets with a finite life, as defined in SFAS No. 142, will be amortized.

SFAS No. 142 requires that goodwill be tested for impairment in a two-step process. First, a company must compare the "estimated fair value" of a Reporting Unit to its carrying amount, including goodwill, to determine if the fair value

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of a Reporting Unit to its carrying amount, including goodwill, to determine if the fair value of the Reporting Unit is less than the carrying amount, which would indicate that goodwill is impaired. If the company determines that goodwill is impaired, the Company must compare the "implied fair value" of the goodwill to its carrying amount to determine if there is an impairment loss. The "implied fair value" is calculated by allocating the fair value of the Reporting Unit to all assets and liabilities as if the Reporting Unit had been acquired in a business combination and accounted for under SFAS No. 141.

For goodwill and intangible assets acquired in business combinations completed prior to July 1, 2001, SFAS No. 142 is effective on January 1, 2002, the date the Company is required to adopt SFAS No. 142. Goodwill and intangible assets acquired in a business combination completed after June 30, 2001 are required to be accounted for in accordance with the "amortization and nonamortization" provisions of SFAS No. 142.

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The Company does not expect the adoption of SFAS No. 141 and SFAS No. 142 to have a significant impact on the Company's financial position and results of operations, absent possible future business combinations that might give rise to either significant amortization expense from the acquisition of intangible assets with a finite life or goodwill with significant impairment risk.

The FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, that supercedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, in August, 2001. Statement No. 144 requires that long-lived assets be measured at the lower of carrying amount or fair-value less cost to sell, whether reported in continuing operations or in discontinued operations, to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of Statement 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001. Management does not expect the adoption of SFAS 144 to have a significant impact on the financial position or results of operations of the Company, relative to its existing assets.

Note 8: Restatement

During February 2002, subsequent to the issuance of the Company's financial statements for the nine months ended September 30, 2001, the Company determined that in our adoption of SAB 101 we should have adopted service contract accounting for certain of our outsourcing contracts where we retain title to the related equipment. Accordingly, the Company changed its method of accounting for these contracts from the percentage of completion method under SOP 81-1 to service contract accounting. As a result, the accompanying consolidated financial statements for the three and nine months ended September 30, 2001 and 2000 have been restated to give effect to the changes as of January 1, 2000. A summary of the significant effects of the restatement is as follows:

	2001		20
	As previously Reported -----	As Restated -----	As previously Reported -----
At September 30, 2001:			
Accounts receivable, net	\$ 44,662	\$ 44,796	
Current portion of long-term contracts receivable	3,168	-	
Equipment used in outsourcing, net	9,039	13,163	
Long-term contracts receivable	2,262	-	
Deferred income taxes	22,999	24,189	
Deferred revenue	5,166	5,757	
Warranty and other obligations	9,908	11,275	
Accumulated deficit	\$ (45,307)	\$ (47,247)	
For the three months ended September 30:			
Service revenues	\$ 10,281	\$ 10,431	\$ 10,351
Service cost of revenues	6,580	6,675	6,580
Income tax provision	(2,389)	(2,409)	(524)
Income before extraordinary item and cumulative effect of change in accounting principle	3,870	3,904	853
Net income	\$ 3,870	\$ 3,904	\$ 853

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	2001		2000
	As previously Reported -----	As Restated -----	As previously Reported -----
Basic			
Income before extraordinary item			.06
Basic net income per share			.06
Diluted			
Income before extraordinary item			.06
Diluted net income per share			.06
For the nine months ended September 30:			
Service revenues	\$ 30,997	\$ 31,280	\$ 32,451
Service cost of revenues	19,966	20,232	21,609
Income tax provision	(5,252)	(5,258)	(1,836)
Income before extraordinary item and cumulative effect of change in accounting principle	8,540	8,551	3,010
Cumulative effect of change in accounting principle			(1,646)
Net income	\$ 8,540	\$ 8,551	\$ 2,408
Basic			
Income before extraordinary item			.20
Cumulative effect			(.11)
Basic net income per share			.16
Diluted			
Income before extraordinary item			.20
Cumulative effect			(.11)
Diluted net income per share			.16

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Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations presented below reflects certain restatements to our previously reported results of operations for these periods. See Note 8 to the condensed consolidated financial statements for a discussion of this matter. Also, as discussed in Note 4 to the condensed consolidated financial statements, we realigned our business segments in 2001. Information for the quarter ended September 30, 2000 has been reclassified to conform to the 2001 presentation.

Certain Forward-Looking Statements

This discussion and analysis should be read in conjunction with our unaudited condensed financial statements and accompanying notes included in this document and the 2000 audited financial statements and notes thereto included in our Annual Report on Form 10-K/A, which was filed with the Securities and Exchange Commission on March 1, 2002.

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The following discussion of our financial condition and results of operations contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. When included in this discussion, the words "expects," "intends," "anticipates," "believes," "plans," "projects," "estimates," "future" and similar expressions are intended to identify forward-looking statements. However, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Such statements are inherently subject to a variety of risks and uncertainties that could cause our actual results to differ materially from those reflected in such forward-looking statements. Such risks and uncertainties include, among others, the rate of customer demand for our products, forecast future revenues and costs on long-term contracts, changes in law and regulation (including FCC licensing actions), changes in the utility regulatory environment, delays or difficulties in introducing new products and acceptance of those products, ability to obtain project financing in amounts necessary to fund future outsourcing agreements, increased competition and various other matters, many of which are beyond our control. You should not place undue reliance on these forward-looking statements, which apply only as of the date of the Form 10-Q filed November 8, 2001. The Company expressly disclaims any obligation or undertaking to update or revise any forward-looking statement contained herein to reflect any change on the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. For a more complete description of these and other risks, see "Certain Risk Factors" included in our Annual Report on Form 10-K/A for the year ended December 31, 2000, as filed with the Securities and Exchange Commission on March 1, 2002.

OVERVIEW

Itron Inc. is a leading technology provider and source of knowledge to the energy and water industry for collecting, analyzing, and applying critical data about electric, gas and water usage. We design, develop, manufacture, market, install and service hardware, software and integrated systems. Sales include hardware, custom and licensed software, consulting, project management, and installation and sales support activities. Services include post-sale maintenance support and outsourcing services where we own and operate, or simply operate systems for a periodic fee.

Itron technology touches more than \$200 billion in energy and water transactions annually. Today, Itron systems are installed at approximately 2,000 utilities in over 45 countries around the world and are being used to collect data from 275 million electric, gas, and water meters. Of those, more than 700 customers use Itron's radio and telephone-based technology to automatically collect information from more than 19 million of those meters. Itron technology is also in use at a number of the newly created wholesale energy markets in the U.S. and Canada to provide critical billing and settlement systems for the power flowing into and out of those deregulating markets.

Only about 11% of the electric, gas and water meters in North America are read using automated meter data collection and communication systems from all suppliers. While we are aggressively pursuing numerous opportunities remaining for advanced metering and billing systems to penetrate beyond 11%, we also intend to use our core technology and industry knowledge to move beyond meter reading into other opportunities for optimizing the delivery and use of energy and water.

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We currently derive the majority of our revenues from sales of products and

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services to utilities. However, our business may increasingly consist of sales to other energy and water industry participants such as energy service providers, end-user customers, wholesale power markets, and others.

RESULTS OF OPERATIONS

The following tables show our revenue and percentage change from the prior year by sales or service and by segment.

Revenues (Unaudited, in millions)	Three months ended September 30,			Nine months end	
	2001	2000	Increase (Decrease)	2001	
Sales	\$ 50.4	\$ 31.5	60%	\$130.1	\$
Service	10.4	9.2	13%	31.2	
Total revenues	\$ 60.8	\$ 40.7	49%	\$161.3	\$

Segment Revenues (Unaudited, in millions)	Three months ended September 30,			Nine months end	
	2001	2000	Increase (Decrease)	2001	
Electric	\$ 18.7	\$ 7.7	143%	\$ 47.3	\$
Natural Gas	8.6	8.3	4%	23.0	
Water & Public Power	16.9	9.8	72%	35.8	
Energy Information Systems	3.7	4.6	(20%)	12.6	
International	5.3	3.8	39%	20.1	
Client Services	7.6	6.5	17%	22.5	
Total revenues	\$ 60.8	\$ 40.7	49%	\$161.3	\$

Electric revenues are higher in 2001, both for the quarter and year to date, primarily as a result of the sale of a Mobile Automated Meter Reading System to a large electric utility. This customer accounted for 52% of Electric revenues during the third quarter of 2001 and 16% of total Itron revenues for the third quarter. We have a multi-year contract with this utility, with shipments currently scheduled to run into the third quarter of 2002. We expect continued strong revenue growth in this segment for the remainder of 2001.

Natural Gas Systems revenue increased slightly in the third quarter of 2001 primarily due to the initial deployment of a 10,000 unit automated meter reading system to a new customer and the expansion of a system for an existing customer. We expect that revenues in this segment for 2001 will be lower than 2000 as several large projects were completed in 2000.

Water and Public Power revenues are higher in the third quarter of 2001 compared to last year primarily due to the initial deployment of a 150,000 unit installation for a mobile AMR system to a public utility in Washington state and increasing demand from water meter manufacturers. Third quarter revenues increased \$5 million, or 41%, from the second quarter of this year. We expect continued strong revenue performance in this segment for the remainder of 2001.

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Revenues in our Energy Information Systems segment decreased by 20% from the third quarter last year. Revenues in this segment can fluctuate on a quarterly basis due primarily to customized development work for wholesale energy systems, which has been at a much lower level in 2001 than in 2000. We expect revenues in this segment to be lower in 2001 compared with 2000.

International revenues increased 39% over the third quarter of 2000, due to increased meter module sales in France and a large hardware install in Australia. Revenues in this segment are expected to be lower in the fourth quarter but higher for the full year 2001 compared with 2000.

Client Services revenue increased 17% in the third quarter of 2001 compared with the third quarter of 2000, from increased hardware and software maintenance contracts, as well as higher billable repair activity.

We do not place any particular significance on quarter-to-quarter variations reported in revenue by segment, except as noted.

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Gross Margin (as a % of corresponding revenue)	Three months ended September 30,			Nine months e
	2001	2000	Increase (Decrease)	2001
Electric	45%	54%	(9%)	45%
Natural Gas	56%	54%	2%	56%
Water & Public Power	49%	45%	4%	49%
Energy Information Systems	46%	44%	2%	47%
International	45%	43%	2%	39%
Client Services	26%	19%	7%	26%
Corporate /(1)/	(1%)	(4%)	3%	(2%)
Total gross margin	44%	40%	4%	43%

(1) Percent of total company revenue.

Total gross margin was 44% for the third quarter, up from 40% a year ago. We continue to realize increased domestic manufacturing efficiencies from the consolidation of our high volume manufacturing operations, the spin-off of our low-volume manufacturing operations, and increased production volumes in our electric product. In addition, we are benefiting from lower material costs, due in part to favorable pricing in the general market for electronic components.

Gross margin for the Electric segment decreased 9% due to a change in the mix of customers and products from the first three quarters of 2000 to 2001. Gross margins can vary from period-to-period depending on the component mix and committed volumes.

Water and Public Power margins have improved 4% primarily due to the replacement of a high cost component with a less expensive solution effective late last year.

EIS segment revenue is primarily related to custom software development activities and licenses. Gross margins can vary from period-to-period depending on the mix of license revenues versus custom development activities. The gross

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margin in the third quarter of 2000 was negatively impacted by a large number of outside contractors temporarily hired to complete work on a large project that was active last year.

The gross margin in the International segment during the third quarter of 2001 improved over the third quarter of 2000 due primarily to a larger proportion of higher margin software sales in 2001. Year to date, the lower gross margin is the result of large sales of handheld equipment to customers in Japan at lower margins.

In the Client Services segment, gross margin increased by 7% in the third quarter of 2001 compared with the third quarter of 2000. Year to date, the gross margin improved 15%. The primary driver of the margin improvement is an increase in service contract revenues without a corresponding increase in costs to support those revenues. In addition, we are experiencing lower field service depot repair costs as a result of our outsourcing those services beginning in the second quarter of 2000.

Unallocated corporate cost of sales was lower in 2001, compared to 2000, primarily due to efficiencies gained through the consolidation of our manufacturing facilities. Also, purchase price variances, which are reflected in unallocated corporate cost of sales, were favorable in 2001, due in part to lower market prices for many electronic components.

Operating Expenses (Unaudited, in millions)	Three months ended September 30,			Nine months ended September 30,	
	2001	2000	Increase (Decrease)	2001	2000
Sales and marketing	\$ 7.4	\$ 5.1	45%	\$ 19.5	\$ 15.3
Product development	8.2	4.6	78%	21.6	16.1
General and administrative	3.8	4.3	(12%)	10.6	13.1
Amortization of intangibles	0.4	0.5	(20%)	1.1	1.4
Restructurings	-	-	-	(0.8)	(0.2)
Total operating expenses	\$ 19.8	\$ 14.5	37%	\$ 52.0	\$ 45.7

Sales and marketing expenses were 12.1% of revenues for the three and nine months ended September 30, 2001, compared to 12.5% and 11.6% for the three and nine months ended September 30, 2000, respectively. The increase year

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to year was due to investments in marketing programs and systems, primarily a new eCRM (internet-based Customer Relationship Management) system, International bad debt reserves (as a component of sales expense), additional spending related to strategy and business development activities, and increased commissions due to higher revenues.

Product development expenses were 13.5% and 13.4% of revenues for the three months and nine months ended September 30, 2001, respectively, compared to 11.4% and 12.2% for the three and nine months ended September 30, 2000, respectively. The majority of the increase is due to a number of new products under development, which fall into a general description of next generation communication technology, and associated increased staffing. Longer-term, we

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believe product development will range between 11% and 13% of revenues, but we expect to exceed this range for the remainder of 2001.

General and administrative costs were 6.2% and 6.6% of revenues for the three and nine months ended September 30, 2001, respectively, compared to 10.7% and 9.9% for the three months and nine months ended September 30, 2000, respectively. The primary drivers for the decrease in both periods in 2001 were the favorable negotiation of a new communications contract, reduced legal fees for patent and FCC matters, and increased allocations for distributing support-related expenses to internal departments.

Restructuring reserve adjustments for the nine months ended September 30, 2001 reflect a net credit. In the second quarter of 2001, based on the sublease of office space, we reversed \$1.0 million of loss reserves previously accrued in 1999 for non-cancelable operating lease charges for closed facilities. We also accrued an additional \$0.2 million in severance charges related to our 1999 restructuring in the second quarter of 2001.

Other Income (Expense) (Unaudited, in millions)	Three months ended September 30			Nine months ended September 30	
	2001	2000	Increase (Decrease)	2001	2000
Equity in affiliates	\$(0.1)	\$ 0.1	(200%)	\$ (0.1)	\$ 0.1
Interest and other, net	(0.9)	(0.9)	-	(3.0)	(3.0)
Total other income (expense)	\$(1.0)	\$(0.8)	(25%)	\$ (3.1)	\$ (2.9)

For the three months ended September 30, 2001, we recognized an expense of \$112,000 for our portion of net losses incurred by two joint ventures in which we hold an equity position. For the comparable period in 2000, we recognized income from equity in affiliates related to a water segment marketing joint venture whose activities have declined. Also in 2000, we realized a \$150,000 net gain on the sale of an interest in a partially owned venture.

On a three-month basis, net interest and other was approximately the same. On a nine-month basis, net interest and other decreased slightly in 2001 year to date due to higher interest income from higher levels of cash and investments in 2001.

Income Taxes

Our effective income tax rate was 38% in 2001 and 2000. Our effective income tax rate can vary from period to period because of fluctuations in foreign operating results, changes in valuation allowances for deferred tax assets, new or revised tax legislation, and changes in the level of business performed in different domestic tax jurisdictions.

Extraordinary Item - Gain on Early Retirement of Debt

In the first quarter of 2000 we repurchased \$3.8 million of principal amount of subordinated debt for \$2.1 million in cash. The gain on this early retirement of debt, net of expenses and income taxes, was \$1.0 million.

Cumulative effect of a Change in Accounting Principle

During the fourth quarter of 2000, the Company implemented the SEC Staff

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Accounting Bulletin No. 101 (SAB 101), which outlines the Staff's views on revenue recognition. As a result, we have changed our revenue recognition for certain transactions related to customer acceptance and F.O.B destination shipments. The implementation has been accounted for as a cumulative change in accounting principle in 2000. We restated our financial results for each quarter of 2000 to conform revenue recognition to the requirements of SAB 101.

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In addition, subsequent to the issuance of our consolidated financial statements for the year ended December 31, 2000, we changed our revenue recognition practice retroactively to January 1, 2000 for our two outsourcing contracts under which we retain title to the related equipment. See Note 8 to the condensed consolidated financial statements.

FINANCIAL CONDITION

Cash Flow Information (Unaudited, in millions)	Three months ended September 30,			Nine months end	
	2001	2000	Increase (Decrease)	2001	2000
Operating activities	\$ 0.3	\$ (8.0)	104%	\$ 19.2	\$ 1.
Investing activities	(5.0)	(3.4)	(47%)	(28.1)	21.
Financing activities	(0.1)	0.4	(125%)	0.7	(4.
Increase (decrease) in cash	\$(4.8)	\$(11.0)	56%	\$ (8.2)	\$18.

Operating activities:

Cash flow from operating activities was significantly higher in the 2001 periods. Operating cash flow in the first three quarters of 2000 was negatively impacted by the use of \$9.1 million of cash for restructuring related payments. Without those payments, normalized cash flow in the first three quarters of 2000, would have been \$10.4 million, compared to \$19.2 million in 2001. Increased earnings is the primary factor driving the improved cash flow from operations in 2001. Cash flow from operations was lower in the third quarter of 2001 compared to the first half. Of note is the fact that we received approximately \$6 million from one customer two days after September 30, 2001.

Investing activities:

The primary investing activity in the third quarter of 2001 was the purchase of \$2.1 in investments with maturities, not exceeding 13 months. Year to date, \$15.7 million of short-term investments have been purchased in order to achieve higher interest rates. In the first quarter of 2001, we reclassified \$5.1 million into restricted cash for a collateralized letter of credit. Included in other investing activities are investments in and loans made to three private companies - a web-based wireless workforce management company, a provider of meter reading services to energy service providers and end user customers, and a developer of in home energy gateway communication technology.

In the second and third quarters of 2000, our investments primarily consisted of equipment installed for outsourcing contracts and internal capital acquisitions. In the first half of 2000 we received \$33 million from the sale of our network project at Duquesne Light Company to an affiliate of Duquesne.

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Financing activities:

Financing activities in the third quarter of 2001 included the open-market buy back of 52,000 shares of our common stock for \$913,950, which is netted against \$1 million received from our employee stock purchase plan and option exercises during the quarter. Activity in the first quarter of 2000 included a \$2.1 million repurchase and retirement of subordinated debt. No comparably significant financing transaction occurred during the first three quarters of 2001.

At September 30, 2001, we had \$28.7 million in cash, cash equivalents, and short-term investments. In addition, we also had \$5.1 million of restricted cash that secures a \$5.0 million letter of credit related to a long-term services contract. We believe existing cash resources and available borrowings under our credit facility are more than adequate to meet our operating cash needs through 2002.

We have \$53.4 million of convertible subordinated debentures that mature in March 2004, \$15.0 million of which have a conversion price of \$9.65 and are callable in April 2002 without premium. The remaining \$38.4 million of notes have a conversion price of \$23.70 and have been callable with declining premiums since March 2000. We anticipate that we will have sufficient cash generated from operations to repurchase the notes at maturity if they are not converted earlier.

Business Outlook

The following statements are based on management's current expectations. These statements are forward-looking, and are made as of the date of the Form 10-Q filed November 8, 2001. Actual results may differ materially due to a number of risks and uncertainties. Itron undertakes no obligation to update publicly or revise any forward-looking statements.

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We expect revenues for the full year 2001 will be approximately 20% higher than in 2000. Diluted earnings per share for the full year 2001 are expected to be between \$0.70 and \$0.72. We anticipate that revenue growth in 2002 will be at least 10% to 15% higher relative to 2001, with EPS growth approximately twice the revenue growth rate.

Item 3: QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Rate Risk: As a global concern, we conduct business in a number of foreign countries and, therefore, face exposure to adverse movements in foreign currency exchange rates. Total International revenue approximates 12% of total revenue. As we currently do not use derivative instruments to manage foreign currency exchange rate risk, the consolidated results of operations in U.S. dollars are subject to fluctuation as foreign exchange rates change. In addition, our foreign currency exchange rate exposures may change over time as business practices evolve and could have a material impact on our financial results.

Our primary exposure relates to non-dollar denominated sales, cost of sales and operating expenses in our subsidiary operations in France, the United Kingdom, and Australia, which means we are subject to changes in the consolidated results of operations expressed in U.S. dollars. Other international business, consisting primarily of shipments from the United States to international distributors and customers in the Pacific Rim and Latin America, is predominantly denominated in U.S. Dollars, which reduces our exposure to fluctuations in foreign currency exchange rates. There has been, and there may

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continue to be, large period-to-period fluctuations in the relative portions of International revenue that are denominated in foreign currencies versus the U.S. dollar.

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

Because our earnings are affected by fluctuations in the value of the U.S. dollar as compared to foreign currencies, we have performed a sensitivity analysis assuming a hypothetical 10% increase in the value of the dollar relative to the currencies in which our transactions are denominated. As of September 30, 2001, the analysis indicated that such market movements would not have had a material effect on our consolidated results of operations or on the fair value of any risk-sensitive financial instruments. The model assumes a parallel shift in the foreign currency exchange rates. Exchange rates rarely move in the same direction. The assumption that exchange rates change in a parallel fashion may overstate or understate the impact of changing exchange rates on assets and liabilities denominated in a foreign currency. Consequently, the actual effects on operations in the future may differ materially from the results of the analysis for the third quarter. We may, in the future, experience greater fluctuations in U.S. dollar earnings from fluctuations in foreign currency exchange rates. We will continue to monitor and assess the impact of currency fluctuations and may seek to institute hedging alternatives as business dictates.

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Part II: Other Information

Item 1: Legal Proceedings

Benghiat Patent Litigation

On April 3, 1999, we served Ralph Benghiat, an individual, with a complaint seeking a declaratory judgment that a patent owned by Benghiat is invalid and not infringed by Itron's handheld meter reading devices. Benghiat has filed a counterclaim alleging patent infringement by the same devices. Both lawsuits were filed in the United States District Court for the District of Minnesota (Civil Case No. 99-cv-501). On April 2, 2001, the district court denied the motions for summary judgment filed by Itron. On June 29, 2001, a court-ordered settlement hearing was held, which did not result in a settlement of the case. The case is currently scheduled to go to trial January 7, 2002. While we believe that our products do not infringe the Benghiat patent, there can be no assurance that we will prevail in this matter, in which case a decision or settlement of this case may have a material adverse effect on our financial condition. Any litigation, regardless of its outcome, would probably be costly and require significant time and attention of our key management and technical personnel.

Northfield Communications Sublease Litigation

On April 24, 2001, pursuant to an amended complaint, plaintiff Northfield Communications, Inc. brought an action against us in the United States District Court for the District of Minnesota (CF No.

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01-117 JMR/FLN). Plaintiff is a sub-lessee of property leased by Itron in Lakeville, Minnesota and has asked the court to make a determination of its rights under its sublease and such other relief as is appropriate. We have denied the substantive allegations of the complaint and have filed a counterclaim against the plaintiff. The lawsuit is in the discovery phase with a trial date expected sometime after December 1, 2001. While we believe that we have meritorious defenses to the plaintiff's claims, there can be no assurance that we will prevail in this matter. If we do not prevail or reach a favorable settlement, the impact could be material to our earnings in the fiscal quarter in which the matter is settled.

There have been no significant changes to any other legal proceedings in which we are currently involved. See our annual report on Form 10-K/A for the year ended December 31, 2000, as filed with the Securities and Exchange Commission on March 1, 2002, for a complete list of legal proceedings.

Item 6: Exhibits and Reports on Form 8-K

- a) No exhibits were filed this quarter.
- b) No 8-Ks were filed this quarter.

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SIGNATURE

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

ITRON, INC.
(Registrant)

By: /s/ David G Remington

David G. Remington
Vice President and
Chief Financial Officer
(Authorized Officer and Principal
Financial Officer)

Date: March 11, 2002

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