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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 June 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 X No

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The number of shares outstanding of the registrant's common stock as of July 31,
2001 was 15,668,924.

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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 six months ended
June 30, 2001 and 2000 included in its Form 10-Q for the three and six months
ended June 30, 2001 and 2000, filed on August 13, 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.

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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 June 30,	
	2001	2000
Revenues		
Sales	\$ 42,404	\$ 35,276
Service	10,610	9,294
Total revenues	53,014	44,570
Cost of revenues		
Sales	23,584	21,441
Service	6,288	5,565
Total cost of revenues	29,872	27,006
Gross profit	23,142	17,564
Operating expenses		
Sales and marketing	6,486	5,109
Product development	7,642	5,306
General and administrative	3,603	4,167
Amortization of intangibles	366	465
Restructurings	(807)	-
Total operating expenses	17,290	15,047
Operating income	5,852	2,517
Other income (expense)		
Equity in affiliates	(64)	248
Interest and other, net	(737)	(972)
Total other income (expense)	(801)	(724)
Income before income taxes and extraordinary item		
Income tax provision	5,051	1,793
Income before extraordinary item and cumulative effect of a change in accounting principle	(1,893)	(678)
Income before extraordinary item and cumulative effect of a change in accounting principle	3,158	1,115
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	-	-

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Net income (loss)	\$ 3,158	\$ 1,115
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	(544)	(221)
Unrealized holding gains	22	
Other comprehensive income (loss)	(522)	(221)
Comprehensive income (loss)	\$ 2,636	\$ 894

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 June 30,	
	2001	2000
Earnings per share		
Basic		
Income before extraordinary item	\$ 0.20	\$ 0.07
Extraordinary item	-	-
Cumulative effect	-	-
Basic net income (loss) per share	\$ 0.20	\$ 0.07
Diluted		
Income before extraordinary item	\$ 0.18	\$ 0.07
Extraordinary item	-	-
Cumulative effect	-	-
Diluted net income (loss) per share	\$ 0.18	\$ 0.07
Average number of shares outstanding		
Basic	15,513	15,127
Diluted	18,716	15,339

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

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ITRON, INC.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)

	ASSETS	
		Ju
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Current assets		
Cash and cash equivalents		\$
Short-term investments		
Accounts receivable, net		
Inventories, net		
Deferred income taxes		
Other		

Total current assets		
Property, plant and equipment, net		
Equipment used in outsourcing, net		
Intangible assets, net		
Restricted cash		
Deferred income taxes		
Other		

Total assets		\$ =====
	LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities		
Accounts payable and accrued expenses		\$
Wages and benefits payable		
Mortgage notes and leases payable		
Deferred revenue		

Total current liabilities		
Convertible subordinated debt		
Mortgage notes and leases payable		
Project financing		
Warranty and other obligations		

Total liabilities		
Shareholders' equity		
Common stock		
Accumulated other comprehensive loss		
Accumulated deficit		

Total shareholders' equity		

Total liabilities and shareholders' equity		\$ =====

The accompanying notes are an integral part of these condensed consolidated

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financial statements.

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ITRON, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (AS RESTATED)

(Unaudited, in thousands)	Six months ended 2001
OPERATING ACTIVITIES	
Net income (loss)	\$ 4,647
Noncash charges (credits) to income:	
Depreciation and amortization	5,181
Deferred income tax provision	2,506
Equity in affiliates, net	41
Extraordinary gain on early extinguishment of debt	-
Cumulative effect of a change in accounting principle	-
Changes in operating accounts:	
Accounts receivable	14,506
Inventories	(497)
Accounts payable and accrued expenses	(4,321)
Wages and benefits payable	(1,933)
Deferred revenue	(1,595)
Other, net	413

Cash provided) by operating activities	18,948

INVESTING ACTIVITIES	
Purchase of short-term investments	(13,555)
Reclassification of restricted cash balance	(5,100)
Acquisition of property, plant and equipment	(2,165)
Equipment used in outsourcing	2
Proceeds from sale of equipment used in outsourcing, net	-
Proceeds from sale of business interest	-
Investment in affiliates	(1,000)
Other, net	(1,282)

Cash provided (used) by investing activities	(23,100)

FINANCING ACTIVITIES	
Change in short-term borrowings, net	-
Payments on project financing	(289)
Convertible subordinated debt repurchase	(30)
Issuance of common stock	1,230
Other, net	(115)

Cash provided (used) by financing activities	796

Increase (decrease) in cash and cash equivalents	(3,356)
Cash and cash equivalents at beginning of period	21,216

Cash and cash equivalents at end of period	\$ 17,860
	=====

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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
June 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 six-month periods ended June 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 six-month periods ended June 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 the 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 for the three- and six-month periods ended June 30, 2001 and 2000:

(in thousands)

Three months ended
June 30,

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	(in thousands except per	
	-----	-----
	2001	2000
	----	----
Basic earnings per share:		
Net income available (loss applicable) to common shareholders	\$ 3,158	\$ 1,115
Weighted average shares outstanding	15,513	15,127
	-----	-----
Basic earnings per share	\$ 0.20	\$ 0.07
	=====	=====
Diluted earnings per share:		
Net income available (loss applicable) to common shareholders	\$ 3,158	\$ 1,115
Interest on convertible debt, net of income taxes	159	-
	-----	-----
Adjusted net income available (loss applicable) to common shareholders, assuming conversion	\$ 3,317	\$ 1,115
	=====	=====

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(in thousands)	Three months ended June 30, S	
	-----	-----
	(in thousands except	
	-----	-----
	2001	2000
	----	----
Weighted average shares outstanding	15,513	15,127
Effect of dilutive securities:		
Employee stock options	1,652	212
Convertible debt	1,551	-
	-----	-----
Adjusted weighted average shares and assumed conversions	18,716	15,339
	=====	=====
Diluted earnings (loss) per share	\$0.18	\$0.07
	=====	=====

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. Diluted shares outstanding increased substantially during the quarter to 20.3 million, compared to 15.7 million in the first quarter of 2001 and 15.3 million in the second quarter of 2000. The average price of Itron common stock was \$13.98 in the second quarter of 2001, compared to \$6.98 in the first quarter of 2001 and \$5.97 in the second quarter of 2000.

The dilutive effect of options is calculated using the "treasury stock" method. The dilutive earnings per share impact of the additional 1.7 million shares was \$0.016, or 10%, for the second 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

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expense related to the notes assumed converted is added back to net income. The dilutive earnings per share impact of convertible debt was \$0.004, or 3%, for the second quarter of 2001.

Note 3: Balance Sheet Components

(in thousands)	June 30, 2001

Accounts Receivable	
Trade (net of allowance for doubtful accounts of \$970 and \$1,144)	\$29,274
Unbilled revenue	6,079

Total accounts receivable	\$35,353
	=====
Inventories, net	
Material	\$ 4,750
Work in process	805
Finished goods	11,047

Total manufacturing inventories	16,602
Service inventories	1,091

Total inventories	\$17,693
	=====

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.

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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

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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.

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

	Three months ended June 30, (in thousands)					Client Services
	Electric	Natural Gas	Water & PP	EIS	Internat'l	
	-----	-----	-----	-----	-----	-----
2001						
Revenues	\$ 15,813	\$ 7,123	\$ 11,957	\$ 3,972	\$ 6,519	\$ 7,630
Cost of sales	8,814	3,072	6,231	2,271	3,556	5,053
	-----	-----	-----	-----	-----	-----
Gross profit	6,999	4,051	5,726	1,701	2,963	2,577
Operating exp.	1,211	624	853	1,943	1,818	111
	-----	-----	-----	-----	-----	-----
Operating income/(loss)	\$ 5,788	\$ 3,427	\$ 4,873	\$ (242)	\$ 1,145	\$ 2,466
	=====	=====	=====	=====	=====	=====
2000						
Revenues	\$ 6,365	\$ 10,034	\$ 13,170	\$ 5,836	\$ 2,643	\$ 6,522
Cost of sales	3,090	4,014	6,873	2,832	1,463	5,386
	-----	-----	-----	-----	-----	-----
Gross profit	3,275	6,020	6,297	3,004	1,180	1,136
Operating exp.	867	660	725	1,581	1,409	214
	-----	-----	-----	-----	-----	-----
Operating income/(loss)	\$ 2,408	\$ 5,360	\$ 5,572	\$ 1,423	\$ (229)	\$ 922
	=====	=====	=====	=====	=====	=====

	Six months ended June 30, (in thousands)					Client Services
	Electric	Natural Gas	Water & PP	EIS	Internat'l	
	-----	-----	-----	-----	-----	-----
2001						
Revenues	\$ 28,561	\$ 14,400	\$ 18,865	\$ 8,970	\$ 14,783	\$ 14,906
Cost of sales	15,393	6,283	9,749	4,674	9,290	11,042
	-----	-----	-----	-----	-----	-----
Gross profit	13,168	8,117	9,116	4,296	5,493	3,864
Operating exp.	2,232	1,242	1,590	3,281	3,315	210
	-----	-----	-----	-----	-----	-----
Operating						

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income/(loss)	\$ 10,936	\$ 6,875	\$ 7,526	\$ 1,015	\$ 2,178	\$ 3,654
	=====	=====	=====	=====	=====	=====
2000						
Revenues	\$ 16,659	\$ 20,334	\$ 23,538	\$ 11,083	\$ 5,660	\$ 14,221
Cost of sales	7,585	8,484	12,277	5,540	3,051	13,074
	-----	-----	-----	-----	-----	-----
Gross profit	9,074	11,850	11,261	5,543	2,609	1,147
Operating exp.	1,811	1,329	1,414	3,065	3,022	442
	-----	-----	-----	-----	-----	-----
Operating income/(loss)	\$ 7,263	\$ 10,521	\$ 9,847	\$ 2,478	\$ (413)	\$ 705
	=====	=====	=====	=====	=====	=====

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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 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 recognized by the third quarter of 2002, and decreased our consolidation of facilities reserve based on our sublease of vacated space and issues related thereto. Restructuring reserve balance adjustments and payments for the first six months of 2001 are detailed below (in thousands):

	Cash/ Non-Cash	Reserve Balance 12/31/00	Reserve Balance Adjustment	Payments
	-----	-----	-----	-----
Severance and related charges	Cash	\$ 159	\$ 206	\$ 145
Consolidation of facilities	Cash	2,616	(1,013)	442
		-----	-----	-----
Totals		\$ 2,775	\$ (807)	\$ 587
		=====	=====	=====

Note 6: Contingencies

We maintain performance and bid bonds for certain customers. The performance bonds usually cover the installation phase of a contract and may on occasion cover the operations and maintenance phase of outsourcing contracts. The values of the bonds in force were \$39.7 million and \$48.0 million at June 30, 2001 and 2000, respectively. Additionally, we have standby letters of credit to guarantee

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our performance under certain contracts. The outstanding amounts of standby letters of credit were \$11.8 million and \$11.3 million at June 30, 2001 and 2000, respectively.

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 sub-lease 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 June 30, 2001, we had trade and contracts receivable totaling \$639,000 from SCE and net capitalized equipment related to this contract of \$9.5 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 more costly 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: Impact of New Accounting Standards

Business Combinations

We adopted Statement of Financial Accounting Standards No. 141 Business Combinations on July 1, 2001. This Statement addresses financial accounting and reporting for business combinations and calls for all business combinations to be accounted for under the purchase method. Management does not expect the adoption of SFAS 141 to have a significant impact on the financial position or results of operations of the Company.

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Goodwill and Intangible Assets

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which is effective January 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS 142 also

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requires us to complete a transitional goodwill impairment test six months from the date of adoption. We are currently assessing but have not yet determined the impact of SFAS 142 on our financial position and results of operations.

Note 8: Restatement

During February 2002, subsequent to the issuance of the Company's financial statements for the three and six months ended June 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 six months ended June 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		
	As previously Reported -----	As Restated -----	As pre Repo -----
At June 30, 2001:			
Accounts receivable, net	\$ 35,100	\$ 35,353	
Current portion of long-term contracts receivable	3,330	-	
Equipment used in outsourcing, net	9,272	13,491	
Long-term contracts receivable	2,773	-	
Deferred income taxes	26,091	27,301	
Deferred revenue	7,171	7,430	
Warranty and other obligations	9,931	11,226	
Accumulated deficit	\$ (49,177)	\$ (51,151)	
For the three months ended June 30:			
Service revenues	\$ 10,470	\$ 10,610	\$ 10,
Service cost of revenues	6,192	6,288	6,
Income tax provision	(1,877)	(1,893)	(
Income before extraordinary item and cumulative effect of change in accounting principle	3,130	3,158	1,
Net income	\$ 3,130	\$ 3,158	\$ 1,
Basic			
Income before extraordinary item			
Basic net income per share			
Diluted			
Income before extraordinary item			
Diluted net income per share			
For the six months ended June 30:			
Service revenues	\$ 20,716	\$ 20,849	\$ 22,
Service cost of revenues	13,386	13,557	15,
Income tax provision	(2,863)	(2,849)	(1,
Income before extraordinary item and cumulative effect of change in accounting principle	4,670	4,647	2,
Cumulative effect of change in accounting principle			(1,
Net income (loss)	\$ 4,670	\$ 4,647	\$ 1,

2001

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	As previously Reported -----	As Restated -----	As pre Repo -----
Basic			
Income before extraordinary item			
Cumulative effect			
Basic net income (loss) per share			
Diluted			
Income before extraordinary item			
Cumulative effect			
Diluted net income (loss) per share			

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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 three and six months ended June 30, 2000 has been reclassified to conform to the 2001 presentation.

OVERVIEW

Itron is a leading provider of data collection and management solutions for electric, gas and water utilities throughout the world. 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.

More than 2,000 utilities use Itron technology in over 45 countries around the world to collect data from 275 million electric, gas and water meters. Of those, more than 700 customers use our radio and telephone-based technology to automatically collect and process information from almost 19 million meters. In addition, our technology is being used by a number of the newly created wholesale energy markets in the U.S. and Canada to provide critical billing and settlement systems for deregulated markets. Our systems touch more than \$200 billion in energy and water transactions every year in North America alone.

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.

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

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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.

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," and "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, our ability to accurately forecast future revenues and costs on long-term contracts, 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 10-Q filed August 13, 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.

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RESULTS OF OPERATIONS

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

Revenues ((\$s in millions))	Three months ended June 30,			Six months
	2001	2000	Increase (Decrease)	2001
Sales	\$ 42.4	\$ 35.3	20%	\$ 79.7
Service	10.6	9.3	14%	20.8
Total revenues	\$ 53.0	\$ 44.6	19%	\$100.5

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Segment Revenues ((\$s in millions))	Three months ended June 30,			Six months
	2001	2000	Increase (Decrease)	2001
Electric	\$ 15.8	\$ 6.4	147%	\$ 28.5
Natural Gas	7.1	10.0	(29%)	14.4
Water & Public Power	12.0	13.2	(9%)	18.9
Energy Information Systems	4.0	5.8	(31%)	9.0
International	6.5	2.7	141%	14.8
Client Services	7.6	6.5	17%	14.9
Total revenues	\$ 53.0	\$ 44.6	19%	\$100.5

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 51% of Electric revenues during the second quarter of 2001 and 15% of total revenues for the second quarter. We have a multi-year contract with this utility, with shipments currently scheduled to run through next year, and expect revenue growth in this segment overall for 2001.

Natural Gas Systems revenue declined in the second quarter of 2001 primarily due to the completion of large contracts in 2000. We expect that revenues in this segment will be lower in 2001 than we experienced last year.

Water and Public Power revenues were lower in the second quarter of 2001 compared to last year due to a large project completed near the end of 2000. Revenues for this segment increased \$5.1 million, or 74%, from the first quarter of this year due to larger shipments to meter manufacturers and several utilities. We expect revenue growth in this segment in 2001.

Revenues in our Energy Information Systems segment decreased by 31% from the second 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 relatively flat compared with 2000.

International revenues increased 141% compared to the second quarter of 2000, due to significant handheld sales to customers in Japan and Australia, as well as increased meter module sales in France. Revenues were lower than those in the first quarter of 2001, as handheld shipments to the customers in Japan were completed. Revenues in this segment are expected to be lower in the second half of 2001, compared with the first half, but higher for the full year 2001 compared with 2000.

Services segment revenues increased 17% in the second quarter of 2001 compared with the second quarter of 2000, from increased revenues from hardware and software maintenance contracts, as well as higher time and material maintenance.

We do not place any particular significance on quarter-to-quarter variations reported in revenue by segment, except as noted. We expect total company revenues in 2001 to be approximately 15% higher than in 2000.

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Gross Margin	Three months ended June 30,			Six months ended
(as a % of corresponding revenue)	2001	2000	Increase (Decrease)	2001
	----	----	-----	-----
Electric	44%	51%	(7%)	46%
Natural Gas	57%	60%	(3%)	56%
Water & Public Power	48%	48%	-	48%
Energy Information Systems	43%	51%	(8%)	48%
International	45%	45%	-	37%
Client Services	34%	17%	17%	26%
Corporate / (1) /	(2%)	(8%)	6%	(2%)
	-----	-----	-----	-----
Total gross margin	44%	39%	5%	42%
	=====	=====	=====	=====

(1) Percent of total company revenue.

Total gross margin was 44% for the second quarter, up from 39% 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 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 7% and the Natural Gas segment decreased 3% due to a change in the mix of customers and products from the first and second quarters of 2000 to 2001. Gross margins can vary from period-to-period depending on the component mix and committed volumes.

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 margin in the second quarter of 2000 was positively impacted by a higher percentage of license revenues compared to the second quarter of 2001.

The gross margin in the International segment in the second quarter of 2001 was comparable to the second quarter of 2000. Year to date, the lower gross margin is the result of the large sale of handheld equipment to customers in Japan at lower margins. The majority of these sales were in the first quarter of 2001.

In the Client Services segment, gross margin increased by 17% in the second quarter of 2001 compared with the second quarter of 2000. Year to date, the gross margin improved 18%. 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 seeing lower pricing on our field service depot costs related to the spin-off of our manufacturing and field service depot services in 2000.

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

Operating Expenses	Three months ended June 30,	Six months ended
--------------------	-----------------------------	------------------

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(\$s in millions)	-----			-----	
	2001	2000	Increase (Decrease)	2001	2000
	----	----	-----	----	----
Sales and marketing	\$ 6.5	\$ 5.1	27%	\$ 12.1	\$ 10.2
Product development	7.6	5.3	43%	13.4	11.5
General and administrative	3.6	4.1	(12%)	6.9	8.7
Amortization of intangibles	0.4	0.5	(20%)	0.7	0.9
Restructurings	(0.8)	-	-	(0.8)	(0.2)
	-----	-----		-----	-----
Total operating expenses	\$ 17.3	\$ 15.0	15%	\$ 32.3	\$ 31.1
	=====	=====		=====	=====

Sales and marketing expenses were 12.2% and 12.0% of revenues for the three and six months ended June 30, 2001, respectively, compared to 11.5% and 11.2% for the three and six months ended June 30, 2000, respectively. The increase year to year was due to investments in marketing programs and systems, primarily a new eCRM (internet-based Customer Relationship Management) system, increased International spending in sales, additional resources related to strategy and business development activities, and increased commissions due to higher revenue.

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Product development expenses were 14.4% and 13.3% of revenues for the three and six months ended June 30, 2001, respectively, compared to 11.9% and 12.5% for the three and six months ended June 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 believe product development should be between 11% and 13% of revenues, but we expect to exceed this range for the remainder of 2001.

General and administrative costs were 6.8% and 6.8% of revenues for the three and six months ended June 30, 2001, respectively, compared to 9.3% and 9.5% for the three and six months ended June 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 a change in the allocations for distributing support-related expenses to internal departments.

For the three months and six months ended June 30, 2001 an adjustment was made that reduced the restructuring reserve balance due to a second quarter \$1.0 million reversal of expected losses for consolidation of facilities based on the sublease of the space and an adjustment was made that increased the restructuring reserve balance due to an accrual of \$0.2 million in additional severance charges.

Other Income (Expense)	Three months ended June 30			Six month

(\$s in millions)	2001	2000	Increase (Decrease)	2001
	----	----	-----	----
Equity in affiliates	\$ (0.1)	\$ 0.3	(133%)	\$ (0.1)
Interest and other, net	(0.7)	(1.0)	30%	(2.0)

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Total other income (expense)	----- \$ (0.8) =====	----- \$ (0.7) =====	(14%)	----- \$ (2.1) =====
------------------------------	----------------------------	----------------------------	-------	----------------------------

In 2001, we had a minor expense during the second quarter related to our share of expenses in two joint ventures, one of which is a technology development company, and the other of which is providing metering services. In 2000, there was a minor amount of 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.

Net interest and other decreased slightly in 2001, for both the quarter and 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 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 to the condensed consolidated financial statements.

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FINANCIAL CONDITION

Cash Flow Information	Three months ended June 30,			Six months ended	
	2001	2000	Increase (Decrease)	2001	2000
(\$s in millions)	-----	-----	-----	-----	-----
Operating activities	\$ 9.7	\$ 1.5	547%	\$ 18.9	\$ 2.1

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Investing activities	(7.3)	(3.2)	(128%)	(23.1)	
Financing activities	.6	(3.6)	117%	.8	
	-----	-----		-----	-----
Increase (decrease) in cash	\$ 3.0	\$ (5.3)	157%	\$ (3.4)	\$
	=====	=====		=====	=====

Operating activities:

Cash flow from operating activities year-to-date was significantly higher in 2001 compared to 2000. Operating cash flow in the first half of 2000 included approximately \$7.3 million of cash used for restructuring related payments. Without those payments, normalized cash flow in the first half of 2000, would have been \$16.6 million. Increased earnings is the primary factor driving the improved cash flow from operations in 2001. Operating cash flow for 2001 is expected to be at least \$30 million.

Investing activities:

The primary investing activity in the second quarter of 2001 was the purchase of \$5.3 million of investments with maturities not more than 13 months. Year to date, \$13.6 million of short-term investments have been purchased in order to achieve higher interest yields. In the first quarter of 2001, we made investments of \$500,000 each in two private companies. One company is a provider of meter reading services to energy service providers and end-user customers, and the other is in the early stages of developing in-home energy gateway communication technology. In the first quarter of 2001, we reclassified \$5.1 million into restricted cash for a collateralized letter of credit that has been outstanding since March 2000.

In the second quarter of 2000, our investments primarily consisted of equipment used in our outsourcing business and 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.

Financing activities:

Financing activities 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 or second quarter of 2001.

At June 30, 2001, we had \$31.4 million in cash, cash equivalents, and short-term investments. 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 \$53.5 million of convertible subordinated debentures that mature in March 2004, \$15.0 million of which has a conversion price of \$9.65 and are callable in April 2002 without premium. The remaining \$38.5 million of notes has a conversion price of \$23.70 and has been callable with declining premiums since March 2000. The company anticipates that it 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 Form 10-Q filed on August 13, 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.

We expect revenues for the full year 2001 will be approximately 15% higher than in 2000. We expect increased product development spending in the second half of

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2001 compared to the first half of 2001, but look for operating margins to improve as a percentage of revenue in the second half of 2001 compared with the first half. We expect diluted earnings per share for the full year 2001 to be between \$0.55 and \$0.60.

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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 15% 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 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 June 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 second 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 will 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 expected to go to trial later this year. 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. 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, we believe that 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 4: Submission of Matters to a Vote of Security Holders

The Company held its annual meeting of shareholders on May 16, 2001. Three directors were elected for a term of three years, Thomas S. Glanville, Michael J. Chesser, and LeRoy D. Nosbaum. Michael B. Bracy, Mary Ann Peters, Graham M. Wilson, Ted C. DeMerritt, Jon E. Eliassen, and S. Edward White continued their terms as directors. Paul A. Redmond retired from the board and was replaced by Thomas S. Glanville. The vote for the nominated directors was as follows:

NOMINEE	IN FAVOR	WITHHELD
-----	-----	-----
Thomas S. Glanville	13,681,602	31,103

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Michael J. Chesser	13,661,784	50,921
LeRoy D. Nosbaum	12,214,751	1,497,954

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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