BECTON DICKINSON & CO
Form 10-Q
February 05, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2015
OR
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-4802

Becton, Dickinson and Company
(Exact name of registrant as specified in its charter)

New Jersey	22-0760120
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 Becton Drive, Franklin Lakes, New Jersey 07417-1880
(Address of principal executive offices)
(Zip Code)
(201) 847-6800
(Registrant’s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class of Common Stock	Shares Outstanding as of December 31, 2015
Common stock, par value $1.00	211,816,526

BECTON, DICKINSON AND COMPANY
FORM 10-Q
For the quarterly period ended December 31, 2015
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ITEM 1. FINANCIAL STATEMENTS
BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
Millions of dollars

	December 31, 2015 (Unaudited)	September 30, 2015
Assets		
Current Assets:		
Cash and equivalents	$1,583	$1,424
Short-term investments	10	20
Trade receivables, net	1,513	1,618
Current portion of net investment in sales-type leases	36	75
Inventories:		
Materials	367	384
Work in process	291	280
Finished products	1,326	1,295
	1,985	1,959
Prepaid expenses and other	514	563
Total Current Assets	5,641	5,659
Property, Plant and Equipment	8,241	8,277
Less allowances for depreciation and amortization	4,284	4,217
Property, Plant and Equipment, Net	3,957	4,060
Goodwill	7,372	7,537
Customer Relationships, Net	3,194	3,250
Developed Technology, Net	2,906	2,977
Other Intangibles, Net	767	797
Capitalized Software, Net	350	362
Net Investment in Sales-Type Leases, Less Current Portion	1,132	1,118
Other Assets	727	717
Total Assets	$26,046	$26,478
Liabilities and Shareholders’ Equity		
Current Liabilities:		
Short-term debt	$1,951	$1,452
Payables and accrued expenses	2,578	2,930
Total Current Liabilities	4,529	4,381
Long-Term Debt	10,858	11,370
Long-Term Employee Benefit Obligations	1,150	1,133
Deferred Income Taxes and Other	2,286	2,430
Commitments and Contingencies		
Shareholders’ Equity		
Common stock	333	333
Capital in excess of par value	4,557	4,475
Retained earnings	12,402	12,314
Deferred compensation	22	20
Common stock in treasury - at cost	(8,251)	(8,239)
Accumulated other comprehensive loss	(1,840)	(1,738)
Total Shareholders’ Equity	7,223	7,164

Total Liabilities and Shareholders’ Equity	$26,046	$26,478

Amounts may not add due to rounding.

See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Millions of dollars, except per share data
(Unaudited)

	Three Months Ended December 31,	
	2015	2014
Revenues	$2,986	$2,051
Cost of products sold	1,578	1,006
Selling and administrative expense	748	544
Research and development expense	187	129
Acquisition-related costs	121	23
Total Operating Costs and Expenses	2,635	1,702
Operating Income	352	349
Interest expense	(97)	(76)
Interest income	6	10
Other income, net	6	2
Income Before Income Taxes	266	285
Income tax provision	37	50
Net Income	229	236
Basic Earnings per Share	$1.08	$1.22
Diluted Earnings per Share	$1.06	$1.20
Dividends per Common Share	$0.66	$0.60

Amounts may not add due to rounding.
See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Millions of dollars
(Unaudited)

	Three Months Ended December 31,	
	2015	2014
Net Income	$229	$236
Other Comprehensive Income (Loss), Net of Tax		
Foreign currency translation adjustments	(116)	(141)
Defined benefit pension and postretirement plans	12	11
Net unrealized gains (losses) on cash flow hedges, net of reclassifications	3	(7)
Other Comprehensive Loss, Net of Tax	(101)	(137)
Comprehensive Income	$127	$98

Amounts may not add due to rounding.
See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Millions of dollars
(Unaudited)

	Three Months Ended December 31,	
	2015	2014
Operating Activities		
Net income	$229	$236
Adjustments to net income to derive net cash provided by operating activities, net of amounts acquired:		
Depreciation and amortization	289	139
Share-based compensation	76	48
Deferred income taxes	(29)	(2)
Change in operating assets and liabilities	(237)	(109)
Pension obligation	21	(20)
Other, net	114	(6)
Net Cash Provided by Operating Activities	463	286
Investing Activities		
Capital expenditures	(134)	(105)
Capitalized software	(7)	(9)
Proceeds from investments, net	14	618
Acquisitions of businesses, net of cash acquired	—	(106)
Other, net	(18)	(30)
Net Cash (Used for) Provided by Investing Activities	(145)	368
Financing Activities		
Change in short-term debt	—	(1)
Proceeds from long-term debt	—	6,164
Excess tax benefits from payments under share-based compensation plans	44	31
Dividends paid	(140)	(116)
Issuance of common stock and other, net	(49)	(45)
Net Cash (Used for) Provided by Financing Activities	(145)	6,033
Effect of exchange rate changes on cash and equivalents	(14)	(8)
Net increase in cash and equivalents	158	6,679
Opening Cash and Equivalents	1,424	1,861
Closing Cash and Equivalents	$1,583	$8,540

Amounts may not add due to rounding.
See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

Note 1 – Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of the management of the Company, include all adjustments which are of a normal recurring nature, necessary for a fair presentation of the financial position and the results of operations and cash flows for the periods presented. However, the financial statements do not include all information and accompanying notes required for a presentation in accordance with U.S. generally accepted accounting principles. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's 2015 Annual Report on Form 10-K. Within the financial statements and tables presented, certain columns and rows may not add due to the use of rounded numbers for disclosure purposes. Percentages and earnings per share amounts presented are calculated from the underlying amounts. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

Note 2 – Accounting Changes

New Accounting Principle Adopted

In November 2015, the Financial Accounting Standards Board issued amended guidance that requires entities to present deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. Early adoption is permitted under the amendments. The Company has retrospectively adopted the guidance effective October 1, 2015 and as such, the condensed consolidated balance sheet as of September 30, 2015 reflects the reclassification of current deferred tax assets of $387 million as noncurrent amounts, in accordance with jurisdictional netting requirements.

Note 3 – Accumulated Other Comprehensive Income (Loss)

The components and changes of Accumulated other comprehensive income (loss) for the three-month period ended December 31, 2015 were as follows:

(Millions of dollars)	Total	Foreign Currency Translation Adjustments	Benefit Plans Adjustments	Unrealized Losses on Cash Flow Hedges
Balance at September 30, 2015	$(1,738)	$ (961)	$(741)	$ (36)
Other comprehensive income before reclassifications, net of taxes	(116)	(116) (A)	—	— (B)
Amounts reclassified into income, net of taxes	15	—	12 (C)	3 (D)
Balance at December 31, 2015	$(1,840)	$ (1,077)	$(729)	$ (33)

(A) The loss for the three months ended December 31, 2015 was primarily attributable to the weakening of the Euro against the U.S. dollar during the period.

(B) The unrealized loss and associated income tax benefit related to cash flow hedges were immaterial for the three months ended December 31, 2015. The income tax benefit associated with an after-tax loss of $8 million recognized in accumulated other comprehensive income for the three months ended December 31, 2014 was $5 million. Additional disclosures are provided in Note 12.

(C) The net reclassification from accumulated other comprehensive income for the three months ended December 31, 2014 was $11 million. These reclassifications were not recorded into income in their entirety and were included in the computation of net periodic benefit plan costs. Additional details are provided in Note 8. The income tax benefits associated with these reclassifications were $6 million for the three-month periods ended December 31, 2015 and 2014.

(D)

The net reclassification from accumulated other comprehensive income for the three months ended December 31, 2014 was $1 million. The income tax benefits associated with these reclassifications were immaterial.

Note 4 – Earnings per Share

The weighted average common shares used in the computations of basic and diluted earnings per share (shares in thousands) were as follows:

	Three Months Ended December 31,	
	2015	2014
Average common shares outstanding	211,689	192,844
Dilutive share equivalents from share-based plans	4,605	4,156
Average common and common equivalent shares outstanding – assuming dilution	216,294	197,000

Note 5 – Contingencies

Given the uncertain nature of litigation generally, the Company is not able in all cases to estimate the amount or range of loss that could result from an unfavorable outcome of the litigation to which the Company is a party. In accordance with U.S. generally accepted accounting principles, the Company establishes accruals to the extent probable future losses are estimable (in the case of environmental matters, without considering possible third-party recoveries). In view of the uncertainties discussed below, the Company could incur charges in excess of any currently established accruals and, to the extent available, liability insurance. In the opinion of management, any such future charges, individually or in the aggregate, could have a material adverse effect on the Company's consolidated results of operations and consolidated cash flows.

In June 2007, Retractable Technologies, Inc. ("RTI") filed a complaint against the Company under the caption Retractable Technologies, Inc. vs. Becton Dickinson and Company (Civil Action No. 2:07-cv-250, U.S. District Court, Eastern District of Texas) alleging that the BD Integra™ syringes infringe patents licensed exclusively to RTI. In its complaint, RTI also alleged that the Company engaged in false advertising with respect to certain of the Company's safety-engineered products in violation of the Lanham Act; acted to exclude RTI from various product markets and to maintain its market share through, among other things, exclusionary contracts in violation of state and federal antitrust laws; and engaged in unfair competition. In January 2008, the court severed the patent and non-patent claims into separate cases, and stayed the non-patent claims during the pendency of the patent claims at the trial court level. On April 1, 2008, RTI filed a complaint against BD under the caption Retractable Technologies, Inc. and Thomas J. Shaw v. Becton Dickinson and Company (Civil Action No.2:08-cv-141, U.S. District Court, Eastern District of Texas) alleging that the BD Integra™ syringes infringe another patent licensed exclusively to RTI. On August 29, 2008, the court ordered the consolidation of the patent cases. As further set forth in the Company's 2015 Annual Report on Form 10-K, RTI was subsequently awarded $5 million in damages at a jury trial with respect to the patent claims, which has been paid, and the patent cases are now concluded.

On September 19, 2013, a jury returned a verdict against BD with respect to RTI's Lanham Act claim and claim for attempted monopolization based on deception in the safety syringe market. The jury awarded RTI $113.5 million for its attempted monopolization claim (which will be trebled under the antitrust statute). The jury's verdict rejected RTI's monopolization claims in the markets for safety syringes, conventional syringes and safety IV catheters; its attempted monopolization claims in the markets for conventional syringes and safety IV catheters; and its claims for contractual restraint of trade and exclusive dealing in the markets for safety syringes, conventional syringes and safety IV catheters. In connection with the verdict, the Company recorded a pre-tax charge of approximately $341 million in the fourth quarter of fiscal year 2013. With respect to RTI's requested injunction relief, in November 2014, the Court granted RTI's request that BD be ordered to issue certain corrective statements regarding its advertising and enjoined from making certain advertising claims. The Court denied RTI's request for injunctive relief relating to BD's contracting practices and BD's safety syringe advertising, finding that RTI failed to prove that BD's contracting practices violated the antitrust laws or that BD's safety syringe advertising is false. On January 14, 2015, the Court granted in part and denied in part BD's motion for a stay of the injunction. The Court held that, pending appeal, BD would not be required to send the corrective advertising notices to end-user customers, but only to employees, distributors and Group Purchasing Organizations. On January 15, 2015, the Court entered its Final Judgment in the case ordering that RTI recovers $341 million for its attempted monopolization claim and $12 million for attorneys'

fees, and awarded pre and post-judgment interest and costs. On February 3, 2015, the Court of Appeals for the Fifth Circuit denied BD's motion for a stay of the injunction pending the final appeal, and BD thereafter complied with the Court's order. On April 23, 2015, the Court granted BD's motion to eliminate the award of pre-judgment interest, and entered a new Final Judgment. BD has filed its appeal to the Court of Appeals challenging the entirety of the Final Judgment.

On July 17, 2015, a class action complaint was filed against the Company in the U.S. District Court for the Southern District of Georgia. The plaintiffs, Glynn-Brunswick Hospital Authority, trading as Southeast Georgia Health System, and Southeast Georgia Health System, Inc., seek to represent a class of acute care purchasers of BD syringes and IV catheters. The complaint

alleges that BD monopolized the markets for syringes and IV catheters through contracts, theft of technology, false advertising, acquisitions, and other conduct. The complaint seeks treble damages but does not specify the amount of alleged damages. The Company filed a motion to dismiss the complaint which was granted on January 29, 2016.
The Company believes that it has meritorious defenses to each of the above-mentioned suits pending against the Company and is engaged in a vigorous defense of each of these matters.
The Company is also involved both as a plaintiff and a defendant in other legal proceedings and claims that arise in the ordinary course of business.
The Company is a party to a number of federal proceedings in the United States brought under the Comprehensive Environment Response, Compensation and Liability Act, also known as "Superfund," and similar state laws. The affected sites are in varying stages of development. In some instances, the remedy has been completed, while in others, environmental studies are commencing. For all sites, there are other potentially responsible parties that may be jointly or severally liable to pay all cleanup costs.
Note 6 – Segment Data
The Company's organizational structure is based upon two principal business segments: BD Medical ("Medical") and BD Life Sciences ("Life Sciences"). These segments are strategic businesses that are managed separately because each one develops, manufactures and markets distinct products and services. The Company evaluates performance of its business segments and allocates resources to them primarily based upon operating income. Segment operating income represents revenues reduced by product costs and operating expenses.
Financial information for the Company's segments was as follows:

	Three Months Ended December 31,			
(Millions of dollars)	2015		2014	
Revenues (A)				
Medical	$2,054		$1,072	
Life Sciences	933		979	
Total Revenues	$2,986		$2,051	
Segment Operating Income				
Medical	$465	(B)	$304	
Life Sciences	202		214	
Total Segment Operating Income	667		517	
Unallocated Items (C)	(401	)	(232	)
Income Before Income Taxes	$266		$285	

(A) Intersegment revenues are not material.
(B) Includes an increase of $136 million in non-cash amortization expense relating to the identifiable intangible assets acquired in the CareFusion transaction as well as depreciation expense relating to the fixed assets acquired in the CareFusion transaction.
(C) Includes primarily interest, net; foreign exchange; corporate expenses; and share-based compensation expense. Also includes acquisition-related costs associated with the CareFusion transaction.

Revenues by geographic areas were as follows:

	Three Months Ended December 31,	
(Millions of dollars)	2015	2014
Revenues		
United States	$1,691	$881
International	1,295	1,170
Total Revenues	$2,986	$2,051

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Note 7 – Share-Based Compensation

The Company grants share-based awards under the 2004 Employee and Director Equity-Based Compensation Plan (the “2004 Plan”), which provides long-term incentive compensation to employees and directors. The Company believes that such awards align the interests of its employees and directors with those of its shareholders.

The fair values of stock appreciation rights granted during the annual share-based grants in November of 2015 and 2014, respectively, were estimated on the date of grant using a lattice-based binomial valuation model based on the following assumptions:

	2016	2015
Risk-free interest rate	2.17 %	2.20 %
Expected volatility	19.00 %	19.00 %
Expected dividend yield	1.76 %	1.78 %
Expected life	7.6 years	7.6 years
Fair value derived	$27.69	$24.82

The fair value of share-based payments is recognized as compensation expense in net income. For the three months ended December 31, 2015 and 2014, compensation expense charged to income was $76 million and $48 million, respectively.

The amount of unrecognized compensation expense for all non-vested share-based awards as of December 31, 2015 was approximately $303 million, which is expected to be recognized over a weighted-average remaining life of approximately 2.4 years. Certain pre-acquisition equity awards of CareFusion were converted into either BD restricted stock awards or BD stock options, as applicable, as of the acquisition date, with substantially the same terms and conditions as were applicable under such CareFusion awards immediately prior to the acquisition date. Included in the unrecognized compensation expense is $29 million associated with these replacement awards.

Note 8 – Benefit Plans

The Company has defined benefit pension plans covering certain employees in the United States and certain foreign locations. The Company also provides certain postretirement healthcare and life insurance benefits to qualifying domestic retirees. Other postretirement benefit plans in foreign countries are not material. The measurement date used for the Company’s employee benefit plans is September 30.

Net pension and postretirement cost included the following components for the three months ended December 31:

	Pension Plans		Other Postretirement Benefits	
(Millions of dollars)	2015	2014	2015	2014
Service cost	$21	$19	$1	$1
Interest cost	19	22	1	2
Expected return on plan assets	(29)	(31)	—	—
Amortization of prior service credit	(4)	(4)	(1)	(1)
Amortization of loss	20	17	—	1
Net pension and postretirement cost	$28	$23	$1	$2

The amounts provided above for amortization of prior service credit and amortization of loss represent the reclassifications of prior service credits and net actuarial losses that were recognized in Accumulated other comprehensive income (loss) in prior periods.

Postemployment benefit costs were $10 million for the three-month periods ended December 31, 2015 and 2014. During the three months ended December 31, 2015, the Company recognized charges of $3 million for employee termination costs in connection with its acquisition of CareFusion. Additional disclosures regarding the Company's restructuring activities are provided in Note 10.

Note 9 – Acquisition

CareFusion Corporation

On March 17, 2015, the Company acquired a 100% interest in CareFusion, a global medical technology company with a comprehensive portfolio of products in the areas of medication management, infection prevention, operating room and procedural effectiveness, and respiratory care. The acquisition was accounted for under the acquisition method of accounting for business combinations. The operating activities from the acquisition date through March 31, 2015 were not material to the Company's consolidated results of operations. As such, CareFusion's operating results were included in the Company's consolidated results of operations beginning on April 1, 2015. Revenues and Operating Income for the three months ended December 31, 2015 include revenues and operating income attributable to CareFusion of $1.016 billion and $137 million, respectively.

The following table provides the pro forma results for the three months ended December 31, 2015 and 2014 as if CareFusion had been acquired as of October 1, 2013.

(Millions of dollars, except per share data)	Three Months Ended December 31,	
	2015	2014
Revenues	$2,992	$2,973
Net Income	$311	$260
Diluted Earnings per Share	$1.44	$1.22

The pro forma results above reflect the following adjustments, which were adjusted for the applicable tax impact to derive the net income amounts above:

- Additional amortization expense related to the fair value of intangible assets acquired;
- Additional depreciation expense related to the fair value of property, plant and equipment acquired;
- Additional interest expense and financing costs associated with the Company's financing arrangements relating to this acquisition, as well as the adjustment to interest expense relating to the fair value of long-term debt assumed;
- Elimination of one-time financing fees, transaction, integration and restructuring costs incurred relative to this acquisition;
- Exclusion of the income statement effects of the fair value adjustments to inventory and deferred revenue obligations acquired as such adjustments are not recurring in nature.

The pro forma results do not include any anticipated cost savings or other effects of the planned integration of CareFusion. Accordingly, the pro forma results above are not necessarily indicative of the results that would have been if the acquisition had occurred on the dates indicated, nor are the pro forma results indicative of results which may occur in the future.

Note 10 – Business Restructuring Charges

In connection with the CareFusion acquisition and portfolio rationalization initiatives, the Company incurred restructuring costs during the three months ended December 31, 2015, which were recorded as Acquisition-related costs. Restructuring liability activity for the three months ended December 31, 2015 was as follows:

(Millions of dollars)	Employee Termination	Share-based Compensation (A)	Other (B)	Total
Balance at September 30, 2015	$62	$—	$—	$62
Charged to expense	11	15	59	85
Cash payments	(21)	—	(11)	(32)
Non-cash settlements	—	(15)	—	(15)
Other adjustments	—	—	(48)	(48)
Balance at December 31, 2015	52	—	—	52

(A) Additional disclosures are provided in Note 7.

(B) Primarily driven by a non-cash charge of $28 million, after-tax, relating to the Company's agreement reached in December 2015 to sell a non-core asset.

Note 11 – Intangible Assets

Intangible assets consisted of:

(Millions of dollars)	December 31, 2015 Gross Carrying Amount	December 31, 2015 Accumulated Amortization	September 30, 2015 Gross Carrying Amount	September 30, 2015 Accumulated Amortization
Amortized intangible assets				
Customer relationships	$3,370	$176	$3,370	120
Developed technology	3,478	572	3,487	510
Product rights	125	37	128	35
Trademarks	405	31	405	26
Patents and other	335	232	333	212
Amortized intangible assets	$7,713	$1,048	$7,723	$903
Unamortized intangible assets				
Acquired in-process research and development	$201		$203	
Trademarks	2		2	
Unamortized intangible assets	$203		$205	

Intangible amortization expense for the three months ended December 31, 2015 and 2014 was $152 million and $20 million, respectively. The increase in intangible amortization expense in the current-year period is mostly attributable to identifiable intangible assets acquired in the CareFusion transaction.

The following is a reconciliation of goodwill by business segment:

(Millions of dollars)	Medical	Life Sciences	Total
Goodwill as of September 30, 2015	$6,807	$730	$7,537
Acquisitions	—	—	—
Currency translation/other	(162) (A)	(3)	(165)
Goodwill as of December 31, 2015	$6,645	$727	$7,372

(A) Also includes an acquisition accounting adjustment relating to the CareFusion acquisition of $156 million. The amount primarily related to an adjustment of deferred tax liabilities which are recorded on the condensed consolidated balance sheet in Deferred Income Taxes and Other.

Note 12 – Derivative Instruments and Hedging Activities

The Company uses derivative instruments to mitigate certain exposures. The effects these derivative instruments and hedged items have on financial position, financial performance, and cash flows are provided below.

Foreign Currency Risks and Related Strategies

The Company has foreign currency exposures throughout Europe, Greater Asia, Canada and Latin America. Transactional currency exposures that arise from entering into transactions, generally on an intercompany basis, in non-hyperinflationary countries that are denominated in currencies other than the functional currency are mitigated primarily through the use of forward contracts and currency options. Hedges of the transactional foreign exchange exposures resulting primarily from intercompany payables and receivables are undesignated hedges. As such, the gains or losses on these instruments are recognized immediately in income. The offset of these gains or losses against the gains and losses on the underlying hedged items, as well as the hedging costs associated with the derivative instruments, is recognized in Other income (expense), net.

The total notional amounts of the Company's outstanding foreign exchange contracts as of December 31, 2015 and September 30, 2015 were $1.3 billion and $2.2 billion, respectively.

Interest Rate Risks and Related Strategies

The Company's primary interest rate exposure results from changes in U.S. dollar interest rates. The Company's policy is to manage interest cost using a mix of fixed and variable rate debt. The Company periodically uses interest rate swaps to manage such exposures. Under these interest rate swaps, the Company exchanges, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated as either fair value or cash flow hedges.

For interest rate swaps designated as fair value hedges (i.e., hedges against the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), changes in the fair value of the interest rate swaps offset changes in the fair value of the fixed rate debt due to changes in market interest rates. Changes in the fair value of the interest rate swaps designated as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk) are offset by amounts recorded in Other comprehensive income (loss). If interest rate derivatives designated as cash flow hedges are terminated, the balance in Accumulated other comprehensive income (loss) attributable to those derivatives is reclassified into earnings over the remaining life of the hedged debt. The net realized loss related to terminated interest rate swaps expected to be reclassified and recorded in Interest expense within the next 12 months is $6 million, net of tax. The Company had no outstanding interest rate swaps designated as cash flow hedges as of December 31, 2015 or as of September 30, 2015.

The total notional amount of the Company's outstanding interest rate swaps designated as fair value hedges was $375 million at December 31, 2015 and September 30, 2015. The outstanding swaps represent fixed-to-floating interest rate swap agreements the Company entered into to convert the interest payments on $375 million of the Company's 3.125% notes due 2021 from the fixed rate to a floating interest rate based on LIBOR. Changes in the fair value of the interest rate swaps offset changes in the fair value of the fixed rate debt. The gains recorded on these fair value hedges, and the offsetting losses recorded on the underlying debt instruments, were $13 million and $10 million for the three months ended December 31, 2015 and 2014, respectively.

Other Risk Exposures

The Company purchases resins, which are oil-based components used in the manufacture of certain products. Significant increases in world oil prices that lead to increases in resin purchase costs could impact future operating results. From time to time, the Company has managed price risks associated with these commodity purchases. The total notional amount of cash-settled forward contracts entered into in April 2015 to hedge global resin purchase volume throughout 2015 and 2016 was 37 million pounds ($19 million) and 49 million pounds ($25 million) at December 31, 2015 and September 30, 2015, respectively.

Effects on Consolidated Balance Sheets

The location and amounts of derivative instrument fair values in the consolidated balance sheet are segregated below between designated, qualifying hedging instruments and ones that are not designated for hedge accounting.

(Millions of dollars)	December 31, 2015	September 30, 2015
Asset derivatives-designated for hedge accounting		
Interest rate swaps	$13	$19
Asset derivatives-undesignated for hedge accounting		
Forward exchange contracts	7	13
Total asset derivatives (A)	$20	$32
Liability derivatives-designated for hedge accounting		
Commodity forward contracts	7	10
Liability derivatives-undesignated for hedge accounting		
Forward exchange contracts	4	21
Total liability derivatives (B)	$11	$30

(A) All asset derivatives are included in Prepaid expenses and other.
(B) All liability derivatives are included in Payables and accrued expenses.

Effects on Consolidated Statements of Income

Cash flow hedges

The after-tax loss recognized in Other comprehensive income (loss) relating to cash flow hedges for the three months ended December 31, 2015 was immaterial. After-tax losses of $8 million recognized in Other comprehensive income (loss) for the three months ended December 31, 2014 were attributable to interest rate swaps that were entered into during the first quarter of fiscal year 2015 to partially hedge interest rate risk associated with the anticipated issuance of senior unsecured notes in connection with the Company’s acquisition of CareFusion. Additional disclosures regarding amounts recognized in the condensed consolidated statements of income for the three months ended December 31, 2015 and 2014 relating to cash flow hedges are provided in Note 3.

The Company’s designated derivative instruments are highly effective. As such, there are no gains or losses, related to hedge ineffectiveness or amounts excluded from hedge effectiveness testing, recognized immediately in income relative to derivative contracts outstanding in the periods presented.

Undesignated hedges

The location and amount of gains and losses recognized in income on derivatives not designated for hedge accounting were as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months Ended December 31,	
(Millions of dollars)		2015	2014
Forward exchange contracts (A)	Other income (expense), net	$11	$(2)

(A) The gains and losses on forward contracts and currency options utilized to hedge the intercompany transactional foreign exchange exposures are largely offset by gains and losses on the underlying hedged items in Other income (expense), net.

Note 13 – Financial Instruments and Fair Value Measurements

The fair values of financial instruments, including those not recognized on the statement of financial position at fair value, carried at December 31, 2015 and September 30, 2015 are classified in accordance with the fair value hierarchy in the following tables:

(Millions of dollars)	December 31, 2015 Total	Basis of Fair Value Measurement		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Institutional money market investments	$392	$392	$ —	$—
Interest rate swaps	13	—	13	—
Forward exchange contracts	7	—	7	—
Total Assets	$411	$392	$ 20	$—
Liabilities				
Forward exchange contracts	$4	$—	$ 4	$—
Commodity forward contracts	7	—	7	—
Contingent consideration liabilities	78	—	—	78
Total Liabilities	$89	$—	$ 11	$78

(Millions of dollars)	September 30, 2015 Total	Basis of Fair Value Measurement		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Institutional money market investments	$147	$147	$ —	$—
Interest rate swaps	19	—	19	—
Forward exchange contracts	13	—	13	—
Total Assets	$179	$147	$ 32	$—
Liabilities				
Forward exchange contracts	$21	$—	$ 21	$—
Commodity forward contracts	10	—	10	—
Contingent consideration liabilities	$77	$—	$ —	$77
Total Liabilities	$108	$—	$ 30	$77

The Company’s institutional money market accounts permit daily redemption and the fair values of these investments are based upon the quoted prices in active markets provided by the holding financial institutions. The Company’s remaining cash equivalents were $1.191 billion and $1.277 billion at December 31, 2015 and September 30, 2015, respectively. Short-term investments are held to their maturities and are carried at cost, which approximates fair value. The cash equivalents consist of liquid investments with a maturity of three months or less and the short-term investments consist of instruments with maturities greater than three months and less than one year.

The Company measures the fair value of forward exchange contracts and interest rate swaps based upon the present value of expected future cash flows using market-based observable inputs including credit risk, interest rate yield curves, foreign currency spot prices and forward prices.

Long-term debt is recorded at amortized cost. The fair value of long-term debt is measured based upon quoted prices in active markets for similar instruments, which are considered Level 2 inputs in the fair value hierarchy. The fair value of long-term debt was $11.1 billion and $11.6 billion at December 31, 2015 and September 30, 2015, respectively. During the first quarter of fiscal year 2016, the Company reclassified $500 million of 1.75% notes due on November 8, 2016 from Long-Term Debt to Short-term debt. During the third quarter of fiscal year 2015, the Company reclassified $750 million of floating rates due on June 15, 2016 from Long-Term Debt to Short-term debt.

The fair value of these reclassified notes was $1.3 billion and $750 million at December 31, 2015 and September 30, 2015, respectively.

The contingent consideration liabilities were recognized as part of the consideration transferred by the Company for certain acquisitions. The fair values of the contingent consideration liabilities were estimated using probability-weighted discounted cash flow models that were based upon the probabilities assigned to the contingent events. The estimated fair values of the contingent consideration liabilities are remeasured at each reporting period based upon increases or decreases in the probability of the contingent payments. The change to the total contingent consideration liability for the three months ended December 31, 2015 was immaterial.

The Company's policy is to recognize any transfers into fair value measurement hierarchy levels and transfers out of levels at the beginning of each reporting period. There were no transfers in and out of Level 1, Level 2 or Level 3 measurements for the three months ended December 31, 2015 and 2014.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations
The following commentary should be read in conjunction with the condensed consolidated financial statements and accompanying notes. Within the tables presented throughout this discussion, certain columns may not add due to the use of rounded numbers for disclosure purposes. Percentages and earnings per share amounts presented are calculated from the underlying amounts.
Company Overview
Becton, Dickinson and Company (“BD”) is a global medical technology company engaged principally in the development, manufacture and sale of a broad range of medical supplies, devices, laboratory equipment and diagnostic products used by healthcare institutions, life science researchers, clinical laboratories, the pharmaceutical industry and the general public. The Company's organizational structure is based upon two principal business segments, BD Medical (“Medical”) and BD Life Sciences (“Life Sciences”).
BD’s products are manufactured and sold worldwide. Our products are marketed in the United States and internationally through independent distribution channels and directly to end-users by BD and independent sales representatives. We organize our operations outside the United States as follows: Europe, EMA (which includes the Commonwealth of Independent States, the Middle East and Africa); Greater Asia (which includes Japan and Asia Pacific); Latin America (which includes Mexico, Central America, the Caribbean, and South America) and Canada. We continue to pursue growth opportunities in emerging markets, which include the following geographic regions: Eastern Europe, the Middle East, Africa, Latin America and certain countries within Asia Pacific. We are particularly focused on certain countries whose healthcare systems are expanding, in particular: China, India and Turkey.
Acquisition of CareFusion
$
3,174

$
2,839

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

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets	Derivative Financial Instruments	Cash Collateral Received	Net Amount
	(in thousands)					
March 31, 2013	$185	$—	$185	$(156)	$—	$29
December 31, 2012	$146	$—	$146	$(135)	$—	$11

Offsetting of Derivative Liabilities

Gross Amounts Not Offset in the Consolidated Balance

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets	Sheets Derivative Financial Instruments	Cash Collateral Pledged	Net Amount
	(in thousands)					
March 31, 2013	$3,174	$—	$3,174	$(156)	$—	$3,018
December 31, 2012	$2,839	$—	$2,839	$(135)	$—	$2,704

Our derivative assets and liabilities consist of foreign exchange forward and interest rate swap contracts with eight counterparties at March 31, 2013 and December 31, 2012. None of our counterparties were individually significant at March 31, 2013 or December 31, 2012. Our derivative contracts with each of these counterparties exist under agreements that provide for the net settlement of all contracts through a single payment in a single currency in the event of default. We have no pledges of cash collateral against our obligations nor have we received pledges of cash collateral from our counterparties under the associated derivative contracts.

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OCI during the reporting periods for our derivative hedging instruments, net of tax, was as follows:

	2013	2012
	(in thousands)	
Net unrealized loss on hedging instruments at January 1,	$(16,069)	$(14,380)
Unrealized gain (loss) on derivative instruments	(73)	—
Net unrealized loss on hedging instruments at March 31,	$(16,142)	$(14,380)

Included in the net unrealized loss on hedging instruments at March 31, 2013 is a net derivative loss of $14.4 million, net of tax, related to our net investment hedge, which terminated in 2011. This net derivative loss will remain in accumulated OCI until such time when earnings are impacted by a sale or liquidation of the associated foreign operation.

Cash Flow Hedges

As a result of our floating rate debt, we are exposed to variability in our cash flows from changes in the applicable interest rate index. We enter into swaps to achieve a fixed rate of interest on the hedged portion of debt in order to increase our ability to forecast interest expense. The objective of these swaps is to reduce the variability of cash flows from increases in the LIBOR base borrowing rates on our floating rate credit facility. The swaps do not protect us from changes to the applicable margin under our credit facility.

In May 2012, we entered into six forward starting pay-fixed receive one-month LIBOR interest rate swaps. The interest rate swaps convert $200 million of our LIBOR based debt from a floating LIBOR interest rate to a fixed interest rate of 1.00% (excluding the applicable margin on the debt) and are effective July 31, 2013 to August 8, 2016. These cash flow hedges are expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk through the term of the hedge. Consequently, effective changes in the fair value of the interest rate swaps are recorded as a component of OCI and will be recognized in earnings when the hedged item affects earnings. The amounts paid or received on the hedges will be recognized as adjustments to interest expense. The amount of net losses expected to be reclassified into earnings in the next 12 months is $963,000. At March 31, 2013, our LIBOR based debt balance was $398.8 million.

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

The before-tax effect of our cash flow derivative instruments on the Consolidated Balance Sheets and the Consolidated Statements of Operations for the three months ended March 31 were as follows:

Derivatives in ASC 815-20 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)		
			Location	Amount		Location	Amount	
	2013	2012		2013	2012		2013	2012
	(in thousands)			(in thousands)			(in thousands)	
Three Months Ended March 31,								
Interest rate swap contracts	$ (92)	$ —	Interest expense	$ —	$ —	Interest expense	$—	$—

Derivatives Not Designated as Hedging Relationships

We are also exposed to foreign exchange risk when we enter into non-functional currency transactions, both intercompany and third-party. At each period-end, non-functional currency monetary assets and liabilities are revalued with the change recorded to other income and expense. We enter into monthly foreign exchange forward contracts (a total of 118 contracts were entered into during the three months ended March 31, 2013), which are not designated for hedge accounting, with the intent to reduce earnings volatility associated with certain of these non-functional currency assets and liabilities. The notional amounts of the contracts ranged from $258,000 to $11.0 million, offsetting our exposures to the euro, Saudi riyal, Canadian dollar, Australian dollar, South African rand, and various other currencies.

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The effect of our foreign exchange forward derivative instruments on the Consolidated Statements of Operations for the three months ended March 31 was as follows:

Derivatives Not Designated as Hedging Instrument under ASC 815-20	Gain (Loss) Recognized on Derivatives in Other Income (Expense)	
	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Foreign exchange forward contracts	$214	$(177)

Note 8: Defined Benefit Pension Plans

We sponsor both funded and unfunded defined benefit pension plans for our international employees, primarily in Germany, France, Italy, Indonesia, and Spain, offering death and disability, retirement, and special termination benefits. The defined benefit obligation is calculated annually by using the projected unit credit method. The measurement date for the pension plans was December 31, 2012.

Our defined benefit pension plans are denominated in the functional currencies of the respective countries in which the plans are sponsored; therefore, the balances increase or decrease, with a corresponding change in OCI, due to changes in foreign currency exchange rates. Amounts recognized on the Consolidated Balance Sheets consist of:

	March 31, 2013	December 31, 2012
	(in thousands)	
Assets		
Plan assets in other long-term assets	$223	$227
Liabilities		
Current portion of pension plan liability in wages and benefits payable	2,979	2,899
Long-term portion of pension plan liability	87,805	90,533
Net pension plan benefit liability	$90,561	$93,205

Our asset investment strategy focuses on maintaining a portfolio using primarily insurance funds, which are accounted for as investments and measured at fair value, in order to achieve our long-term investment objectives on a risk adjusted basis. Our general funding policy for these qualified pension plans is to contribute amounts sufficient to satisfy regulatory funding standards of the respective countries for each plan. We contributed $42,000 and $321,000 to the defined benefit pension plans for the three months ended March 31, 2013 and 2012, respectively. The timing of when contributions are made can vary by plan and from year to year. For 2013, assuming that actual plan asset returns are consistent with our expected rate of return, and that interest rates remain constant, we expect to contribute approximately $564,000 to our defined benefit pension plans. We contributed $440,000 to the defined benefit pension plans for the year ended December 31, 2012.

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

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Service cost	$981	$738
Interest cost	800	926
Expected return on plan assets	(79)	(85)
Settlements and other	(814)	—
Amortization of actuarial net loss	251	2
Amortization of unrecognized prior service costs	17	17

Net periodic benefit cost	$1,156	$1,598

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Note 9: Stock-Based Compensation

We record stock-based compensation expense for awards of stock options, stock sold pursuant to our ESPP, and the issuance of restricted stock units and unrestricted stock awards. We expense stock-based compensation primarily using the straight-line method over the requisite service period. Capitalized stock-based compensation amounts were not material for the three months ended March 31, 2013 and 2012. For the three months ended March 31, stock-based compensation expense and the related tax benefit were as follows:

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Stock options	$473	$272
Restricted stock units	4,235	3,516
Unrestricted stock awards	197	205
ESPP	191	205
Total stock-based compensation	$5,096	$4,198
Related tax benefit	$1,364	$1,189

We issue new shares of common stock upon the exercise of stock options or when vesting conditions on restricted stock units are fully satisfied.

Subject to stock splits, dividends, and other similar events, 3,500,000 shares of common stock are reserved and authorized for issuance under our 2010 Stock Incentive Plan (Stock Incentive Plan). Awards consist of stock options, restricted stock units, and unrestricted stock awards. At March 31, 2013, 509,259 shares were available for grant under the Stock Incentive Plan. The Stock Incentive Plan shares are subject to a fungible share provision such that, with respect to grants made after December 31, 2009, the authorized share reserve is reduced by (i) one share for every one share subject to a stock option or share appreciation right granted under the Plan and (ii) 1.7 shares for every one share of common stock that was subject to an award other than an option or stock appreciation right.

Stock Options

Options to purchase our common stock are granted to employees and members of the Board of Directors with an exercise price equal to the market close price of the stock on the date the Board of Directors approves the grant. Options generally become exercisable in three equal annual installments beginning one year from the date of grant and generally expire 10 years from the date of grant. Compensation expense is recognized only for those options expected to vest, with forfeitures estimated based on our historical experience and future expectations.

The fair values of stock options granted were estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended March 31,			
	2013		2012	
Dividend yield	—		—	
Expected volatility	38.1	%	42.7	%
Risk-free interest rate	1.0	%	0.9	%
Expected term (years)	5.45		5.14	

Expected volatility is based on a combination of the historical volatility of our common stock and the implied volatility of our traded options for the related expected term. We believe this combined approach is reflective of current and historical market conditions and is an appropriate indicator of expected volatility. The risk-free interest rate is the rate available as of the award date on zero-coupon U.S. government issues with a term equal to the expected life of the award. The expected life is the weighted average expected life of an award based on the period of time between the date the award is granted and the estimated date the award will be fully exercised. Factors considered in estimating the expected life include historical experience of similar awards,

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contractual terms, vesting schedules, and expectations of future employee behavior. We have not paid dividends in the past and do not plan to pay dividends in the foreseeable future.

A summary of our stock option activity for the three months ended March 31 is as follows:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value [1]	Weighted Average Grant Date Fair Value
	(in thousands)		(years)	(in thousands)	
Outstanding, January 1, 2012	1,109	$ 55.97	4.51	$ 2,323	
Granted	54	48.23			$ 18.64
Exercised	(13)	21.60		$ 280	
Expired	(1)	48.51			
Outstanding, March 31, 2012	1,149	$ 56.00	4.42	$ 4,638	
Outstanding, January 1, 2013	1,137	$ 54.06	4.81	$ 3,815	
Granted	129	42.76			$ 15.44
Exercised	(11)	28.92		$ 171	
Expired	(3)	48.51			
Outstanding, March 31, 2013	1,252	$ 53.14	5.14	$ 4,805	
Exercisable, March 31, 2013	928	$ 56.63	3.59	$ 3,557	
Expected to vest, March 31, 2013	301	$ 43.17	9.57	$ 1,157	

(1) The aggregate intrinsic value of outstanding stock options represents amounts that would have been received by the optionees had all in- the-money options been exercised on that date. Specifically, it is the amount by which the market value of Itron’s stock exceeded the exercise price of the outstanding in-the-money options before applicable income taxes, based on our closing stock price on the last business day of the period. The aggregate intrinsic value of stock options exercised during the period is calculated based on our stock price at the date of exercise.

As of March 31, 2013, total unrecognized stock-based compensation expense related to nonvested stock options was approximately $4.7 million, which is expected to be recognized over a weighted average period of approximately 2.6 years.

Restricted Stock Units

Certain employees, senior management, and members of the Board of Directors receive restricted stock units as a component of their total compensation. The fair value of a restricted stock unit is the market close price of our common stock on the date of grant. Restricted stock units generally vest over a three year period. Compensation expense, net of forfeitures, is recognized over the requisite service period.

Subsequent to vesting, the restricted stock units are converted into shares of our common stock on a one-for-one basis and issued to employees. We are entitled to an income tax deduction in an amount equal to the taxable income reported by the employees upon vesting of the restricted stock units.

Prior to 2013, the performance-based restricted stock units issued under the Long-Term Performance Restricted Stock Unit Award Agreement (Performance Award Agreement) were determined based on the attainment of certain performance goals after the end of the one-year performance period. During the year, if management determined that

it was probable that the targets would be achieved, compensation expense, net of forfeitures, was recognized on a straight-line basis over the annual performance and subsequent vesting period for each separately vesting portion of the award. Performance awards typically vested and were released in three equal installments at the end of each year following attainment of the performance goals. For U.S. participants who retire during the vesting period, unvested restricted stock units immediately vest at the date of retirement for U.S. participants who retire during that period. For the 2012 performance awards, no awards became eligible for vesting as minimum performance thresholds for the 2012 performance year were not met.

For 2013, the performance-based restricted stock units to be issued under the Performance Award Agreement are determined based on (1) our achievement of specified non-GAAP EPS targets, as established at the beginning of each year for each of the calendar years contained in the performance periods (2-year and 3-year awards) (the performance condition) and (2) our total shareholder return (TSR) relative to the TSR attained by companies that are included in the Russell 3000 Index during the performance period

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(the market condition). Compensation expense, net of forfeitures, is recognized on a straight-line basis, and the units vest upon achievement of the performance condition, provided participants are employed by Itron at the end of the respective performance periods. For U.S. participants who retire during the performance period, a pro-rated number of restricted stock units (based on the number of days of employment during the performance period) immediately vest based on the attainment of the performance goals as assessed after the end of the performance period.
Depending on the level of achievement of the performance condition, the actual number of shares to be earned ranges between 0% and 160% of the awards originally granted. At the end of the 2-year and 3-year performance periods, if the performance conditions are achieved at or above threshold, the number of shares earned is further adjusted by a TSR multiplier payout percentage, which ranges between 75% and 125%, based on the market condition. Therefore, based on the attainment of the performance and market conditions, the actual number of shares that vest may range from 0% to 200% of the awards originally granted. Due to the presence of the TSR multiplier market condition, we utilize a Monte Carlo valuation model to determine the fair value of the awards at the grant date. This pricing model uses multiple simulations to evaluate the probability of our achievement of various stock price levels to determine our expected TSR performance ranking. The weighted-average assumptions used to estimate the fair value of performance-based restricted stock units awarded and the resulting weighted average fair-value are as follows:

	Three Months Ended March 31, 2013	
Dividend yield [1]	—	%
Expected volatility	39.1	%
Risk-free interest rate	0.3	%
Expected term (years)	2.53	
Weighted-average fair value	$44.93	

[1] The valuation model assumes that dividends are reinvested by the issuing entity on a continuous basis.

Expected volatility is based on the historical volatility of our common stock for the related expected term. We believe this approach is reflective of current and historical market conditions and is an appropriate indicator of expected volatility. The risk-free interest rate is the rate available as of the award date on zero-coupon U.S. government issues with a term equal to the expected term of the award. The expected term is the term of an award based on the period of time between the date of the award and the date the award is expected to vest. The expected term assumption is based upon the plan's performance period as of the date of the award. We have not paid dividends in the past and do not plan to pay dividends in the foreseeable future.

The following table summarizes restricted stock unit activity for the three months ended March 31:

	Number of Restricted Stock Units		Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value[1]
	(in thousands)			(in thousands)
Outstanding, January 1, 2012	625			
Granted[2]	374		$48.23	
Released	(168	)		$10,976
Forfeited	(14	)		
Outstanding, March 31, 2012	817			
Outstanding, January 1, 2013	774			

Granted[2]	237	$42.13	
Released	(224)		$12,084
Forfeited	(7)		
Outstanding, March 31, 2013	780		
Vested but not released, March 31, 2013	29		$1,361
Expected to vest, March 31, 2013	677		$31,431

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(1) The aggregate intrinsic value is the market value of the stock, before applicable income taxes, based on the closing price on the stock release dates or at the end of the period for restricted stock units expected to vest.

(2) Restricted stock units granted in 2012 and 2013 do not include awards under the Performance Award Agreement for the respective years, as these awards are not granted until attainment of annual performance goals has been determined at the conclusion of the performance period, which had not occurred as of March 31, 2012 and 2013, respectively.

At March 31, 2013, unrecognized compensation expense on restricted stock units was $30.3 million, which is expected to be recognized over a weighted average period of approximately 2.1 years.

Unrestricted Stock Awards

We grant unrestricted stock awards to members of our Board of Directors as part of their compensation. Awards are fully vested and expensed when granted. The fair value of unrestricted stock awards is the market close price of our common stock on the date of grant.

The following table summarizes unrestricted stock award activity for the three months ended March 31:

	Three Months Ended March 31,	
	2013	2012
Shares of unrestricted stock granted	4,329	5,453
Weighted average grant date fair value per share	$45.43	$37.55

Employee Stock Purchase Plan

Under the terms of the ESPP, employees can deduct up to 10% of their regular cash compensation to purchase our common stock at a 15% discount from the fair market value of the stock at the end of each fiscal quarter, subject to other limitations under the plan. The sale of the stock to the employees occurs at the beginning of the subsequent quarter.

The following table summarizes ESPP activity for the three months ended March 31:

	Three Months Ended March 31,	
	2013	2012
Shares of stock sold to employees[(1)]	19,819	23,057
Weighted average fair value per ESPP award[(2)]	$6.96	$6.81

(1) Stock sold to employees during each fiscal quarter under the ESPP is associated with the offering period ending on the last day of the previous fiscal quarter.

(2) Relating to awards associated with the offering period during the three months ended March 31.

At March 31, 2013, all compensation cost associated with the ESPP had been recognized. There were approximately 580,000 shares of common stock available for future issuance under the ESPP at March 31, 2013.

Note 10: Income Taxes

Our tax provisions as a percentage of income (loss) before tax typically differ from the federal statutory rate of 35%, and may vary from period to period, due to fluctuations in the forecasted mix of earnings in domestic and international jurisdictions, new or revised tax legislation and accounting pronouncements, tax credits, state income taxes,

adjustments to valuation allowances, and uncertain tax positions, among other items.

Our tax benefit for the first three months of 2013 reflects the favorable discrete tax benefit for the retroactive extension of the 2012 research and experimentation credit in the amount of $4.0 million. The American Taxpayer Relief Act of 2012 was signed into law on January 2, 2013 and extended several business tax provisions including the research and experimentation credit. Our annual estimated effective tax rate for 2013 was favorably impacted by a proportionate increase in projected earnings in foreign jurisdictions with tax rates below 35%, the benefit of certain interest expense deductions, and an election under U.S. Internal

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Revenue Code Section 338 with respect to a foreign acquisition in 2007. Accordingly, our 2013 annual estimated effective tax rate is lower than our 2012 annual estimated effective tax rate.

Our tax provision in 2012 is lower than the federal statutory rate of 35% due to projected earnings in tax jurisdictions with rates lower than 35%, the benefit of certain interest expense deductions, and an election under U.S. Internal Revenue Code Section 338 with respect to a foreign acquisition in 2007.

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

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Net interest and penalties expense	$171	$287

Accrued interest and penalties recorded are as follows:

	March 31, 2013	December 31, 2012
	(in thousands)	
Accrued interest	$3,139	$3,095
Accrued penalties	3,035	3,030

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

	March 31, 2013	December 31, 2012
	(in thousands)	
Unrecognized tax benefits related to uncertain tax positions	$26,981	$26,433
The amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate	26,353	25,852

We believe it is reasonably possible that our unrecognized tax benefits may decrease by approximately $1.2 million within the next twelve months due to the expiration of the statute of limitations. At March 31, 2013, we are not able to reasonably estimate the timing of future cash flows relating to our uncertain tax positions.

Note 11: Commitments and Contingencies

Guarantees and Indemnifications

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

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

	March 31, 2013	December 31, 2012
	(in thousands)	
Credit facilities[1]		
Multicurrency revolving line of credit	$660,000	$660,000
Long-term borrowings	(125,000)	(140,000)
Standby LOCs issued and outstanding	(47,772)	(54,328)
Net available for additional borrowings and LOCs	$487,228	$465,672
Unsecured multicurrency revolving lines of credit with various financial institutions		
Multicurrency revolving lines of credit	$96,864	$67,308
Standby LOCs issued and outstanding	(28,056)	(29,906)
Short-term borrowings[2]	(1,537)	(851)
Net available for additional borrowings and LOCs	$67,271	$36,551
Unsecured surety bonds in force	$137,002	$164,820

(1) See Note 6 for details regarding our secured credit facilities.
(2) Short-term borrowings are included in "Other current liabilities" on the Consolidated Balance Sheets.

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

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

Legal Matters

We are subject to various legal proceedings and claims of which the outcomes are subject to significant uncertainty. Our policy is to assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. A determination of the amount of the liability required, if any, for these contingencies is made after an analysis of each known issue. A liability is recorded and charged to operating expense when we determine that a loss is probable and the amount can be reasonably estimated. Additionally, we disclose contingencies for which a material loss is reasonably possible, but not probable. Liabilities recorded for legal contingencies at March 31, 2013 were not material to our financial condition or results of operations.

In 2010 and 2011, Transdata Incorporated (Transdata) filed lawsuits against four of our customers, CenterPoint Energy (CenterPoint), TriCounty Electric Cooperative, Inc. (Tri-County), San Diego Gas & Electric Company (San Diego), and Texas-New Mexico Power Company (TNMP), as well as several other utilities, alleging infringement of three patents owned by Transdata related to the use of an antenna in a meter. Pursuant to our contractual obligations with our customers, we agreed, subject to certain exceptions, to indemnify and defend them in these lawsuits. The

complaints seek unspecified damages as well as injunctive relief. CenterPoint, Tri-County, San Diego, and TNMP have denied all of the substantive allegations and filed counterclaims seeking a declaratory judgment that the patents are invalid and not infringed. In December 2011, the Judicial Panel on Multi-District Litigation consolidated all of these cases in the Western District of Oklahoma for pretrial proceedings. On April 17, 2011, the Oklahoma court stayed the litigation pending the resolution of re-examination proceedings in the United States Patent and Trademark Office (U.S. PTO). The U.S. PTO has issued re-examination certificates confirming the patentability of the original claims and allowing certain new claims added by TransData. The parties conducted a claim construction hearing on February 5, 2013 on one claim term -- "electric meter circuitry." TransData asserted in the re-examination proceedings that this term should be narrowly interpreted so as to preserve the validity of the patents. The court, by order of February 25, 2013, has rejected TransData's construction and adopted defendants' construction. TransData has moved for reconsideration of the order, and the defendants have moved for summary judgment of invalidity in light of the construction. The remainder of the case has been temporarily stayed pending resolution of these motions. We do not believe this matter will have a material adverse effect on our business or financial condition,

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although an unfavorable outcome could have a material adverse effect on our results of operations for the period in which such a loss is recognized.

In June 2011, a lawsuit was filed in the United States District Court for the Eastern District of Texas alleging infringement of three patents owned by EON Corp. IP Holdings, LLC (EON), related to two-way communication networks, network components, and related software platforms. The complaint seeks unspecified damages as well as injunctive relief. Itron filed a Motion to Sever and Transfer Venue (the Motion) to the Eastern District of Washington, which the court denied in April 2013. The Court has construed key terms of two of the patents and has before it terms of the third patent as well as a motion for summary judgment of indefiniteness on the same patent. We believe these claims are without merit, and we intend to vigorously defend our interests. We do not believe this matter will have a material adverse effect on our business or financial condition, although an unfavorable outcome could have a material adverse effect on our results of operations for the period in which the claim is resolved.

Warranty

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

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Beginning balance	$53,605	$79,536
New product warranties	861	2,129
Other changes/adjustments to warranties	2,027	5,831
Claims activity	(5,099)	(11,320)
Effect of change in exchange rates	(640)	1,075
Ending balance	50,754	77,251
Less: current portion of warranty	25,150	48,235
Long-term warranty	$25,604	$29,016

Total warranty expense is classified within cost of revenues and consists of new product warranties issued and other changes and adjustments to warranties. Warranty expense for the three months ended March 31 is as follows:

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Total warranty expense	$2,888	$7,960

Warranty expense decreased during the three months ended March 31, 2013, compared with the same period in 2012. Warranty expense during the three months ended March 31, 2012 reflected a charge of $1.8 million related to cell relay battery replacements in North America, as well as charges of $2.3 million related to certain products in Brazil and France.

Extended Warranty

A summary of changes to unearned revenue for extended warranty contracts is as follows:

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Beginning balance	$31,960	$24,448
Unearned revenue for new extended warranties	961	2,946

Unearned revenue recognized	(470)	(300)
Effect of change in exchange rates	(88)	46
Ending balance	32,363	27,140
Less: current portion of unearned revenue for extended warranty	2,285	1,445
Long-term unearned revenue for extended warranty within Other long-term obligations	$30,078	$25,695

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Health Benefits

We are self insured for a substantial portion of the cost of our U.S. employee group health insurance. We purchase insurance from a third party, which provides individual and aggregate stop-loss protection for these costs. Each reporting period, we expense the costs of our health insurance plan including paid claims, the change in the estimate of incurred but not reported (IBNR) claims, taxes, and administrative fees (collectively, the plan costs).

Plan costs are as follows:

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Plan costs	$4,838	$5,661

The IBNR accrual, which is included in wages and benefits payable, is as follows:

	March 31, 2013	December 31, 2012
	(in thousands)	
IBNR accrual	$2,391	$2,552

Our IBNR accrual and expenses may fluctuate due to the number of plan participants, claims activity, and deductible limits. For our employees located outside of the United States, health benefits are provided primarily through governmental social plans, which are funded through employee and employer tax withholdings.

Note 12: Restructuring

During the fourth quarter of 2011, we announced the approval of projects to restructure our manufacturing operations to increase efficiency and lower our cost of manufacturing. We began implementing these projects in the fourth quarter of 2011, and we expect to substantially complete these projects by the end of 2013. Real estate market conditions may impact the timing of our ability to sell some of the manufacturing facilities we have designated for closure and disposal. This may delay the completion of the restructuring projects beyond 2013.

The total expected restructuring costs as of March 31, 2013 were $75.5 million, which is a decrease of approximately $2.4 million from the total expected costs at December 31, 2012. The decrease in expected costs is a result of a majority of the restructuring projects nearing completion with lower asset impairment, exit, and severance costs incurred than had been initially estimated.

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The total expected restructuring costs, the costs recognized in prior periods, the restructuring costs recognized during the three months ended March 31, 2013, and the remaining expected restructuring costs as of March 31, 2013 are as follows:

	Total Expected Costs at March 31, 2013	Costs Recognized in Prior Periods	Costs Recognized During the Three Months Ended March 31, 2013	Remaining Costs to be Recognized at March 31, 2013
	(in thousands)			
Employee severance costs	$47,658	$44,196	$84	$3,378
Asset impairments	20,331	20,305	26	—
Other restructuring costs	7,480	5,246	903	1,331
Total	$75,469	$69,747	$1,013	$4,709
Segments:				
Energy	$52,930	$53,190	$(1,150)	$890
Water	16,042	14,556	609	877
Corporate unallocated	6,497	2,001	1,554	2,942
Total	$75,469	$69,747	$1,013	$4,709

Other restructuring costs include expenses to exit the facilities once the operations in those facilities have ceased. Costs associated with restructuring activities are generally presented as restructuring expense in the Consolidated Statements of Operations, except for certain costs associated with inventory write-downs, which are classified within cost of revenues, and accelerated depreciation expense, which is recognized according to the use of the asset.

The following table summarizes the activity within the restructuring related balance sheet accounts during the three months ended March 31, 2013:

	Accrued Employee Severance	Asset Impairments & Net Loss on Sale or Disposal	Other Accrued Costs	Total
	(in thousands)			
Beginning balance, January 1, 2013	$14,498	$—	$3,216	$17,714
Costs incurred and charged to expense	84	26	903	1,013
Cash payments	(2,190)	—	(432)	(2,622)
Non-cash items	—	(26)	—	(26)
Effect of change in exchange rates	(472)	—	(8)	(480)
Ending balance, March 31, 2013	$11,920	$—	$3,679	$15,599

The current portions of the restructuring related liability balances were $11.9 million and $13.2 million as of March 31, 2013 and December 31, 2012, respectively. The current portion of the liability is classified within "Other current liabilities" on the Consolidated Balance Sheets. The long-term portions of the restructuring related liability related balances were $3.7 million and $4.5 million as of March 31, 2013 and December 31, 2012, respectively. The long-term portion of the restructuring liability is classified within "Other long-term liabilities" on the Consolidated Balance Sheets.

Asset impairments are determined at the asset group level. Assets held for sale are classified within other current assets and are reported at the lower of the carrying amount or the fair value, less costs to sell, and are no longer

depreciated or amortized.

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The following table includes assets that were measured at fair value on a nonrecurring basis as of March 31, 2013 and December 31, 2012, and the related losses recognized during the period:

	Net Carrying Value	Fair Value Measurement (Level 3)	Total Loss Recognized in Period
	(in thousands)		
March 31, 2013			
Long-lived assets held for sale	$3,064	$3,064	$—
December 31, 2012			
Long-lived assets held for sale	$3,184	$3,184	$2

The fair values of the disposal groups included in long-lived assets held for sale were determined based on the estimated proceeds from their expected sales, net of estimated selling costs. Long-lived assets held for sale at March 31, 2013 and December 31, 2012 consist of one asset group that includes land, a building, and building improvements.

Revenues and net operating income from the activities we have exited or will exit under the restructuring plan are not material to our operating segments or consolidated results.

Note 13: Other Comprehensive Income (Loss)

OCI is reflected as a net increase (decrease) to shareholders' equity and is not reflected in our results of operations. The before-tax amount, income tax (provision) benefit, and net-of-tax amount related to each component of other comprehensive income (loss) during the reporting periods were as follows:

	Three Months Ended March 31, 2013	2012
	(in thousands)	
Before-tax amount		
Foreign currency translation adjustment	$(27,447)	$28,702
Net unrealized gain (loss) on derivative instruments designated as cash flow hedges	(92)	—
Pension plan benefits liability adjustment	(546)	19
Total other comprehensive income (loss), before tax	(28,085)	28,721
Tax (provision) benefit		
Foreign currency translation adjustment	(3,848)	(161)
Net unrealized gain (loss) on derivative instruments designated as cash flow hedges	19	—
Pension plan benefits liability adjustment	166	4
Total other comprehensive income (loss) tax (provision) benefit	(3,663)	(157)
Net-of-tax amount		
Foreign currency translation adjustment	(31,295)	28,541
Net unrealized gain (loss) on derivative instruments designated as cash flow hedges	(73)	—
Pension plan benefits liability adjustment	(380)	23
Total other comprehensive income (loss), net of tax	$(31,748)	$28,564

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The changes in the components of accumulated other comprehensive income (loss) (AOCI), net of tax, were as follows:

	Foreign Currency Translation Adjustments (in thousands)	Net Unrealized Gain (Loss) on Derivative Instruments	Net Unrealized Gain (Loss) on Nonderivative Instruments	Pension Plan Benefit Liability Adjustments	Total
Balances at January 1, 2012	$(24,718)	$—	$(14,380)	$1,938	$(37,160)
OCI before reclassifications	28,541	—	—	—	28,541
Amounts reclassified from AOCI	—	—	—	23	23
Total other comprehensive income (loss)	28,541	—	—	23	28,564
Balances at March 31, 2012	$3,823	$—	$(14,380)	$1,961	$(8,596)
Balances at January 1, 2013	$(3,313)	$(1,689)	$(14,380)	$(15,002)	$(34,384)
OCI before reclassifications	(31,295)	(73)	—	(566)	(31,934)
Amounts reclassified from AOCI	—	—	—	186	186
Total other comprehensive income (loss)	(31,295)	(73)	—	(380)	(31,748)
Balances at March 31, 2013	$(34,608)	$(1,762)	$(14,380)	$(15,382)	$(66,132)

Details about the AOCI components reclassified to the Consolidated Statements of Operations during the reporting periods are as follows:

	Amount Reclassified from AOCI for the Three Months Ended March 31,[1]		Affected Line Item in the Income Statement
	2013 (in thousands)	2012	
Amortization of defined benefit pension items			
Prior-service costs	$(17)	$(17)	[2]
Actuarial losses	(251)	(2)	[2]
Total, before tax	(268)	(19)	Income before income taxes
Tax benefit (provision)	82	(4)	Income tax provision
Total, net of tax	(186)	(23)	Net income
Total reclassifications for the period, net of tax	$(186)	$(23)	Net income

(1) Amounts in parenthesis indicate debits to the Statements of Operations.

(2) These AOCI components are included in the computation of net periodic pension cost. Refer to Note 8 for additional details.

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Note 14: Fair Values of Financial Instruments

The fair values at March 31, 2013 and December 31, 2012 do not reflect subsequent changes in the economy, interest rates, and other variables that may affect the determination of fair value.

	March 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(in thousands)		
Assets				
Cash and cash equivalents	$101,561	$101,561	$136,411	$136,411
Foreign exchange forwards	185	185	146	146
Liabilities				
Credit facility				
USD denominated term loan	$273,750	$271,862	$277,500	$275,365
Multicurrency revolving line of credit	125,000	123,996	140,000	138,751
Interest rate swaps	2,817	2,817	2,725	2,725
Foreign exchange forwards	357	357	114	114

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

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

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

Derivatives: See Note 7 for a description of our methods and assumptions in determining the fair value of our derivatives, which were determined using Level 2 inputs.

Note 15: Segment Information

We operate under the Itron brand worldwide and manage and report under two operating segments, Energy and Water. The Energy operating segment includes our global electricity and gas businesses, while the Water operating segment includes our global water and heat businesses.

On March 27, 2013, we separated the management of our Energy operating segment into Electricity and Gas to allow each business to develop its own go-to-market strategy, prioritize its marketing and product development requirements, and focus on its strategic investments. As a result, our sales, marketing, and delivery function will be managed under three operating segments - Electricity, Gas, and Water. At the same time, product development and operations will be centralized and managed on a global basis. Although certain management positions of the new operating segments have been identified, the transition to the new organizational structure is ongoing, and we are currently assessing the implications to our operational and financial reporting systems.

We have three measures of segment performance: revenue, gross profit (margin), and operating income (margin). Our operating segments have distinct products, and therefore intersegment revenues are minimal. Corporate operating expenses, interest income, interest expense, other income (expense), and income tax provision (benefit) are not

allocated to the segments, nor included in the measure of segment profit or loss. In addition, we allocate only certain production assets and intangible assets to our operating segments. We do not manage the performance of the segments on a balance sheet basis.

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Segment	Products
Energy	Standard electricity (electromechanical and electronic) and gas meters; advanced electricity and gas meters and communication modules; smart electricity meters; smart electricity and gas communication modules; prepayment systems, including smart key, keypad, and smart card communication technologies; advanced systems including handheld, mobile, and fixed network collection technologies; smart network technologies; meter data management software; knowledge application solutions; and professional services including implementation, installation, consulting, and analysis.
Water	Standard water and heat meters; advanced and smart water meters and communication modules; advanced systems including handheld, mobile, and fixed network collection technologies; meter data management software; knowledge application solutions; and professional services including implementation, installation, consulting, analysis, and system management.

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

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Revenues		
Energy	$312,678	$437,747
Water	134,858	133,893
Total Company	$447,536	$571,640
Gross profit		
Energy	$95,554	$134,603
Water	44,569	48,502
Total Company	$140,123	$183,105
Operating income (loss)		
Energy	$480	$38,164
Water	12,575	15,937
Corporate unallocated	(10,708)	(14,480)
Total Company	2,347	39,621
Total other income (expense)	(2,094)	(4,420)
Income before income taxes	$253	$35,201

For the three months ended March 31, 2013, no single customer represented more than 10% of the total Company, the Energy operating segment, or the Water operating segment revenues.

For the three months ended March 31, 2012, one customer from the Energy operating segment accounted for 11% of the total Company revenues, and two customers each accounted for more than 10% of the Energy operating segment revenues. No single customer accounted for more than 10% of the Water operating segment revenues.

Revenues by region were as follows:

Three Months Ended March 31,

	2013	2012
	(in thousands)	
United States and Canada	$177,206	$284,587
Europe, Middle East, and Africa	211,895	220,956
Other	58,435	66,097
Total revenues	$447,536	$571,640

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Depreciation and amortization expense associated with our segments was as follows:

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Energy	$18,471	$20,656
Water	6,269	6,556
Corporate Unallocated	17	15
Total Company	$24,757	$27,227

Note 16: Subsequent Event

Stock Repurchases

Subsequent to March 31, 2013, we repurchased 65,339 shares of our common stock under the stock repurchase program authorized by the Board of Directors on March 8, 2013. The average price paid per share was $43.34.

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ITEM 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

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

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes included in this report and with our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission (SEC) on February 22, 2013.

Documents we provide to the SEC are available free of charge under the Investors section of our website at www.itron.com as soon as practicable after they are filed with or furnished to the SEC. In addition, these documents are available at the SEC's website (http://www.sec.gov) and at the SEC's Headquarters at 100 F Street, NE, Washington, DC 20549, or by calling 1-800-SEC-0330.

Certain Forward-Looking Statements

This document contains forward-looking statements concerning our operations, financial performance, revenues, earnings growth, liquidity, and other items. This document reflects our current plans and expectations and is based on information currently available as of the date of this Quarterly Report on Form 10-Q. When we use the words "expect," "intend," "anticipate," "believe," "plan," "project," "estimate," "future," "objective," "may," "will," "will continue," and simila they are intended to identify forward-looking statements. Forward-looking statements rely on a number of assumptions and estimates. These assumptions and estimates could be inaccurate and cause our actual results to vary materially from expected results. Risks and uncertainties include 1) the rate and timing of customer demand for our products, 2) rescheduling or cancellations of current customer orders and commitments, 3) changes in estimated liabilities for product warranties and/or litigation, 4) our dependence on customers' acceptance of new products and their performance, 5) competition, 6) changes in domestic and international laws and regulations, 7) changes in foreign currency exchange rates and interest rates, 8) international business risks, 9) our own and our customers' or suppliers' access to and cost of capital, 10) future business combinations, and 11) other factors. You should not solely rely on these forward-looking statements as they are only valid as of the date of this Quarterly Report on Form 10-Q. We do not have any obligation to publicly update or revise any forward-looking statement in this document. For a more complete description of these and other risks, refer to Item 1A: "Risk Factors" included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which was filed with the SEC on February 22, 2013.

Results of Operations

We are a technology company, offering end-to-end smart metering solutions to electric, natural gas, and water utilities around the world. Our smart metering solutions, meter data management software, and knowledge application solutions bring additional value to a utility's metering and grid systems. Our professional services help our customers project-manage, install, implement, operate, and maintain their systems.

We have two operating segments. The Energy operating segment includes our global electricity and gas products, while the Water operating segment includes our global water and heat products.

On March 27, 2013, we separated the management of our Energy operating segment into Electricity and Gas to allow each business to develop its own go-to-market strategy, prioritize its marketing and product development requirements, and focus on its strategic investments. As a result, our sales, marketing, and delivery function will be managed under three operating segments - Electricity, Gas, and Water. At the same time, product development and operations will be centralized and managed on a global basis. Although certain management positions of the new operating segments have been identified, the transition to the new organizational structure is ongoing, and we are

currently assessing the implications to our operational and financial reporting systems.

We have three measures of segment performance: revenue, gross profit (margin), and operating income (margin). Intersegment revenues were minimal. Corporate operating expenses, interest income, interest expense, other income (expense), and income tax provision (benefit) are not allocated to the segments, nor included in the measure of segment profit or loss. In addition, we allocate only certain production assets and intangible assets to our operating segments. We do not manage the performance of the segments on a balance sheet basis.

Overview

Revenues for the three months ended March 31, 2013 were $448 million, compared with $572 million in the same period last year. The decrease in 2013 was the result of significantly lower revenues in the Energy segment, partially offset by a 1% increase

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in the Water segment. Fluctuations in foreign currency exchange rates unfavorably impacted revenues by $5 million for the three months ended March 31, 2013. Gross margin for the first quarter of 2013 was 31.3%, compared with gross margin of 32.0% for the same period in 2012. Lower volumes and unfavorable product mix in 2013 had a negative impact on gross margin.

Our tax benefit for the first three months of 2013 reflects the favorable discrete tax benefit for the retroactive extension of the 2012 research and experimentation credit in the amount of $4.0 million. The American Taxpayer Relief Act of 2012 was signed into law on January 2, 2013 and extended several business tax provisions including the research and experimentation credit. Our annual estimated effective tax rate for 2013 was favorably impacted by a proportionate increase in projected earnings in foreign jurisdictions with tax rates below 35%, the benefit of certain interest expense deductions, and an election under U.S. Internal Revenue Code Section 338 with respect to a foreign acquisition in 2007. Accordingly, our 2013 annual estimated effective tax rate is lower than our 2012 annual estimated effective tax rate. During the first quarter of 2012, we had a tax provision of 27.4%, based on a percentage of income (loss) before tax, which included minimal discrete benefits.

Total backlog was $1.0 billion and twelve-month backlog was $565 million at March 31, 2013.

On March 8, 2013, our Board of Directors authorized a twelve-month repurchase program of up to $50 million of our common stock. During the three months ended March 31, 2013, we repurchased 4,490 shares of our common stock for $200,000. Subsequent to March 31, 2013, we repurchased 65,339 shares of our common stock for $2.8 million.

Total Company Revenues, Gross Profit and Margin, and Unit Shipments

	Three Months Ended March 31,		
	2013	2012	% Change
	(in thousands)		
Revenues	$447,536	$571,640	(22)%
Gross Profit	$140,123	$183,105	(23)%
Gross Margin	31.3 %	32.0 %	

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Revenues by Region		
United States and Canada (North America)	$177,206	$284,587
Europe, Middle East, and Africa (EMEA)	211,895	220,956
Other	58,435	66,097
Total revenues	$447,536	$571,640

Revenues

Revenues decreased $124.1 million, or 22%, for the three months ended March 31, 2013, compared with the same period in 2012. This decrease was due to the substantial completion of four of our five largest OpenWay projects in 2012, lower gas module shipments in North America, and lower Energy product shipments in EMEA, the combination of which was partially offset by a slight increase in Water revenues. The net translation effect of our operations denominated in foreign currencies resulted in an unfavorable impact to revenues of $5.0 million in 2013. A more detailed analysis of these fluctuations is provided in Operating Segment Results.

No single customer accounted for more than 10% of total Company revenues during the first quarter of 2013, while one customer, BC Hydro and Power Authority, accounted for 11% of total Company revenues during the first quarter

of 2012. Our 10 largest customers accounted for 20% and 33% of total revenues during the first quarters of 2013 and 2012, respectively.

Gross Margins

Gross margin for the first quarter of 2013 was 31.3%, compared with gross margin of 32.0% for the same period in 2012. The decline over the prior year was due primarily to lower volumes, partially offset by benefits from manufacturing efficiencies and lower warranty costs, in the Energy operating segment and an increase in professional services, which have lower margins, and unfavorable product mix in the Water operating segment. A more detailed analysis of these fluctuations is provided in Operating Segment Results.

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Meter and Module Summary

We classify meters into three categories:

- Standard metering – no built-in remote reading communication technology
- Advanced metering – one-way communication of meter data
- Smart metering – two-way communication including remote meter configuration and upgrade (consisting primarily of our OpenWay® technology)

In addition, advanced and smart meter communication modules can be sold separately from the meter. A summary of our meter and communication module shipments is as follows:

	Three Months Ended March 31,	
	2013	2012
	(units in thousands)	
Meters		
Standard	4,440	4,880
Advanced and smart	1,630	2,250
Total meters	6,070	7,130
Stand-alone communication modules		
Advanced and smart	1,340	1,590

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Operating Segment Results

For a description of our operating segments, refer to Item 1: “Financial Statements Note 15: Segment Information”.

	Three Months Ended March 31,		
	2013	2012	% Change
Segment Revenues	(in thousands)		
Energy			
Electricity	$175,763	$284,460	(38)%
Gas	136,915	153,287	(11)%
Total Energy	312,678	437,747	(29)%
Water	134,858	133,893	1%
Total revenues	$447,536	$571,640	(22)%

	Three Months Ended March 31,			
	2013		2012	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin
Segment Gross Profit and Margin	(in thousands)		(in thousands)	
Energy	$95,554	30.6%	$134,603	30.7%
Water	44,569	33.0%	48,502	36.2%
Total gross profit and margin	$140,123	31.3%	$183,105	32.0%

	Three Months Ended March 31,			
	2013		2012	
	Operating Income (Loss)	Operating Margin	Operating Income (Loss)	Operating Margin
Segment Operating Income (Loss) and Operating Margin	(in thousands)		(in thousands)	
Energy	$480	—%	$38,164	9%
Water	12,575	9%	15,937	12%
Corporate unallocated	(10,708)		(14,480)	
Total Company	$2,347	1%	$39,621	7%

Energy:

Revenues - Three months ended March 31, 2013 vs. Three months ended March 31, 2012
Electricity revenues decreased $108.7 million, or 38%, for the three months ended March 31, 2013, compared with the same period in 2012. Revenues in 2013 were lower primarily due to $120.9 million in scheduled decreases in our five largest OpenWay projects in North America, $2.8 million in decreased product shipments in Latin America, and $3.5 million for the currency translation effect of our operations denominated in foreign currencies. These decreases were partially offset by $15.0 million in increased revenues from sources other than the five largest OpenWay projects in North America.

Gas revenues decreased $16.4 million, or 11%, for the three months ended March 31, 2013, compared with the same period in 2012, primarily as the result of $10.4 million in lower product sales in EMEA and $4.8 million in lower product sales and services in North America. The translation effect into U.S. dollars of our operations denominated in foreign currencies had no significant impact on our gas revenues.

No single customer accounted for more than 10% of the Energy operating segment revenues during the first quarter of 2013, while two customers each accounted for more than 10% of the Energy operating segment revenues during the first quarter of 2012.

Gross Margin - Three months ended March 31, 2013 vs. Three months ended March 31, 2012

Energy gross margin was 30.6% for the three months ended March 31, 2013, compared with 30.7% for the same period in 2012. During the first quarter of 2013, gross margin decreased slightly over the prior year as benefits from efficiencies from our restructuring projects and lower warranty costs were offset by the impact of lower volumes.

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Operating Expenses - Three months ended March 31, 2013 vs. Three months ended March 31, 2012
Energy operating expenses decreased $1.4 million, or 1.4%, for the three months ended March 31, 2013, compared with the same period in 2012, primarily due to lower restructuring costs and the favorable foreign currency translation impact of $0.9 million. Operating expenses as a percentage of revenues were 30% for the three months ended March 31, 2013, compared with 22% for the same period in 2012.

Water:

Revenues - Three months ended March 31, 2013 vs. Three months ended March 31, 2012
Revenues increased $1.0 million, or 1%, for the three months ended March 31, 2013, compared with the same period last year. Excluding the translation effect of a stronger U.S. dollar against most foreign currencies in the first quarter of 2013, as compared with the first quarter of 2012, revenues increased 2%. The increase was driven primarily by $4 million in higher service revenues in North America, partially offset by lower product shipments in Latin America.

No single customer represented more than 10% of the Water operating segment revenues during the first quarter of 2013 and 2012.

Gross Margin - Three months ended March 31, 2013 vs. Three months ended March 31, 2012
Water gross margin decreased to 33.0% for the three months ended March 31, 2013, compared with 36.2% for the same period last year, primarily as a result of an increase in professional services in North America, which have a lower gross margin, and unfavorable product mix in other regions.

Operating Expenses - Three months ended March 31, 2013 vs. Three months ended March 31, 2012
Operating expenses for the three months ended March 31, 2013 decreased by $571,000 over the first quarter of 2012, primarily as the result of lower sales and marketing and general and administrative expenses and scheduled decreases in amortization of intangible assets, partially offset by $1 million in increased product development costs.

Corporate unallocated:

Operating expenses not directly associated with an operating segment are classified as “Corporate unallocated.” These expenses were lower by $3.8 million in the three months ended March 31, 2013, primarily due to certain costs incurred in 2012, including costs for the SmartSynch acquisition of $2.0 million, management training and development costs, and for preliminary planning costs for our global enterprise resource planning (ERP) software initiative.

Bookings and Backlog of Orders

Bookings for a reported period represent customer contracts and purchase orders received during the period that have met certain conditions, such as regulatory and/or contractual approval. Total backlog represents committed but undelivered contracts and purchase orders at period-end. Twelve-month backlog represents the portion of total backlog that we estimate will be recognized as revenue over the next 12 months. Backlog is not a complete measure of our future revenues as we also receive significant book-and-ship orders. Bookings and backlog may fluctuate significantly due to the timing of large project awards. In addition, annual or multi-year contracts are subject to rescheduling and cancellation by customers due to the long-term nature of the contracts. Beginning total backlog, plus bookings, minus revenues, will not equal ending total backlog due to miscellaneous contract adjustments, foreign currency fluctuations, and other factors.

Quarter Ended	Quarterly Bookings	Ending Total	Ending 12-Month

		Backlog	Backlog
	(in millions)		
March 31, 2013	$447	$1,029	$565
December 31, 2012	467	1,035	568
September 30, 2012	459	1,079	592
June 30, 2012	447	1,122	637
March 31, 2012	488	1,221	760

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Information on bookings by our operating segments is as follows:

Quarter Ended	Total Bookings (in millions)	Energy	Water
March 31, 2013	$447	$305	$142
December 31, 2012	467	345	122
September 30, 2012	459	341	118
June 30, 2012	447	330	117
March 31, 2012	488	341	147

Operating Expenses

	Three Months Ended March 31,			
	2013	% of Revenues	2012	% of Revenues
	(in thousands)		(in thousands)	
Sales and marketing	$48,216	11%	$49,856	9%
Product development	44,208	10%	44,356	8%
General and administrative	33,595	8%	36,570	6%
Amortization of intangible assets	10,744	2%	11,913	2%
Restructuring	1,013	—%	789	—%
Total operating expenses	$137,776	31%	$143,484	25%

Operating expenses decreased $5.7 million for the three months ended March 31, 2013, primarily due to certain costs incurred in 2012, including costs for the SmartSynch acquisition of $2.0 million, management training and development costs, and for preliminary planning costs for our global enterprise resource planning (ERP) software initiative. In addition, 2013 includes a scheduled decrease in amortization of intangible assets of $1.2 million and the favorable impact from foreign currency translation of $1.0 million.

Other Income (Expense)

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

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Interest income	$1,061	$193
Interest expense	(1,925)	(2,089)
Amortization of prepaid debt fees	(413)	(348)
Other income (expense), net	(817)	(2,176)
Total other income (expense)	$(2,094)	$(4,420)

Interest income: Interest income is generated from our cash and cash equivalents balances and certain deposits on hand with third parties. Interest income in the three months ended March 31, 2013 includes interest recognized on certain deposits with governmental entities related to tax contingencies.

Interest expense: Interest expense declined due to a lower balance of outstanding debt on our credit facility. Average total debt outstanding was $416.7 million and $445.7 million for the quarters ended March 31, 2013 and March 31, 2012, respectively.

Amortization of prepaid debt fees: Amortization of prepaid debt fees for the three months ended March 31, 2013 increased from the same period in 2012 due to fees paid in the second quarter of 2012 associated with the increase in the principal amount of the multicurrency revolving line of credit. Refer to Item 1: “Financial Statements Note 6: Debt” for additional details related to our long-term borrowings.

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Other income (expense), net: Other expenses, net, consist primarily of unrealized and realized foreign currency gains and losses from balances denominated in currencies other than the reporting entity's functional currency and other non-operating income (expenses). Foreign currency losses, net of hedging, were $594,000 for the three months ended March 31, 2013, compared with net foreign currency losses of $1.0 million in the same period in 2012.

Financial Condition

Cash Flow Information:

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Operating activities	$595	$54,003
Investing activities	(15,569)	(12,620)
Financing activities	(17,243)	(23,226)
Effect of exchange rates on cash and cash equivalents	(2,633)	3,195
Increase (decrease) in cash and cash equivalents	$(34,850)	$21,352

Cash and cash equivalents was $101.6 million at March 31, 2013, compared with $136.4 million at December 31, 2012.

Operating activities
Cash provided by operating activities during the three months ended March 31, 2013 was $53.4 million lower, compared with the same period in 2012. This decline was primarily due to (1) a decrease in net income, adjusted for non-cash items, such as depreciation and amortization, stock-based compensation, and other adjustments, of $33.4 million and (2) a larger increase in working capital, primarily as a result of cash outflows for accounts payable, in 2013 as compared to 2012.

Investing activities
Cash used in investing activities during the three months ended March 31, 2013 was $2.9 million higher, compared with the same period in 2012, primarily due to an increase in acquisitions of property, plant, and equipment.

Financing activities
Net cash used in financing activities during the three months ended March 31, 2013 was $6.0 million lower, compared with the same period in 2012, as a result of a decrease of $10.4 million in repurchases of our common stock in 2013. This decrease was partially offset by increased repayments of debt in 2013. During the first three months of 2013, we made payments on debt of $18.8 million, compared to $13.8 million during the same period in 2012. Refer to Part II, Item 2: "Unregistered Sale of Equity Securities and Use of Proceeds" for additional details related to our share repurchase program.

Effect of exchange rates on cash and cash equivalents
The effect of exchange rates on the cash balances of currencies held in foreign denominations for the three months ended March 31, 2013 was a decrease of $2.6 million, compared with an increase of $3.2 million for the same period in 2012.

Off-balance sheet arrangements:

We have no off-balance sheet financing agreements or guarantees as defined by Item 303 of Regulation S-K at March 31, 2013 and December 31, 2012 that we believe are reasonably likely to have a current or future effect on our

financial condition, results of operations, or cash flows.

Liquidity and Capital Resources:

Our principal sources of liquidity are cash flows from operations, borrowings, and sales of common stock. Cash flows may fluctuate and are sensitive to many factors including changes in working capital and the timing and magnitude of capital expenditures and payments on debt. Working capital, which represents current assets less current liabilities, was $335.5 million at March 31, 2013, compared with $353.6 million at December 31, 2012.

Borrowings

In August 2011, we entered into a senior secured credit facility (the credit facility). The credit facility consists of a $300 million U.S. dollar term loan and a multicurrency revolving line of credit (the revolver) with a principal amount of up to $660 million.

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At March 31, 2013, $125.0 million was outstanding under the revolver, and $47.8 million was utilized by outstanding standby letters of credit, resulting in $487.2 million available for additional borrowings.

For further description of the term loan and the revolver under our credit facility, refer to Item 1: “Financial Statements, Note 6: Debt.”

For a description of our letters of credit and performance bonds, and the amounts available for additional borrowings or letters of credit under our lines of credit, including the revolver that is part of our 2011 credit facility, refer to Item 1: “Financial Statements, Note 11: Commitments and Contingencies.”

Share Repurchase

On March 8, 2013, our Board of Directors authorized a repurchase program of up to $50 million of our common stock through March 7, 2014. Repurchases are made in the open market or in privately negotiated transactions and in accordance with applicable securities laws. Depending on market conditions and other factors, these repurchases may be commenced or suspended from time to time without prior notice. During the three months ended March 31, 2013, we repurchased 4,490 shares of our common stock, totaling $200,000, resulting in $49.8 million remaining under the repurchase program. Refer to Part II, Item 2: "Unregistered Sales of Equity Securities and Use of Proceeds" for additional information related to our share repurchase program.

Restructuring

During the fourth quarter of 2011, we announced the approval of projects to restructure our manufacturing operations to increase efficiency and lower our cost of manufacturing. We began implementing these projects in the fourth quarter of 2011, and we expect to substantially complete these projects by the end of 2013.

Total expected costs decreased by approximately $2,365,000 to $75.5 million during the first quarter. A substantial portion of the total expected charges was recognized in the fourth quarter of 2011, and $15.6 million was accrued at March 31, 2013, of which $11.9 million is expected to be paid over the next 12 months. We began to realize benefits from our restructuring projects in 2012, and we expect full realization of cost savings by the end of 2013 and into 2014. Certain projects are subject to a variety of labor and employment laws, rules, and regulations which could result in a delay in implementing projects at some locations. Real estate market conditions may impact the timing of our ability to sell some of the manufacturing facilities we have designated for closure and disposal. This may delay the completion of the restructuring projects beyond 2013. For further details regarding our restructuring activities, refer to Item 1: “Financial Statements, Note 12: Restructuring.”

Other Liquidity Considerations

We have tax credits and net operating loss carryforwards in various jurisdictions that are available to reduce cash taxes. However, utilization of tax credits and net operating losses are limited in certain jurisdictions. Based on current projections, we expect to pay, net of refunds, approximately $500,000 in state taxes and $19.9 million in local and foreign taxes in 2013. We do not expect to make any payments for U.S. federal taxes in 2013. For a discussion of our tax provision and unrecognized tax benefits, see Item 1: “Financial Statements, Note 10: Income Taxes.”

As of March 31, 2013, there was $34.1 million of cash and cash equivalents held by foreign subsidiaries that could be repatriated, if necessary to fund U.S. operations. Tax is one of the many factors that we consider in the management of global cash. Included in the determination of the tax costs in repatriating foreign cash into the United States are the amount of earnings and profits in a particular jurisdiction, withholding taxes that would be imposed, and available foreign tax credits. Accordingly, the amount of taxes that we would need to accrue and pay to repatriate foreign cash could vary significantly.

The American Taxpayer Relief Act of 2012 (the "Act") was signed into law on January 2, 2013 and extended several business tax provisions including: (1) the active financing income and controlled foreign corporation look-through exceptions to certain foreign income; and (2) the research and experimentation credit. The tax effects of the Act were recognized in the first quarter of 2013.

In several of our consolidated international subsidiaries, we have joint venture partners, who are minority shareholders. Although these entities are not wholly-owned by Itron, Inc, we consolidate them because we have a greater than 50% ownership interest or because we exercise control over the operations. The noncontrolling interest balance in our Consolidated Balance Sheets represents the proportional share of the equity of the joint venture entities, which is attributable to the minority shareholders. Approximately $18.5 million of our consolidated cash balance at March 31, 2013 resides in our joint venture entities. As a result, the minority shareholders of these entities control their proportional share of this cash balance, and there may be limitations on our ability to repatriate cash to the U.S. from these entities.

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For a description of our funded and unfunded non-U.S. defined benefit pension plans and our expected 2013 contributions, refer to Item 1: “Financial Statements, Note 8: Defined Benefit Pension Plans.”

For a description of our bonus and profit sharing plans, including the amounts accrued at March 31, 2013 and the expected timing of payment, refer to Bonus and Profit Sharing within Critical Accounting Estimates below.

General Liquidity Overview
We expect to grow through a combination of internal new product development, licensing technology from and to others, distribution agreements, partnering arrangements, and acquisitions of technology or other companies. We expect these activities to be funded with existing cash, cash flow from operations, borrowings, and the sale of common stock or other securities. We believe existing sources of liquidity will be sufficient to fund our existing operations and obligations for the next 12 months and into the foreseeable future, but offer no assurances. Our liquidity could be affected by unforeseen changes in the energy and water industries, competitive pressures, changes in estimated liabilities for product warranties and/or litigation, future business combinations, capital market fluctuations, international risks, and other factors described under “Risk Factors” within Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which was filed with the SEC on February 22, 2013, as well as “Quantitative and Qualitative Disclosures About Market Risk” within Item 3 of Part I included in this Quarterly Report on Form 10-Q.

Contingencies

Refer to Item 1: “Financial Statements, Note 11: Commitments and Contingencies”.

Critical Accounting Estimates

Revenue Recognition
The majority of our revenue arrangements involve multiple deliverables, which require us to determine the fair value of each deliverable and then allocate the total arrangement consideration among the separate deliverables based on the relative fair value percentages. Revenues for each deliverable are then recognized based on the type of deliverable, such as 1) when the products are shipped, 2) services are delivered, 3) percentage-of-completion when implementation services are essential to other deliverables in the arrangement, 4) upon receipt of customer acceptance, or 5) transfer of title and risk of loss. A majority of our revenue is recognized when products are shipped to or received by a customer or when services are provided.

Fair value represents the estimated price charged if an element were sold separately. If the fair value of any undelivered element included in a multiple deliverable arrangement cannot be objectively determined, revenue is deferred until all elements are delivered and services have been performed, or until the fair value can be objectively determined for any remaining undelivered elements. We review our fair values on an annual basis or more frequently if a significant trend is noted.

If implementation services are essential to a software arrangement, revenue is recognized using either the percentage-of-completion methodology of contract accounting if project costs can be reliably estimated or the completed contract methodology if project costs cannot be reliably estimated. The estimation of costs through completion of a project is subject to many variables such as the length of time to complete, changes in wages, subcontractor performance, supplier information, and business volume assumptions. Changes in underlying assumptions/estimates may adversely or positively affect financial performance.

Certain of our revenue arrangements include an extended or noncustomary warranty provision that covers all or a portion of a customer’s replacement or repair costs beyond the standard or customary warranty period. Whether or not

the extended warranty is separately priced in the arrangement, a portion of the arrangement's total consideration is allocated to this extended warranty deliverable. This revenue is deferred and recognized over the extended warranty coverage period. Extended or noncustomary warranties do not represent a significant portion of our revenue.

We allocate consideration to each deliverable in an arrangement based on its relative selling price. We determine selling price using vendor specific objective evidence (VSOE), if it exists, otherwise third-party evidence (TPE). If neither VSOE nor TPE of selling price exists for a unit of accounting, we use estimated selling price (ESP).

VSOE is generally limited to the price charged when the same or similar product is sold separately or, if applicable, the stated renewal rate in the agreement. If a product or service is seldom sold separately, it is unlikely that we can determine VSOE for the product or service. We define VSOE as a median price of recent standalone transactions that are priced within a narrow range. TPE is determined based on the prices charged by our competitors for a similar deliverable when sold separately.

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If we are unable to establish selling price using VSOE or TPE, we use ESP in the allocation of arrangement consideration. The objective of ESP is to determine the price at which we would transact if the product or service were sold by us on a standalone basis. Our determination of ESP involves a weighting of several factors based on the specific facts and circumstances of the arrangement. Specifically, we consider the cost to produce the deliverable, the anticipated margin on that deliverable, the selling price and profit margin for similar parts, our ongoing pricing strategy and policies (as evident in the price list established and updated by management on a regular basis), the value of any enhancements that have been built into the deliverable, and the characteristics of the varying markets in which the deliverable is sold. We analyze the selling prices used in our allocation of arrangement consideration on an annual basis. Selling prices are analyzed on a more frequent basis if a significant change in our business necessitates a more timely analysis or if we experience significant variances in our selling prices.

Warranty

We offer standard warranties on our hardware products and large application software products. We accrue the estimated cost of new product warranties based on historical and projected product performance trends and costs during the warranty period. Testing of new products in the development stage helps identify and correct potential warranty issues prior to manufacturing. Continuous quality control efforts during manufacturing reduce our exposure to warranty claims. If our quality control efforts fail to detect a fault in one of our products, we may experience an increase in warranty claims. We track warranty claims to identify potential warranty trends. If an unusual trend is noted, an additional warranty accrual may be assessed and recorded when a failure event is probable and the cost can be reasonably estimated. When new products are introduced, our process relies on historical averages until sufficient data are available. As actual experience on new products becomes available, it is used to modify the historical averages to ensure the expected warranty costs are within a range of likely outcomes. Management continually evaluates the sufficiency of the warranty provisions and makes adjustments when necessary. The warranty allowances may fluctuate due to changes in estimates for material, labor, and other costs we may incur to repair or replace projected product failures, and we may incur additional warranty and related expenses in the future with respect to new or established products, which could adversely affect our gross margin. The long-term warranty balance includes estimated warranty claims beyond one year.

Restructuring and Asset Impairments

We record a liability for costs associated with an exit or disposal activity at its fair value in the period in which the liability is incurred. Employee termination benefits considered post-employment benefits are accrued when the obligation is probable and estimable, such as benefits stipulated by human resource policies and practices or statutory requirements. One-time termination benefits are expensed at the date the employee is notified. If the employee must provide future service greater than 60 days, such benefits are expensed ratably over the future service period. For contract termination costs, we record a liability upon the later of when we terminate a contract in accordance with the contract terms or when we cease using the rights conveyed by the contract.

Asset impairments are determined at the asset group level. An impairment may be recorded for assets that are to be abandoned, are to be sold for less than net book value, or are held for sale in which the estimated proceeds are less than the net book value less costs to sell. We may also recognize impairment on an asset group, which is held and used, when the carrying value is not recoverable and exceeds the asset group's fair value. If an asset group is considered a business, a portion of the Company's goodwill balance is allocated to it based on relative fair value.

In determining restructuring charges, we analyze our future operating requirements, including the required headcount by business functions and facility space requirements. Our restructuring costs and any resulting accruals involve significant estimates using the best information available at the time the estimate are made. Our estimates involve a number of risks and uncertainties, some of which are beyond our control, including real estate market conditions and local labor and employment laws, rules, and regulations. If the amounts and timing of cash flows from restructuring activities are significantly different from what we have estimated, the actual amount of restructuring and asset

impairment charges could be materially different, either higher or lower, than those we have recorded.

Income Taxes

The calculation of our annual estimated effective tax rate requires significant judgment and is subject to several factors, including fluctuations in the forecasted mix of earnings in domestic and international jurisdictions, new or revised tax legislation and accounting pronouncements, tax credits, state income taxes, adjustments to valuation allowances, and uncertain tax positions, among other items.

We record valuation allowances to reduce deferred tax assets to the extent we believe it is more likely than not that a portion of such assets will not be realized. In making such determinations, we consider available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and our ability to carry back losses to prior years. We are required to make assumptions and judgments about potential outcomes that lie outside management's control. The most sensitive and critical factors are the projection, source, and character of future taxable income. Although realization is not assured, management believes it is more likely than not that deferred tax assets will be realized. The

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amount of deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward periods are reduced or current tax planning strategies are not implemented.

We are subject to audit in multiple taxing jurisdictions in which we operate. These audits may involve complex issues, which may require an extended period of time to resolve. We believe we have recorded adequate income tax provisions and reserves for uncertain tax positions.

In evaluating uncertain tax positions, we consider the relative risks and merits of positions taken in tax returns filed and to be filed, considering statutory, judicial, and regulatory guidance applicable to those positions. We make assumptions and judgments about potential outcomes that lie outside management’s control. To the extent the tax authorities disagree with our conclusions and depending on the final resolution of those disagreements, our actual tax rate may be materially affected in the period of final settlement with the tax authorities.

Inventories
Items are removed from inventory using the first-in, first-out method. Inventories include raw materials, sub-assemblies, and finished goods. Inventory amounts include the cost to manufacture the item, such as the cost of raw materials, labor, and other applied direct and indirect costs. We also review idle facility expense, freight, handling costs, and wasted materials to determine if abnormal amounts should be recognized as current-period charges. We review our inventory for obsolescence and marketability. If the estimated market value, which is based upon assumptions about future demand and market conditions, falls below the original cost, the inventory value is reduced to the market value. If technology rapidly changes or actual market conditions are less favorable than those projected by management, inventory write-downs may be required. Our inventory levels may vary period to period as a result of our factory scheduling and timing of contract fulfillments.

Goodwill and Intangible Assets
Goodwill and intangible assets may result from our acquisitions. We use estimates, including estimates of useful lives of intangible assets, the amount and timing of related future cash flows, and fair values of the related operations, in determining the value assigned to goodwill and intangible assets. Our finite-lived intangible assets are amortized over their estimated useful lives based on estimated discounted cash flows. IPR&D is considered an indefinite-lived intangible asset and is not subject to amortization until the associated projects are completed or terminated. Finite-lived intangible assets are tested for impairment at the asset group level when events or changes in circumstances indicate the carrying value may not be recoverable. Indefinite-lived intangible assets are tested for impairment annually, when events or changes in circumstances indicate the asset may be impaired, or at the time when their useful lives are determined to be no longer indefinite.

Goodwill is assigned to our reporting units based on the expected benefit from the synergies arising from each business combination, determined by using certain financial metrics, including the forecasted discounted cash flows associated with each reporting unit.
We test goodwill for impairment each year as of October 1, or more frequently should a significant impairment indicator occur. As part of the impairment test, we may elect to perform an assessment of qualitative factors. If this qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit, including goodwill, is less than its carrying amount, or if we elect to bypass the qualitative assessment, we would then proceed with the two-step impairment test. The impairment test involves comparing the fair values of the reporting units to their carrying amounts. If the carrying amount of a reporting unit exceeds its fair value, a second step is required to measure the goodwill impairment loss amount. This second step determines the current fair values of all assets and liabilities of the reporting unit and then compares the implied fair value of the reporting unit's goodwill to the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. We forecast discounted future cash flows at the reporting unit level using risk-adjusted discount rates and estimated future revenues and operating costs, which take into consideration factors such as existing backlog, expected future orders, supplier contracts, and expectations of competitive and economic environments. We also identify similar publicly traded companies and develop a correlation, referred to as a multiple, to apply to the operating results of the reporting units. These combined fair values are then reconciled to the aggregate market value of our common stock on the date of valuation, while considering a reasonable control premium.

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Based on our most recent annual goodwill impairment test as of October 1, 2012, the percentage by which the estimated fair value of the reporting units exceeded their carrying value and amount of goodwill allocated to each of these reporting units were as follows:

	October 1, 2012		
Reporting Unit	Goodwill	Fair Value Exceeded Carrying Value	
	(in thousands)		
Energy - Electricity	$ 221,119	19	%
Energy - Gas	382,563	66	%
Water	83,750	317	%

Changes in market demand, fluctuations in the economies in which we operate, the volatility and decline in the worldwide equity markets, and a further decline in our market capitalization could negatively impact the remaining carrying value of our goodwill, which could have a significant effect on our current and future results of operations and financial condition.

Derivative Instruments

All derivative instruments, whether designated in hedging relationships or not, are recorded on the Consolidated Balance Sheets at fair value as either assets or liabilities. The components and fair values of our derivative instruments are determined using the fair value measurements of significant other observable inputs (also known as “Level 2”), as defined by U.S. generally accepted accounting principles. We include the effect of our counterparty credit risk based on current published credit default swap rates when the net fair value of our derivative instruments is in a net asset position and the effect of our own nonperformance risk when the net fair value of our derivative instruments is in a net liability position. Level 2 inputs consist of quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in non-active markets; and model-derived valuations in which significant inputs are corroborated by observable market data either directly or indirectly through correlation or other means (inputs may include yield curves, volatility, credit risks, and default rates). Derivatives are not used for trading or speculative purposes. Our derivatives are with credit worthy multinational financial institutions, with whom we have master netting agreements; however, our derivative positions are not disclosed on a net basis. There are no credit-risk-related contingent features within our derivative instruments.

Defined Benefit Pension Plans

We sponsor both funded and unfunded defined benefit pension plans for our international employees, primarily in Germany, France, Italy, Indonesia, and Spain. We recognize a liability for the projected benefit obligation in excess of plan assets or an asset for plan assets in excess of the projected benefit obligation. We also recognize the funded status of our defined benefit pension plans on our Consolidated Balance Sheets and recognize as a component of other comprehensive income (OCI), net of tax, the actuarial gains or losses and prior service costs or credits, if any, that arise during the period but are not recognized as components of net periodic benefit cost.

Several economic assumptions and actuarial data are used in calculating the expense and obligations related to these plans. The assumptions are updated annually at December 31 and include the discount rate, the expected remaining service life, the expected rate of return on plan assets, and the rate of future compensation increase. The discount rate is a significant assumption used to value our pension benefit obligation. We determine a discount rate for our plans based on the estimated duration of each plan’s liabilities. For our euro denominated defined benefit pension plans, which represent 94% of our benefit obligation, we use three discount rates, with consideration of the duration of the plans, using a hypothetical yield curve developed from euro-denominated AA-rated corporate bond issues, partially weighted for market value, with minimum amounts outstanding of €250 million for bonds with less than 10 years to maturity and €50 million for bonds with 10 or more years to maturity, and excluding the highest and lowest yielding

10% of bonds within each maturity group. The discount rates used, depending on the duration of the plans, were 2.75%, 3.25% and 3.50%, respectively. The weighted average discount rate used to measure the projected benefit obligation for all of the plans at December 31, 2012 was 3.36%. A change of 25 basis points in the discount rate would change our pension benefit obligation by approximately $4.0 million. The financial and actuarial assumptions used at December 31, 2012 may differ materially from actual results due to changing market and economic conditions and other factors. These differences could result in a significant change in the amount of pension expense recorded in future periods. Gains and losses resulting from changes in actuarial assumptions, including the discount rate, are recognized in OCI in the period in which they occur.

Our general funding policy for these qualified pension plans is to contribute amounts at least sufficient to satisfy funding standards of the respective countries for each plan. Refer to Item 1: “Financial Statements, Note 8: Defined Benefit Pension Plans” for our expected contributions for 2013.

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Contingencies
A loss contingency is recorded if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. We evaluate, among other factors, the degree of probability of an unfavorable outcome and our ability to make a reasonable estimate of the amount of the ultimate loss. Loss contingencies that we determine to be reasonably possible, but not probable, are disclosed but not recorded. Changes in these factors and related estimates could materially affect our financial position and results of operations. Legal costs to defend against contingent liabilities are expensed as incurred.

Bonus and Profit Sharing
We have various employee bonus and profit sharing plans, which provide award amounts for the achievement of annual financial and nonfinancial targets. If management determines it probable that the targets will be achieved and the amounts can be reasonably estimated, a compensation accrual is recorded based on the proportional achievement of the financial and nonfinancial targets. Although we monitor and accrue expenses quarterly based on our estimated progress toward the achievement of the annual targets, the actual results at the end of the year may require awards that are significantly greater or less than the estimates made in earlier quarters. For the three months ended March 31, 2013, we accrued $5.3 million for such awards, compared with $6.6 million for the same period in 2012. Awards are typically distributed in the first quarter of the following year.

Stock-Based Compensation
We measure and recognize compensation expense for all stock-based awards made to employees and directors, including awards of stock options, stock sold pursuant to our Employee Stock Purchase Plan (ESPP), and the issuance of restricted stock units and unrestricted stock awards, based on estimated fair values. The fair value of stock options is estimated at the date of grant using the Black-Scholes option-pricing model, which includes assumptions for the dividend yield, expected volatility, risk-free interest rate, and expected term. The fair value of restricted stock units with a market condition is estimated at the date of award using a Monte Carlo simulation model, which includes assumptions for the dividend yield, expected volatility, risk-free interest rate and the expected term. In valuing our stock options and restricted stock units with a market condition, significant judgment is required in determining the expected volatility of our common stock and the expected life that individuals will hold their stock options prior to exercising. Expected volatility for stock options is based on the historical and implied volatility of our own common stock while the volatility for our restricted stock units with a market condition is based on the historical volatility of our own stock and the stock for companies comprising the market index within the market condition. The expected life of stock option grants is derived from the historical actual term of option grants and an estimate of future exercises during the remaining contractual period of the option. While volatility and estimated life are assumptions that do not bear the risk of change subsequent to the grant date of stock options, these assumptions may be difficult to measure as they represent future expectations based on historical experience. Further, our expected volatility and expected life may change in the future, which could substantially change the grant-date fair value of future awards of stock options and ultimately the expense we record. For ESPP awards, the fair value is the difference between the market close price of our common stock on the date of purchase and the discounted purchase price. For restricted stock units without a market condition and unrestricted stock awards, the fair value is the market close price of our common stock on the date of grant. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results and future estimates may differ substantially from our current estimates. We expense stock-based compensation at the date of grant for unrestricted stock awards. For awards with only a service condition, we expense stock-based compensation, adjusted for estimated forfeitures, using the straight-line method over the requisite service period for the entire award. For awards with both performance and service conditions, we expense the stock-based compensation, adjusted for estimated forfeitures, on a straight-line basis over the requisite service period for each separately vesting portion of the award. Excess tax benefits are credited to common stock when the deduction reduces cash taxes payable. When we have tax deductions in excess of the compensation cost, they are classified as financing cash inflows in the Consolidated Statements of Cash Flows.

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Item 3: Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk

We are exposed to interest rate risk through our variable rate debt instruments. In May 2012, we entered into six forward starting pay-fixed receive one-month LIBOR interest rate swaps. The interest rate swaps convert $200 million of our LIBOR based debt from a floating LIBOR interest rate to a fixed interest rate of 1.00% (excluding the applicable margin on the debt) and are effective July 31, 2013 to August 8, 2016.

The table below provides information about our financial instruments that are sensitive to changes in interest rates and the scheduled minimum repayment of principal and the weighted average interest rates at March 31, 2013. Weighted average variable rates in the table are based on implied forward rates in the Reuters U.S. dollar yield curve as of March 31, 2013 and our estimated leverage ratio, which determines our additional interest rate margin at March 31, 2013.

	2013	2014	2015	2016	2017	Total	Fair Value
	(in thousands)						
Variable Rate Debt							
Principal: U.S. dollar term loan	$15,000	$26,250	$30,000	$202,500	$—	$273,750	$271,862
Average interest rate	1.49 %	1.60 %	1.83 %	2.20 %	— %		
Principal: Multicurrency revolving line of credit	$—	$—	$—	$125,000	$—	$125,000	$123,996
Average interest rate	1.49 %	1.60 %	1.83 %	2.20 %	— %		
Interest rate swap on LIBOR based debt							
Average interest rate (Pay)	1.00 %	1.00 %	1.00 %	1.00 %			
Average interest rate (Receive)	0.27 %	0.35 %	0.58 %	0.95 %			
Net/Spread	(0.73)%	(0.65)%	(0.42)%	(0.05)%			

Based on a sensitivity analysis as of March 31, 2013, we estimate that, if market interest rates average one percentage point higher in 2013 than in the table above, our financial results in 2013 would not be materially impacted.

We continually monitor and assess our interest rate risk and may institute additional interest rate swaps or other derivative instruments to manage such risk in the future.

Foreign Currency Exchange Rate Risk

We conduct business in a number of countries. As a result, over half of our revenues and operating expenses are denominated in foreign currencies, which expose our account balances to movements in foreign currency exchange

rates that could have a material effect on our financial results. Our primary foreign currency exposure relates to non-U.S. dollar denominated transactions in our international subsidiary operations, the most significant of which is the euro. Revenues denominated in functional currencies other than the U.S. dollar were 64% of total revenues for the three months ended March 31, 2013 compared with 56% for the same period in 2012.

We are also exposed to foreign exchange risk when we enter into non-functional currency transactions, both intercompany and third-party. At each period-end, non-functional currency monetary assets and liabilities are revalued, with the change recorded to other income and expense. We enter into monthly foreign exchange forward contracts (a total of 118 contracts were entered into during the three months ended March 31, 2013) not designated for hedge accounting, with the intent to reduce earnings volatility associated with certain of these balances. The notional amounts of the contracts ranged from $258,000 to $11.0 million, offsetting our exposures from the euro, Saudi riyal, Canadian dollar, Australian dollar, South African rand, and various other currencies.
In future periods, we may use additional derivative contracts to protect against foreign currency exchange rate risks.

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Item 4: Controls and Procedures

(a) Evaluation of disclosure controls and procedures. At March 31, 2013, an evaluation was performed under the supervision and with the participation of our Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e)) under the Securities Exchange Act of 1934, as amended. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that as of March 31, 2013, the Company's disclosure controls and procedures were effective to ensure the information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

(b) Changes in internal controls over financial reporting. While we are continuing the process of upgrading our global enterprise resource software systems and information technology infrastructure, there have been no changes in our internal control over financial reporting during the three months ended March 31, 2013 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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PART II: OTHER INFORMATION

Item 1: Legal Proceedings

There were no material changes, as defined by Item 103 of Regulation S-K, during the first quarter of 2013.

Item 1A: Risk Factors

There were no material changes to risk factors during the first quarter of 2013 from those previously disclosed in Item 1A: "Risk Factors" of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which was filed with the SEC on February 22, 2013.

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

(a) Not applicable.

(b) Not applicable.

(c) Issuer Repurchase of Equity Securities

The table below summarizes information about the Company's purchases of its shares of common stock, based on settlement date, during the quarterly period ended March 31, 2013.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share(2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
January 1 through January 31	—	$—	—	$23,131
February 1 through February 28	—	—	—	—
March 1 through March 31	4,490	44.51	4,490	49,800
Total	4,490	$44.51	4,490	

(1) On October 24, 2011, our Board of Directors authorized a repurchase program of up to $100 million of our common stock (2011 Repurchase Program). We repurchased $76.9 million of our common stock during the effective period of this program, which ended on February 15, 2013.

On March 8, 2013, the Board authorized a new twelve-month repurchase program of up to $50 million of our common stock (2013 Repurchase Program).

Repurchases are made in the open market or in privately negotiated transactions, and in accordance with applicable securities laws. No shares were purchased outside of the 2011 and 2013 Repurchase Programs.

(2) Includes commissions.

Subsequent to March 31, 2013, we repurchased 65,339 shares of our common stock under the 2013 Repurchase Program. The average price paid per share was $43.34.

Item 5: Other Information

(a) No information was required to be disclosed in a report on Form 8-K during the first quarter of 2013 that was not reported.

(b) Not applicable.

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Item 6: Exhibits

Exhibit Number	Description of Exhibits
10.1	Form of Restricted Stock Unit (RSU) Award Notice and Agreement for All Participants (excluding France) for use in connection with the Company's 2010 Stock Incentive Plan.
10.2	Form of RSU Award Notice and Agreement for Participants in France for use in connection with the Company's 2010 Stock Incentive Plan.
10.3	Form of RSU Award Notice and Agreement for Non-employee Directors for use in connection with the Company's 2010 Stock Incentive Plan.
10.4	Form of Long-Term Performance RSU Notice and Agreement for U.S. Participants for use in connection with the Company’s 2010 Stock Incentive Plan.
10.5	Form of Long-Term Performance RSU Notice and Agreement for Participants in France for use in connection with the Company’s 2010 Stock Incentive Plan.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

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SIGNATURE

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

ITRON, INC.

May 2, 2013	By:	/s/ STEVEN M. HELMBRECHT
Date		Steven M. Helmbrecht
		Executive Vice President and Chief Financial Officer