

ITRON INC /WA/
Form 10-K/A
September 13, 2007

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

FORM 10-K/A

Amendment No. 1

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 000-22418

ITRON, INC.

(Exact name of registrant as specified in its charter)

**Washington
(State of Incorporation)**

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

**2111 N Molter Road, Liberty Lake, Washington 99019
(509) 924-9900**

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

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

| Title of each class | Name of each exchange on which registered |
|---------------------------------|--|
| Common stock, no par value | NASDAQ Global Select Market |
| Preferred share purchase rights | NASDAQ Global Select Market |

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this

Form 10-K. "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of June 30, 2006 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the shares of common stock held by non-affiliates of the registrant (based on the closing price for the common stock on the NASDAQ National Market on such date) was \$1,510,628,542.

As of January 31, 2007, there were outstanding 25,748,297 shares of the registrant's common stock, no par value, which is the only class of common stock of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part III is incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Shareholders of the Company to be held May 15, 2007.

EXPLANATORY NOTE

Amendment No. 1 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, which was originally filed with the Securities and Exchange Commission (SEC) on February 23, 2007, is being filed to restate previously omitted financial information from Item 8, Financial Statements and Supplementary Data, to include financial information pursuant to SEC Regulation S-X Rule 3-10, *Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered*.

In addition, we have updated Item 8, Financial Statements and Supplementary Data, to retrospectively adjust for a change in the composition of our reportable segments, which occurred in the second quarter of 2007, in connection with our acquisition of Actaris Metering Systems SA. We have not updated Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for the change in our reportable segments as we believe the current disclosures includes more detailed information than would be required under our updated segment presentation.

The restated and updated information noted above has been reflected in Notes 17 and 18 to the consolidated financial statements. This restatement had no effect on the accompanying Consolidated Statements of Operations, Consolidated Balance Sheets, Consolidated Statements of Shareholders' Equity or Consolidated Statements of Cash Flows. Other items and disclosures included in this Form 10-K/A have not been updated for any events subsequent to the previously filed Annual Report on Form 10-K.

We have also included Item 9A, Controls and Procedures, and Item 15, Exhibits, Financial Statement Schedule.

1

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT

To the Board of Directors and Shareholders of Itron, Inc.

Management is responsible for the preparation of our consolidated financial statements and related information appearing in this Annual Report on Form 10-K/A. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present our financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Management has included in our financial statements amounts based on estimates and judgments that it believes are reasonable under the circumstances.

Management's explanation and interpretation of our overall operating results and financial position, with the basic financial statements presented, should be read in conjunction with the entire report. The notes to consolidated financial statements, an integral part of the basic financial statements, provide additional detailed financial information. Our Board of Directors has an Audit and Finance Committee composed of independent directors. The Committee meets regularly with financial management and Deloitte & Touche LLP to review internal control, auditing and financial reporting matters.

LeRoy D. Nosbaum
Chairman and Chief Executive Officer

Steven M. Helmbrecht
Sr. Vice President and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Itron, Inc.
Liberty Lake, Washington

We have audited the accompanying consolidated balance sheets of Itron, Inc. and subsidiaries (the “Company”) as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Itron, Inc. and subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, effective January 1, 2006.

As discussed in Note 18 to the consolidated financial statements, the accompanying consolidated financial statements have been restated to include a previously omitted footnote disclosure.

As discussed in Note 17 to the consolidated financial statements, the disclosures in the accompanying consolidated financial statements have been retrospectively adjusted for a change in the composition of reportable segments.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company’s internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2007 expressed an unqualified opinion on management’s assessment of the effectiveness of the Company’s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Seattle, Washington
February 22, 2007 (September 12, 2007, as to Notes 17 and 18)

CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year Ended December 31, | | |
|--|--|-------------|-------------|
| | 2006 | 2005 | 2004 |
| | (in thousands, except per share data) | | |
| Revenues | | | |
| Sales | \$ 593,990 | \$ 503,270 | \$ 346,543 |
| Service | 50,052 | 49,420 | 52,651 |
| Total revenues | 644,042 | 552,690 | 399,194 |
| Cost of revenues | | | |
| Sales | 349,210 | 291,445 | 198,131 |
| Service | 27,390 | 27,624 | 30,394 |
| Total cost of revenues | 376,600 | 319,069 | 228,525 |
| Gross profit | 267,442 | 233,621 | 170,669 |
| Operating expenses | | | |
| Sales and marketing | 63,587 | 56,642 | 45,279 |
| Product development | 58,774 | 47,077 | 44,379 |
| General and administrative | 52,213 | 44,428 | 35,490 |
| Amortization of intangible assets | 31,125 | 38,846 | 27,901 |
| Restructurings | - | 390 | 7,258 |
| In-process research and development | - | - | 6,400 |
| Total operating expenses | 205,699 | 187,383 | 166,707 |
| Operating income | 61,743 | 46,238 | 3,962 |
| Other income (expense) | | | |
| Interest income | 9,497 | 302 | 166 |
| Interest expense | (17,785) | (18,944) | (13,145) |
| Other income (expense), net | (1,220) | (68) | (389) |
| Total other income (expense) | (9,508) | (18,710) | (13,368) |
| Income (loss) before income taxes | 52,235 | 27,528 | (9,406) |
| Income tax (provision) benefit | (18,476) | 5,533 | 4,149 |
| Net income (loss) | \$ 33,759 | \$ 33,061 | \$ (5,257) |
| Earnings per share | | | |
| Basic | \$ 1.33 | \$ 1.41 | \$ (0.25) |
| Diluted | \$ 1.28 | \$ 1.33 | \$ (0.25) |
| Weighted average number of shares outstanding | | | |
| Basic | 25,414 | 23,394 | 20,922 |
| Diluted | 26,283 | 24,777 | 20,922 |

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

CONSOLIDATED BALANCE SHEETS

| | At December 31, | |
|--|------------------------|-------------|
| | 2006 | 2005 |
| | (in thousands) | |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 361,405 | \$ 33,638 |
| Short-term investments, held to maturity | 34,583 | - |
| Accounts receivable, net | 109,924 | 104,428 |
| Inventories | 52,496 | 49,456 |
| Deferred income taxes, net | 20,916 | 23,194 |
| Other | 17,121 | 10,941 |
| Total current assets | 596,445 | 221,657 |
| Property, plant and equipment, net | 88,689 | 77,623 |
| Intangible assets, net | 112,682 | 123,293 |
| Goodwill | 126,266 | 116,032 |
| Deferred income taxes, net | 47,400 | 48,955 |
| Other | 17,040 | 11,324 |
| Total assets | \$ 988,522 | \$ 598,884 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 43,922 | \$ 46,215 |
| Wages and benefits payable | 24,214 | 23,732 |
| Current portion of debt | - | 4,376 |
| Current portion of warranty | 7,999 | 8,497 |
| Unearned revenue | 27,449 | 22,758 |
| Total current liabilities | 103,584 | 105,578 |
| Long-term debt | 469,324 | 160,186 |
| Project financing debt | - | 2,367 |
| Warranty | 10,149 | 6,779 |
| Contingent purchase price | 5,879 | - |
| Other obligations | 8,604 | 6,440 |
| Total liabilities | 597,540 | 281,350 |
| Commitments and contingencies | | |
| Shareholders' equity | | |
| Preferred stock, no par value, 10 million shares authorized, no shares issued or outstanding | - | - |
| Common stock, no par value, 75 million shares authorized, 25,675,237 and 24,869,201 shares issued and outstanding | 351,018 | 312,046 |
| Accumulated other comprehensive income, net | 1,588 | 871 |
| Retained earnings | 38,376 | 4,617 |
| Total shareholders' equity | 390,982 | 317,534 |
| Total liabilities and shareholders' equity | \$ 988,522 | \$ 598,884 |

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | Shares | Amount | Accumulated Other Comprehensive Income (Loss) (in thousands) | Retained Earnings (Accumulated Deficit) | Total |
|---|---------------|---------------|---|--|--------------|
| Balances at January 1, 2004 | 20,572 | \$ 200,567 | \$ (136) | \$ (23,187) | \$ 177,244 |
| Net loss | | | | (5,257) | (5,257) |
| Currency translation adjustment, net of income tax provision of \$770 | | | 1,090 | | 1,090 |
| Total comprehensive loss | | | | | (4,167) |
| Stock issues: | | | | | |
| Options exercised | 632 | 6,555 | | | 6,555 |
| Employee stock plans income tax benefits | | 2,594 | | | 2,594 |