ITRON INC /WA/
Form 10-K
February 26, 2008

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007
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	91-1011792
(State of Incorporation)	(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 x 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 x

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

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. x

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 x 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 x

As of June 30, 2007 (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 Global Select Market) was $2,356,243,811.

As of February 2, 2008, there were outstanding 30,673,066 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 6, 2008.

Itron, Inc.

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In this Annual Report on Form 10-K, the terms “we,” “us,” “our,” “Itron” and the “Company” refer to Itron, Inc.

Certain Forward-Looking Statements

This document contains forward-looking statements concerning our operations, financial performance, revenues, earnings growth, estimated stock-based compensation expense, pension liabilities, cost reduction programs and other items. These statements reflect our current plans and expectations and are based on information currently available as of the date of this Annual Report on Form 10-K. When we use the words “expect,” “intend,” “anticipate,” “believe,” “pla
“project,” “estimate,” “future,” “objective,” “may,” “will,” “will continue” and similar expressions they are intended to i
forward-looking statements. Any statements that refer to expectations, projections or other characterizations of future events or circumstances are also 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, 4) changes in domestic and foreign laws and regulations, 5) our dependence on new product development and intellectual property, 6) current and future business combinations, 7) changes in estimates for stock-based compensation or pension costs, 8) changes in foreign currency exchange rates, 9) foreign business risks and 10) other factors. You should not solely rely on these forward-looking statements as they are only valid as of the date of this Annual Report on Form 10-K. 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, see “Risk Factors” in Item 1A.

PART I

ITEM 1: BUSINESS

Available Information

Documents we provide to the Securities and Exchange Commission (SEC) are available free of charge under the Investor Information 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.

General

We provide a comprehensive portfolio of products and services to utilities for the energy and water markets throughout the world. Our strong position in meter data collection and software solutions started with our introduction of handheld computer-based systems in 1977. Through product innovations and several acquisitions, we have become one of the world’s leading providers of metering, data collection and software, serving our customers for over 100 years.

The acquisition of Actaris Metering Systems SA (Actaris) in April 2007 for approximately $1.7 billion increased our total assets to $3.1 billion at December 31, 2007. The acquisition of Actaris creates an opportunity to share technology and expertise around the world as worldwide electric, gas and water utilities look for advanced metering and communication products to better serve their markets.

The Actaris acquisition significantly changes many aspects of our results of operations, financial condition and cash flows, which are described in each applicable area within this Annual Report on Form 10-K.

Market Overview, Products, Systems and Solutions

We have two operating segments, Itron North America and Actaris. See Item 7: “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for specific segment results. Itron North America generates the majority of its revenue in the United States and Canada and offers electric meters, electric, gas and water automated meter reading (AMR) and advanced metering infrastructure (AMI) systems, software and services. Actaris generates the majority of its revenue in Europe, Africa, South America and Asia and offers electric, gas and water meters, AMR systems and services. We have retained the Actaris brand and, therefore, our branding of Itron and Actaris products follow the operating segments. The following are our major products and services.

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Meters

We estimate there are approximately 2.6 billion meters worldwide. In the United States and Canada we estimate there are 150 million electric meters, 70 million gas meters and 80 million water meters. In the rest of the world we estimate there are approximately 1.3 billion electric meters, 300 million gas meters and 700 million water meters. We also estimate that approximately 30% of all water points are not metered.

Meters measure the consumption of energy and water and are critical components of a utility's distribution infrastructure. The basic purpose of a meter is to accurately measure consumption, provide long-term durability and meet certain safety needs of the utility. Changes in technology are providing increased capabilities, reliability and accuracy through the use of electronic technology rather than traditional gear-based technology. Electronic technology also allows for simple and cost-effective integration of embedded AMR functionality.

Meter growth has traditionally been driven by new construction and the replacement of old meters. Meters are typically replaced at specified intervals, depending on the type of meter and the specific regulatory oversight in the respective country. Normal meter replacements are typically not affected by factors that influence overall utility capital spending. Therefore, due to the combined replacement of the current installed base and the increase in meter population, we estimate the metering market will continue to grow between 3% and 5% annually, although the adoption of AMR and AMI systems is likely to cause volatility and affect these growth rates. We cannot predict how, and to what extent, the current slowdown in the U.S. housing market will impact this historical growth rate.

We produce electricity, gas, water and heat meters and a variety of other associated metering products for residential, commercial and industrial (C&I) and transmission and distribution (T&D) customers. Our meters comply with the standards established by each standard setting regulatory body in each of the over 130 countries where we sell our products. The primary differences between meters used in each different country are the physical configuration and the certification requirements of the meters.

Electricity Meters, Products and Systems

The world's demand for energy continues to grow. Utilities are faced with the challenges of rising fuel costs and the burden of increasingly stringent environmental regulations affecting their operations and costs. These challenges drive the need to conserve energy specifically during peak hours, defer the building of additional generation facilities and improve customer service. In addition to our residential, C&I and T&D electricity meters, we also offer several meter reading choices to help meet these challenges. In North America, electricity meters may have AMR functionality using either Itron North America's AMR or AMI technology, or AMR technology provided by our competitors embedded in the meter. Actaris' AMR and AMI solutions are being deployed in Europe and in other parts of the world. In addition, pre-payment electricity meters are widely used in the United Kingdom and South Africa. Actaris is one of the largest prepayment meter suppliers in the world, offering one-way and two-way electricity prepayment systems, using smart key, keypad and smart card communication technologies. AMR systems in Europe and other parts of the world utilize GPRS (general packet radio service), radio frequency (RF) or power line carrier (PLC) communication devices depending on the customer's choice. (See also AMR and AMI Systems below).

Gas Meters, Products and Systems

Investments in the natural gas industry are rising and gas T&D networks are expanding as a result of growing demand. Throughout most of the world, accelerating market deregulation trends are allowing more and more customers to choose gas suppliers based on price. With these industry changes, there is increased need to conserve energy and improve customer service. Actaris' residential and industrial gas meters include diaphragm, turbine and rotary technologies. Actaris provides a wide selection of regulators and safety devices for most applications in natural gas distribution, from high pressure regulators used in city gate stations to residential regulators. Our products and systems combine modern metering, regulation and safety devices, AMR, prepayment, energy metering, load monitoring and operating controls.

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Water & Heat Meters, Products and Systems

Water conservation continues to be a worldwide concern. There are many efforts underway to stimulate more efficient use of water and heat. Water utilities are focused on increasing the efficiency of water production and minimizing waste in consumption. Demand for water metering and heating and cooling metering (the measurement of energy consumed in district heating and cooling distribution systems and in heat cost allocations) are constantly growing. Actaris supplies a complete range of water and heat meters and associated AMR systems for residential and C&I markets including mechanical detection (turbine and piston) and ultrasonic technology. All water and heat meters are pre-equipped for remote data reading needs. Benefiting from almost 25 years of AMR experience, we provide a range of modules (wireless and wired technology), advanced leak detection systems and a variety of software for managing the collection and transmission of data from our AMR systems, including meter data for billing systems and our knowledge applications.

AMR and AMI Systems

Of the total 2.6 billion electric, gas and water meters worldwide, we estimate about 6% have been upgraded to AMR or AMI capability. We estimate that of the 300 million energy and water meters in the United States and Canada, between 35% and 40% are read with AMR or AMI systems, of which about half are read with Itron North America technology. Throughout the rest of the world, we estimate about 2% of the meters are read with AMR or AMI systems primarily due to infrequent meter reads. AMR growth in the United States and Canada has primarily been driven by the need to reduce operational cost, including the reduction of labor costs, improve operating cash flow with shorter read-to-pay cycle times and enhance customer service in the form of increased billing accuracy and timeliness of billing cycles, as these utilities typically read meters each month. In many parts of the world, meters are only read annually and bills are estimated monthly or quarterly; however, with the increased demand for energy and water, compounded by the scarcity of resources and concerns for the environment, regulatory bodies worldwide are starting to require utilities to increase their reading frequency.

We believe AMI growth will be driven primarily by limited energy supplies particularly at utilities with a high geographic concentration of customers. Limited supplies of energy will force these utilities to utilize their current energy supplies more efficiently. Many utilities are working to smooth consumption during peak hours in order to reduce the need to buy or build new sources of power generation in order to meet peak load demand. Construction costs, combined with environmental and regulatory issues, make the addition of new power generation assets a difficult endeavor. AMI will allow utilities to communicate real-time pricing and usage information to their customers and deploy time of use pricing strategies. As a result, AMI systems will help decrease peak loads by allowing customers to make informed and real-time choices about their energy consumption and associated costs.

AMI systems have substantially more features and functions than AMR systems and include such capabilities as the ability to remotely connect and disconnect service to the meter, the ability to perform bi-directional metering and the ability to communicate with in-home displays, smart thermostats and appliances. AMI systems are generally implemented after extensive review by the utility’s standard setting regulatory body and usually involve a limited trial of the system before full deployment. While we believe most utilities will implement AMR or AMI systems, the timing of these investments can be affected by many factors including the rate of regulatory changes and utility capital spending levels.

o Itron North America AMR systems

For over 15 years, Itron North America has offered AMR technology that enables utilities to migrate from one product offering, such as our handheld computer product, to a mobile or fixed network, to achieve higher forms of automation and more frequent meter reads. These AMR systems are comprised of AMR meters or modules, data collection hardware and software.

Our North America AMR meters and modules encode consumption, tamper and other information from the meter and communicate the data via RF to our handheld, mobile and network radio-based data collection technology. We embed our AMR technology into our electronic electricity meters. Gas and water AMR modules can be retrofitted to existing gas or water meters or installed in or on new meters.

Data collection hardware consists of handheld computers, mobile AMR and fixed network AMR. We provide several models of handheld computers that are used by meter readers to walk a route. Most handheld units we sell today are radio-equipped (handheld AMR); however, where there is not an AMR enabled meter, the meter reader visually reads the meters and inputs the data. Mobile AMR uses a radio transceiver located in a vehicle that communicates with all AMR-enabled meters within range and receives meter reading, tamper and other information from the meters. Mobile AMR is designed for reading concentrated deployments of AMR-enabled meters. Fixed network AMR communicates with AMR-enabled meters through an RF network on a more frequent basis. Concentrators are installed within a utility's territory and use a variety of public communication platforms including GPRS, Ethernet, PSTN (public switched telephone networks), BPL (broadband over power line) and others to transfer data between the concentrators and a host processor at a utility

The data collection systems manage the collection and transmission of data and provide meter data for billing systems, data warehouses, Internet data presentment and our knowledge applications.

Our water fixed network and products are designed to cost-effectively address issues that are unique to the water industry. In addition to fixed network AMR capabilities, we provide an advanced water leak detection system and software for pipeline management using patented acoustic technology that analyzes vibration patterns from the distribution system. This technology significantly improves a utilities' ability to proactively maintain their water infrastructure and provides them the ability to analyze the data collected to help pinpoint leaks.

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- Actaris AMR Systems

Actaris provides a range of AMR communication technologies for its electricity, gas, water and heat metering products that provide consumption, tamper, outage and leak detection and profile analysis. This information is transmitted from modules embedded in the Actaris meter to either handheld computers and/or fixed networks, allowing utilities to collect the data for billing systems and analyze the meter data for better utility management. These communication technologies include telephone (PSTN), RF, GSM (Global System for Mobile communications), GPRS, PLC and Ethernet devices. Actaris' AMR electric solutions also offer single and multi-tariff capabilities and certain load shedding functions.

- Itron North America AMI Systems

Itron North America offers AMI, or smart metering, systems with our OpenWay® architecture. OpenWay is a standards-based, open-architecture smart metering solution that helps utilities better manage limited energy supplies and provide pertinent information about energy usage to energy consumers. The OpenWay system provides two-way communication for residential and commercial electricity meters, which allows for advanced data collection, and certain command and control functions, including remote connect and disconnect, net metering, integrated clock for critical peak pricing (CPP), time of use and CPP displays on register, interval data storage, alarms and upgradeable firmware. Our AMI software can be configured to include load management, demand response and prepayment capabilities. Each OpenWay meter is equipped with a ZigBee® based gateway (a low-power, short distance wireless standard) that enables the utility to communicate with its customer's designated in-home monitoring devices, allowing the consumer to make more informed choices about energy consumption. ZigBee technology has the ability to gather gas and water meter reads from AMR enabled gas and water meters. The OpenWay system can utilize a variety of public communication platforms to transfer data, including GPRS, Ethernet, PSTN, BPL, WiFi, WiMax and others.

Other Products

- Meter Data Management: Itron North America provides solutions for residential and C&I meter data management. Our meter data management software solutions provide functions that support the process of meter data collection by using open and flexible interfaces, data validation, estimation and editing, complex calculations and aggregation, time-of-use information and interactive graphics. These databases are also used for other complex data applications.

- Knowledge Applications: Itron North America provides utilities and large C&I end-users with software knowledge applications, data warehouses and analytic and visualization tools that use the meter and other data collected. Our knowledge applications include modules for C&I complex billing; web-based usage analysis for customers with advanced metering data and C&I customers (customer care); distribution asset analysis; load research and management; revenue protection, including theft detection and identification of unbilled revenue; and central market data collection and load settlement. We also offer forecasting services and software products that are used by utilities, market operators, government agencies and others for predicting load growth and requirements, revenue, new facility requirements, customer reaction to proposed programs and rates, day-ahead energy needs and longer-term energy needs.

- Consulting and Analysis: Itron North America provides consulting and analysis (C&A) services in the areas of market research, load research, renewable and distribution generation program design and evaluation, energy efficiency program evaluation and design, energy policies, rate design and regulatory support. The C&A client base in these areas is comprised of major energy utilities, research organizations, government agencies and other institutional clients throughout the United States.

- Professional Services: Itron North America offers professional services that help our customers implement, install, project manage and maintain their meter reading systems. Our service professionals assist our customers in identifying and correcting operational issues, optimize the use of our innovative solutions products and provide training and education. For Itron North America products, we operate a call center 24 hours a day to help customers

with problems they may encounter. In addition, we have service and repair depots for our handheld and AMR systems in several locations.

- Managed Services: Actaris' managed service business provides a solution to allow utilities to outsource their prepayment information technology needs. These managed services include the issuing of prepayment devices (smart keys, smart cards, mobile phone credit cards and tokens), automated processing of transaction details, customer account management, maintenance of historical financial transactions, business to business call centers and personalized mailing services. In the United Kingdom, our managed services are fully integrated into the nationwide industry standard utility data transfer network, which allows data to be exchanged automatically with other utilities in a standard format.

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Operational Capabilities

Sales and Distribution

We have two sales organizations: one for Itron North America and another for Actaris. Both sales organizations use a combination of direct and indirect sales channels. For the largest electric, gas and water utilities, with which we have long-established relationships, we utilize a direct sales force with technical support teams. For smaller utilities, we typically use an indirect sales force that consists of distributors, representative agencies, partners and meter manufacturer representatives. We also sell electricity and water AMR modules through original equipment manufacturer arrangements with several major meter manufacturers. In these arrangements, manufacturers incorporate our AMR modules into new meters and then offer these AMR-enabled meters for sale. We also license our North America AMR technology to certain meter manufacturers who embed our AMR technology into their meters.

No single customer represented more than 10% of total revenues for 2007 or 2005. One customer, Progress Energy, represented 16% of total revenues for the year ended December 31, 2006. During 2007, 2006 and 2005, our 10 largest customers in each of those years accounted for approximately 14%, 40% and 26%, of total revenues, respectively.

Manufacturing

Itron North America has two primary manufacturing facilities in the United States: one in Minnesota to manufacture gas and water AMR modules and one in South Carolina to manufacture electricity meters. Contract manufacturers are used for certain handheld systems, peripheral equipment and low volume AMR products.

Actaris has manufacturing facilities throughout the world. The Actaris Electricity division is headquartered in Felixstowe, United Kingdom, with principal manufacturing facilities located in France, the United Kingdom, Hungary, Brazil, Portugal and South Africa. The Actaris Gas division is headquartered in Karlsruhe, Germany, with principal manufacturing facilities in Germany, the United Kingdom, France, Italy, China, South America and the United States. The Actaris Water division is headquartered in Mâcon, France, with principal manufacturing facilities in France, Germany, Italy, the United States and Brazil. All three business lines have a number of smaller local assembly, test, service and calibration facilities to address local markets.

Our products require a wide variety of components and materials. Although we have multiple sources of supply for most of our material requirements, certain components and raw materials are supplied by sole-source vendors, and our ability to perform certain contracts depends on the availability of these materials. In most instances, multiple vendors of raw materials are screened during a qualification process to ensure that there will be no interruption of supply should one of them discontinue operations. Nonetheless, in some situations, there is a risk of shortages due to reliance on a limited number of suppliers or because of price fluctuations due to the nature of the raw materials, such as electrical components, plastics, copper and brass, which are used in varying degrees in our meter products. See "Risk Factors" within Item 1A, included in this Annual Report on Form 10-K, for a further discussion related to risks.

Product Development

Our current product development focus is on improvements to existing technology as well as the development of next-generation technology for electricity, gas and water meters, data collection, communications technologies, data warehousing and software knowledge applications. We spent approximately $95 million, $59 million and $47 million on product development in 2007, 2006 and 2005, respectively. Actaris' product development from the April 18, 2007 acquisition date through December 31, 2007 was $28 million. Itron North America's product development was $67 million for the year ended December 31, 2007. During 2007, Itron North America had a strong focus on our AMI solution development.

Marketing

Our marketing efforts focus on brand recognition and product solutions through an integrated approach that includes participation in industry trade shows and web-based seminars and the preparation and distribution of various

brochures, published papers, case studies, print advertising, direct mail, newsletters and conferences. In addition, we direct customers to our global website that provides information on all of our products and services.

We maintain communications with our customers through integrated and targeted marketing campaigns, market surveys, market trend analysis and at our annual Itron North America Users' Conference.

Employees

At December 31, 2007, we had approximately 8,400 people, with approximately 2,600 in Itron North America and 5,800 at Actaris. We have not experienced any work stoppages and consider our employee relations to be good.

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Competition

We provide a broad portfolio of products, systems and services to customers in the utility industry and compete with a large number of competitors who also offer similar products, systems and services. We believe that our competitive advantage is based on established customer relationships, our track record of reliable products, integrated solutions, product cost, product innovation, upgradeable AMR systems and our knowledge application tools. During recent years, vendor consolidation has occurred in the industry. In many of our markets, there are participants who may be both competitors and partners.

Our primary competitors for our meters and products (including AMR and AMI technology, software and services) are the ABB Group, Badger Meter, Inc., the Bayard Group, Cooper Industries, Ltd., Dandong Visionseal Co., Datamatic, Ltd., Dresser, Inc., Echelon Corporation, the Elster Group, Emerson Electric Co., eMeter Corporation, EnergyICT NV, ESCO Technologies Inc., General Electric Company, Holley Group Co., Ltd., Hydrometer, Iskraemeco, d.d., Oracle Corporation, Roper Industries, Inc., Schneider Electric and Sensus Metering Systems Inc. These competitors may offer a broad range of meters and related products, or may specialize in a specific technology or service.

Bookings and Backlog of Orders

Bookings for a reported period represent contracts and firm purchase orders received during the specified period. 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 twelve months. Bookings and backlog exclude maintenance-related activity and agreements that do not represent firm purchase orders. Customer agreements that contain cancellation for convenience terms are generally not reflected in bookings and backlog until firm purchase orders are received. Backlog is not a complete measure of our future business due to these customer agreements, as well as significant book-and-ship orders. Bookings and backlog can 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.

Information on bookings and backlog is summarized as follows:

Year Ended	Total Bookings	Total Backlog	12-Month Backlog
		(in millions)	
December 31, 2007	$ 1,419	$ 659	$ 501
December 31, 2006	652	392	225
December 31, 2005	655	324	188

In December 2007, Itron reached an agreement valued at approximately $480 million with Southern California Edison (SCE) to deploy Itron's OpenWay meter and communications system. This is the largest contract in our history. However, the agreement may be cancelled by SCE for convenience and does not guarantee a specified volume of meters; therefore, we booked only $11.2 million in 2007 for which we received a firm purchase order. As firm purchase orders are received from SCE during the four year deployment period, we will add them to bookings.

Other Business Considerations

Intellectual Property

Itron North America owns or licenses 287 U.S. and counterpart international patents and has on file 84 U.S. and 158 counterpart international patent applications. Actaris owns or licenses 58 U.S. and 521 international patents and has on file 8 U.S. and 164 international patent applications. These patents cover a range of technologies related to metering, portable handheld computers, water leak detection and AMR related technologies.

We also rely on a combination of copyrights and trade secrets to protect our products and technologies. We have registered trademarks for most of our major product lines in the United States and many foreign countries. Itron North America's registered trademarks include, but are not limited to, ITRON®, "KNOWLEDGE TO SHAPE YOUR FUTURE®", CENTRON®, MV-90®, MV-90®xi, ENDPOINT-LINK®, ERT®, EEM SUITE®, OPENWAY®, QUANTUM® Q1000, SENTINEL® and SERVICE-LINK®. Itron North America's unregistered trademarks include, but are not limited, to CHOICECONNECT™, ITRON ENTERPRISE EDITION™, LD-PRO™, METRIXND™ MLOG™, SREAD™ and UNILOG™. Actaris' registered trademarks include, but are not limited to, ACTARIS®, AQUADIS®, CYBLE®, FLOSTAR®, WOLTEX®, FLODIS®, ECHO®, GALLUS®, RF1®, DELTA®, FLUXI®, CORUS®, ACE®, SL7000® and PULSADIS®.

Disputes over the ownership, registration and enforcement of intellectual property rights arise in the ordinary course of our business. We license some of our technology to other companies, some of which are our competitors. Currently, we are not a party to any material intellectual property litigation.

Regulation and Allocation of Radio Frequencies

Certain of our products made for the U.S. market use radio frequencies that are regulated by the Federal Communications Commission (FCC) pursuant to the Communications Act of 1934, as amended. In general, a radio station license issued by the FCC is required to operate a radio transmitter. The FCC issues these licenses for a fixed term, and the licenses must be renewed periodically. Because of interference constraints, the FCC can generally issue only a limited number of radio station licenses for a particular frequency band in any one area.

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Although radio licenses generally are required for radio stations, Part 15 of the FCC's rules permits certain low-power radio devices (Part 15 devices) to operate on an unlicensed basis. Part 15 devices are designed for use on frequencies used by others. These other users may include licensed users, which have priority over Part 15 users. Part 15 devices cannot cause harmful interference to licensed users and must be designed to accept interference from licensed radio devices. Our AMR modules and AMR-equipped electronic residential electricity meters are typically Part 15 devices that transmit information back to handheld, mobile or fixed network AMR reading devices pursuant to these rules. Many of our AMR systems utilize the 902-928 MHz band pursuant to the Part 15 rules for these transmissions.

The FCC has initiated a rulemaking proceeding in which it is considering adopting "spectrum etiquette" requirements for unlicensed Part 15 devices operating in the 902-928 MHz band. Although the outcome of the proceeding is uncertain, we do not expect to have to make material changes to our equipment, and adoption of some of the proposals that have been made in the proceeding could reduce the potential for interference with our systems from other Part 15 devices.

The FCC has also adopted service rules governing the use of the 1427-1432 MHz band. We use this band in connection with various devices in our network solutions. Among other things, the rules reserve parts of the band for general telemetry, including utility telemetry, and provide that nonexclusive licenses will be issued in accordance with Part 90 rules and the recommendations of frequency coordinators. Telemetry licensees must comply with power limits and out-of-band emission requirements that are designed to avoid interference with other users of the band. Although the FCC issues licenses on a nonexclusive basis and it is possible that the demand for spectrum will exceed supply, we believe we will continue to have access to sufficient spectrum in the 1429.5-1432 MHz band under favorable conditions.

Outside of the United States, certain of our products require the use of radio frequencies and are also subject to regulations in those jurisdictions where we have deployed such equipment. In some jurisdictions, radio station licensees are generally required to operate a radio transmitter and such licenses may be for a fixed term and must be periodically renewed. In other jurisdictions, the rules permit certain low power devices to operate on an unlicensed basis. Our AMR modules and AMR-equipped electronic residential electricity meters typically are devices that transmit information back to handheld, mobile or fixed network AMR reading devices in unlicensed bands pursuant to rules regulating such use. Generally, we use the unlicensed Industrial, Scientific and Medical (ISM) bands with the various devices in our network solutions. In Europe, we generally use the 433 MHz and 868 MHz bands. In the rest of the world, we use the 2.4000-2.4835 GHz band. In either case, although the availability of unlicensed bands or radio station licenses for a particular frequency band in jurisdictions outside of the United States may be limited, we believe we will continue to have access to sufficient spectrum under favorable conditions.

Environmental Regulations

In the ordinary course of our business we use metals, solvents and similar materials that are stored on-site. The waste created by use of these materials is transported off-site on a regular basis by unaffiliated waste haulers and is processed by unaffiliated contractors or vendors. We have made a concerted effort to reduce or eliminate the use of mercury and other hazardous materials in our products. We believe we are in compliance with laws, rules and regulations applicable to the storage, discharge, handling, emission, generation, manufacture and disposal of, or exposure to, toxic or other hazardous substances in each of those jurisdictions in which we operate. Two Environmental Protection Agency reports issued in 1992 and 1997 identified several solid waste management units and areas of concern at one of our South Carolina manufacturing facilities. In addition, trichloroethylene (TCE) soil and groundwater contamination exist at this South Carolina facility from a TCE storage tank that was removed in 1994. Schlumberger Limited (Schlumberger) and various related parties, from which we purchased the operations of this facility in 2004, entered into a consent agreement with the South Carolina Department of Health and Environmental Control regarding certain related environmental remedial activities. Under the terms of the 2004 acquisition agreement, Schlumberger is retaining all liability for these matters.

The European Union has enacted the Waste Electrical and Electronic Equipment Directive, which makes producers of certain types of electrical equipment financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. The deadline for the individual member states of the European Union to enact the directive in their respective countries was August 13, 2004 (such legislation, together with the directive is referred to as the WEEE Legislation). Producers participating in the market were financially responsible for implementing these responsibilities under the WEEE Legislation beginning in August 2005. Implementation in certain of the member states was delayed until 2007. Similar legislation has been or may be enacted in other jurisdictions, including in the United States, Canada, Mexico, China and Japan. China has passed similar legislation, which took effect March 1, 2007. California has drafted electronic recycling laws similar to the WEEE legislation, but such legislation has not as yet been enacted. The liability for such environmental costs is accrued when considered probable and the costs can be reasonably estimated. We have determined the liability for our responsibilities under the WEEE Legislation to be immaterial to our operations and financial position at December 31, 2007, and we do not currently anticipate material capital expenditures for environmental control facilities. We are continuing to evaluate the impact of the WEEE Legislation and similar legislation in other jurisdictions as individual countries issue their implementation guidance.

The European Union has also enacted the Restriction of Hazardous Substances (RoHS) directive, which went into effect on July 1, 2006. Of the numerous hazardous substances defined in this directive, our only products known to be affected at this time are low volume handhelds, which have been updated to comply with the RoHS directive. We are continuing to evaluate the impact of RoHS legislation and similar legislation in other jurisdictions as individual countries issue their implementation guidance.

Incorporation
We were incorporated in the state of Washington in 1977.

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MANAGEMENT

Executive Officers of the Registrant

Set forth below are the names, ages and titles of our executive officers as of February 25, 2008.

Name	Age	Position
LeRoy D. Nosbaum	61	Chairman of the Board and Chief Executive Officer
Steven M. Helmbrecht	45	Sr. Vice President and Chief Financial Officer
John W. Holleran	53	Sr. Vice President, General Counsel and Corporate Secretary
Philip C. Mezey	48	Sr. Vice President and Chief Operating Officer, Itron North America
Malcolm Unsworth	58	Sr. Vice President and Chief Operating Officer, Actaris
Jared P. Serff	40	Vice President, Competitive Resources

LeRoy Nosbaum is Chairman of the Board and Chief Executive Officer. Mr. Nosbaum has been a director and our CEO since 2000 and Chairman of the Board since 2002. Since joining Itron in 1996, Mr. Nosbaum has held positions as Chief Operating Officer and Vice President with responsibilities over manufacturing, product development, operations and marketing. Before joining Itron, Mr. Nosbaum was with Metricom Inc., a supplier of wireless data communications networking technology. Prior to joining Metricom, Mr. Nosbaum was with Schlumberger from 1969 to 1989 in various roles, including General Manager of Schlumberger's Integrated Metering Systems Division.

Steve Helmbrecht is Sr. Vice President and Chief Financial Officer. Mr. Helmbrecht joined Itron in 2002 as Vice President and General Manager, International and was named Sr. Vice President and Chief Financial Officer in 2005. From 2000 to 2002, Mr. Helmbrecht was Chief Financial Officer of LineSoft Corporation (LineSoft), which was acquired by Itron in 2002. Prior to joining LineSoft, Mr. Helmbrecht spent seven years with SS&C Technologies, Inc., a software company focused on portfolio management and accounting systems for institutional investors.

John Holleran is Sr. Vice President, General Counsel and Corporate Secretary. Mr. Holleran joined Itron in January 2007. Prior to joining Itron, Mr. Holleran spent over 25 years with Boise Cascade Corporation where he served as Vice President and General Counsel for eight years prior to his promotion in 1999 to Senior Vice President, Human Resources and General Counsel, a position he held until 2004. In 2005, he served as Executive Vice President, Administration, and Chief Legal Officer for Boise Cascade, LLC, the paper and forest products company resulting from the reorganization of Boise Cascade Corporation. In 2006 he was associated with Holleran Law Offices PLLC.

Philip Mezey is Sr. Vice President and Itron North America's Chief Operating Officer. Mr. Mezey joined Itron in March 2003 as Managing Director of Software Development for Itron's Energy Management Solutions Group as a result of Itron's acquisition of Silicon Energy Corp. (Silicon). He later was promoted to Group Vice President and Manager of Software Solutions in 2004. In 2005 he became Sr. Vice President Software Solutions, and was promoted to his current position in 2007 following our acquisition of Actaris. Mr. Mezey joined Silicon in 2000 as Vice President, Software Development. Prior to joining Silicon, Mr. Mezey was a founding member of Indus, a leading provider of integrated asset and customer management software.

Malcolm Unsworth is Sr. Vice President and Actaris' Chief Operating Officer, based in Luxembourg. Mr. Unsworth joined Itron in July 2004 as Sr. Vice President, Hardware Solutions upon our acquisition of Schlumberger's electricity metering business. Mr. Unsworth was promoted to his current position in 2007 following our acquisition of Actaris.

Mr. Unsworth spent 25 years with Schlumberger, and served most recently as President of its electricity metering business from 2000 to 2004.

Jared Serff is Vice President, Competitive Resources. Mr. Serff joined Itron in July 2004 as part of the Schlumberger electricity metering acquisition. Mr. Serff spent six years with Schlumberger, the last four of which were as Director of Human Resources with Schlumberger's electricity metering business where he was in charge of personnel for all locations in Canada, Mexico, France and Taiwan, in addition to the United States.

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ITEM 1A: RISK FACTORS

We are dependent on the utility industry, which has experienced volatility in capital spending.

We derive the majority of our revenues from sales of products and services to the utility industry. Purchases of our products may be deferred as a result of many factors including mergers and acquisitions, regulatory decisions, weather conditions, rising interest rates, slowdowns in new residential and commercial construction, utility specific financial circumstances and general economic downturns. We have experienced, and may in the future experience, variability in operating results, on an annual and a quarterly basis, as a result of these factors.

Utility industry sales cycles can be lengthy and unpredictable.

Sales cycles for standalone meter products (those without AMR and AMI features) are typically based on annual or bi-annual bid-based agreements, with no defined delivery dates. Customers can place purchase orders against these contracts as their meter stocks deplete, which can create fluctuations in our sales volumes.

Sales cycles for AMR and AMI projects are generally long and unpredictable due to budgeting, purchasing and regulatory approval processes that can take up to several years to complete. Our utility customers typically issue requests for quotes and proposals, establish evaluation committees, review different technical options with vendors, analyze performance and cost/benefit justifications and perform a regulatory review, in addition to applying the normal budget approval process within a utility. Section 1252 of the U.S. Energy Policy Act of 2005 requires electric utilities to consider offering their customers time-based rates. The Act also directs these utilities and state utility commissions to study and evaluate methods for implementing demand response, to shift consumption away from peak hours and to improve power generation. These requirements could change the process of evaluating and approving technology purchases, which could extend or delay sales.

The European Union has also issued a directive stating that customers should have a choice in their electric and gas suppliers. The directive obligates member states to take necessary measures to achieve a competitive, secure and environmentally sustainable market in electricity and gas. Member states must ensure that all household customers and small enterprises enjoy the right to be supplied with electricity and gas of a specified quality at reasonable, comparable and transparent prices. While we believe the opening of these markets will provide opportunities for sales of our products, the pace at which these markets will be opened could be slowed substantially by legislative and regulatory delays, regulatory approvals related to the deployment of new technology, capital budgets of the utilities and purchasing decisions by our customers.

Our quarterly results may fluctuate substantially.

We have experienced variability of quarterly results, including losses, and believe our quarterly results will continue to fluctuate as a result of many factors, including costs related to acquisitions, in-process research and development (IPR&D), intangible amortization expenses, stock-based compensation, legal activity, unexpected warranty liabilities, restructuring charges, size and timing of significant customer orders, FCC or other governmental actions, changes in accounting standards or practices, changes in existing taxation rules or practices, the gain or loss of significant customers, timing and levels of new product developments, shifts in product or sales channel mix, the shortage or change in price of certain components or materials, foreign currency fluctuations, changes in interest rates, increased competition and pricing pressure and general economic conditions affecting enterprise spending for the utility industry.

Our acquisitions of and investments in third parties carry risks and may affect earnings due to charges associated with the acquisition or could cause disruption to the management of our business.

We have acquired nine companies since December 31, 2002, the largest of which is our most recent acquisition of Actaris for $1.7 billion and the acquisition of Schlumberger's electricity metering business for $256 million in 2004. We expect to complete additional acquisitions and investments in the future, both within and outside of the United States. There are no assurances, however, we will be able to successfully identify suitable candidates or negotiate appropriate acquisition terms. In order to finance future acquisitions, we may need to raise additional funds through public or private financings, and there are no assurances that we would be able to do so on acceptable terms. Acquisitions and investments involve numerous risks such as the diversion of senior management's attention, unsuccessful integration of the acquired entity's personnel, operations, technologies and products, lack of market acceptance of new services and technologies, difficulties in operating businesses in foreign legal jurisdictions, changes in the legal and regulatory environment or a shift in industry dynamics that negatively impacts the forecasted demand for the new products. We may experience difficulties that could affect our internal control over financial reporting, which could create a significant deficiency or material weakness in our overall internal controls under Section 404 of the Sarbanes-Oxley Act of 2002. Failure to properly or adequately address these issues could result in the diversion of management's attention and resources and materially and adversely impact our ability to manage our business and our results of operations. Impairment of an investment or goodwill and intangible assets may also result if these risks materialize. There can be no assurances that an acquired business will perform as expected, accomplish our strategic objective or generate significant revenues, profits or cash flows. During prior years, we have incurred impairments and write-offs of minority interest investments.

Acquisitions and investments in third parties may involve the assumption of obligations, significant write-offs or other charges associated with the acquisition, such as acquired IPR&D. During 2007, we expensed $36.0 million in IPR&D expense associated with our Actaris acquisition. During the fourth quarter of 2004, we expensed $6.4 million in IPR&D expense associated with the acquisition of Schlumberger's electricity metering business.

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We are subject to international business uncertainties.

A substantial portion of our revenues are derived from operations conducted outside the United States. International sales and operations may be subject to risks such as the imposition of government controls, political instability, terrorist activities, restrictions on the import or export of critical technology, currency exchange rate fluctuations, adverse tax burdens, availability of qualified third-party financing, generally longer receivable collection periods than in the United States, trade restrictions, changes in tariffs, labor disruptions, difficulties in staffing and managing foreign operations, potential insolvency of international distributors, burdens of complying with different permitting standards and a wide variety of foreign laws and obstacles to the repatriation of earnings and cash. Fluctuations in the value of the U.S. dollar may impact our ability to compete in international markets. International expansion and market acceptance depend on our ability to modify our technology to take into account such factors as the applicable regulatory and business environment, labor costs and other economic conditions. In addition, the laws of certain countries do not protect our products or technologies to the same extent as do the laws of the United States. There can be no assurance that these factors will not have a material adverse effect on our future international sales and, consequently, on our business, financial condition and results of operations.

We depend on our ability to develop new products.

Our future success will depend, in part, on our ability to continue to design and manufacture new competitive products and to enhance and sustain our existing products, including technological advances, changing customer requirements, international market acceptance and other factors in the markets in which we sell our products. This product development will require continued investment in order to maintain our market position. We have made, and expect to continue to make, substantial investments in technology development. However, we may experience unforeseen problems in the development or performance of our technologies or products. In addition, we may not meet our product development schedules. Oftentimes, new products require certifications or regulatory approvals before the products can be used and we cannot be certain that our new products will be approved in a timely manner. Finally, we may not achieve market acceptance of our new products and services.

A significant portion of our revenues are generated from a limited number of customers.

Historically, our revenues have been concentrated with a limited number of customers, which change over time. The ten largest customers accounted for 14%, 40% and 26% of revenues for the years ended 2007, 2006 and 2005, respectively. One customer, Progress Energy, accounted for 16% of total Company revenues in 2006. No single customer represented more than 10% of total Company revenues in 2007 and 2005. We are often a party to large, multi-year contracts that are subject to cancellation or rescheduling by our customers due to many factors, such as extreme, unexpected weather conditions that cause our customers to redeploy resources, convenience, regulatory issues or possible acts of terrorism. Cancellation or postponement of one or more of these significant contracts could have a material adverse effect on us. In addition, if a large customer contract is not replaced upon its expiration with new business of similar magnitude, our financial and operating results would be adversely affected.

As we enter into agreements related to the deployment of AMI products and technology, the potential value of these contracts could be substantially larger than contracts we have had with our customers in the past. These deployments could also last several years, which would be longer than prior deployment agreements with our customers. The terms and conditions of these AMI agreements related to testing, contractual liabilities, warranties, performance and indemnities could be substantially different than the terms and conditions associated with our standard products and services.

We are facing increasing competition.

We face competitive pressures from a variety of companies in each of the markets we serve. Some of our present and potential future competitors have, or may have substantially greater financial, marketing, technical or manufacturing resources and, in some cases, have greater name recognition and experience. Some competitors may enter markets we serve and sell products at lower prices in order to obtain market share. Our competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources to the development, promotion and sale of their products and services than we can. Some competitors have made, and others may make, strategic acquisitions or establish cooperative relationships among themselves or with third parties that enhance their ability to address the needs of our prospective customers. It is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Other companies may also drive technological innovation and develop products that are equal or superior to our products, which could reduce our market share, reduce our overall sales and require us to invest additional funds in new technology development. We may also have to adjust the prices of some of our products to stay competitive. If we cannot compete successfully against current or future competitors, this will have a material adverse effect on our business, financial condition, results of operations and cash flows.

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We are affected by availability and regulation of radio spectrum.

A significant number of our products use radio spectrum, which in the United States, are subject to regulation by the FCC. Licenses for radio frequencies must be obtained and periodically renewed. Licenses granted to us or our customers may not be renewed on acceptable terms, if at all. The FCC may adopt changes to the rules for our licensed and unlicensed frequency bands that are incompatible with our business. In the past, the FCC has adopted changes to the requirements for equipment using radio spectrum, and it is possible that the FCC or the U.S. Congress will adopt additional changes.

We have committed, and will continue to commit, significant resources to the development of products that use particular radio frequencies. Action by the FCC could require modifications to our products. The inability to modify our products to meet such requirements, the possible delays in completing such modifications and the cost of such modifications all could have a material adverse effect on our future business, financial condition and results of operations.

Our radio-based products currently employ both licensed and unlicensed radio frequencies. There must be sufficient radio spectrum allocated by the FCC for our intended uses. As to the licensed frequencies, there is some risk that there may be insufficient available frequencies in some markets to sustain our planned operations. The unlicensed frequencies are available for a wide variety of uses and may not be entitled to protection from interference by other users who operate in accordance with FCC rules. The unlicensed frequencies are also often the subject of proposals to the FCC requesting a change in the rules under which such frequencies may be used. If the unlicensed frequencies become unacceptably crowded, restrictive or subject to changed rules governing their use, our business could be materially adversely affected.

We are also subject to regulatory requirements in jurisdictions outside of the United States. In those jurisdictions, licensees are generally required to operate a radio transmitter and such licenses may be for a fixed term and must be periodically renewed. In some jurisdictions, the rules permit certain low power devices to operate on an unlicensed basis. Most of our AMR modules and AMR-equipped electronic residential electricity meters are devices that transmit information back to handheld, mobile or fixed network AMR reading devices in unlicensed bands pursuant to rules regulating such use. To the extent we wish to introduce into a new market products designed for use in the United States or another country, such products may require significant modification or redesign in order to meet frequency requirements and other regulatory specifications. Further, in some countries, limitations on frequency availability or the cost of making necessary modifications may preclude us from selling our products in those countries.

We may face liability associated with the use of products for which patent ownership or other intellectual property rights are claimed.

We may be subject to claims or inquiries regarding alleged unauthorized use of a third party’s intellectual property. An adverse outcome in any intellectual property litigation could subject us to significant liabilities to third parties, require us to license technology or other intellectual property rights from others, require us to comply with injunctions to cease marketing or using certain products or brands, or require us to redesign, re-engineer, or rebrand certain products or packaging, any of which could affect our business, financial condition and results of operations. If we are required to seek licenses under patents or other intellectual property rights of others, we may not be able to acquire these licenses on acceptable terms, if at all. In addition, the cost of responding to an intellectual property infringement claim, in terms of legal fees, expenses and the diversion of management resources, whether or not the claim is valid, could have a material adverse effect on our business, financial condition and results of operations.

If our products infringe the intellectual property rights of others, we may be required to indemnify our customers for any damages they suffer. We generally indemnify our customers with respect to infringement by our products of the proprietary rights of third parties. Third parties may assert infringement claims against our customers. These claims

may require us to initiate or defend protracted and costly litigation on behalf of our customers, regardless of the merits of these claims. If any of these claims succeed, we may be forced to pay damages on behalf of our customers or may be required to obtain licenses for the products they use. If we cannot obtain all necessary licenses on commercially reasonable terms, our customers may be forced to stop using our products.

We may be unable to adequately protect our intellectual property.

While we believe that our patents, trademarks and other intellectual property have significant value, it is uncertain that this intellectual property or any intellectual property acquired or developed by us in the future, will provide meaningful competitive advantages. There can be no assurance that our patents or pending applications will not be challenged, invalidated or circumvented by competitors or that rights granted thereunder will provide meaningful proprietary protection. Moreover, competitors may infringe our patents or successfully avoid them through design innovation. To combat infringement or unauthorized use, we may need to commence litigation, which can be expensive and time-consuming. In addition, in an infringement proceeding a court may decide that a patent or other intellectual property right of ours is not valid or is unenforceable, or may refuse to stop the other party from using the technology or other intellectual property right at issue on the grounds that it is non-infringing or the legal requirements for an injunction have not been met. Policing unauthorized use of our intellectual property is difficult and expensive, and we cannot provide assurance that we will be able to, or have the resources to, prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as do the laws of the United States.

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We may face product-failure exposure that exceeds our recorded liability.

We provide product warranties for varying lengths of time and establish allowances in anticipation of warranty expenses. In addition, we record contingent liabilities for additional product-failure related costs. These warranty and related product-failure allowances may be inadequate due to undetected product defects, unanticipated component failures, as well as changes in various estimates for material, labor and other costs we may incur to replace projected product failures. As a result, we may incur additional warranty and related expenses in the future with respect to new or established products.

Our key manufacturing facilities are concentrated.

In the event of a significant interruption in production at any of our manufacturing facilities, considerable expense, time and effort could be required to establish alternative production lines to meet contractual obligations, which would have a material adverse effect on our business, financial condition and results of operation.

A number of key personnel are critical to the success of our business.

Our success depends in large part on the efforts of our highly qualified technical and management personnel in all disciplines. The loss of one or more of these employees and the inability to attract and retain qualified replacements could have a material adverse effect on our business.

We depend on certain key vendors.

Certain of our products, subassemblies and system components are procured from limited sources. Our reliance on such limited sources involves certain risks, including the possibility of shortages and reduced control over delivery schedules, manufacturing capability, quality and costs. Any adverse change in the supply of, or price for, these components could adversely affect our business, financial condition and results of operations. In addition, we depend on a small number of contract manufacturing vendors for a large portion of our low-volume manufacturing business and all of our repair services for our domestic handheld meter reading units. If any of these vendors should become unable to perform their responsibilities, our operations could be materially disrupted.

We are subject to regulatory compliance.

We are subject to various governmental regulations in all of the jurisdictions in which we conduct business. Failure to comply with current or future regulations could result in the imposition of substantial fines, suspension of production, alteration of our production processes, cessation of operations or other actions, which could materially and adversely affect our business, financial condition and results of operations.

Changes in environmental regulations, violations of the regulations or future environmental liabilities could cause us to incur significant costs and adversely affect our operations.

Our business and our facilities are subject to a number of laws, regulations and ordinances governing, among other things, the storage, discharge, handling, emission, generation, manufacture, disposal, remediation of, or exposure to toxic or other hazardous substances and certain waste products. Many of these environmental laws and regulations subject current or previous owners or operators of land to liability for the costs of investigation, removal or remediation of hazardous materials. In addition, these laws and regulations typically impose liability regardless of whether the owner or operator knew of, or was responsible for, the presence of any hazardous materials and regardless of whether the actions that led to the presence were conducted in compliance with the law. In the ordinary course of our business, we use metals, solvents and similar materials, which are stored on-site. The waste created by the use of these materials is transported off-site on a regular basis by unaffiliated waste haulers. Many environmental laws and

regulations require generators of waste to take remedial actions at, or in relation to, the off-site disposal location even if the disposal was conducted in compliance with the law. The requirements of these laws and regulations are complex, change frequently and could become more stringent in the future. Failure to comply with current or future environmental regulations could result in the imposition of substantial fines, suspension of production, alteration of our production processes, cessation of operations or other actions, which could materially and adversely affect our business, financial condition and results of operations. There can be no assurance that a claim, investigation or liability will not arise with respect to these activities, or that the cost of complying with governmental regulations in the future, will not have a material adverse effect on us.

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We may in the future be responsible for investigating and remediating contamination at the sites we own or lease. With respect to one of our South Carolina facilities, certain environmental remedial activities are required pursuant to a consent agreement between Schlumberger (and various related parties), from which we purchased the operations of this facility in 2004, and the South Carolina Department of Health and Environmental Control (SCDHEC). Prior remedial activities also were undertaken at this location under the guidance of the United States Environmental Protection Agency. The consent agreement with the SCDHEC requires Schlumberger to investigate and remediate groundwater and related soil and surface water contamination and releases of any hazardous waste or hazardous constituents that present an actual or potential threat to human health and the environment. Under the terms of our 2004 acquisition agreement, Schlumberger agreed to complete all remedial obligations associated with the consent agreement, and agreed to indemnify us for all costs incurred as a result of any releases and generation or transportation of hazardous materials prior to the acquisition. Although we expect Schlumberger to comply with the terms of the consent agreement and the acquisition, there is a risk that such remediation will interfere with our future use of this South Carolina property, or if Schlumberger did not comply, the remediation responsibility would transfer to us.

We potentially face costs and liabilities in connection with product take-back legislation. The European Union has enacted the Waste Electrical and Electronic Equipment Directive (WEEE), which makes producers of certain types of electrical equipment financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. The deadline for the individual member states of the European Union to enact the directive in their respective countries was August 13, 2004. Producers participating in the market became financially responsible for implementing their responsibilities under the WEEE Legislation beginning in August 2005. Implementation in certain European Union member states was delayed into 2007. Similar legislation has been or may be enacted in other jurisdictions, including the United States, Canada, Mexico, China and Japan. China has passed similar legislation, which took effect March 1, 2007. California has drafted electronic recycling laws similar to the WEEE legislation, but such legislation has not as yet been enacted. Our potential liability resulting from the WEEE and similar legislations could become substantial.

Our credit facility (credit facility), and the indentures related to our senior subordinated notes and our convertible senior subordinated notes, limit our ability and the ability of most of our subsidiaries to take certain actions.

Our credit facility, senior subordinated notes (7.75% senior subordinated notes due 2012) and convertible notes (2.5% convertible senior subordinated notes due 2026) place restrictions on our ability and the ability of most of our subsidiaries to, among other things:

- incur more debt;
- pay dividends and make distributions;
- make certain investments;
- incur capital expenditures above a set limit;
- redeem or repurchase capital stock;
- create liens;
- enter into transactions with affiliates;
- enter into sale lease-back transactions;
- merge or consolidate; and
- transfer or sell assets.

Our credit facility contains other customary covenants, including the requirement to meet specified financial ratios. Our ability to borrow under our credit facility will depend on the satisfaction of these covenants. Events beyond our control can affect our ability to meet those covenants. Our credit facility is sensitive to interest rate and foreign currency exchange rate risks that could impact our financial position and results of operations.

Our failure to comply with obligations under our borrowing arrangements may result in declaration of an event of default. An event of default, if not cured or waived, may permit acceleration of such indebtedness. In addition, indebtedness under other instruments (such as our senior subordinated notes) that contain cross-default or cross-acceleration provisions also may be accelerated and become due and payable. We cannot be certain we will be able to remedy any such defaults. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds available to pay the accelerated indebtedness or that we will have the ability to borrow sufficient funds to replace the accelerated indebtedness on terms favorable to us or at all. In addition, in the case of an event of default under our secured indebtedness such as our credit facility, the lenders may be permitted to foreclose on our assets securing that indebtedness.

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Our ability to service our indebtedness is dependent on our ability to generate cash, which is influenced by many factors beyond our control.

Our ability to make payments on or refinance our indebtedness, fund planned capital expenditures and continue research and development will depend on our ability to generate cash in the future. This is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We may need to refinance all or a portion of our indebtedness on or before maturity. We cannot provide assurance that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.

Effective internal controls are necessary for us to provide reliable and accurate financial reports and effectively prevent fraud. We have devoted significant resources and time to comply with the internal control over financial reporting requirements of the Sarbanes-Oxley Act of 2002. In addition, Section 404 under the Sarbanes-Oxley Act of 2002 requires that our auditors attest to the design and operating effectiveness of our controls over financial reporting. Our compliance with the annual internal control report requirement for each fiscal year will depend on the effectiveness of our financial reporting and data systems and controls across our operating subsidiaries. Furthermore, an important part of our growth strategy has been, and will likely continue to be, the acquisition of complementary businesses, and we expect these systems and controls to become increasingly complex to the extent that we integrate acquisitions and our business grows. Likewise, the complexity of our transactions, systems and controls may become more difficult to manage. We cannot be certain that these measures will ensure that we design, implement and maintain adequate controls over our financial processes and reporting in the future, especially in light of acquisitions that may not have been required to be in compliance with Section 404 of the Sarbanes-Oxley Act of 2002 at the date of acquisition. Any failure to implement required new or improved controls, difficulties encountered in their implementation or operation, or difficulties in the assimilation of acquired businesses into our control system could harm our operating results or cause it to fail to meet our financial reporting obligations. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock and our access to capital.

The accounting method for convertible debt securities with net share settlement features, like our convertible notes, may be subject to change.

In August 2006, we issued $345 million of 2.5% convertible senior subordinated notes (convertible notes) with a net share settlement feature. Our convertible notes are not considered conventional convertible debt as defined in Emerging Issues Task Force (EITF) 05-02, The Meaning of Conventional Convertible Debt instruments in Issue 00-19, as the number of shares, or cash, to be received by the holders was not fixed at the inception of the obligation. For the purpose of calculating diluted earnings per share, a convertible debt security providing for net share settlement of the conversion value and meeting specified requirements under EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock (Net Share Convertibles), interest expense is accounted for in the same manner as non-convertible debt, with the stated coupon constituting interest expense and any shares issuable upon conversion of the security being accounted for under the treasury stock method. The effect of the treasury stock method is that the shares potentially issuable upon conversion of the notes are not included in the calculation of our earnings per share except to the extent that the conversion value of the notes exceeds their principal amount, in which case the number of shares of our common stock necessary to settle the conversion are treated as having been issued for earnings per share purposes.

A proposed Financial Accounting Standards Board (FASB) Staff Position (FSP) addressing convertible instruments that may be settled in cash upon conversion was issued on August 31, 2007 for a 45-day comment period that ended

October 15, 2007. The FASB is expected to begin its redeliberations of the guidance in that proposed FSP in February 2008. The proposed FSP requires, among other things, the issuer to separately account for the liability and equity components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. We cannot predict the outcome of the FASB deliberations or any other changes in Generally Accepted Accounting Principles (GAAP) that may be made affecting accounting for convertible debt securities. Any change in the accounting method for convertible debt securities could have an adverse impact on our past or future financial results. In addition, these impacts could adversely affect the trading price of our common stock.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

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ITEM 2: PROPERTIES

Our Itron North America operating segment operations are located primarily in North America. Our Actaris operating segment operations are located in Europe and throughout the rest of the world.

The following table lists the number of factories and sales and administration offices by region.

	Manufacturing, Assembly, Service and Distribution		Administration, Sales and Other	
	Owned	Leased	Owned	Leased
North America	4	9	1	24
Europe	15	4	-	23
Asia/Pacific	2	4	-	25
Other (rest of world)	4	3	-	15
Total	25	20	1	87

Our factory locations consist of manufacturing, assembly, service and distribution facilities. Our sales and administration offices may also include various product development operations. Our headquarters facility is located in Liberty Lake, Washington. Our principal properties are owned and in good condition and we believe our current facilities will be sufficient to support our operations for the foreseeable future.

ITEM 3: LEGAL PROCEEDINGS

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 in accordance with Statement of Financial Accounting Standards (SFAS) 5, Accounting for Contingencies, and related pronouncements. In accordance with SFAS 5, a liability is recorded 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. Legal contingencies at December 31, 2007 were not material to our financial condition or results of operations.

PT Mecoindo is a joint venture in Indonesia between PT Berca and one of the Actaris subsidiaries. PT Berca is the minority shareholder in PT Mecoindo and has sued several Actaris subsidiaries and the successor in interest to another company previously owned by Schlumberger. PT Berca claims that it had preemptive rights in the joint venture and has sought to nullify the transaction in 2001 whereby Schlumberger transferred its ownership interest in PT Mecoindo to an Actaris subsidiary. The plaintiff also seeks to collect damages for the earnings it otherwise would have earned had its alleged preemptive rights been observed. The Indonesian courts have awarded 129.6 billion rupiahs, or approximately $14.1 million, in damages against the defendants and have invalidated the 2001 transfer of the Mecoindo interest to a subsidiary of Actaris. All of the parties have appealed the matter and it is currently pending before the Indonesian Supreme Court. We believe the claims are without merit and no liability has been recorded. However, Actaris has notified Schlumberger that it will seek to have Schlumberger indemnify Actaris from any damages it may occur as a result of this claim.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of shareholders of Itron, Inc. during the fourth quarter of 2007.

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PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information for Common Stock

Our common stock is traded on the NASDAQ Global Select Market. The following table reflects the range of high and low common stock sales prices for the four quarters of 2007 and 2006 as reported by the NASDAQ Global Select Market.

	2007		2006	
	High	Low	High	Low
First Quarter	$ 68.91	$ 51.15	$ 62.75	$ 39.44
Second Quarter	$ 78.72	$ 64.57	$ 73.72	$ 52.58
Third Quarter	$ 96.08	$ 73.55	$ 60.46	$ 44.76
Fourth Quarter	$ 112.92	$ 72.78	$ 57.50	$ 46.87

Performance Graph

The following graph compares the five-year cumulative total return to shareholders on our common stock with the five-year cumulative total return of NASDAQ (U.S. Companies) Index, our peer group of companies used for the year ended December 31, 2007 and our prior peer group of companies used for the year ended December 31, 2006.

The above presentation assumes $100 invested on December 31, 2002 in the common stock of Itron, Inc., the NASDAQ (U.S. Companies) Index and the peer group, with all dividends reinvested. With respect to companies in the peer group, the returns of each such corporation have been weighted to reflect relative stock market capitalization at the beginning of each period plotted. The stock prices shown above for our common stock are historical and not necessarily indicative of future price performance.

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As a result of the acquisition of Actaris on April 18, 2007, we reassessed our peer group to identify global companies that were either direct competitors or had similar industry and business operating characteristics. Our new peer group includes the following publicly traded companies: Badger Meter, Inc., Cooper Industries, Ltd., ESCO Technologies Inc., Mueller Water Products, LLC, National Instruments Corporation and Roper Industries, Inc. Our previous peer group included the following publicly traded companies: Analogic Corporation, Badger Meter, Inc., EMS Technologies, Inc., ESCO Technologies Inc., Roper Industries, Inc., Symbol Technologies, Inc. and Trimble Navigation Limited.

Holders

At January 31, 2008 there were 324 holders of record of our common stock.

Dividends

Since the inception of the Company, we have not declared or paid cash dividends. In addition, our credit facility dated April 18, 2007 and our senior subordinated notes due 2012 prohibit the declaration or payment of a cash dividend as long as these facilities are in place. Upon repayment of our borrowings, we intend to retain future earnings for the development of our business and do not anticipate paying cash dividends in the foreseeable future.

Unregistered Equity Security Sales

None.

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ITEM 6: SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data below is derived from our consolidated financial statements, which have been audited by an independent registered public accounting firm. This selected consolidated financial and other data represents portions of our financial statements. You should read this information together with Item 7: "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8: "Financial Statements and Supplementary Data" included in this Annual Report on Form 10-K. Historical results are not necessarily indicative of future performance.

	Year Ended December 31,				
	2007 (1)	2006	2005	2004 (2)	2003
	(in thousands, except per share data)				
Statements of Operations Data					
Revenues	$ 1,464,048	$ 644,042	$ 552,690	$ 399,194	$ 316,965
Cost of revenues	976,761	376,600	319,069	228,525	173,411
Gross profit	487,287	267,442	233,621	170,669	143,554
Operating expenses					
Sales and marketing	125,842	63,587	56,642	45,279	40,985
Product development	94,926	58,774	47,077	44,379	41,508
General and administrative	100,071	52,213	44,428	35,490	26,641
Amortization of intangible assets	84,000	31,125	38,846	27,901	9,618
In-process research and development	35,975	-	-	6,400	900
Restructurings	-	-	390	7,258	2,208
Total operating expenses	440,814	205,699	187,383	166,707	121,860
Operating income	46,473	61,743	46,238	3,962	21,694
Other income (expense)					
Interest income	10,477	9,497	302	166	159
Interest expense	(89,965)	(17,785)	(18,944)	(13,145)	(2,638)
Other income (expense), net	435	(1,220)	(68)	(389)	(1,316)
Total other income (expense)	(79,053)	(9,508)	(18,710)	(13,368)	(3,795)
Income (loss) before income taxes	(32,580)	52,235	27,528	(9,406)	17,899
Income tax (provision) benefit	16,436	(18,476)	5,533	4,149	(7,421)
Net income (loss)	$ (16,144)	$ 33,759	$ 33,061	$ (5,257)	$ 10,478
Earnings (loss) per share					
Basic	$ (0.55)	$ 1.33	$ 1.41	$ (0.25)	$ 0.51

Diluted	$	(0.55)	$	1.28	$	1.33	$	(0.25)	$	0.48
Weighted average number of shares outstanding										
Basic		29,584		25,414		23,394		20,922		20,413
Diluted		29,584		26,283		24,777		20,922		21,740
Balance Sheet Data										
Working capital (deficit) (3)	$	218,861	$	492,861	$	116,079	$	58,123	$	(1,846)
Total assets		3,100,549		988,522		598,884		557,151		303,489
Total debt		1,590,541		469,324		166,929		278,235		52,269
Shareholders' equity		758,802		390,982		317,534		184,430		177,244

(1) On April 18, 2007, we completed the acquisition of Actaris Metering Systems SA (Actaris). Refer to Item 8: "Financial Statements and Supplementary Data, Note 4: Business Combinations" for a discussion of the effects of the acquisition. The Consolidated Statement of Operations for the year ended December 31, 2007 includes the operating activities of the Actaris acquisition from April 18, 2007 through December 31, 2007.

(2) On July 1, 2004, we completed the acquisition of Schlumberger's electricity metering business. The Consolidated Statement of Operations for the year ended December 31, 2004 includes the operating activities of this acquisition from July 1, 2004 through December 31, 2004.

(3) Working capital includes current assets less current liabilities.

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ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with Item 8: "Financial Statements and Supplementary Data."

Results of Operations

We derive the majority of our revenues from sales of products and services to utilities. Revenues include hardware, software, post-sale maintenance and professional services. Cost of revenues includes materials, direct labor, warranty expense, other manufacturing spending, distribution and documentation costs for software applications and labor and operating costs for professional services.

Highlights

On April 18, 2007, we completed the acquisition of Actaris Metering Systems SA (Actaris) for €800 million (approximately $1.1 billion) plus the retirement of approximately $642.9 million of debt. The acquisition was financed with a $1.2 billion credit facility (credit facility), $225.2 million in net proceeds from the sale of our common stock and cash on hand. The Actaris acquisition includes all of Actaris' electricity, gas and water meter manufacturing and sales operations, located throughout the world. The acquisition of Actaris creates an opportunity to share technology and expertise around the world as worldwide electric, gas and water utilities look for advanced metering and communication products to better serve their markets. The operating results of the Actaris acquisition are included in our consolidated financial statements commencing on the date of acquisition. The acquisition of Actaris significantly changes many aspects of our results of operations, financial condition and cash flows, which are described in each applicable area within the discussion that follows.

Total Company Revenues, Gross Profit and Margin and Unit Shipments

	Year Ended December 31,				
	2007 (in millions)	% Change	2006 (in millions)	% Change	2005 (in millions)
Revenues	$ 1,464.0	127%	$ 644.0	17%	$ 552.7
Gross Profit	$ 487.3	82%	$ 267.4	14%	$ 233.6
Gross Margin	33%		42%		42%

	Year Ended December 31,		
	2007	2006 (in millions)	2005
Revenues by region			
Europe	$ 623.6	$ 4.0	$ 5.6
United States and Canada	596.6	602.9	513.4
Other	243.8	37.1	33.7
Total revenues	$ 1,464.0	$ 644.0	$ 552.7

Revenues

Revenues increased $820.0 million in 2007, compared with 2006. Actaris contributed $833.7 million from the date of acquisition to December 31, 2007, which is the primary reason for the increase in total revenue as well as the increase in revenue in Europe and throughout the rest of the world. The decline in revenue in the United States and Canada from 2006 to 2007 was due to the completion of a large contract with Progress Energy. Revenues increased

$91.3 million in 2006 compared with 2005, as a result of increased sales of electricity meters.

No single customer represented more than 10% of total revenues for 2007 or 2005. One customer, Progress Energy, represented 16% of total revenues for the year ended December 31, 2006. The 10 largest customers accounted for approximately 14%, 40% and 26% in each of the years ending 2007, 2006 and 2005, respectively.

Gross Margins

Gross margin was 33% in 2007, compared with 42% in both 2006 and 2005. Gross margin for Actaris' products and services is lower than Itron North America's as a result of Actaris' product mix of higher meter only sales as compared with Itron North America's systems focused offerings. Business combination accounting rules require the valuation of inventory on hand at the acquisition date to equal the sales price, less costs to complete and a reasonable profit allowance for selling effort. Accordingly, the historical cost of inventory acquired as part of the Actaris acquisition was increased by $16.0 million, which lowered the 2007 total company gross margin by one percentage point.

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Unit Shipments

Meters can be sold with and without automated meter reading (AMR). In addition, AMR can be sold separately from the meter. Depending on customers' preferences, we also incorporate other vendors' AMR technology in our meters. Meter and AMR shipments are as follows:

	Year Ended December 31,		
	2007	2006	2005
	(in thousands)		
Total meters (with and without AMR)			
Electricity	9,450	6,625	4,675
Gas	2,550	-	-
Water	5,575	-	-
Total meters	17,575	6,625	4,675
AMR units (Itron and Actaris)			
Meters with AMR	3,600	4,000	2,250
AMR modules	4,675	4,625	5,100
Total AMR units	8,275	8,625	7,350
Meters with other vendors' AMR	925	925	675

Segment Revenues, Gross Profit, Gross Margin and Operating Income (Loss) and Operating Margin

We changed our management structure with the acquisition of Actaris on April 18, 2007 and, as a result, now have two operating segments. The Actaris operating segment consists of our Actaris operations, which are primarily located in Europe and throughout the rest of the world outside of North America. The remainder of our operations, primarily located in the United States and Canada, have been combined into a single segment called Itron North America. The operating segment information as set forth below is based on this new segment reporting structure. In accordance with Statement of Financial Accounting Standards (SFAS) 131, Disclosures about Segments of an Enterprise and Related Information, historical segment information has been restated from the segment information previously provided to conform to the segment reporting structure after the April 2007 Actaris acquisition.

We have three measures of segment performance: revenue, gross profit (margin) and operating income (margin). There were no intersegment revenues. Corporate operating expenses, interest income, interest expense, other income (expense) and income tax expense (benefit) are not allocated to the segments, nor included in the measure of segment profit or loss. Assets and liabilities are not used in our measurement of segment performance and, therefore, are not allocated to our segments. Substantially all depreciation expense is allocated to our segments.

Segment Products

Itron North America	Electronic electricity meters with and without AMR; gas and water AMR modules; handheld, mobile and network AMR data collection technologies; advanced metering infrastructure (AMI) technologies; software, installation, implementation, maintenance support and other services.
Actaris	Electromechanical and electronic electricity meters; mechanical and ultrasonic water and heat meters; diaphragm, turbine and rotary gas meters; one-way and two-way electricity prepayment systems, including smart key, keypad and smart card; two-way gas prepayment systems using smart card; AMR data collection

technologies; installation, implementation, maintenance support and other services.

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The following tables and discussion highlight significant changes in trends or components of each segment.

	Year Ended December 31,				
	2007 (in millions)	% Change	2006 (in millions)	% Change	2005 (in millions)
Segment Revenues					
Itron North America	$ 630.3	(2%)	$ 644.0	17%	$ 552.7
Actaris	833.7	-	-	-	-
Total revenues	$ 1,464.0	127%	$ 644.0	17%	$ 552.7

	Year Ended December 31,					
	2007		2006		2005	
Segment Gross Profit and Margin	Gross Profit (in millions)	Gross Margin	Gross Profit (in millions)	Gross Margin	Gross Profit (in millions)	Gross Margin
Itron North America	$ 256.8	41%	$ 267.4	42%	$ 233.6	42%
Actaris	230.5	28%	-	-	-	-
Total gross profit and margin	$ 487.3	33%	$ 267.4	42%	$ 233.6	42%

	Year Ended December 31,					
	2007		2006		2005	
Segment Operating Income (Loss) and Operating Margin	Operating Income (Loss) (in millions)	Operating Margin	Operating Income (Loss) (in millions)	Operating Margin	Operating Income (Loss) (in millions)	Operating Margin
Itron North America	$ 74.6	12%	$ 89.0	14%	$ 69.9	13%
Actaris	3.9	0%	-		-	
Corporate unallocated	(32.0)		(27.3)		(23.7)	
Total Company	$ 46.5	3%	$ 61.7	10%	$ 46.2	8%

Itron North America: Revenues decreased $13.7 million, or 2%, in 2007, compared with 2006. Shipments of electricity meters decreased 23% in 2007, compared with 2006. During 2006, we shipped over 2.2 million meters under the Progress Energy contract. This accelerated delivery schedule, which was substantially complete at the end of 2006, increased our historical electricity meter production levels, resulting in increased revenues and higher overhead absorption. Approximately 45% of our meters sold in 2007 were equipped with our AMR technology, compared with 60% in 2006. Gross margin decreased one percentage point in 2007, compared with 2006, as a result of product mix and lower overhead absorption.

Revenues increased $91.3 million, or 17%, in 2006, compared with 2005, due to a 42% increase in meter shipments. The growth in meter shipments was primarily related to shipments of residential meters with AMR under a contract with Progress Energy. Approximately 60% of our meters sold in 2006 were equipped with our AMR technology, compared with 48% in 2005.

No single customer represented more than 10% of Itron North America operating segment revenues in 2007 and 2005. One customer, Progress Energy, accounted for 16% of the Itron North America operating segment revenues in 2006.

Itron North America operating expenses as a percentage of revenues were 29% in 2007, compared with 28% and 30% in 2006 and 2005, respectively. Research and development costs have increased as a percentage of revenue from 9% in 2006 and 2005 to approximately 11% in 2007 as a result of the development of our AMI technologies. This increase was partially offset by a decline in intangible asset amortization and lower bonus and profit sharing expenses.

Actaris: Actaris was acquired on April 18, 2007. Revenues were $833.7 million for the period from acquisition to December 31, 2007 with 40%, 32% and 28% from electricity, gas and water meter products and services, respectively. Gross margin was 28% from the date of acquisition to December 31, 2007. Business combination accounting rules require the valuation of inventory on hand at the acquisition date to equal the sales price, less costs to complete and a reasonable profit allowance for selling effort. Accordingly, the historical cost of inventory acquired was increased by $16.0 million, which lowered gross margins by two percentage points from the date of acquisition to December 31, 2007. The acquired inventory was sold in the first quarter subsequent to the acquisition.

No single customer represented more than 10% of the Actaris operating segment revenues for the period from April 18, 2007 to December 31, 2007.

Operating expenses for Actaris were $226.6 million for the period from acquisition to December 31, 2007 of which $36.0 million represented in-process research and development (IPR&D) related to the acquisition. Operating expenses as a percentage of revenues were 27% from the date of acquisition to December 31, 2007. Actaris product development and general and administrative expenses may increase as we expand our product offering and increase expenses for internal controls over financial reporting.

Corporate unallocated: Operating expenses not directly associated with an operating segment are classified as "Corporate unallocated." These expenses, as a percentage of total Company revenues, were 2% in 2007, compared with 4% in 2006 and 2005.

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Operating Expenses

The following table details our total operating expenses in dollars and as a percentage of revenues.

	Year Ended December 31,					
	2007	% of Revenue	2006	% of Revenue	2005	% of Revenue
	(in millions)		(in millions)		(in millions)	
Sales and marketing	$ 125.8	9%	$ 63.6	10%	$ 56.6	10%
Product development	94.9	6%	58.8	9%	47.1	9%
General and administrative	100.1	7%	52.2	8%	44.8	8%
Amortization of intangible assets	84.0	6%	31.1	5%	38.9	7%
In-process research and development	36.0	2%	-	-	-	-
Total operating expenses	$ 440.8	30%	$ 205.7	32%	$ 187.4	34%

Operating expenses for 2007 contain Actaris' operating expenses from April 18, 2007. Itron North America's product development expenses have increased as a percentage of revenue from 9% in 2006 to approximately 11% in 2007 as a result of the development of our AMI technologies. Overall, product development expenses declined as a percent of revenues from 9% to approximately 6% due to Actaris' lower product development expenses in 2007. Actaris product development and general and administrative expenses may increase as we expand our product offering and increase expenses for internal controls over financial reporting. The increase in the amortization of intangible assets was the result of the acquisition of Actaris.

For 2006, total operating expenses included approximately $8.3 million associated with our January 1, 2006 adoption of SFAS 123(R), Share-Based Payment, which requires expensing of stock-based compensation commencing in the year of adoption. Product development increased $11.7 million in 2006 compared with 2005. The 25% increase in product development in 2006 was primarily due to the development of our AMI solution. The fluctuation in the amortization expense of intangible assets is the result of the timing of our acquisitions and our amortization methodology using the estimated discounted cash flows, which typically results in higher amortization at the beginning of the asset's life. While total operating expenses have increased each year, they have decreased as a percentage of revenue.

In-Process Research and Development Expenses

Our acquisition of Actaris resulted in $36.0 million of IPR&D expense, consisting primarily of next generation technology. The IPR&D projects were analyzed according to exclusivity, substance, economic benefit, incompleteness, measurability and alternative future use. The primary projects are intended to make key enhancements and improve functionality of our residential and commercial and industrial meters. We value IPR&D using the income approach, which uses the present value of the projected cash flows that are expected to be generated over the next one to six years. The risk adjusted discount rate was 12 percent, which was based on an industry composite of weighted average cost of capital, with certain premiums for equity risk and size, and the uncertainty associated with the completion of the development effort and subsequent commercialization. We estimate these research and development projects to be approximately 70% complete at December 31, 2007, when compared against the expected costs. We estimate the cost to complete these projects will be approximately $7 million during 2008, which we will record as research and development expense as the costs are incurred.

Our future success depends, in part, on our ability to continue to design and manufacture new competitive products and to enhance and sustain our existing products. However, we may experience unforeseen problems in the

development or performance of our technologies or products, we may not meet our product development schedules or we may not achieve market acceptance of our new products or solutions.

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Other Income (Expense)

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

	Year Ended December 31,		
	2007	2006	2005
		(in thousands)	
Interest income	$ 10,477	$ 9,497	$ 302
Interest expense	(76,443)	(13,205)	(13,807)
Amortization of debt placement fees	(13,522)	(4,580)	(5,137)
Other income (expense), net	435	(1,220)	(68)
Total other income (expense)	$ (79,053)	$ (9,508)	$ (18,710)

The increase in interest income for 2007 and 2006, compared with 2005, was the result of our higher cash and cash equivalent balances and short-term investments. During August 2006, we issued $345 million 2.50% convertible senior subordinated notes (convertible notes) and on March 1, 2007 we issued and sold 4.1 million shares of common stock, resulting in net proceeds of $225.2 million. Our average cash balances were $168.2 million in 2007, compared with $135.2 million and $16.2 million in 2006 and 2005, respectively.

The increase in interest expense in 2007, compared with 2006 and 2005, is primarily the result of the new $1.2 billion credit facility used to finance the Actaris acquisition. Interest expense also increased in 2007 as a result of our $345 million 2.50% convertible notes issued in August 2006. Interest expense for 2006 was comparable with interest expense incurred in 2005. Average outstanding borrowings were $1.3 billion in 2007, compared with $273.7 million and $200.4 million in 2006 and 2005, respectively. The fluctuation in borrowings in 2006 resulted from the issuance of $345 million in convertible notes in the third quarter of 2006, offset by our repayment of $42.7 million in previous borrowings earlier in the year. In addition, we capitalized interest expense of approximately $900,000 in 2006 related to qualified expenditures for improvements to our new corporate headquarters facility, which was substantially complete at September 30, 2006. The interest expense in 2005 was related to the debt we issued in May and July of 2004 to fund the acquisition of Schlumberger’s electricity metering business. This debt consisted of $125 million in senior subordinated notes (subordinated notes) and a $185 million senior secured term loan, which was repaid in 2006.

The increase in amortization of debt placement fees in 2007 is the result of the new borrowings used to fund the Actaris acquisition. In addition, our debt fees for the convertible notes were to be amortized through the date of the earliest put or conversion option, which occurred at September 30, 2007; therefore we expensed approximately $6.6 million of the remaining prepaid debt fees associated with the convertible notes. Amortization of prepaid debt fees fluctuated in 2006 as a result of the issuance of our convertible notes and the voluntary prepayments of the senior secured term loan.

Other income (expense) consists primarily of foreign currency gains and losses, which can vary from period to period, as well as other non-operating events or transactions. In 2007, other income included foreign currency gains of $3.0 million as a result of unrealized gains on our euro denominated borrowings, which are now designated as a hedge of a net investment in foreign operations, with future foreign currency fluctuations recorded in other comprehensive income. Other income in 2007 also included $2.8 million in net realized gains from foreign currency hedge range forward contracts that were settled as part of the Actaris acquisition and a $1.0 million realized gain from an overnight euro rate change prior to the acquisition of Actaris. These gains in 2007 were offset by unrealized foreign currency exchange losses on working capital accounts, including accrued interest balances on intercompany loans. During 2006, in addition to foreign currency fluctuations, other income (expense) also included higher banking fees and a $242,000 loss on the sale of our investment in Servatron.

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Income Taxes

Our actual income tax rates typically differ from the federal statutory rate of 35%, and can vary from period to period, due to fluctuations in operating results, new or revised tax legislation and accounting pronouncements, changes in the level of business performed in domestic and foreign jurisdictions, research credits and state income taxes.

Our actual income tax rate was a benefit of 50.45% for 2007. We recorded benefits from legislative reductions in tax rates in Germany and the United Kingdom during the third quarter of 2007. The German Business Tax Reform 2008 was finalized on August 17, 2007, which reduced the German tax rate from approximately 39% to 30%. On July 19, 2007, the United Kingdom enacted the Finance Act of 2007, which lowered the main corporate tax rate from 30% to 28%. These benefits were offset by IPR&D, which is not deductible and increases our actual tax rate.

Itron’s tax benefit for 2007 reflects a benefit associated with lower effective tax rates on foreign earnings. We made an election under Internal Revenue Code Section 338 with respect to the Actaris acquisition, which resulted in a reduced global effective tax rate. Additionally, our reduced foreign tax liability reflects the benefit of foreign interest expense deductions.

Effective January 1, 2007, we adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB 109 (FIN 48). As a result of the implementation of FIN 48, we recognized a $5.4 million increase in the liability for unrecognized tax benefits, with a corresponding increase in deferred tax assets. At January 1, 2007 and December 31, 2007, the amount of unrecognized tax benefits was $5.4 million and $34.8 million, respectively. Approximately $27.5 million of unrecognized tax benefits were acquired as part of the Actaris acquisition on April 18, 2007. Other than $1.7 million in income tax obligations related to FIN 48 that we expect to pay in 2008, we do not expect any reasonably possible material changes to the estimated amount of liability associated with our unrecognized tax benefits through December 31, 2008. The amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate as of January 1, 2007 and December 31, 2007 were $5.4 million and $8.4 million, respectively.

Our 2006 actual income tax rate for the year was 35%. Although our actual income tax rate was the same as the statutory tax rate, this was due to several factors, including state income taxes that increase the actual income tax rate and the adoption of SFAS 123(R) and current year federal, state and Canadian R&D credits that decrease the actual income tax rate. The tax provision was further reduced by approximately $1.5 million due to prior year state and Canadian R&D credits and the realization of deferred tax assets related to a foreign subsidiary that had been fully reserved. On December 20, 2006, the Tax Relief and Health Care Act was signed into law, extending the research tax credit for qualified research expenses incurred throughout 2006 and 2007. We recorded approximately $2.2 million in federal and state R&D credits after the effective date of this legislation.

Our 2005 actual income tax rate was a benefit of 20%, which was lower than the statutory tax rate due to the benefit of research credits and the completion of a research credit study for the years 1997 through 2004, in which we recognized a $5.9 million net tax credit as an offset to the provision for income taxes. In addition, as part of a reorganization of our legal entities for operational efficiencies, we recognized $8.0 million in deferred tax assets from prior years that had been fully reserved, associated primarily with certain foreign operations.

We are subject to income tax in the U.S. federal jurisdiction and numerous foreign and state jurisdictions. The Internal Revenues Service has completed its examinations of our federal income tax returns for the tax years 1993 through 1995. Due to the existence of net operating loss and tax credit carryforwards, tax years subsequent to 1995 remain open to examination by the major tax jurisdictions to which we are subject. Actaris’ subsidiaries in France are currently under examination for the years 2004 through 2006. We reflect interest and penalties related to unrecognized tax benefits in our provision for income taxes. Accrued interest and penalties were $9,000 at January 1, 2007. At December 31, 2007, accrued interest was $2.7 million and accrued penalties were $2.2 million. The increase from

January 1, 2007 to December 31, 2007 was the result of the Actaris acquisition on April 18, 2007.

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Financial Condition

Cash Flow Information:

	Year Ended December 31,		
	2007	2006	2005
		(in millions)	
Operating activities	$ 133.3	$ 94.8	$ 79.6
Investing activities	(1,714.4)	(85.5)	(30.6)
Financing activities	1,310.4	318.5	(27.0)
Effect of exchange rates on cash and cash equivalents	1.3	-	-
Increase (decrease) in cash and cash equivalents	$ (269.4)	$ 327.8	$ 22.0

The Actaris acquisition on April 18, 2007 was funded with a $1.2 billion credit facility, $225.2 million in net proceeds from the sale of 4.1 million shares of common stock and cash on hand. The cash and cash equivalents balance of $361.4 million at December 31, 2006 consisted primarily of the proceeds of the $345 million of convertible notes issued in August 2006, which were subsequently used in 2007 to fund the Actaris acquisition.

Operating activities: As a result of the Actaris acquisition, cash provided by operating activities increased $38.5 million. Increased revenue activity resulted in cash received from customers of $1.4 billion for 2007, compared with $646.5 million for 2006, partially offset by cash paid to suppliers and employees of $1.2 billion in 2007, compared with $542.8 million in 2006. This increase in operating activity in 2007 was partially offset by a $70.1 million increase in net interest paid and an increase in taxes paid of $18.3 million in 2007, compared with 2006. Cash provided by operating activities increased $15.2 million in 2006, compared with 2005. In 2006, increased revenues generated an additional $107.8 million in cash, which was partially offset by an increase of $99.0 million in cash paid to suppliers and employees. In addition, we paid $16.1 million less in net interest and taxes. In 2006, $9.7 million in excess tax benefits from stock-based compensation associated with our January 1, 2006 adoption of SFAS 123(R) is reflected in financing activities. In 2007, no excess tax benefits from stock-based compensation were recognized due to the current year net tax loss resulting from increased interest expense.

Investing activities: Cash paid for the acquisition of Actaris was approximately $1.7 billion. In the first quarter of 2007, $35.0 million in short-term investments matured with the proceeds used to partially fund the acquisition. The acquisition of property, plant and equipment was $40.6 million in 2007, which was partially offset by the $7.2 million in proceeds from the sale of our prior headquarters facility that was held for sale. During 2006, we invested $205.0 million in short-term held to maturity investments from the net proceeds of our $345 million convertible notes issuance. The remaining proceeds were placed in cash and cash equivalents. As the investments matured, $170.4 million was placed in cash and cash equivalents. For 2006, property, plant and equipment purchases were $31.7 million and were primarily related to capital improvements to our new corporate headquarters and our enterprise resource planning system upgrade. Investing activities in 2006 also included a total of $21.1 million used for three small acquisitions, with no similar activity in 2005. During 2005, we used $32.0 million in cash for property, plant and equipment purchases, of which $19.8 million was for the purchase of our new corporate headquarters. We received $2.6 million in proceeds from the sale of a manufacturing facility in Quebec, Canada in 2005.

Financing activities: Proceeds from our new credit facility were $1.2 billion in 2007, with $22.1 million in debt placement fees. We subsequently repaid $76.1 million of the credit facility during 2007. The revaluation of the euro and pound sterling denominated loans to the U.S. dollar at December 31, 2007 resulted in an increase of $38.2 million to the loan balances, which was recognized in other comprehensive income. Net proceeds from the sale of common stock provided $225.2 million in 2007. Cash generated from the exercise of stock-based awards was $22.4 million

during 2007, compared with $15.3 million in 2006 and $24.9 million in 2005. There were no excess tax benefits from stock-based compensation as a result of our current year net tax loss for 2007, compared with $9.7 million in 2006. In 2006, we received $345.0 million in gross proceeds from the issuance of our convertible notes, with debt placement fees of $8.8 million. During 2006, we paid off various debt balances from December 31, 2005, including $24.7 million of our term loan, $14.8 million of our real estate term note and $3.2 million of project financing debt. During 2005, we made $126.2 million in payments on borrowings, $59.8 million of which were net proceeds from an equity offering and received $14.8 million in proceeds from a real estate term note, which was used to partially finance the purchase of our new corporate headquarters building.

Effect of exchange rates on cash and cash equivalents: As a result of the Actaris acquisition, the effect of exchange rates on the cash balances of currencies held in foreign denominations (primarily euros) was an increase of $1.3 million for 2007.

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Disclosures about contractual obligations and commitments:

The following table summarizes our known obligations to make future payments pursuant to certain contracts as of December 31, 2007, as well as an estimate of the timing in which these obligations are expected to be satisfied.

	Total	Less than 1 year	1-3 years	3-5 years	Beyond 5 years
			(in thousands)		
Credit facility (1)					
USD denominated term loan	$ 823,331	$ 46,153	$ 83,403	$ 81,425	$ 612,350
EUR denominated term loan	626,971	35,245	68,700	66,404	456,622
GBP denominated term loan	114,398	7,277	13,542	12,730	80,849
Senior subordinated notes (1)	168,025	9,688	19,376	138,961	-
Convertible senior subordinated notes (1)	508,875	8,625	17,250	17,250	465,750
Operating lease obligations (2)	27,007	11,919	11,670	2,191	1,227
Purchase and service commitments (3)	165,499	162,907	2,373	219	-
Other long-term liabilities reflected on the balance sheet under generally accepted accounting principles (4)	83,536	6,910	41,717	11,427	23,482
Total	$ 2,517,642	$ 288,724	$ 258,031	$ 330,607	$ 1,640,280

(1) Borrowings are disclosed within Item 8: Financial Statements and Supplementary Data, Note 7 – Debt, with the addition of estimated interest expense.

(2) Operating lease obligations are disclosed in Item 8: Financial Statements and Supplementary Data, Note 13 – Commitments and Contingencies, and do not include common area maintenance charges, real estate taxes and insurance charges for which we are obligated.

(3) We enter into standard purchase orders in the ordinary course of business that typically obligate us to purchase direct materials and other items. Purchase orders can vary in terms, which include open-ended agreements that provide for estimated quantities over an extended shipment period, typically up to one year at an established unit cost. Our long-term executory purchase agreements that contain termination clauses have been classified as less than one year, as the commitments are the estimated amounts we would be required to pay at December 31, 2007 if the commitments were canceled.

(4) Other long-term liabilities consist of warranty obligations, estimated pension benefit payments, FIN 48 liabilities and other obligations. FIN 48 liabilities totaling $38.0 million, which includes interest and penalties, recorded as long-term liabilities, are not included in the above contractual obligations and commitments table as we cannot make a reasonably reliable estimate of the period of cash settlement with the respective taxing authorities.

Liquidity, Sources and Uses of Capital:

We have historically funded our operations and growth with cash flow from operations, borrowings and issuances of common stock.

Credit Facility

The Actaris acquisition was financed in part by a $1.2 billion credit facility. The credit facility, dated April 18, 2007, was comprised of a $605.1 million first lien U.S. dollar denominated term loan; a €335 million first lien euro denominated term loan; a £50 million first lien pound sterling denominated term loan (collectively the term loans);

and a $115 million multicurrency revolving line-of-credit (revolver). Interest rates on the credit facility are based on the respective borrowing's denominated LIBOR rate (U.S. dollar, euro or pound sterling) or the Wells Fargo Bank, National Association's prime rate, plus an additional margin subject to factors including our consolidated leverage ratio. Our interest rates were 6.84%, 8.05% and 6.78% for the U.S. dollar denominated, the pound sterling denominated and the euro denominated term loans at December 31, 2007, respectively. Scheduled amortization of principal payments is 1% per year (0.25% quarterly) with an excess cash flow provision for additional annual principal repayment requirements. Maturities of the term loans and multicurrency revolver are seven years and six years from the date of issuance, respectively. Prepaid debt fees are amortized using the effective interest method through the term loans' earliest maturity date, as defined by the credit agreement. The credit facility is secured by substantially all of the assets of our operating subsidiaries, except our foreign subsidiaries, and contains covenants, which contain certain financial ratios and place restrictions on the incurrence of debt, the payment of dividends, certain investments and mergers. We were in compliance with these debt covenants at December 31, 2007. At December 31, 2007, there were no borrowings outstanding under the revolver and $54.7 million was utilized by outstanding standby letters of credit resulting in $60.3 million being available for additional borrowings.

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Senior Subordinated Notes

Our senior subordinated notes consist of $125 million aggregate principal amount of 7.75% notes, issued in May 2004 and due in 2012. The subordinated notes were discounted to a price of 99.265 to yield 7.875%. The discount on the subordinated notes is accreted resulting in a balance of $124.4 million at December 31, 2007. Prepaid debt fees are amortized over the life of the subordinated notes. The subordinated notes are registered with the Securities and Exchange Commission (SEC) and are generally transferable. Fixed interest payments of $4.8 million are required every six months, in May and November. The notes are subordinated to our credit facility (senior secured borrowings) and are guaranteed by all of our operating subsidiaries, except for our foreign subsidiaries. The subordinated notes contain covenants, which place restrictions on the incurrence of debt, the payment of dividends, certain investments and mergers. The Actaris acquisition and the associated financing were not prohibited under these covenants. We were in compliance with these debt covenants at December 31, 2007. Some or all of the subordinated notes may be redeemed at our option at any time on or after May 15, 2008, at their principal amount plus a specified premium price of 103.875%, decreasing each year thereafter.

Convertible Senior Subordinated Notes

On August 4, 2006, we issued $345 million of 2.50% convertible notes due August 2026. Fixed interest payments of $4.3 million are required every six months, in February and August. For each six month period beginning August 2011, contingent interest payments of approximately 0.19% of the average trading price of the convertible notes will be made if certain thresholds and events are met, as outlined in the indenture. The convertible notes are registered with the SEC and are generally transferable.

The convertible notes may be converted at the option of the holder at an initial conversion rate of 15.3478 shares of our common stock for each $1,000 principal amount of the convertible notes (conversion price of $65.16 per share), under the following circumstances, as defined in the indenture:

- during any fiscal quarter commencing after September 30, 2006, if the closing sale price per share of our common stock exceeds $78.19, which is 120% of the conversion price of $65.16, for at least 20 trading days in the 30 consecutive trading day period ending on the last trading day of the preceding fiscal quarter;
- between July 1, 2011 and August 1, 2011, and any time after August 1, 2024;
- during the five business days after any five consecutive trading day period in which the trading price of the convertible notes for each day was less than 98% of the conversion value of the convertible notes;
- if the convertible notes are called for redemption;
- if a fundamental change occurs; or
- upon the occurrence of defined corporate events.

The convertible notes also contain purchase options, at the option of the holders, which may require us to repurchase all or a portion of the convertible notes on August 1, 2011, August 1, 2016 and August 1, 2021 at the principal amount, plus accrued and unpaid interest.

Upon conversion, the principal amount of the convertible notes will be settled in cash and, at our option, the remaining conversion obligation (stock price in excess of conversion price) may be settled in cash, shares or a combination. The conversion rate for the convertible notes is subject to adjustment upon the occurrence of certain corporate events, as defined in the indenture, to ensure that the economic rights of the convertible notes are preserved. We may redeem some or all of the convertible notes for cash, on or after August 1, 2011, for a price equal to 100% of the principal amount plus accrued and unpaid interest.

The convertible notes are unsecured and subordinate to all of our existing and future senior secured borrowings. The convertible notes are unconditionally guaranteed, joint and severally, by all of our operating subsidiaries, except for our foreign subsidiaries, all of which are wholly owned. The convertible notes contain covenants, which place restrictions on the incurrence of debt and certain mergers. The Actaris acquisition and the associated financing were

not prohibited under these covenants. We were in compliance with these debt covenants at December 31, 2007.

At December 31, 2007, the contingent conversion threshold was not exceeded and, therefore, the aggregate principal amount of the convertible notes is included in long-term debt. At September 30, 2007, the contingent conversion threshold of our convertible notes was exceeded. As a result, the notes were convertible at the option of the holder as of September 30, 2007 and through the fourth quarter of 2007, and accordingly, the aggregate principal amount of the convertible notes at September 30, 2007 was included in the current portion of long-term debt; and since our debt fees were amortized through the date of the earliest conversion option, in accordance with our policy we expensed approximately $6.6 million of the remaining prepaid debt fees associated with the convertible notes at September 30, 2007. As our stock price is subject to fluctuation, the contingent conversion threshold may be exceeded during any quarter prior to July 2011, and subject the notes to conversion. However, we believe it is unlikely that a significant portion of the convertible notes would be converted prior to maturity because the market value of the convertible notes would likely exceed the value that holders of the convertible notes would receive upon conversion. If holders elect to convert, however, we would be required to settle the principal amount of the convertible notes in cash and the conversion premium in cash or shares of our common stock. We would likely fund the repayment with existing cash and cash equivalents, common stock issuances and/or additional borrowings. No convertible notes were converted during the fourth quarter of 2007.

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Other Sources and Uses of Capital

Prepaid debt fees for all our outstanding borrowings are amortized over the respective terms using the effective interest method. Total unamortized prepaid debt fees were approximately $21.6 million and $13.2 million at December 31, 2007 and 2006, respectively.

Our net deferred tax assets consist primarily of accumulated net operating loss carryforwards and tax credits that can be carried forward, some of which are limited by Internal Revenue Code Sections 382 and 383. The limited deferred tax assets resulted primarily from acquisitions. For 2007, we had an operating loss for federal and state income tax purposes and did not pay cash taxes. However, we paid approximately $21.7 million in local and foreign tax obligations. Approximately $5.5 million of the 2007 provision will be paid in 2008. Based on current projections, we expect to pay no federal and state taxes and approximately $21.0 million in local and foreign taxes in 2008.

We sponsor both funded and unfunded non-U.S. defined benefit pension plans offering death and disability, retirement and special termination benefits to employees in Germany, France, Spain, Italy, Belgium, Chile, Portugal, Hungary and Indonesia. These plans were assumed with the acquisition of Actaris. Our general funding policy for these qualified pension plans is to contribute amounts at least sufficient to satisfy regulatory funding standards of the respective countries for each plan. We contributed $131,000 to the defined benefit pension plans from the date of the Actaris acquisition through December 31, 2007. Assuming that actual plan asset returns are consistent with our expected rate of return in 2007 and beyond, and that interest rates remain constant, we expect to contribute approximately $500,000 in 2008 to our defined benefit pension plans.

Working capital, which includes current assets less current liabilities, was $249.6 million at December 31, 2007, compared with $492.9 million at December 31, 2006. The $243.3 million decrease in working capital resulted primarily from the reduction of cash and cash equivalents from the proceeds used to partially fund the acquisition of Actaris.

We expect to continue to expand our operations and grow our business through a combination of internal new product development, licensing technology from or to others, distribution agreements, partnership 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 issuance of common stock or other securities. We believe existing sources of liquidity will be sufficient to fund our existing operations and obligations for at least the next year and foreseeable future, but offer no assurances. Our liquidity could be affected by the stability of the energy and water industries, competitive pressures, international risks, intellectual property claims and other factors described under “Risk Factors” within Item 1A and “Quantitative and Qualitative Disclosures About Market Risk” within Item 7A, included in this Annual Report on Form 10-K.

Off-balance sheet arrangements:

We had no off-balance sheet financing agreements or guarantees at December 31, 2007 and 2006 that we believe were reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

We are often required to obtain letters of credit or bonds in support of our obligations for customer contracts. These letters of credit 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. In addition to the outstanding standby letters of credit of $54.7 million issued under our credit facility’s $115 million multicurrency revolver, our Actaris operating segment has a total of $28.0 million of unsecured multicurrency revolving lines of credit with various financial institutions with total outstanding standby letters of credit of $5.9 million at December 31, 2007. Unsecured surety bonds in force were $13.8 million and $6.0 million at December 31, 2007 and 2006, respectively. The increase in bonds was primarily the result of the Actaris acquisition. In the event any such bonds or letters of credit are called, we would be obligated to reimburse the issuer of the letter of credit or bond;

however, we do not believe that any currently outstanding bonds or letters of credit will be called.

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Contingencies

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 in accordance with SFAS 5, Accounting for Contingencies, and related pronouncements. In accordance with SFAS 5, a liability is recorded 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. Legal contingencies at December 31, 2007 were not material to our financial condition or results of operations.

PT Mecoindo is a joint venture in Indonesia between PT Berca and one of the Actaris subsidiaries. PT Berca is the minority shareholder in PT Mecoindo and has sued several Actaris subsidiaries and the successor in interest to another company previously owned by Schlumberger. PT Berca claims that it had preemptive rights in the joint venture and has sought to nullify the transaction in 2001 whereby Schlumberger transferred its ownership interest in PT Mecoindo to an Actaris subsidiary. The plaintiff also seeks to collect damages for the earnings it otherwise would have earned had its alleged preemptive rights been observed. The Indonesian courts have awarded 129.6 billion rupiahs, or approximately $14.1 million, in damages against the defendants and have invalidated the 2001 transfer of the Mecoindo interest to a subsidiary of Actaris. All of the parties have appealed the matter and it is currently pending before the Indonesian Supreme Court. We believe the claims are without merit and no liability has been recorded. However, Actaris has notified Schlumberger that it will seek to have Schlumberger indemnify Actaris from any damages it may occur as a result of this claim.

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. The terms of the indemnification normally do not limit the maximum potential future payments. We also provide an indemnification 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 the indemnification generally do not limit the maximum potential payments.

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Critical Accounting Policies

Revenue Recognition: The majority of our revenues are recognized when products are shipped to or received by a customer or when services are provided. For arrangements involving multiple elements, we determine the estimated fair value of each element and then allocate the total arrangement consideration among the separate elements based on the relative fair value percentages. Revenues for each element are then recognized based on the type of element, such as 1) when the products are shipped, 2) services are delivered, 3) percentage-of-completion when implementation services are essential to the software's performance, 4) upon receipt of customer acceptance or 5) transfer of title. Fair values represent the estimated price charged when an item is sold separately. We review our fair values on an annual basis or more frequently if a significant trend is noted.

We recognize revenue for delivered elements when the delivered elements have standalone value and we have objective and reliable evidence of fair value for each undelivered element. If the fair value of any undelivered element included in a multiple element arrangement cannot be objectively determined, revenue is deferred until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements.

If implementation services are essential to a software arrangement, revenue is recognized using either the percentage-of-completion methodology if project costs can be 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, subcontractor performance, supplier information and business volume assumptions. Changes in underlying assumptions/estimates may adversely or positively affect financial performance. Hardware and software post-sale maintenance support fees are recognized ratably over the performance period.

Unearned revenue is recorded for products or services for which cash has been received from a customer but for which the criteria for revenue recognition have not been met as of the balance sheet date. Unearned revenue relates to payments received from customers in connection with product and service invoicing for which revenue recognition criteria have not been met. Shipping and handling costs and incidental expenses billed to customers are recorded as revenue, with the associated cost charged to cost of revenues.

Warranty: We offer industry standard warranties on our hardware products and large application software products. We accrue the estimated cost of projected warranty claims based on historical and projected product performance trends, business volume assumptions, supplier information and other business and economic projections. Testing of new products in the development stage helps identify and correct potential warranty issues prior to manufacturing. Continuing 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 could 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. 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 replace projected product failures, and we may incur additional warranty and related expenses in the future with respect to new or established products.

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.

Business Combinations: In accordance with SFAS 141, Business Combinations, we record the results of operations of an acquired business from the date of acquisition. We make preliminary allocations of the purchase price to the assets acquired and liabilities assumed based on estimated fair value assessments. Until we finalize the fair values, we may have changes to the carrying values of tangible and intangible assets, goodwill, commitments and contingencies, liabilities, deferred taxes, uncertain tax positions and restructuring activities. Amounts allocated to IPR&D are expensed in the period of acquisition. Costs to complete the IPR&D are expensed in the subsequent period as incurred. We may experience unforeseen problems in the development or performance of the IPR&D, we may not meet our product development schedules or we may not achieve market acceptance of these new products or solutions.

Goodwill and Intangible Assets: Goodwill and intangible assets result from our acquisitions. We use estimates in determining the value assigned to goodwill and intangible assets, including estimates of useful lives of intangible assets, discounted future cash flows and fair values of the related operations. We test goodwill for impairment each year as of October 1, under the guidance of SFAS 142, Goodwill and Other Intangible Assets. At October 1, 2007, our Itron North America segment represents one reporting unit, while our Actaris segment has three reporting units. We forecast discounted future cash flows at the reporting unit level based on estimated future revenues and operating costs, which take into consideration factors such as existing backlog, expected future orders, supplier contracts and general market conditions. Changes in our forecasts or cost of capital may result in asset value adjustments, which could have a significant effect on our current and future results of operations and financial condition. Intangible assets with a finite life are amortized over that life based on estimated discounted cash flows, and are tested for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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Stock-Based Compensation: We measure compensation cost for stock-based awards at fair value and recognize compensation cost over the service period for awards expected to vest. We use the Black-Scholes option-pricing model, which requires the input of assumptions, including the estimated length of time employees will retain their vested stock options before exercising them (expected term) and the estimated volatility of our common stock's price over the expected term. Furthermore, in calculating compensation for these awards, we are also required to estimate the approximate number of options that will be forfeited prior to completing their vesting requirement (forfeitures). We consider many factors when estimating expected forfeitures, including types of awards, employee class and historical experience. To the extent actual results or updated estimates differ from our current estimates; such amounts will be recorded as a cumulative adjustment in the period estimates are revised.

Defined Benefit Pension Plans: As part of the Actaris acquisition, we assumed Actaris' defined benefit pension plans. Actaris sponsors both funded and unfunded non-U.S. defined benefit pension plans. FASB Statement 87, Employers' Accounting for Pensions, as amended by SFAS 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, requires the assets acquired and liabilities assumed in a business combination to include 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, thereby eliminating any previously existing net gain or loss, prior service cost or credit or transition asset or obligation recognized in accumulated other comprehensive income. SFAS 158 also requires employers to recognize the funded status of their defined benefit pension plans on their consolidated balance sheet and recognize as a component of other comprehensive income, net of tax, the actuarial gains or losses, prior service costs or credits and transition assets or obligations, if any, that arise during the period but are not recognized as components of net periodic benefit cost.

Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and obligations related to these plans. These factors are updated annually at December 31 and include assumptions about the discount rate, expected rate of return on plan assets, turnover rates and rate of future compensation increase. The discount rate is a significant assumption used to value our pension benefit obligation. We use the average 15 year corporate bond yield curve from the central banks of each respective country in which we have an established benefit pension plan. The weighted average discount rate used to measure the projected benefit obligation for the year ended December 31, 2007 was 5.48%. A change in the discount rate of 25 basis points would change our pension benefit obligation by approximately $2 million. The financial and actuarial assumptions used at December 31, 2007 may differ materially from actual results due to changing market and economic conditions and higher or lower withdrawal rates. These differences could result in a significant change in the amount of pension expense recorded in future periods. Changes in annual discount rates are recognized in other comprehensive income in the period in which they occur.

Income Taxes: We estimate income taxes in each of the taxing jurisdictions in which we operate. Changes in our effective tax rate are subject to several factors, including fluctuations in operating results, new or revised tax legislation and accounting pronouncements, changes in the level of business performed in domestic and foreign jurisdictions, research credits and state income taxes. Significant judgment is required in determining our annual tax rate and in evaluating our tax positions. We assess the likelihood that deferred tax assets, which include net operating loss carryforwards and temporary differences expected to be deductible in future years, will be recoverable. The realization of our deferred tax asset related to net operating loss carryforwards is supported by projections of future profitability. If recovery of the deferred tax asset is not more likely than not, we provide a valuation allowance based on estimates of future taxable income in the respective taxing jurisdiction and the amount of deferred taxes that are expected to be realizable. If future taxable income is different than expected, we will adjust the valuation allowances through income tax expense in future periods, creating variability in our calculated tax rates. We are also subject to audit in multiple taxing jurisdictions in which we operate. These audits can involve complex issues, which may require an extended period of time to resolve. We believe we have recorded adequate income tax provisions and FIN 48 reserves.

On January 1, 2007, we adopted the provisions of FIN 48, which addresses whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 requires increased disclosures, provides guidance on de-recognition, classification, interest and penalties on income taxes and the accounting in interim periods. As of January 1, 2007 and December 31, 2007, the amount of unrecognized tax benefits was $5.4 million and $34.8 million, of which $5.4 million and $8.4 million would, if recognized, affect our effective tax rate, respectively. In 2008, we expect to pay $1.7 million in income tax obligations related to FIN 48. Additionally, the amount of the unrecognized tax benefits will change in the next twelve months due to audits in various foreign jurisdictions. However, we do not expect that change to have a significant impact on our results of operations.

Legal Contingencies: 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 in accordance with SFAS 5, and related pronouncements. In accordance with SFAS 5, a liability is recorded 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. Legal contingencies at December 31, 2007 and 2006 were not material to our financial condition or results of operations.

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Derivative Instruments: We account for derivative instruments and hedging activities in accordance with SFAS 133, Accounting for Derivative Instruments and Hedging Activities, as amended. 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. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded as a component of other comprehensive income and are recognized in earnings when the hedged item affects earnings; ineffective portions of fair value changes or derivative instruments that do not qualify for hedging activities are recognized in earnings. Derivatives are not used for trading or speculative purposes.

Foreign Exchange: Our consolidated financial statements are reported in U.S. dollars. Assets and liabilities of foreign subsidiaries with a non-U.S. dollar functional currency are translated to U.S. dollars at the exchange rates in effect on the balance sheet date, or the last business day of the period, if applicable. Revenues and expenses for these subsidiaries are translated to U.S. dollars using an average rate for the relevant reporting period. Translation adjustments resulting from this process are included, net of tax, in accumulated other comprehensive income in shareholders' equity. Gains and losses that arise from exchange rate fluctuations for balances that are not denominated in the functional currency are included in the Consolidated Statements of Operations. Currency gains and losses of intercompany balances deemed to be long-term in nature or considered to be hedges of the net investment in foreign subsidiaries are included, net of tax, in accumulated other comprehensive income in shareholders' equity.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of the adoption of SFAS 157 on our consolidated financial statements for the first quarter of 2008 but have not yet determined if it will be material at this time.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities –Including an amendment of FASB Statement No. 115. This statement permits entities to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected would be reported in net income. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We have not yet determined if we will elect to apply any of the provisions of SFAS 159 or what effect the adoption of SFAS 159 would have, if any, on our consolidated financial statements.

In December 2007, the FASB issued SFAS 141(R), Business Combinations, which replaces SFAS 141. SFAS 141(R) retains th