

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2002

OR

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

For the transition period from _____ to _____

Commission file number 0-22418

ITRON, INC.

(Exact name of registrant as specified in its charter)

Washington
(State of Incorporation)

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

2818 North Sullivan Road
Spokane, Washington 99216-1897
(509) 924-9900
(Address and telephone number of registrant's principal executive offices)

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

The number of shares outstanding of the registrant's common stock as of July 31, 2002 was 20,142,784.

ITRON, INC.
TABLE OF CONTENTS

Part 1: FINANCIAL INFORMATION

Item 1: FINANCIAL STATEMENTS (UNAUDITED)

Condensed Consolidated Statements of Operations	1
Condensed Consolidated Balance Sheets	2
Condensed Consolidated Statements of Cash Flows	3

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies	4
Note 2: Short-Term Investments	4
Note 3: Earnings Per Share and Capital Structure	5
Note 4: Balance Sheet Components	6
Note 5: Business Combination	6
Note 6: Segment Information	7
Note 7: Restructuring	8
Note 8: Contingencies	9
Note 9: Comprehensive Income	9
Note 10: Goodwill	9
Note 11: Identified Intangible Assets	10
Note 12: New Accounting Pronouncements	10

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

Certain Forward-Looking Statements	11
RESULTS OF OPERATIONS	11
Electric Systems	12
Natural Gas Systems	12
Water and Public Power Systems	12
International Systems	12
Bookings and Backlog	13
Operating Expenses, excluding IPR&D and Restructurings	13
Purchased In-Process Research and Development	14
Other Income (Expense) and Income Taxes	14
FCC Regulation and Allocation of Radio Frequencies	14
FINANCIAL CONDITION	
Cash Flow Information	15
New Accounting Pronouncements	16
Business Outlook	17

Item 3: [QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK](#) 18

Part 2: Other Information

Item 1: Legal Proceedings	19
Item 4: Submission of Matters to a Vote of Security Holders	19
Item 6: Exhibits and Reports on Form 8-K	20
Signature	21

Part 1: FINANCIAL INFORMATION

Item 1: Financial Statements (Unaudited)

ITRON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
(Unaudited, in thousands, except per share data)				
Revenues				
Sales	\$ 61,858	\$ 42,404	\$ 112,044	\$ 79,636
Service	10,581	10,610	22,470	20,849
Total revenues	72,439	53,014	134,514	100,485
Cost of revenues				
Sales	31,580	23,584	57,123	45,105
Service	7,008	6,288	16,253	13,557
Total cost of revenues	38,588	29,872	73,376	58,662
Gross profit	33,851	23,142	61,138	41,823
Operating expenses				
Sales and marketing	8,233	6,486	15,277	12,071
Product development	10,388	7,642	17,895	13,381
General and administrative	5,612	3,603	10,086	6,878
Amortization of intangibles	573	366	910	732
Restructurings	—	(807)	—	(807)
In-process research and development (IPR&D)	(200)	—	7,200	—
Total operating expenses	24,606	17,290	51,368	32,255
Operating income	9,245	5,852	9,770	9,568
Other income (expense)				
Equity in affiliates	50	(64)	46	(41)
Interest and other, net	705	(737)	(128)	(2,031)
Total other income (expense)	755	(801)	(82)	(2,072)
Income before income taxes	10,000	5,051	9,688	7,496
Income tax provision	(3,675)	(1,893)	(6,333)	(2,849)
Net income	\$ 6,325	\$ 3,158	\$ 3,355	\$ 4,647
Earnings per share				
Basic net income per share	\$ 0.32	\$ 0.20	\$ 0.18	\$ 0.30
Diluted net income per share	\$ 0.28	\$ 0.18	\$ 0.17	\$ 0.27
Average number of shares outstanding				
Basic	19,775	15,513	18,174	15,449
Diluted	22,672	18,716	20,051	18,137

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

ITRON, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2002	December 31, 2001
	(Unaudited, in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 18,631	\$ 20,582
Short-term investments, available for sale	23,811	22,199
Accounts receivable, net	44,534	52,345
Inventories, net	20,252	16,281
Deferred income taxes, net	4,353	4,134
Other	3,305	1,192
	<hr/>	<hr/>
Total current assets	114,886	116,733
Property, plant and equipment, net	28,032	25,918
Equipment used in outsourcing, net	12,242	12,918
Intangible assets, net	10,924	4,419
Goodwill, net	32,824	6,616
Restricted cash	—	5,100
Deferred income taxes, net	29,088	24,952
Other	7,943	6,035
	<hr/>	<hr/>
Total assets	\$ 235,939	\$ 202,691
	<hr/>	<hr/>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 24,564	\$ 24,689
Wages and benefits payable	11,041	11,611
Current portion of long-term debt	678	229
Deferred revenue	11,338	13,558
	<hr/>	<hr/>
Total current liabilities	47,621	50,087
	<hr/>	<hr/>
Convertible subordinated debt	—	53,313
Mortgage notes and leases payable	—	4,860
Project financing	5,111	6,082
Warranty and other obligations	17,067	12,297
	<hr/>	<hr/>
Total liabilities	69,799	126,639
	<hr/>	<hr/>
Shareholders' equity		
Common stock	206,470	120,316
Accumulated other comprehensive loss	(1,337)	(1,916)
Accumulated deficit	(38,993)	(42,348)
	<hr/>	<hr/>
Total shareholders' equity	166,140	76,052
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 235,939	\$ 202,691
	<hr/>	<hr/>

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

ITRON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,	
	2002	2001
(Unaudited, in thousands)		
OPERATING ACTIVITIES		
Net income	\$ 3,355	\$ 4,647
Noncash charges (credits) to income:		
Acquired in-process research and development	7,200	—
Depreciation and amortization	4,883	5,181
Deferred income tax provision	2,164	2,506
Stock option income tax benefits	4,186	—
Equity in affiliates, net	(46)	41
Gain on early extinguishment of debt	(200)	—
Impairment loss	401	—
Gain on sale of building	(841)	—
Forfeited interest and amortization of discount on invested securities	254	—
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	12,130	14,506
Inventories	(3,971)	(497)
Accounts payable and accrued expenses	(761)	(4,321)
Wages and benefits payable	(2,470)	(1,933)
Deferred revenue	(4,268)	(1,595)
Other, net	(229)	413
Cash provided by operating activities	21,787	18,948
INVESTING ACTIVITIES		
Proceeds from sales and maturities of investment securities	17,152	2,762
Purchase of investment securities	(18,876)	(16,317)
Reclassification of restricted cash	5,100	(5,100)
Proceeds from the sale of property, plant & equipment	1,796	—
Acquisition of property, plant and equipment	(5,280)	(2,163)
Issuance of note receivable	(2,000)	—
Acquisition of LineSoft, net of cash and cash equivalents	(21,672)	—
Other, net	1,431	(2,282)
Cash used by investing activities	(22,349)	(23,100)
FINANCING ACTIVITIES		
Change in short-term borrowings, net	(1,973)	—
Payments on project financing	(1,258)	(289)
Issuance of common stock	6,937	1,200
Repurchase of common stock	(225)	—
Payments on mortgage notes payable	(4,853)	(96)
Other, net	(17)	(19)
Cash provided (used) by financing activities	(1,389)	796
Decrease in cash and cash equivalents	(1,951)	(3,356)
Cash and cash equivalents at beginning of period	20,582	21,216
Cash and cash equivalents at end of period	\$ 18,631	\$ 17,860
<i>Non cash transactions:</i>		
Acquisition of LineSoft in partial exchange for common stock	\$ 21,801	\$ —
Debt to equity conversion	\$ 53,313	\$ 30

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

ITRON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six Months Ended June 30, 2002 and 2001
(Unaudited)**Note 1: Summary of Significant Accounting Policies***Basis of presentation*

The condensed consolidated financial statements presented in this Form 10-Q are unaudited and reflect, in the opinion of management, all normal recurring adjustments necessary for a fair presentation of operations for the three and six-month periods ended June 30, 2002 and 2001. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim results. These condensed consolidated financial statements include the results of LineSoft Corporation (LineSoft) from its acquisition on March 12, 2002 (see Note 5), and should be read in conjunction with the audited consolidated financial statements and the notes included in our Form 10-K for the year ended December 31, 2001, as filed with the Securities and Exchange Commission on March 28, 2002. The results of operations for the three and six-month periods ended June 30, 2002 are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Because of various factors affecting future costs and operations, actual results could differ from estimates.

Research and development expenses

Research and development costs are expensed as incurred. In the first six months of 2002, in connection with the LineSoft acquisition, we incurred \$7.2 million of IPR&D charges for projects that would be continued and for which the following criteria were met: (a) technological feasibility had not been established as of the acquisition date, (b) there was no alternative future use, and (c) the fair value could be estimated with reasonable reliability.

Note 2: Short-Term Investments

Short-term investments, which are classified as available-for-sale, consist of U.S. government and agency paper, money market funds, repurchase agreements, master notes, and certificates of deposits. Information related to such investments at June 30, 2002 is as follows:

	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>
		(Unaudited, in thousands)		
Money market funds and other	\$ 2,248	\$ 1	\$ —	\$ 2,249
U.S. government and agency debt securities	21,540	25	(3)	21,562
Total available-for-sale investments	\$ 23,788	\$ 26	\$ (3)	\$ 23,811

Purchases of short-term investments were \$11.9 million for the three months and \$18.9 million for the six months ended June 30, 2002. Proceeds from the sales and maturities of investment securities were \$4.5 million and \$17.2 million for the same periods. Year to date, interest income earned on short-term investments was \$369,000.

[Table of Contents](#)

Note 3: Earnings Per Share and Capital Structure

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

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
(Unaudited, in thousands except per share data)				
Basic earnings per share:				
Net income available to common shareholders	\$ 6,325	\$ 3,158	\$ 3,355	\$ 4,647
Weighted average shares outstanding	19,775	15,513	18,174	15,449
Basic net income per share	\$ 0.32	\$ 0.20	\$ 0.18	\$ 0.30
Diluted earnings per share:				
Net income available to common shareholders	\$ 6,325	\$ 3,158	\$ 3,355	\$ 4,647
Interest on convertible debt, net of income taxes	89	159	—	319
Adjusted net income available to common shareholders, assuming conversion	\$ 6,414	\$ 3,317	\$ 3,355	\$ 4,966
Weighted average shares outstanding	19,775	15,513	18,174	15,449
Effect of dilutive securities:				
Employee stock options	1,839	1,652	1,877	1,135
Convertible debt	1,058	1,551	—	1,553
Adjusted weighted average shares	22,672	18,716	20,051	18,137
Diluted net income per share	\$ 0.28	\$ 0.18	\$ 0.17	\$ 0.27

We have granted options to purchase shares of our common stock to directors, employees and other key personnel at fair market value on the date of grant. The average price of Itron common stock was \$30.61 in the second quarter of 2002, compared to \$27.09 in the first quarter of 2002 and \$13.98 in the second quarter of 2001.

The dilutive effect of options is calculated using the “treasury stock” method. Under this method, earnings per share data are computed as if the options were exercised at the beginning of the period (or at time of issuance, if later) and as if the funds obtained thereby were used to purchase common stock at the average market price during the period. Weighted averages common shares outstanding, assuming dilution, include the incremental shares that would be issued upon the assumed exercise of stock options. For the second quarter of 2002, approximately 1.0 million of our stock options were excluded from the calculation of diluted earnings per share because they were antidilutive. These options could be dilutive in future periods. For the same period in 2001, approximately 2.4 million of our stock options were excluded from the calculation.

The dilutive effect of our convertible subordinated notes is calculated using the “if converted” method. Under this method, the after-tax amount of interest expense related to the convertible debt is added back to net income. In 2001, and for a portion of 2002, we had subordinated convertible debt outstanding with conversion prices of \$9.65, representing 1.5 million shares, and \$23.70, representing an additional 1.6 million shares. During April and May of 2002, we exercised our option to redeem our subordinated convertible debt. All holders of the notes chose to convert their notes into common stock as opposed to redeem them. In both 2001 and 2002 periods, certain portions of the convertible debt shares were excluded from the earning per share calculation, as they were anti-dilutive.

In May 1998, our Board of Directors authorized the repurchase of up to 1.0 million shares of our common stock. Through December 31, 2001 we had repurchased 192,100 shares at an average price of \$18.02. In the first half of 2002, we repurchased 9,200 shares at an average price of \$24.46. In July 2002, we completed the repurchase of the remaining 798,700 authorized shares at an average price of \$15.44.

Note 4: Balance Sheet Components

	June 30, 2002	December 31, 2001
(Unaudited, in thousands)		
Accounts Receivable		
Trade (net of allowance for doubtful accounts of \$1,658 and \$1,427)	\$ 35,562	\$ 38,342
Unbilled revenue	8,972	14,003
Total accounts receivable	\$ 44,534	\$ 52,345
Inventories, net		
Material	\$ 4,472	\$ 4,800
Work in process	933	720
Finished goods	14,501	10,382
Total manufacturing inventories	19,906	15,902
Service inventories	346	379
Total inventories, net	\$ 20,252	\$ 16,281

Note 5: Business Combination

In March 2002, we acquired LineSoft Corporation; a leading provider of engineering design software applications and consulting services for optimizing the construction or rebuild of utility transmission and distribution systems, in exchange for cash of \$21 million and 848,870 shares of our common stock valued at \$25.68 per share. In addition, we are required to pay additional amounts to certain LineSoft shareholders of up to \$13.5 million in the event that certain defined revenue hurdles in 2002, 2003 and/or 2004 are exceeded. Any earnout payments will be paid half in cash and half in our common stock. Based on revenues earned to date, management does not believe that there will be an earnout payment for 2002.

We have accounted for the transaction under the purchase method of accounting in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*. We originally recorded this transaction in the first quarter of 2002 based on preliminary estimates of the purchase consideration and the fair values of certain assets. During the second quarter, we revised some of these estimates, as preliminary amounts were refined. The changes were not material.

The purchase consideration, including cash paid, the value of Itron stock issued, and estimated transaction costs, was allocated as follows (in thousands):

Purchased IPR&D	\$ 7,200
Goodwill	26,208
Identified amortizable intangible assets	7,390
Other assets and liabilities	2,677
Total	\$ 43,475

The fair value of the IPR&D was determined using the income approach, which discounts expected future cash flows from projects under development to their net present value. Each project was analyzed to determine the technological innovations included; the utilization of core technology; the complexity, cost and time to complete development; any alternative future use or current technological feasibility; and the stage of completion. Future cash flows were estimated taking into account the expected life cycles of the product and the underlying technology, relevant market sizes and industry trends. A discount rate was determined based on an assessment of the weighted average cost of capital of LineSoft, a weighted average return on assets, the internal rate of return of the investment in the acquisition of LineSoft, and venture capital rates of return. The discount rate used in the valuation of all IPR&D was 25 percent.

Accounting rules require the disclosure of what our results of operations would have been assuming the acquisition had already occurred as of the beginning of the periods presented. The following pro forma results are based on the individual historical results of Itron, Inc. and LineSoft Corporation (prior to acquisition on March 12, 2002) with some adjustments to give effect to the combined operations. The adjustments are related to amortization of acquired identified intangible assets, reduction of depreciation expense resulting from adjustments to the value of acquired fixed assets, elimination of interest expense on a line of credit paid in full, and the change in the tax provision. The pro forma results are intended for information purposes, and do not necessarily represent what the combined results of operations or financial position would actually have been had the transaction in fact occurred at an earlier date, nor are they representative of results for any future date or period.

[Table of Contents](#)

	Pro forma Three Months Ended June 30,		Pro forma Six Months Ended June 30,	
	2002	2001	2002	2001
(Unaudited, in thousands, except per share data)				
Revenues	\$ 72,439	\$ 55,989	\$ 137,355	\$ 107,839
Gross profit	33,851	23,097	61,516	43,466
Operating expenses	24,606	20,730	55,379	38,797
Other income (expense)	755	(745)	(60)	(1,915)
Net income	\$ 6,325	\$ 1,015	\$ 1,098	\$ 1,703
Basic net income per common share	\$ 0.32	\$ 0.06	\$ 0.06	\$ 0.10
Diluted net income per common share	\$ 0.28	\$ 0.06	\$ 0.05	\$ 0.10
Weighted average shares assumed outstanding				
Basic	19,775	16,362	18,499	16,298
Diluted	22,672	18,014	20,376	17,433

Note 6: Segment Information

We are internally organized around four business units focused on the customer segments that we serve. These business units are Electric Systems, Natural Gas Systems, Water & Public Power Systems, and International Systems. Operations related to LineSoft since its acquisition is included in Electric Systems.

Revenues for each business unit include hardware, custom and licensed software, project management, installation and support activities, outsourcing services, where we own and operate, or simply operate, systems for a periodic fee, and post-sale support activities. Inter-segment revenues are immaterial. Within each business unit, product costs associated with revenue are reported using standards, which include materials, direct labor and an overhead allocation based on projected production for the year. Variances from standard costs are reported in corporate costs and are not allocated to the business units.

Management has two primary measures for each of our operating segments, revenue and operating income. Operating income is defined as revenue, less direct costs associated with that revenue, less operating expenses directly incurred by the segment, less allocations of basic services (such as floor space and communications expense), warranty and miscellaneous service related expenses. Operating expenses directly associated with each segment may include sales, marketing, product development, or administrative expenses. Certain amounts in the 2001 financial statements have been reclassified to conform to the 2002 presentation. In the table below, corporate information, which includes product development, marketing, miscellaneous manufacturing and certain other corporate expenditures, is included to reconcile segment activity to the consolidated statements of operations.

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

	Three months ended June 30, (Unaudited, in thousands)					
	Electric	Natural Gas	Water & PP	International	Corporate	Total
2002						
Revenues	\$ 36,528	\$ 13,088	\$ 19,233	\$ 3,590	\$ —	\$ 72,439
Cost of revenues	19,100	5,391	11,091	2,330	676	38,588
Gross profit	17,428	7,697	8,142	1,260	(676)	33,851
Operating expenses	1,949	590	964	2,030	19,273	24,806
In-process research & development	—	—	—	—	(200)	(200)
Total operating expenses	1,949	590	964	2,030	19,073	24,606
Operating income/(loss)	\$ 15,479	\$ 7,107	\$ 7,178	\$ (770)	\$ (19,749)	\$ 9,245

**Three months ended June 30,
(Unaudited, in thousands)**

	<u>Electric</u>	<u>Natural Gas</u>	<u>Water & PP</u>	<u>International</u>	<u>Corporate</u>	<u>Total</u>
2001						
Revenues	\$ 22,967	\$ 8,386	\$ 14,827	\$ 6,834	\$ —	\$ 53,014
Cost of revenues	13,389	3,671	8,001	3,936	875	29,872
Gross profit	9,578	4,715	6,826	2,898	(875)	23,142
Operating expenses	1,211	625	853	1,817	12,784	17,290
Operating income/(loss)	\$ 8,367	\$ 4,090	\$ 5,973	\$ 1,081	\$ (13,659)	\$ 5,852

**Six months ended June 30,
(Unaudited, in thousands)**

	<u>Electric</u>	<u>Natural Gas</u>	<u>Water & PP</u>	<u>International</u>	<u>Corporate</u>	<u>Total</u>
2002						
Revenues	\$ 67,301	\$ 23,462	\$ 36,662	\$ 7,089	\$ —	\$ 134,514
Cost of revenues	35,682	10,080	21,651	4,418	1,545	73,376
Gross profit	31,619	13,382	15,011	2,671	(1,545)	61,138
Operating expenses	3,765	1,089	1,917	3,842	33,555	44,168
In-process research & development	—	—	—	—	7,200	7,200
Total operating expenses	3,765	1,089	1,917	3,842	40,755	51,368
Operating income/(loss)	\$ 27,854	\$ 12,293	\$ 13,094	\$ (1,171)	\$ (42,300)	\$ 9,770

2001						
Revenues	\$ 42,902	\$ 16,853	\$ 25,467	\$ 15,263	\$ —	\$ 100,485
Cost of revenues	24,642	7,610	14,210	9,961	2,239	58,662
Gross profit	18,260	9,243	11,257	5,302	(2,239)	41,823
Operating expenses	2,233	1,242	1,590	3,314	23,876	32,255
Operating income/(loss)	\$ 16,027	\$ 8,001	\$ 9,667	\$ 1,988	\$ (26,115)	\$ 9,568

Note 7: Restructuring

In 1999, we recorded charges totaling \$16.3 million for restructuring activities, such as facility consolidations, scaling back of products offered, and a number of other actions that have improved efficiencies and reduced costs. The majority of our restructuring charges were related to a reduction in our workforce. Remaining charges were related to impairment of equipment and estimated future lease payments for abandoned facilities. Restructuring activities for the first six months of 2002 were as follows:

	<u>Reserve Balance 12/31/01</u>	<u>Adjustments</u>	<u>Payments</u>	<u>Reserve Balance 6/30/02</u>
	(Unaudited, in thousands)			
Severance and related charges	\$ 131	\$ —	\$ 72	\$ 59
Consolidation of facilities	447	—	82	365
Total restructurings	\$ 578	\$ —	\$ 154	\$ 424

We expect to fully utilize the remaining reserve balances for severance and related charges in 2002. Facility consolidation reserves are dependent on our continued ability to sublease vacant space under a non-cancelable operating lease through 2006.

[Table of Contents](#)

Note 8: Contingencies

We maintain performance and bid bonds for certain customers. Performance bonds usually cover the installation phase of a contract and may on occasion cover the operations and maintenance phase of outsourcing contracts. Bonds in force were \$40.2 million and \$39.7 million at June 30, 2002 and 2001, respectively. Additionally, we have standby letters of credit to guarantee our performance under certain contracts. The outstanding amounts of standby letters of credit were \$15.0 million and \$11.8 million at June 30, 2002 and 2001, respectively. In addition, we guarantee lease payments for certain equipment leased by an affiliated company. The guaranteed future lease obligation at June 30, 2002 was \$739,000.

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

In addition, we are both a plaintiff and a defendant in litigation concerning potential patent infringement. While we believe we will prevail in this matter, the ultimate outcome and its impact on our financial statements is undeterminable at this time. In the event the outcome is unfavorable to us, there could be a material adverse affect on our financial condition.

Note 9: Comprehensive Income

Comprehensive income adjustments are reflected as an increase or (decrease) to shareholders equity, and are not reflected in results of operations. Operating results, adjusted to reflect comprehensive income items during the period, net of tax, were as follows (in thousands):

	Three months ended June 30,		Six months ended June, 30,	
	2002	2001	2002	2001
Net income	\$ 6,325	\$ 3,158	\$ 3,355	\$ 4,647
Change in foreign currency translation adjustments	662	(544)	593	(520)
Change in net unrealized holding gain (loss)	40	22	(14)	29
Total comprehensive income	\$ 7,027	\$ 2,636	\$ 3,934	\$ 4,156

The components of accumulated other comprehensive income (loss) net of tax, which are reflected in shareholders equity, were as follows (in thousands):

	June 30, 2002	December 31, 2001
Accumulated foreign currency translation adjustments	\$ (1,361)	\$ (1,954)
Accumulated net unrealized gain on holdings	24	38
Total accumulated other comprehensive loss	\$ (1,337)	\$ (1,916)

Note 10: Goodwill

On July 1, 2001, we adopted SFAS No. 141, "Business Combinations," and on January 1, 2002, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations and that certain acquired intangible assets be recognized as assets apart from Goodwill. SFAS No. 142 provides that goodwill should not be amortized but instead be tested for impairment annually at the reporting unit level. We completed our initial impairment test of goodwill during the second quarter of fiscal 2002 and concluded that no impairment adjustment was required.

The change in the amount of goodwill for the six months ended June 30, 2002 is a follows (in thousands):

Balance at December 31, 2001	\$ 6,616
LineSoft goodwill acquired during the period	26,208
Balance at June 30, 2002	\$ 32,824

Table of Contents

The following table reflects adjustments to our consolidated results had the adoption of SFAS No. 142 occurred at the beginning of 2001 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
Net income, as reported	\$ 6,325	\$ 3,158	\$ 3,355	\$ 4,647
Goodwill amortization, net of tax effect	—	113	—	225
Adjusted net income	\$ 6,325	\$ 3,271	\$ 3,355	\$ 4,872
Basic earnings per share, as reported	\$ 0.32	\$ 0.20	\$ 0.18	\$ 0.30
Goodwill amortization, net of tax effect	—	0.01	—	0.01
Adjusted basic net income per share	\$ 0.32	\$ 0.21	\$ 0.18	\$ 0.32
Diluted earnings per share, as reported	\$ 0.28	\$ 0.18	\$ 0.17	\$ 0.27
Goodwill amortization, net of tax effect	—	0.01	—	0.01
Adjusted diluted net income per share	\$ 0.28	\$ 0.18	\$ 0.17	\$ 0.29

Note 11: Identified Intangible Assets

During Q2 2002, no acquisition-related intangibles were acquired, impaired, or written off. Identified intangible assets as of June 30, 2002 consisted of the following (in thousands):

	Weighted Average Useful Life (in months)	Gross Assets	Accumulated Amortization	Net
Acquisition-related developed technology	29	\$ 5,600	\$ (293)	\$ 5,307
Acquisition-related customer contracts	31	1,250	(114)	1,136
Other acquisition-related intangibles	22	582	(135)	447
Intellectual property assets	30	8,588	(4,554)	4,034
Total identified intangible assets	29	\$ 16,020	\$ (5,096)	\$ 10,924

The aggregate amortization expense on identified intangible assets was \$910,200 year-to-date 2002. Estimated amortization expense for the next five years is as follows (in thousands):

Fiscal years ending December 31,	Estimated Amortization
2002	\$ 2,144
2003	2,740
2004	2,362
2005	1,956
2006	510
Beyond 2006	2,122

Note 12: New Accounting Pronouncements

On April 30, 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 covers a variety of technical issues that will not have an effect on our financial statements except for the rescission of SFAS No. 4, which required extinguishment of debt be treated as an extraordinary item. This rescission of SFAS No. 4 is effective for fiscal years beginning after May 15, 2002, with early adoption encouraged. We adopted SFAS No. 145 effective January 1, 2002 and have reflected the \$200,000 gain on extinguishment of debt recorded in the period ended March 31, 2002 in interest and other, net, as opposed to classifying it as an extraordinary item as was previously required.

On July 30, 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company is currently evaluating the effect this pronouncement will have on its financial statements.

Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes included in this document, and with the 2001 audited financial statements and notes included in our Annual Report on Form 10-K, which we filed with the Securities and Exchange Commission on March 28, 2002.

Certain Forward-Looking Statements

This discussion contains information about future operating results and other forward-looking statements. When included in this discussion, the words “expects,” “intends,” “anticipates,” “believes,” “plans,” “projects,” “estimates,” “future” and similar expressions are intended to identify forward-looking statements. However, these words are not the exclusive means of identifying such statements. Forward looking statements are inherently subject to a variety of risks and uncertainties that could cause our actual results to differ materially from those reflected in such forward-looking statements. Risks and uncertainties include, among many others, the rate of customer demand for our products, estimations of future revenues and costs on long-term contracts, changes in law and regulation (including FCC licensing actions), changes in the utility regulatory environment, delays or difficulties in introducing new products and acceptance of those products, increased competition, our ability to continue making substantial progress in the development and commercialization of acquired technologies and the significant assumptions underlying the valuation related to IPR&D and other intangible assets, fluctuations in market or general economic conditions, and various other matters, many of which are beyond our control. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Form 10-Q.

We expect that company representatives will meet privately during the quarter with investors, analysts and others. At these meetings we may reiterate the Business Outlook published in this document. We do not have any obligation to update or revise forward-looking statements contained in this document to reflect any changes in events, conditions or circumstances on which any such statement is based. However, we have from time to time, published updated guidance through the issuance of a press release and may do so in the future. For a more complete description of risks and other factors that can affect future results, see “Certain Risk Factors” included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2002.

RESULTS OF OPERATIONS

Revenues and Gross Margin

	Three months ended June 30,				
	Revenues			Gross Margin %	
	2002	2001	Increase (Decrease)	2002	2001
	(Unaudited, in millions)				
Electric Systems	\$36.5	\$23.0	59%	48%	42%
Natural Gas Systems	13.1	8.4	56	59	56
Water & Public Power Systems	19.2	14.8	30	42	46
International Systems	3.6	6.8	(47)	35	42
Corporate	—	—	—	(1)	(2)
Total	\$72.4	\$53.0	37%	47%	44%

Revenues and Gross Margin

	Six months ended June 30,				
	Revenues			Gross Margin %	
	2002	2001	Increase (Decrease)	2002	2001
	(Unaudited, in millions)				
Electric Systems	\$ 67.3	\$ 42.9	57%	47%	43%
Natural Gas Systems	23.5	16.9	39	57	55
Water & Public Power Systems	36.6	25.5	44	41	44
International Systems	7.1	15.2	(53)	38	35
Corporate	—	—	—	(1)	(2)
Total	\$134.5	\$100.5	34%	45%	42%

Our net revenues for Q2 2002 increased by 37% compared to Q2 2001 and by 34% for the first six months of 2002 compared to the same period in 2001. The increase in net revenues came primarily from our Automated Meter Reading (“AMR”) business in the U.S. We shipped nearly one million radio-based AMR meter modules during the quarter, an increase of 70% from the second quarter of last year. Year-to-date, AMR meter module shipments were up 66% over last year. This growth was due to expansion orders from existing customers and initial deployments with new utility customers.

[Table of Contents](#)

Also contributing to higher domestic revenues in 2002 compared with 2001, were software and services revenue from our transmission and distribution systems ("TDS", previously LineSoft) product line, which we acquired towards the end of March 2002. Those revenues were \$3.7 million for the quarter and \$4.4 million year-to-date. Partially offsetting the increase in revenues in our domestic business were lower revenues from our international operations.

Our gross margin percentage increased to 47% in Q2 2002 from 44% in Q2 2001 and to 45% for the first six months of 2002 compared to 42% for the same period last year. The improved margins resulted from a combination of factors including improved manufacturing efficiencies resulting from higher production volumes and changes in product mix, specific cost reductions efforts, lower general market prices for electronic components and other supply-chain management initiatives. These factors benefited margins in all of our domestic segments. Included in cost of sales this quarter was an impairment write off of \$401,500 for equipment we will no longer use.

Quarter-to-quarter variations reported in revenue or gross margin by segment are not unusual. The following discussion highlights significant changes in trends or components of revenue and gross margin for each segment.

Electric Systems Net revenues increased by \$13.5 million, or 59%, in Q2 2002 compared to Q2 2001. Year to date 2002, net revenues are up by \$24.4 million, or 57% compared to 2001. The majority of the increase results from higher AMR meter module shipments. Also contributing to increased electric systems revenues were the newly acquired TDS product line revenues discussed above. Excluding the TDS revenue, revenue growth was 43% for the quarter and 47% year-to-date. One customer represented 21% of total electric revenues for the quarter compared to 36% in the second quarter last year. Year-to-date, that customer was 26% of total electric revenues compared with 30% last year. There is approximately \$10 million in revenues remaining to recognize against the current contract for this customer, which is scheduled to complete in the first quarter of 2003.

The improved electric segment margins resulted primarily from lower standard costs caused by higher production volumes and other manufacturing efficiencies discussed above, as well as a shift in the mix of products and services with an increase in sales of higher margin modules.

Natural Gas Systems Net revenues increased by \$4.7 million, or 56%, in Q2 2002 compared to Q2 2001 and \$6.6 million, or 39%, in the first six months of 2002 compared to the same period in 2001. This increase was due to higher AMR meter module shipments under two new contracts. In addition, we were able to maintain shipment levels throughout the winter and spring due to warmer weather.

The improved natural gas segment margins resulted primarily from lower standard costs caused by higher production volumes and other manufacturing efficiencies discussed above. Average selling prices were relatively stable in all periods. Also contributing to the increased margins was a higher proportion of revenue related to customers upgrading their electronic meter reading ("EMR") systems, which typically have higher margins. This upgrade cycle is nearing completion, and we expect to replace this EMR buying cycle with AMR product sales.

Water and Public Power Systems We shipped approximately the same number of water AMR meter modules in the second quarter of 2002 as we did in 2001. Net revenues increased by \$4.4 million, or 30%, in the second quarter of 2002 compared to 2001 primarily due to higher installation revenues and increased sales to indirect sales channels. Year to date, the net revenue increase of \$11.1 million, or 44%, in 2002 compared to 2001 resulted from both higher AMR meter module shipments and higher installation revenues. In 2002, there has been a shift in the mix of customers with a greater share of product shipments coming through meter manufacturers and other indirect sales channels, which are principally targeted at smaller utilities and municipalities. A shift in mix between sales channels from quarter to quarter is not unusual.

The higher component of low margin installation revenues in 2002 compared with 2001 is the reason for the decrease in gross margins for this segment. In addition, increased sales to our indirect sales channel are at lower margins than direct sales. Second quarter gross margin decreased to 42% in 2002 compared to 46% in 2001. Year-to-date 2002 gross margin was 41% compared to 44% in 2001.

International Systems Net revenues decreased by \$3.2 million, or 47%, in Q2 2002 compared to Q2 2001 and by \$8.1 million, or 53%, in the first six months of 2002 compared to 2001. This decrease is primarily due to a large handheld system sale made to a customer in Japan in the first half of 2001, which has not been replaced with a comparable size order this year.

[Table of Contents](#)

Second quarter gross margin decreased to 35% in 2002 compared to 42% in 2001. Year-to-date 2002 gross margin was 38% compared to 35% in 2001. In Q2, the majority of the decreased margin was due to a shift in the mix of customers and projects from 2001 to 2002. Approximately one half of Q2 2002 revenues resulted from European customers, which traditionally have lower margins. During the quarter, we completed shipments against one contract with very low margins. As a result of fulfilling our commitment against this contract, we expect to see an increase in International Systems margins during the remainder of the year.

Bookings and Backlog

We enter into short-term and long-term contracts to supply hardware, software and services to our customers. Total backlog represents the value of firm contractual orders for which we have not yet provided products or services. Twelve-month backlog represents the estimated portion of total backlog that will be delivered over the next twelve months. New order bookings represent the value of new contracts signed during a specified period. Not included in bookings or backlog are annual maintenance contracts, which renew periodically throughout the year. We currently estimate the value of those contracts to be approximately \$35 million on an annual basis. In addition, we have contracts with various utilities for providing joint use and engineering services. The current contracts we have are expected to generate approximately \$9.0 million of joint use and engineering services revenue annually and are not included in backlog. Revenues earned during the quarter from these contracts will be included as bookings during the quarter earned.

Our business consists of multi-year contracts, annual contracts and smaller orders which typically book and ship within a relatively short period of time. Our multi-year and annual contracts are subject to rescheduling or cancellation by our customers. Bookings and backlog can be highly variable from period to period primarily due to the nature and timing of larger orders.

Historical information for quarterly bookings and quarter ending backlog are as follows (in millions):

Quarter Ended	Quarter Ended		
	Quarter Bookings	Total Backlog	12-month Backlog
June 30, 2002	\$ 45	\$ 179	\$ 95
March 31, 2002	38	202	112
December 31, 2001	63	203	115
September 30, 2001	61	195	98
June 30, 2001	45	184	79
March 31, 2001	75	188	71

NOTE: Beginning total backlog, plus current quarter bookings, less current quarter sales and certain service revenues will not always equal ending quarter total backlog due to miscellaneous contract adjustments and other factors.

Operating Expenses, excluding IPR&D and Restructurings

(as a percentage of revenues)

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
Sales and marketing	11.4%	12.2%	11.4%	12.0%
Product development	14.3	14.4	13.3	13.3
General and administrative	7.7	6.8	7.5	6.8
Amortization of intangibles	0.8	0.7	0.7	0.7
Total	34.2%	34.1%	32.8%	32.9%

Operating expenses for the second quarter, excluding IPR&D and restructuring charges, increased \$6.7 million in 2002 compared with 2001. Approximately half, or \$3.2 million, of the increase came from our TDS operation, which we acquired late in March 2002. As a percentage of revenues, operating expenses were 34% for the second quarter of 2002, comparable with the second quarter of last year, but up from 31% in the first quarter of 2002. Most of the increase was due to higher operating expenses for our TDS operation without correspondingly higher revenues. We expect total operating expenses to decrease as a percentage of revenues in the third and fourth quarters, commensurate with our expectations for higher TDS revenues in those quarters.

[Table of Contents](#)

Amortization of intangibles was \$573,000 in Q2 2002 and \$910,000 in the first six months of 2002, compared with \$366,000 in Q2 2001 and \$732,000 year-to-date 2001. In 2002, increased amortization expenses related to identified intangible assets acquired with our TDS operation were partially offset by the discontinuance of goodwill amortization in 2002 due to the implementation of SFAS No. 142, as of January 1, 2002. We expect total amortization of intangible assets to be approximately \$650,000 per quarter for the rest of 2002. In the second quarter of 2002, we completed our initial assessment of goodwill resulting from the adoption of SFAS No. 142 and found no impairment.

Purchased In-Process Research and Development (IPR&D)

In the first six months of 2002, we recorded \$7.2 million in charges for IPR&D related to the acquisition of our TDS product line as follows:

	<u>IPR&D</u>	<u>Estimated cost to complete technology</u>	<u>Discount Rate applied to IPR&D</u>	<u>LineSoft's weighted average cost of capital</u>
	(Dollars in millions)			
LineSoft Corporation	\$ 7.2	\$ 3.3	25%	20%

At the time of acquisition, LineSoft had five IPR&D projects, each contributing from 3% to 64% of the total IPR&D value. These projects were new versions of existing software products currently being sold, but not subject to capitalization because they had not yet reached technological feasibility and had no alternative future use. Substantially all IPR&D projects are expected to be completed in 2003. The material risks associated with the successful completion of IPR&D projects concern our ability to successfully finish software development. We expect to benefit from the IPR&D projects as the individual products that contain the in-process technology are marketed and sold to end-users.

Other Income (Expense) and Income Taxes

Net interest and other expense declined by \$1.4 million in Q2 2002 compared to Q2 2001 and by \$1.9 million year to date in 2002 compared to 2001. Included in "Other Income (Expense)" in Q2 2002 was an \$841,000 gain from the sale of our Raleigh, NC facility as our Raleigh operations were moved to a larger, leased facility. Net interest expense was \$366,000 in Q2 2002 compared to \$780,000 in Q2 2001. Lower net interest expense in 2002 resulted from the conversion of convertible debt to equity in the second quarter of 2002 and the early payoff of mortgage debt on our Spokane facility in the first quarter of 2002. The early payoff of the mortgage on our Spokane facility in Q1 2002 resulted in a \$200,000 gain on the early extinguishment of this debt, which is also included in interest and other.

In the second quarter, our effective income tax rate was 36.8% in 2002, compared to 37.5% in 2001. Year to date 2002, our effective income tax rate was 65.4%, compared to 38.0% in 2001. Excluding the impact of non-deductible IPR&D charges in 2002, our adjusted effective rate was 37.5% for the quarter and year to date. The adjusted effective rate for Q2 2002 reflects current expected income for 2002 and the expected distribution of income in various tax jurisdictions. Our effective income tax rate can vary from period to period because of fluctuations in foreign operating results, changes in the valuation allowances for deferred tax assets, new or revised tax legislation, and changes in the level of business performed in different tax jurisdictions.

FCC Regulation and Allocation of Radio Frequencies

On May 24, 2002, the FCC adopted rules governing the use of the 1427-1432 MHz band, which follow the recommendations of Itron and the American Hospital Association. Among other things, the new rules reserve the upper 2.5 MHz of the band for telemetry, including utility telemetry, and provide that 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 to the use of the lower part of the band by hospitals. The Company believes that it will have access to spectrum in the 1429.5-1432 MHz band under favorable conditions, which will be sufficient for the Company's future requirements. Current installations in the lower 2.5 MHz will be required to reapply for use of those frequencies, but, having done so, will have primary status in the band indefinitely.

FINANCIAL CONDITION
**Cash Flow Information
(Unaudited, in millions)**

	Three months ended June 30,			Six months ended June 30,		
	2002	2001	Increase Decrease	2002	2001	Increase Decrease
Operating activities	\$ 15.1	\$ 9.7	56%	\$ 21.8	\$ 18.9	15%
Investing activities	(6.9)	(7.3)	5	(22.4)	(23.1)	3
Financing activities	3.8	0.6	533	(1.4)	0.8	(275)
Increase (decrease) in cash	\$ 12.0	\$ 3.0	300%	\$ (2.0)	\$ (3.4)	41%

Our financial condition grew even stronger during the second quarter due to the conversion of \$53 million in convertible debt to equity and strong operating cash flow. At June 30, 2002, cash, cash equivalents, and short-term investments totaled \$42.4 million. Total debt consisted of \$5.8 million in project finance debt.

Operating activities:

We generated \$15.1 million in cash from operations in Q2 2002. Year-to-date cash generation from operations was \$21.8 million, a 15% increase over 2001. Inventory levels increased approximately \$4 million from December 31, 2001, however inventory turns improved during the quarter to 4.4 from 4.1 in the first quarter. Inventory turns at December 31, 2001 were 5.1, a higher than normal figure due to a greater draw down of inventory. In addition, turns at the end of Q2 2002 were lower than at the end of 2001 due to an intentional build-up of inventory to level-load the factory in anticipation of increased Q3 and Q4 module shipments. Accounts receivable decreased \$7.8 million from December balances and days' sales outstanding has dropped from 69 days at December 31, 2001 to 57 days at June 30, 2002 as previously accrued receivables were invoiced and collected.

Investing activities:

The largest investing activity in the first six months of 2002 was the purchase of LineSoft Corporation in exchange for stock and \$21.7 million in cash. In the first quarter of 2002, we reclassified \$5.1 million from restricted cash for a collateralized letter of credit into cash as a result of a new credit agreement. Included in other investing activities in the first six months of 2001 was a reclassification of \$5.1 million into restricted cash, net investments in short-term securities of \$13.6 million, and investments in and loans made to two private companies—a provider of meter reading services to energy service providers and end user customers, and a developer of in home energy gateway communication technology.

In connection with the purchase of LineSoft on March 12, 2002, the Company assumed a pre-existing loan in the amount of \$2.0 million to the former CEO of LineSoft, Fred Brown, by renewing and replacing it with a new non-recourse promissory note in the same amount. The replacement note was initially secured with 120,000 of the Company's shares, matures May 11, 2003, and bears interest at an annual rate of 6.0%. As of June 30, 2002, the loan was paid down to \$792,395.

Financing activities:

Financing activities in the first six months of 2002 used \$4.9 million for the extinguishment of debt from our prepayment of a mortgage loan and \$2.9 million to repay a line of credit and long-term debt for LineSoft, which we acquired in March 2002. Offsetting those, we issued \$6.9 million in common stock in connection with stock option exercises. No comparably significant financing transactions occurred during the first six months of 2001.

Investments:

In March 2002 we invested just under \$2 million in an early stage startup firm that is developing internet-based energy monitoring and management software and services. The firm has not yet produced any revenue. The form of the investment is a secured convertible note with a term of five years that is senior to all other indebtedness of the firm except for a \$500,000 line of credit. We may convert the note at any time into the common stock of the firm. If we had converted our note into equity as of June 30, 2002, it would have been converted into 19% of the firm's common stock assuming that all granted stock options and other convertible debt of the firm were exercised or converted. We have entered into a distribution and licensing agreement with the firm, which gives us non-exclusive distribution and licensing rights.

[Table of Contents](#)

Liquidity, Sources and Uses of Capital:

At June 30, 2002, we had \$42.4 million in cash, cash equivalents, and short-term investments. In July, we used \$12.3 million to repurchase 798,700 shares of our stock. We have historically funded our operations and growth with cash flow from operations, borrowings and sales of our stock. We are exposed to changes in interest rates on cash equivalents and our short-term investments, which are rated A or better by Standard & Poor's or Moody's and which have market interest rates. Availability under our current \$35 million revolving line of credit was reduced only by outstanding letters of credit of \$15.0 million. We do not have plans to borrow under this credit facility at this time. We believe existing cash resources and available borrowings under our credit facility are more than adequate to meet our operating cash needs through 2002.

In the second quarter of 2002, we had subordinated convertible debt outstanding totaling \$53.3 million. During Q2 2002, we exercised our option to redeem our subordinated convertible debt. All holders of the notes chose to convert their notes into common stock, resulting in the issuance of approximately 3.1 million shares of our common stock. There was no cash impact as a result of this conversion.

We maintain performance and bid bonds for certain customers. The performance bonds usually cover the installation phase of a contract and may on occasion cover the operations and maintenance phase of outsourcing contracts. Bonds in force were \$40.2 million and \$39.7 million at June 30, 2002 and 2001, respectively with the largest performance bond being \$25 million. We have standby letters of credit to guarantee our performance under certain contracts. The outstanding amounts of standby letters of credit were \$15.0 million and \$11.8 million at June 30, 2002 and 2001, respectively. In addition, we guarantee lease payments for certain equipment leased by an affiliated company. The guaranteed future lease obligation at June 30, 2002 was \$739,000.

Working capital as of June 30, 2002 was \$67.3 million, compared to \$66.6 million at December 31, 2001.

During the first quarter of 2002, we acquired LineSoft, a privately held company, for \$43.5 million, including transaction expenses, which consisted of \$21.7 million paid in cash and the issuance of 848,870 shares of Itron common stock (see Note 5 to our unaudited condensed consolidated financial statements). We expect to continue to expand our operations and grow our business through a combination of internal new product development as well as licensing technology from others, distribution agreements, partnership arrangements and acquisitions of technology or, in some cases, other companies. We expect the majority of these activities to be funded from existing cash, cash flow from operations, and borrowings under existing credit facilities. We believe these sources of liquidity will be sufficient to fund our operations for the foreseeable future, but offer no assurances. From time to time, we evaluate potential acquisitions and other growth opportunities, which might require us to seek additional external financing or public or private issuances of equity or debt securities. While we believe existing sources of liquidity are sufficient, our liquidity could be affected by our dependence on the stability of the energy industry, competitive pressures, international risks, intellectual property claims, as well as other factors described under "Certain Risk Factors" and "Qualitative and Quantitative Disclosures About Market Risk", included in our Form 10-K filed with the Securities and Exchange Commission on March 28, 2002.

New Accounting Pronouncements

On April 30, 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "*Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*". SFAS No. 145 covers a variety of technical issues that will not have an effect on our financial statements except for the rescission of SFAS No. 4, which required extinguishment of debt be treated as an extraordinary item. This rescission of SFAS No. 4 is effective for fiscal years beginning after May 15, 2002, with early adoption encouraged. We adopted SFAS No. 145 effective January 1, 2002 and have reflected the \$200,000 gain on extinguishment of debt recorded in the period ended March 31, 2002 in interest and other, net, as opposed to classifying it as an extraordinary item as was previously required.

On July 30, 2002, the FASB issued SFAS No. 146, "*Accounting for Costs Associated with Exit or Disposal Activities*." The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company is currently evaluating the effect this pronouncement will have on its financial statements.

Business Outlook

The following statements are based on current expectations. These statements are forward-looking, and actual results may differ materially due to a number of risks and uncertainties, including uncertainties in the current utility business environment and increased competitive pressures. Itron undertakes no obligation to update publicly or revise any forward-looking statements.

We anticipate revenues will range between \$275 and \$285 million for 2002, of which \$16 to \$20 million will come from the TDS product line we acquired in March 2002. We expect that reported or diluted EPS under Generally Accepted Accounting Principles will range between 79 and 83 cents per share. We expect that pro forma diluted EPS, which does not include IPR&D charges, intangible amortization, and restructuring charges, will range between \$1.06 and \$1.10 per share. Pro Forma diluted EPS in 2001, using the same calculation, was 75 cents per share.

Our expectation of \$16—\$20 million in TDS revenue is below the earnout revenue hurdle for 2002 and therefore we anticipate no earnout payment in 2002 in connection with our purchase of LineSoft.

Our preliminary outlook for 2003 is for revenue growth of 11% to 17% and pro forma diluted earnings per share growth between 15% to 25% relative to the above 2002 expectations.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk: We are subject to market risk exposure related to changes in interest rates on our long-term debt. At June 30, 2002, we had \$5.1 million of long-term project financing debt. Our long-term debt is at a fixed rate. However, a hypothetical 100 basis point increase in the interest rate at June 30, 2002 would result in an \$180,000 decrease in fair value. We do not use derivative financial instruments to manage interest rate risk.

Foreign Currency Exchange Rate Risk: As a global concern, we conduct business in a number of foreign countries and, therefore, face exposure to adverse movements in foreign currency exchange rates. Total International revenue was 5% of total revenue for the six months ended June 30, 2002. Since we do not use derivative instruments to manage all foreign currency exchange rate risks, the consolidated results of operations in U.S. dollars are subject to fluctuation as foreign exchange rates change. In addition, our foreign currency exchange rate exposures may change over time as business practices evolve and could have a material impact on our financial results.

Our primary exposure relates to non-dollar denominated sales, cost of sales and operating expenses in our subsidiary operations in France, the United Kingdom, and Australia. This means we are subject to changes in the consolidated results of operations expressed in U.S. dollars. Other international business, consisting primarily of shipments from the United States to international distributors and customers in the Pacific Rim and Latin America, is predominantly denominated in U.S. dollars, which reduces our exposure to fluctuations in foreign currency exchange rates. In some cases where sales from the United States are not denominated in U.S. dollars, we have and will hedge our foreign exchange risk by selling the expected foreign currency receipts forward. There have been and there may continue to be large period-to-period fluctuations in the relative portions of international revenue that are denominated in foreign currencies.

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

Because our earnings are affected by fluctuations in the value of the U.S. dollar as compared to foreign currencies, we have performed a sensitivity analysis assuming a hypothetical 10% increase in the value of the dollar relative to the currencies in which our transactions are denominated. As of June 30, 2002, the analysis indicated that such market movements would not have had a material effect on our consolidated results of operations or on the fair value of any risk-sensitive financial instruments. The model assumes a parallel shift in the foreign currency exchange rates. Exchange rates rarely move in the same direction. The assumption that exchange rates change in a parallel fashion may overstate or understate the impact of changing exchange rates on assets and liabilities denominated in a foreign currency. Consequently, the actual effects on operations in the future may differ materially from results of the analysis for the second quarter. We may, in the future, experience greater fluctuations in U.S. dollar earnings from fluctuations in foreign currency exchange rates. We will continue to monitor and assess the impact of currency fluctuations and may institute more hedging alternatives.

PART 2: OTHER INFORMATION**Item 1: Legal Proceedings***Benghiat Patent Litigation*

On April 3, 1999, the Company served Ralph Benghiat, an individual, with a complaint seeking a declaratory judgment that a patent owned by Benghiat is invalid and not infringed by Itron's handheld meter reading devices. Benghiat has filed a counterclaim alleging patent infringement by the same devices. Both lawsuits were filed in the United States District Court for the District of Minnesota (Civil Case No. 99-cv-501). On April 2, 2001, the district court denied the motions for summary judgment filed by Itron. On June 29, 2001, a court-ordered settlement hearing was held, which did not result in a settlement of the case. The case is scheduled to go to trial November 12, 2002. While we believe that our products do not infringe the Benghiat patent, there can be no assurance that we will prevail in this matter, in which case a decision or settlement of this case may have a material adverse effect on our financial condition. Any litigation, regardless of its outcome, would probably be costly and require significant time and attention of our key management and technical personnel.

Item 4: Submission of Matters to a Vote of Security Holders

The Company held its annual meeting of shareholders on May 24, 2002. Four directors were elected for a term of three years, Robert D. Neilson, Ted C. DeMerritt, Jon E. Eliassen and S. Edward White. Michael B. Bracy, Mary Ann Peters, Graham M. Wilson, Thomas S. Glanville, Michael J. Chesser, and LeRoy D. Nosbaum continued their terms as directors. The following summarizes all matters voted on at the meeting.

Matter 1: The vote for the nominated directors was as follows:

<u>Nominee</u>	<u>In Favor</u>	<u>Withheld</u>
Robert D. Neilson	14,675,839	574,976
Ted C. DeMerritt	14,617,955	632,860
Jon E. Eliassen	14,552,569	698,246
S. Edward White	14,696,793	554,022

Matter 2: Shareholders voted not to approve the adoption of the Amendment and Restatement of Itron, Inc. 2000 Stock Incentive Plan.

<u>In Favor</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Votes</u>
4,634,930	7,434,531	23,097	3,158,257

Matter 3: Approval of the Itron, Inc. 2002 Employee Stock Purchase Plan.

<u>In Favor</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Votes</u>
11,278,418	791,062	23,078	3,158,257

The Company held a special meeting of shareholders on July 26, 2002. Shareholders voted to approve the adoption of the Amendment and Restatement of Itron, Inc. 2000 Stock Incentive Plan. The vote was as follows:

<u>In Favor</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Votes</u>
13,762,534	3,362,842	16,623	—

Item 6: Exhibits and Reports on Form 8-K

a) *Exhibits*

Exhibit 3.2—Amended and Restated Bylaws of Itron, Inc. dated May 23, 2002.

Exhibit 99.1—Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 99.2—Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

b) *Reports on Form 8-K this quarter*

On April 9, 2002 we filed a form 8-K under Item 5 illustrating quarterly segment data reclassified for 2001 and 2000 to conform to the January 1, 2002 organization.

On April 30, 2002 we filed a form 8-K/A under Items 2 and 7 detailing the terms of the acquisition of LineSoft Corporation.

SIGNATURE

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Spokane, State of Washington, on the 12th day of August 2002.

ITRON, INC.
(Registrant)

By: /s/ DAVID G. REMINGTON

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

**AMENDED AND RESTATED BYLAWS
OF
ITRON, INC.**

Originally adopted on: March 3, 1988

Restated Bylaws adopted on: November 3, 1998 and as further amended on November 1, 1999 and March 7, 2000.

AMENDMENTS

Section

Effect of Amendment

Date of Amendment

CONTENTS

SECTION 1. OFFICES	1
SECTION 2. SHAREHOLDERS	1
2.1 Annual Meeting	1
2.2 Special Meetings	1
2.3 Meetings by Communication Equipment	1
2.4 Date, Time and Place of Meeting	2
2.5 Notice of Meeting	2
2.6 Business for Shareholders' Meetings	2
2.6.1 Business at Annual Meetings	2
2.6.2 Business at Special Meetings	3
2.6.3 Notice to Corporation	3
2.7 Waiver of Notice	3
2.8 Fixing of Record Date for Determining Shareholders	4
2.9 Voting Record	4
2.10 Quorum	4
2.11 Manner of Acting	5
2.12 Proxies	5
2.13 Voting of Shares	5
2.14 Voting for Directors	5
2.15 Action by Shareholders Without a Meeting	5
SECTION 3. BOARD OF DIRECTORS	6
3.1 General Powers	6
3.2 Number and Tenure	6
3.3 Nomination and Election	7
3.3.1 Nomination	7
3.3.2 Election	7
3.4 Annual and Regular Meetings	8
3.5 Special Meetings	8
3.6 Meetings by Communications Equipment	8
3.7 Notice of Special Meetings	8
3.7.1 Personal Delivery	8
3.7.2 Delivery by Mail	8
3.7.3 Delivery by Private Carrier	9
3.7.4 Facsimile Notice	9
3.7.5 Delivery by Telegraph	9
3.7.6 Delivery by Email	9
3.7.7 Oral Notice	9
3.8 Waiver of Notice	9
3.8.1 In Writing	9

Table of Contents

3.8.2	By Attendance	9
3.9	Quorum	10
3.10	Manner of Acting	10
3.11	Presumption of Assent	10
3.12	Action by Board or Committees Without a Meeting	10
3.13	Resignation	10
3.14	Removal	11
3.15	Vacancies	11
3.16	Executive and Other Committees	11
3.16.1	Creation of Committees	11
3.16.2	Authority of Committees	11
3.16.3	Quorum and Manner of Acting	12
3.16.4	Minutes of Meetings	12
3.16.5	Resignation	12
3.16.6	Removal	12
3.16.7	Audit/Finance Committee and Compensation Committee	12
3.16.8	Compensation Committee	13
3.17	Compensation	13
SECTION 4. OFFICERS		13
4.1	Appointment and Term	13
4.2	Resignation	14
4.3	Removal	14
4.4	Contract Rights of Officers	14
4.5	Chairman of the Board and Vice Chairman of the Board	14
4.6	Chief Executive Officer	14
4.7	President	14
4.8	Vice President	15
4.9	Secretary	15
4.10	Treasurer	15
4.11	Salaries	15
SECTION 5. CONTRACTS, LOANS, CHECKS AND DEPOSITS		15
5.1	Contracts	15
5.2	Loans to the Corporation	16
5.3	Checks, Drafts, Etc.	16
5.4	Deposits	16
SECTION 6. CERTIFICATES FOR SHARES AND THEIR TRANSFER		16
6.1	Issuance of Shares	16
6.2	Certificates for Shares	16
6.3	Stock Records	16
6.4	Restriction on Transfer	17

Table of Contents

6.5	<u>Transfer of Shares</u>	17
6.6	<u>Lost or Destroyed Certificates</u>	17
<u>SECTION 7. BOOKS AND RECORDS</u>		17
<u>SECTION 8. ACCOUNTING YEAR</u>		18
<u>SECTION 9. SEAL</u>		18
<u>SECTION 10. INDEMNIFICATION</u>		19
10.1	<u>Right to Indemnification</u>	19
10.2	<u>Restrictions on Indemnification</u>	19
10.3	<u>Advancement of Expenses</u>	19
10.4	<u>Right of Indemnitee to Bring Suit</u>	20
10.5	<u>Procedures Exclusive</u>	20
10.6	<u>Nonexclusivity of Rights</u>	20
10.7	<u>Insurance, Contracts and Funding</u>	20
10.8	<u>Indemnification of Employees and Agents of the Corporation</u>	21
10.9	<u>Persons Serving Other Entities</u>	21
<u>SECTION 11. AMENDMENTS</u>		21

**RESTATED BYLAWS
OF
ITRON, INC**

SECTION 1. OFFICES

The principal office of the corporation shall be located at the principal place of business or such other place as the Board of Directors (“Board”) may designate. The corporation may have such other offices, either within or without the State of Washington, as the Board may designate or as the business of the corporation may require from time to time.

SECTION 2. SHAREHOLDERS

2.1 Annual Meeting

The annual meeting of the shareholders shall be held within 90 to 180 days after the fiscal year end of the corporation at a date and time determined by resolution of the Board of Directors, the purpose of electing Directors and transacting such other business as may properly come before the meeting. If the day fixed for the annual meeting is a legal holiday at the place of the meeting, the meeting shall be held on the next succeeding business day. At any time prior to the commencement of the annual meeting, the Board may postpone the annual meeting for a period of up to 120 days from the date fixed for such meeting in accordance with this subsection 2.1.

2.2 Special Meetings

The Chairman of the Board, the Chief Executive Officer, the President or the Board may call special meetings of the shareholders for any purpose. Further, a special meeting of the shareholders shall be held if the holders of not less than 25% of all the votes entitled to be cast on any issue proposed to be considered at such special meeting have dated, signed and delivered to the Secretary, at least 20 business days prior to the date of such meeting, one or more written demands for such meeting, describing the purpose or purposes for which it is to be held.

2.3 Meetings by Communication Equipment

Shareholders may participate in any meeting of the shareholders by any means of communication by which all persons participating in the meeting can hear each other during the meeting. Participation by such means shall constitute presence in person at a meeting.

2.4 Date, Time and Place of Meeting

Except as otherwise provided herein, all meetings of shareholders, including those held pursuant to demand by shareholders as provided herein, shall be held on such date and at such time and place, within or without the State of Washington, designated by or at the direction of the Board.

2.5 Notice of Meeting

Written notice stating the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called shall be given by or at the direction of the Board, the Chairman of the Board, the Chief Executive Officer, the President or the Secretary to each shareholder entitled to notice of or to vote at the meeting not less than 10 nor more than 60 days before the meeting, except that notice of a meeting to act on an amendment to the Articles of Incorporation, a plan of merger or share exchange, the sale, lease, exchange or other disposition of all or substantially all of the corporation's assets other than in the regular course of business or the dissolution of the corporation shall be given not less than 20 nor more than 60 days before such meeting. Further, notice of a meeting called by the requisite percentage of shareholders pursuant to Section 2.2 hereof, shall be given not less than 20 nor more than 60 days before such meeting. Such notice may be transmitted by mail, private carrier, personal delivery, telegraph, teletype or communications equipment which transmits a facsimile of the notice to like equipment which receives and reproduces such notice. If these forms of written notice are impractical in the view of the Board, the Chairman of the Board, the Chief Executive Officer, the President or the Secretary, written notice may be transmitted by an advertisement in a newspaper of general circulation in the area of the corporation's principal office. If such notice is mailed, it shall be deemed effective when deposited in the official government mail, first-class postage prepaid, properly addressed to the shareholder at such shareholder's address as it appears in the corporation's current record of shareholders. Notice given in any other manner shall be deemed effective when dispatched to the shareholder's address, telephone number or other number appearing on the records of the corporation, provided that in the case of a notice given by private courier, notice shall be deemed effective when delivered. Any notice given by publication as herein provided shall be deemed effective five days after first publication.

2.6 Business for Shareholders' Meetings

2.6.1 Business at Annual Meetings

In addition to the election of directors, other proper business may be transacted at an annual meeting of shareholders, provided that such business is properly brought before such meeting. To be properly brought before an annual meeting, business must be (a) brought by or at the direction of the Board or (b) brought before the meeting by a shareholder pursuant to written notice thereof, in accordance with subsection 2.6.3 hereof, and received by the Secretary not fewer than 90 nor more than 120 days prior to the anniversary date of the prior year's annual meeting; provided that if the date of the annual

[Table of Contents](#)

meeting is advanced more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, notice by the shareholder to be timely must be so delivered not later than the close of business on the later of (i) the 120th day prior to such annual meeting or (ii) the tenth day following the day on which the notice of the date of the annual meeting was mailed or such public disclosure was made. Any shareholder notice shall set forth (i) the name and address of the shareholder proposing such business; (ii) a representation that the shareholder is entitled to vote at such meeting and a statement of the number of shares of the corporation which are beneficially owned by the shareholder; (iii) a representation that the shareholder intends to appear in person or by proxy at the meeting to propose such business; and (iv) as to each matter the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting, the language of the proposal (if appropriate), and any material interest of the shareholder in such business. No business shall be conducted at any annual meeting of shareholders except in accordance with this subsection 2.6.1. If the facts warrant, the Board, or the chairman of an annual meeting of shareholders, may determine and declare (a) that a proposal does not constitute proper business to be transacted at the meeting or (b) that business was not properly brought before the meeting in accordance with the provisions of this subsection 2.6.1 and, if, in either case, it is so determined, any such business not properly brought before the meeting shall not be transacted. In addition to the procedures set forth in this subsection 2.6.1, shareholders desiring to include a proposal in the Company's proxy statement must also comply with the requirements set forth in Rule 14a-8 under Section 14 of the Securities Exchange Act of 1934, as amended, or any successor provision.

2.6.2 Business at Special Meetings

At any special meeting of the shareholders, only such business as is specified in the notice of such special meeting given by or at the direction of the person or persons calling such meeting, in accordance with subsection 2.4 hereof, shall come before such meeting.

2.6.3 Notice to Corporation

Any written notice required to be delivered by a shareholder to the corporation pursuant to subsection 2.4, subsection 2.6.1 or subsection 2.6.2 hereof must be given, either by personal delivery or by registered or certified mail, postage prepaid, to the Secretary at the corporation's executive offices in the City of Spokane, State of Washington.

2.7 Waiver of Notice

Whenever any notice is required to be given to any shareholder under the provisions of these Bylaws, the Articles of Incorporation or the Washington Business Corporation Act, a waiver thereof in writing, signed by the person or persons entitled to such notice and delivered to the corporation, whether before or after the date and time of the meeting, shall be deemed equivalent to the giving of such notice. Further, notice of the time, place and

[Table of Contents](#)

purpose of any meeting will be deemed to be waived by any shareholder by attendance thereat in person or by proxy, unless such shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting.

2.8 Fixing of Record Date for Determining Shareholders

For the purpose of determining shareholders entitled (a) to notice of or to vote at any meeting of shareholders or any adjournment thereof, (b) to demand a special meeting, or (c) to receive payment of any dividend, or in order to make a determination of shareholders for any other purpose, the Board may fix a future date as the record date for any such determination. Such record date shall be not more than 70 days, and in case of a meeting of shareholders not less than 10 days prior to the date on which the particular action requiring such determination is to be taken. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting, the record date shall be the day immediately preceding the date on which notice of the meeting is first given to shareholders. Such a determination shall apply to any adjournment of the meeting unless the Board fixes a new record date, which it shall do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting. If no record date is set for the determination of shareholders entitled to receive payment of any stock dividend or distribution (other than one involving a purchase, redemption, or other acquisition of the corporation's shares) the record date shall be the date the Board authorizes the stock dividend or distribution.

2.9 Voting Record

At least 10 days before each meeting of shareholders, an alphabetical list of the shareholders entitled to notice of such meeting shall be made, arranged by voting group and by each class or series of shares therein, with the address of and number of shares held by each shareholder. This record shall be kept at the principal office of the corporation for 10 days prior to such meeting, and shall be kept open at such meeting, for the inspection of any shareholder or any shareholder's agent.

2.10 Quorum

A majority of the votes entitled to be cast on a matter by the holders of shares that, pursuant to the Articles of Incorporation or the Washington Business Corporation Act, are entitled to vote and be counted collectively upon such matter, represented in person or by proxy, shall constitute a quorum of such shares at a meeting of shareholders. If less than a quorum of such votes are represented at a meeting, a majority of the votes so represented may adjourn the meeting from time to time without further notice if the new date, time or place is announced at the meeting before adjournment. Any business may be transacted at a reconvened meeting that might have been transacted at the meeting as originally called, provided a quorum is present or represented thereat. Once a share is represented for any purpose at a meeting other than solely to object to holding the meeting or transacting business thereat, it is deemed present for quorum purposes for the remainder of the meeting and any

adjournment thereof (unless a new record date is or must be set for the adjourned meeting) notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

2.11 Manner of Acting

If a quorum is present, action on a matter other than the election of Directors shall be approved if the votes cast in favor of the action by the shares entitled to vote and be counted collectively upon such matter exceed the votes cast against such action by the shares entitled to vote and be counted collectively thereon, unless the Articles of Incorporation or the Washington Business Corporation Act requires a greater number of affirmative votes.

2.12 Proxies

A shareholder may vote by proxy executed in writing by the shareholder or by his or her attorney-in-fact or agent. Such proxy shall be effective when received by the Secretary or other officer or agent authorized to tabulate votes. A proxy shall become invalid 11 months after the date of its execution, unless otherwise provided in the proxy. A proxy with respect to a specified meeting shall entitle the holder thereof to vote at any reconvened meeting following adjournment of such meeting but shall not be valid after the final adjournment thereof.

2.13 Voting of Shares

Except as provided in the Articles of Incorporation or in Section 2.14 hereof, each outstanding share entitled to vote with respect to a matter submitted to a meeting of shareholders shall be entitled to one vote upon such matter.

2.14 Voting for Directors

Each shareholder entitled to vote at an election of Directors may vote, in person or by proxy, the number of shares owned by such shareholder for as many persons as there are Directors to be elected and for whose election such shareholder has a right to vote, or (unless otherwise provided in the Articles of Incorporation) each such shareholder may cumulate such shareholder's votes by distributing among one or more candidates as many votes as are equal to the number of such Directors multiplied by the number of such shareholder's shares. Unless otherwise provided in the Articles of Incorporation, the candidates elected shall be those receiving the largest number of votes cast, up to the number of Directors to be elected.

2.15 Action by Shareholders Without a Meeting

Any action which could be taken at a meeting of the shareholders may be taken without a meeting if one or more written consents setting forth the action so taken are signed by all shareholders entitled to vote on the action and are delivered to the corporation. If not otherwise fixed by the Board, the record date for determining shareholders entitled to take action without a meeting is the date the first shareholder signs the consent. A shareholder

may withdraw a consent only by delivering a written notice of withdrawal to the corporation prior to the time that all consents are in the possession of the corporation. Action taken by written consent of shareholders without a meeting is effective when all consents are in the possession of the corporation, unless the consent specifies a later effective date. Any such consent shall be inserted in the minute book as if it were the minutes of a meeting of the shareholders.

SECTION 3. BOARD OF DIRECTORS

3.1 General Powers

All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the Board, except as may be otherwise provided in these Bylaws, the Articles of Incorporation or the Washington Business Corporation Act.

3.2 Number and Tenure

The Board shall be composed of not less than three nor more than fifteen Directors, the specific number to be set by resolution of the Board or the shareholders. The number of Directors may be changed from time to time by amendment to these Bylaws, but no decrease in the number of Directors shall have the effect of shortening the term of any incumbent Director. A Director's term shall be three years, and each Director shall serve for the term for which he or she was elected, or until his or her successor shall have been elected and qualified, or until his or her death, resignation or removal from office; provided, however, that a Director shall continue to serve until his or her successor is elected or until there is a decrease in the authorized number of Directors. Directors need not be shareholders of the corporation or residents of the State of Washington and need not meet any other qualifications.

3.3 Nomination and Election

3.3.1 Nomination

Only persons who are nominated in accordance with the following procedures shall be eligible for election as Directors. Nominations for the election of Directors may be made (a) by or at the direction of the Board or (b) by any shareholder of record entitled to vote for the election of Directors at such meeting; provided, however, that a shareholder may nominate persons for election as Directors only if written notice (in accordance with subsection 2.6.3 hereof) of such shareholder's intention to make such nominations is received by the Secretary not later than (i) with respect to an election to be held at an annual meeting of the shareholders, not fewer than sixty nor more than ninety days prior to the date specified in subsection 2.1 hereof for such annual meeting (or if less than sixty days' notice or prior public disclosure of the date of the annual meeting is given or made to the shareholders, not later than the tenth day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made) and (ii) with respect to an election to be held at a special meeting of the shareholders for the election of Directors, the close of business on the seventh business day following the date on which notice of such meeting is first given to shareholders. Any such shareholder's notice shall set forth (a) the name and address of the shareholder who intends to make a nomination; (b) a representation that the shareholder is entitled to vote at such meeting and a statement of the number of shares of the corporation which are beneficially owned by the shareholder; (c) a representation that the shareholder intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (d) as to each person the shareholder proposes to nominate for election or re-election as a Director, the name and address of such person and such other information regarding such nominee as would be required in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had such nominee been nominated by the Board, and a description of any arrangements or understandings, between the shareholder and such nominee and any other persons (including their names), pursuant to which the nomination is to be made; and (e) the consent of each such nominee to serve as a Director if elected. If the facts warrant, the Board, or the chairman of a shareholders' meeting at which Directors are to be elected, shall determine and declare that a nomination was not made in accordance with the foregoing procedure and, if it so determined, the defective nomination shall be disregarded. The right of shareholders to make nominations pursuant to the foregoing procedure is subject to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation. The procedures set forth in this subsection 3.3 for nomination for the election of Directors by shareholders are in addition to, and not in limitation of, any procedures now in effect or hereafter adopted by or at the direction of the Board or any committee thereof.

3.3.2 Election

At each election of Directors, the persons receiving the greatest number of votes shall be the Directors.

3.4 Annual and Regular Meetings

An annual Board meeting shall be held without notice immediately after and at the same place as the annual meeting of shareholders. By resolution the Board, or any committee thereof, may specify the time and place either within or without the State of Washington for holding regular meetings thereof without notice other than such resolution.

3.5 Special Meetings

Special meetings of the Board or any committee designated by the Board may be called by or at the request of the Chairman of the Board, the Chief Executive Officer, the President, the Secretary or, in the case of special Board meetings, any two Directors and, in the case of any special meeting of any committee designated by the Board, by the Chairman thereof. The person or persons authorized to call special meetings may fix any place either within or without the State of Washington as the place for holding any special Board or committee meeting called by them.

3.6 Meetings by Communications Equipment

Members of the Board or any committee designated by the Board may participate in a meeting of such Board or committee by, or conduct the meeting through the use of, any means of communication by which all Directors participating in the meeting can hear each other during the meeting. Participation by such means shall constitute presence in person at a meeting.

3.7 Notice of Special Meetings

Notice of a special Board or committee meeting stating the place, day and hour of the meeting shall be given to a Director in writing or orally. Neither the business to be transacted at, nor the purpose of, any special meeting need be specified in the notice of such meeting.

3.7.1 Personal Delivery

If notice is given by personal delivery, the notice shall be effective if delivered to a Director at least two days before the meeting.

3.7.2 Delivery by Mail

If notice is delivered by mail, the notice shall be deemed effective if deposited in the official government mail at least five days before the meeting, properly addressed to a Director at his or her address shown on the records of the corporation, with postage thereon prepaid.

3.7.3 Delivery by Private Carrier

If notice is given by private carrier, the notice shall be deemed effective when dispatched to a Director at his or her address shown on the records of the corporation at least three days before the meeting.

3.7.4 Facsimile Notice

If notice is delivered by wire or wireless equipment which transmits a facsimile of the notice, the notice shall be deemed effective when dispatched at least two days before the meeting to a Director at his or her telephone number or other number appearing on the records of the corporation.

3.7.5 Delivery by Telegraph

If notice is delivered by telegraph, the notice shall be deemed effective if the content thereof is delivered to the telegraph company for delivery to a Director at his or her address shown on the records of the corporation at least three days before the meeting.

3.7.6 Delivery by Email

If notice is delivered by email, the notice shall be deemed effective upon electronic confirmation of receipt, such as by receipt by the sender of an electronic return receipt at least three days before the meeting.

3.7.7 Oral Notice

If notice is delivered orally, by telephone or in person, the notice shall be deemed effective if personally given to the Director at least two days before the meeting.

3.8 Waiver of Notice

3.8.1 In Writing

Whenever any notice is required to be given to any Director under the provisions of these Bylaws, the Articles of Incorporation or the Washington Business Corporation Act, a waiver thereof in writing, signed by the person or persons entitled to such notice and delivered to the corporation, whether before or after the date and time of the meeting, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board or any committee designated by the Board need be specified in the waiver of notice of such meeting.

3.8.2 By Attendance

A Director's attendance at or participation in a Board or committee meeting shall constitute a waiver of notice of such meeting, unless the Director at the beginning of the

meeting, or promptly upon his or her arrival, objects to holding the meeting or transacting business thereat and does not thereafter vote for or assent to action taken at the meeting.

3.9 Quorum

A majority of the number of Directors fixed by or in the manner provided in these Bylaws shall constitute a quorum for the transaction of business at any Board meeting but, if less than a quorum are present at a meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice.

3.10 Manner of Acting

If a quorum is present when the vote is taken, the act of the majority of the Directors present at a Board meeting shall be the act of the Board, unless the vote of a greater number is required by these Bylaws, the Articles of Incorporation or the Washington Business Corporation Act.

3.11 Presumption of Assent

A Director of the corporation who is present at a Board or committee meeting at which any action is taken shall be deemed to have assented to the action taken unless (a) the Director objects at the beginning of the meeting, or promptly upon the Director's arrival, to holding the meeting or transacting any business thereat, (b) the Director's dissent or abstention from the action taken is entered in the minutes of the meeting, or (c) the Director delivers written notice of the Director's dissent or abstention to the presiding officer of the meeting before its adjournment or to the corporation within a reasonable time after adjournment of the meeting. The right of dissent or abstention is not available to a Director who votes in favor of the action taken.

3.12 Action by Board or Committees Without a Meeting

Any action which could be taken at a meeting of the Board or of any committee created by the Board may be taken without a meeting if one or more written consents setting forth the action so taken are signed by each of the Directors or by each committee member either before or after the action is taken and delivered to the corporation. Action taken by written consent of Directors without a meeting is effective when the last Director signs the consent, unless the consent specifies a later effective date. Any such written consent shall be inserted in the minute book as if it were the minutes of a Board or a committee meeting.

3.13 Resignation

Any Director may resign at any time by delivering written notice to the Chairman of the Board, the Chief Executive Officer, the President, the Secretary or the Board. Any such resignation is effective upon delivery thereof unless the notice of resignation specifies a later

effective date and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

3.14 Removal

At a meeting of shareholders called expressly for that purpose, one or more members of the Board, including the entire Board, may be removed with or without cause (unless the Articles of Incorporation permit removal for cause only) by the holders of the shares entitled to elect the Director or Directors whose removal is sought if the number of votes cast to remove the Director exceeds the number of votes cast not to remove the Director. If the Articles of Incorporation permit cumulative voting in the election of Directors, then a Director may not be removed if the number of votes sufficient to elect such Director if then cumulatively voted at an election of the entire Board or, if there are classes of Directors, at an election of the class of Directors of which such Director is a part, is voted against the Director's removal.

3.15 Vacancies

Unless the Articles of Incorporation provide otherwise, any vacancy occurring on the Board may be filled by the shareholders, the Board or, if the Directors in office constitute fewer than a quorum, by the affirmative vote of a majority of the remaining Directors. Any vacant office held by a Director elected by the holders of one or more classes or series of shares entitled to vote and be counted collectively thereon shall be filled only by the vote of the holders of such class or series of shares. A Director elected to fill a vacancy shall serve only until the next election of Directors by the shareholders.

3.16 Executive and Other Committees

3.16.1 Creation of Committees

The Board, by resolution adopted by the greater of a majority of the Directors then in office and the number of Directors required to take action in accordance with these Bylaws, may create standing or temporary committees, including an Executive Committee, and appoint members thereto from its own number and invest such committees with such powers as it may see fit, subject to such conditions as may be prescribed by the Board, these Bylaws and applicable law. Each committee must have two or more members, who shall serve at the pleasure of the Board.

3.16.2 Authority of Committees

Each committee shall have and may exercise all of the authority of the Board to the extent provided in the resolution of the Board creating the committee and any subsequent resolutions pertaining thereto and adopted in like manner, except that no such committee shall have the authority to: (1) authorize or approve a distribution except according to a general formula or method prescribed by the Board, (2) approve or propose to

[Table of Contents](#)

shareholders actions or proposals required by the Washington Business Corporation Act to be approved by shareholders, (3) fill vacancies on the Board or any committee thereof, (4) adopt, amend or repeal Bylaws, (5) amend the Articles of Incorporation pursuant to RCW 23B.10.020, (6) approve a plan of merger not requiring shareholder approval, or (7) authorize or approve the issuance or sale or contract for sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares except that the Board may authorize a committee or a senior executive officer of the corporation to do so within limits specifically prescribed by the Board.

3.16.3 Quorum and Manner of Acting

A majority of the number of Directors composing any committee of the Board, as established and fixed by resolution of the Board, shall constitute a quorum for the transaction of business at any meeting of such committee but, if less than a quorum are present at a meeting, a majority of such Directors present may adjourn the meeting from time to time without further notice. Except as may be otherwise provided in the Washington Business Corporation Act, if a quorum is present when the vote is taken the act of a majority of the members present shall be the act of the committee.

3.16.4 Minutes of Meetings

All committees shall keep regular minutes of their meetings and shall cause them to be recorded in books kept for that purpose.

3.16.5 Resignation

Any member of any committee may resign at any time by delivering written notice thereof to the Chairman of the Board, the Chief Executive Officer, the President, the Secretary or the Board. Any such resignation is effective upon delivery thereof, unless the notice of resignation specifies a later effective date, and the acceptance of such resignation shall not be necessary to make it effective.

3.16.6 Removal

The Board may remove any member of any committee elected or appointed by it but only by the affirmative vote of the greater of a majority of the Directors then in office and the number of Directors required to take action in accordance with these Bylaws.

3.16.7 Audit/Finance Committee

In addition to any committees appointed pursuant to this Section, there shall be an Audit/Finance Committee, appointed annually by the Board, consisting of at least three Directors who are not members of management. It shall be the responsibility of the Audit/Finance Committee to review the scope and results of the annual independent audit of books and records of the corporation, to review compliance with all corporate policies which

[Table of Contents](#)

have been approved by the Board and to discharge such other responsibilities as may from time to time be assigned to it by the Board. The Audit/Finance Committee shall meet at such times and places as the members deem advisable, and shall make such recommendations to the Board as they consider appropriate.

3.16.8 Compensation Committee

The Board may, in its discretion, designate a Compensation Committee consisting of not less than three Directors as it may from time to time determine. The duties of the Compensation Committee shall consist of the following: (a) to establish and review periodically, but not less than annually, the compensation of the officers of the corporation and to report and make recommendations concerning such compensation to the Board; (b) to consider incentive compensation plans for the employees of the corporation; (c) to carry out the duties assigned to the Compensation Committee under any stock option plan or other plan approved by the corporation; (d) to consult with the Chief Executive Officer or the President concerning any compensation matters deemed appropriate by the Chief Executive Officer or President or the Compensation Committee; and (e) such other duties as shall be assigned to the Compensation Committee by the Board.

3.17 Compensation

By Board resolution, Directors and committee members may be paid their expenses, if any, of attendance at each Board or committee meeting, or a fixed sum for attendance at each Board or committee meeting, or a stated salary as Director or a committee member, or a combination of the foregoing. No such payment shall preclude any Director or committee member from serving the corporation in any other capacity and receiving compensation therefor.

SECTION 4. OFFICERS

4.1 Appointment and Term

The officers of the corporation shall be those officers appointed from time to time by the Board or by any other officer empowered to do so. The Board shall have sole power and authority to appoint executive officers. As used herein, the term "executive officer" shall mean the Chief Executive Officer, the President, any Vice President in charge of a principal business unit, division or function or any other officer who performs a policy-making function. The Board or the Chief Executive Officer may appoint such other officers and assistant officers to hold office for such period, have such authority and perform such duties as may be prescribed. The Board may delegate to any other officer the power to appoint any subordinate officers and to prescribe their respective terms of office, authority and duties. Any two or more offices may be held by the same person. Unless an officer dies, resigns or is removed from office, he or she shall hold office until his or her successor is appointed.

4.2 Resignation

Any officer may resign at any time by delivering written notice thereof to the corporation. Any such resignation is effective upon delivery thereof, unless the notice of resignation specifies a later effective date, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

4.3 Removal

Any officer may be removed by the Board at any time, with or without cause. An officer or assistant officer, if appointed by another officer, may be removed by any officer authorized to appoint officers or assistant officers.

4.4 Contract Rights of Officers

The appointment of an officer does not itself create contract rights.

4.5 Chairman of the Board and Vice Chairman of the Board

If appointed, the Chairman of the Board shall perform such duties as shall be assigned to him or her by the Board from time to time and shall preside over meetings of the Board and shareholders unless another officer is appointed or designated by the Board as Chairman of such meetings.

If appointed, the Vice Chairman of the board shall perform such duties as shall be assigned to him or her by the Board from time to time.

4.6 Chief Executive Officer

If appointed, the Chief Executive Officer shall be the chief executive officer of the corporation unless some other officer is so designated by the Board, shall preside over meetings of the Board and shareholders in the absence of a Chairman of the Board, and, subject to the Board's control, shall supervise and control all of the assets, business and affairs of the corporation

4.7 President

If appointed, the President shall be the chief operating officer of the corporation unless some other officer is so designated by the Board and shall report to the Chief Executive Officer, unless the same person holds both offices. In general, the President shall perform such other duties as are prescribed by the Board from time to time. If no Secretary has been appointed, the President shall have responsibility for the preparation of minutes of meetings of the Board and shareholders and for authentication of the records of the corporation.

4.8 Vice President

Vice Presidents shall perform such other duties as from time to time may be assigned to them by the Chief Executive Officer or the President or by or at the direction of the Board.

4.9 Secretary

If appointed, the Secretary shall be responsible for preparation of minutes of the meetings of the Board and shareholders, maintenance of the corporation records and stock registers, and authentication of the corporation's records and shall in general perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him or her by the Chief Executive Officer or the President or by or at the direction of the Board. In the absence of the Secretary, an Assistant Secretary may perform the duties of the Secretary.

4.10 Treasurer

If appointed, the Treasurer shall have charge and custody of and be responsible for all funds and securities of the corporation, receive and give receipts for moneys due and payable to the corporation from any source whatsoever, and deposit all such moneys in the name of the corporation in banks, trust companies or other depositories selected in accordance with the provisions of these Bylaws, and in general perform all of the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him or her by the the Chief Executive Officer, or the President or by or at the direction of the Board. In the absence of the Treasurer, an Assistant Treasurer may perform the duties of the Treasurer. If required by the Board, the Treasurer or any Assistant Treasurer shall give a bond for the faithful discharge of his or her duties in such amount and with such surety or sureties as the Board shall determine.

4.11 Salaries

The salaries of the officers shall be fixed from time to time by the Board or by any person or persons to whom the Board has delegated such authority. No officer shall be prevented from receiving such salary by reason of the fact that he or she is also a Director of the corporation.

SECTION 5. CONTRACTS, LOANS, CHECKS AND DEPOSITS

5.1 Contracts

The Board may authorize any officer or officers, or agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the corporation. Such authority may be general or confined to specific instances.

5.2 Loans to the Corporation

No loans shall be contracted on behalf of the corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board. Such authority may be general or confined to specific instances.

5.3 Checks, Drafts, Etc.

All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the corporation shall be signed by such officer or officers, or agent or agents, of the corporation and in such manner as is from time to time determined by resolution of the Board.

5.4 Deposits

All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in such banks, trust companies or other depositories as the Board may select.

SECTION 6. CERTIFICATES FOR SHARES AND THEIR TRANSFER

6.1 Issuance of Shares

No shares of the corporation shall be issued unless authorized by the Board, or by a committee designated by the Board to the extent such committee is empowered to do so.

6.2 Certificates for Shares

Certificates representing shares of the corporation shall be signed, either manually or in facsimile, by the Chief Executive Officer, the President or any Vice President and by the Treasurer or any Assistant Treasurer or the Secretary or any Assistant Secretary and shall include on their face written notice of any restrictions which may be imposed on the transferability of such shares. All certificates shall be consecutively numbered or otherwise identified.

6.3 Stock Records

The stock transfer books shall be kept at the principal office of the corporation or at the office of the corporation's transfer agent or registrar. The name and address of each person to whom certificates for shares are issued, together with the class and number of shares represented by each such certificate and the date of issue thereof, shall be entered on the stock transfer books of the corporation. The person in whose name shares stand on the books of the corporation shall be deemed by the corporation to be the owner thereof for all purposes.

6.4 Restriction on Transfer

Except to the extent that the corporation has obtained an opinion of counsel acceptable to the corporation that transfer restrictions are not required under applicable securities laws, or has otherwise satisfied itself that such transfer restrictions are not required, all certificates representing shares of the corporation shall bear a legend on the face of the certificate, or on the reverse of the certificate if a reference to the legend is contained on the face, which reads substantially as follows:

“The securities evidenced by this certificate have not been registered under the Securities Act of 1933, as amended, or any applicable state law, and no interest therein may be sold, distributed, assigned, offered, pledged or otherwise transferred unless (a) there is an effective registration statement under such Act and applicable state securities laws covering any such transaction involving said securities or (b) this corporation receives an opinion of legal counsel for the holder of these securities (concurring in by legal counsel for this corporation) stating that such transaction is exempt from registration or this corporation otherwise satisfies itself that such transaction is exempt from registration. Neither the offering of the securities nor any offering materials have been reviewed by any administrator under the Securities Act of 1933, as amended, or any applicable state law.”

6.5 Transfer of Shares

The transfer of shares of the corporation shall be made only on the stock transfer books of the corporation pursuant to authorization or document of transfer made by the holder of record thereof or by his or her legal representative, who shall furnish proper evidence of authority to transfer, or by his or her attorney-in-fact authorized by power of attorney duly executed and filed with the Secretary of the corporation. All certificates surrendered to the corporation for transfer shall be cancelled and no new certificate shall be issued until the former certificates for a like number of shares shall have been surrendered and cancelled.

6.6 Lost or Destroyed Certificates

In the case of a lost, destroyed or mutilated certificate, a new certificate may be issued therefor upon such terms and indemnity to the corporation as the Board may prescribe.

SECTION 7. BOOKS AND RECORDS

The corporation shall:

(a) Keep as permanent records minutes of all meetings of its shareholders and the Board, a record of all actions taken by the shareholders or the Board without a meeting, and a

record of all actions taken by a committee of the Board exercising the authority of the Board on behalf of the corporation.

(b) Maintain appropriate accounting records.

(c) Maintain a record of its shareholders, in a form that permits preparation of a list of the names and addresses of all shareholders, in alphabetical order by class of shares showing the number and class of shares held by each; provided, however, such record may be maintained by an agent of the corporation.

(d) Maintain its records in written form or in another form capable of conversion into written form within a reasonable time.

(e) Keep a copy of the following records at its principal office:

1. the Articles of Incorporation and all amendments thereto as currently in effect;
2. the Bylaws and all amendments thereto as currently in effect;
3. the minutes of all meetings of shareholders and records of all action taken by shareholders without a meeting, for the past three years;
4. the financial statements described in Section 23B.16.200(1) of the Washington Business Corporation Act, for the past three years;
5. all written communications to shareholders generally within the past three years;
6. a list of the names and business addresses of the current Directors and officers; and
7. the most recent annual report delivered to the Washington Secretary of State.

SECTION 8. ACCOUNTING YEAR

The accounting year of the corporation shall be the calendar year, provided that if a different accounting year is at any time selected by the Board for purposes of federal income taxes, or any other purpose, the accounting year shall be the year so selected.

SECTION 9. SEAL

The Board may provide for a corporate seal which shall consist of the name of the corporation, the state of its incorporation and the year of its incorporation.

SECTION 10. INDEMNIFICATION

10.1 Right to Indemnification

Each person who was, is or is threatened to be made a named party to or is otherwise involved (including, without limitation, as a witness) in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal (hereinafter a "proceeding"), by reason of the fact that he or she is or was a Director or officer of the corporation or, that being or having been such a Director or officer or an employee of the corporation, he or she is or was serving at the request of an executive officer of the corporation as a Director, officer, partner, trustee, employee or agent of another corporation or of a partnership, joint venture, trust, employee benefit plan or other enterprise (hereinafter an "indemnitee"), whether the basis of a proceeding is alleged action in an official capacity as such a Director, officer, partner, trustee, employee or agent or in any other capacity while serving as such a Director, officer, partner, trustee, employee or agent, shall be indemnified and held harmless by the corporation against all expense, liability and loss (including counsel fees, judgments, fines, ERISA excise taxes or penalties and amounts to be paid in settlement) actually and reasonably incurred or suffered by such indemnitee in connection therewith, and such indemnification shall continue as to an indemnitee who has ceased to be a Director, officer, partner, trustee, employee or agent and shall inure to the benefit of the indemnitee's heirs, executors and administrators. Except as provided in subsection 10.2 of this Section with respect to proceedings seeking to enforce rights to indemnification, the corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if a proceeding (or part thereof) was authorized or ratified by the Board. The right to indemnification conferred in this Section shall be a contract right.

10.2 Restrictions on Indemnification

No indemnification shall be provided to any such indemnitee for acts or omissions of the indemnitee finally adjudged to be intentional misconduct or a knowing violation of law, for conduct of the indemnitee finally adjudged to be in violation of Section 23B.08.310 of the Washington Business Corporation Act, for any transaction with respect to which it was finally adjudged that such indemnitee personally received a benefit in money, property or services to which the indemnitee was not legally entitled or if the corporation is otherwise prohibited by applicable law from paying such indemnification, except that if Section 23B.08.560 or any successor provision of the Washington Business Corporation Act is hereafter amended, the restrictions on indemnification set forth in this subsection 10.2 shall be as set forth in such amended statutory provision.

10.3 Advancement of Expenses

The right to indemnification conferred in this Section shall include the right to be paid by the corporation the expenses incurred in defending any proceeding in advance of its final disposition (hereinafter an "advancement of expenses"). An advancement of expenses shall

[Table of Contents](#)

be made upon delivery to the corporation of an undertaking (hereinafter an “undertaking”), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses under this subsection 10.3.

10.4 Right of Indemnitee to Bring Suit

If a claim under subsection 10.1 or 10.3 of this Section is not paid in full by the corporation within 60 days after a written claim has been received by the corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be 20 days, the indemnitee may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim. If successful in whole or in part, in any such suit or in a suit brought by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. The indemnitee shall be presumed to be entitled to indemnification under this Section upon submission of a written claim (and, in an action brought to enforce a claim for an advancement of expenses, where the required undertaking has been tendered to the corporation) and thereafter the corporation shall have the burden of proof to overcome the presumption that the indemnitee is so entitled.

10.5 Procedures Exclusive

Pursuant to Section 23B.08.560(2) or any successor provision of the Washington Business Corporation Act, the procedures for indemnification and advancement of expenses set forth in this Section are in lieu of the procedures required by Section 23B.08.550 or any successor provision of the Washington Business Corporation Act.

10.6 Nonexclusivity of Rights

The right to indemnification and the advancement of expenses conferred in this Section shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Articles of Incorporation or Bylaws of the corporation, general or specific action of the Board, contract or otherwise.

10.7 Insurance, Contracts and Funding

The corporation may maintain insurance, at its expense, to protect itself and any Director, officer, partner, trustee, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the Washington Business Corporation Act. The corporation may enter into contracts with any Director, officer, partner, trustee, employee or agent of the corporation in furtherance of the provisions of this Section and may create a trust fund, grant a security interest or use other means (including, without limitation, a letter of

credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Section.

10.8 Indemnification of Employees and Agents of the Corporation

The corporation may, by action of the Board, grant rights to indemnification and advancement of expenses to employees and agents or any class or group of employees and agents of the corporation (i) with the same scope and effect as the provisions of this Section with respect to the indemnification and advancement of expenses of Directors and officers of the corporation; (ii) pursuant to rights granted pursuant to, or provided by, the Washington Business Corporation Act; or (iii) as are otherwise consistent with law.

10.9 Persons Serving Other Entities

Any person who, while a Director, officer or employee of the corporation, is or was serving (a) as a Director or officer of another foreign or domestic corporation of which a majority of the shares entitled to vote in the election of its Directors is held by the corporation or (b) as a partner, trustee or otherwise in an executive or management capacity in a partnership, joint venture, trust or other enterprise of which the corporation or a wholly owned subsidiary of the corporation is a general partner or has a majority ownership shall be deemed to be so serving at the request of an executive officer of the corporation and entitled to indemnification and advancement of expenses under subsections 10.1 and 10.3 of this Section.

SECTION 11. AMENDMENTS

These Bylaws may be altered, amended or repealed and new Bylaws may be adopted by the Board, except that the Board may not repeal or amend any Bylaw that the shareholders have expressly provided, in amending or repealing such Bylaw, may not be amended or repealed by the Board. The shareholders may also alter, amend and repeal these Bylaws or adopt new Bylaws. All Bylaws made by the Board may be amended, repealed, altered or modified by the shareholders.

The foregoing Amended and Restated Bylaws were adopted by the Board of Directors on May 23, 2002.

By: _____ /s/ MARILYN BLAIR

MariLyn Blair, Secretary

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Itron, Inc. (the Company) on Form 10-Q for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, LeRoy D. Nosbaum, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ LEROY D. NOSBAUM

LeRoy D. Nosbaum
Chairman of the Board and Chief Executive Officer

August 12, 2002

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Itron, Inc. (the Company) on Form 10-Q for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, David G. Remington, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ DAVID G. REMINGTON
David G. Remington
Vice President and Chief Financial Officer

August 12, 2002