AVISTA CORP
Form 424B5
March 27, 2008

Table of Contents

The information in this prospectus supplement is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not offers to sell these securities, and we are not soliciting offers to buy these securities, in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
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Subject to Completion. Dated March 27, 2008
Prospectus Supplement to Prospectus dated December 11, 2006

$

Avista Corporation

First Mortgage Bonds,   % Series due 2018

Our First Mortgage Bonds,   % Series due 2018 (the   Offered Bonds   ), constitute a series of our Bonds described in the accompanying prospectus.

We will pay interest on the Offered Bonds on June 1 and December 1 of each year. The first such payment will be made on December 1, 2008. The Offered Bonds will mature on June 1, 2018, unless redeemed on an earlier date. The Offered Bonds are redeemable at our option, in whole at any time or in part from time to time, at a   make-whole   price as described herein. See   Description of the Offered Bonds   .

The Offered Bonds will be secured equally with all other bonds outstanding under our Mortgage (as defined in the accompanying prospectus).

See   Risk Factors   on page S-3 of this prospectus supplement and on page 3 of the accompanying prospectus to read about certain factors you should consider before buying the Offered Bonds.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Bond	Total
Initial public offering price	%	$
Underwriting discount	%	$
Proceeds, before expenses, to Avista	%	$

The initial public offering price set forth above does not include accrued interest, if any. Interest on the Offered Bonds will accrue from , 2008 and must be paid by the purchasers if the Offered Bonds are delivered after , 2008.

The underwriters expect to deliver the Offered Bonds to the purchasers through the facilities of The Depository Trust Company against payment in New York, New York on , 2008.

Joint Book-Running Managers

UBS Investment Bank **BNY Capital Markets, Inc.** **Goldman, Sachs & Co.**

Senior Co-Managers

Banc of America Securities LLC **KeyBanc Capital Markets**

Co-Managers

Wedbush Morgan Securities Inc. **Wells Fargo Securities**

Prospectus Supplement dated , 2008

This prospectus supplement and the accompanying prospectus incorporate by reference important business and financial information about Avista Corporation that is not included in or delivered with the prospectus. This information is available to you as set forth in the accompanying prospectus under Where You Can Find More Information .

TABLE OF CONTENTS

Prospectus Supplement

Risk Factors	S-3
Safe Harbor for Forward-Looking Statements	S-3
The Company	S-5
Use of Proceeds	S-7
Summary Financial Information	S-7
Capitalization	S-8
Description of the Offered Bonds	S-9
Underwriting	S-13
Legal Matters	S-14
Experts	S-14

Prospectus

About this Prospectus	2
Risk Factors	3
Avista Corporation	3
Use of Proceeds	4
Description of the Bonds	4
Description of the Notes	12
Description of Preferred Stock	21
Description of Common Stock	23
Where You Can Find More Information	33
Legal Matters	34
Experts	34

We have not authorized anyone to give you any information other than this prospectus supplement and the accompanying prospectus. You should assume that the information contained or incorporated in this prospectus supplement and the accompanying prospectus is accurate only as of their respective dates. We are not offering to sell the Offered Bonds and we are not soliciting offers to buy the Offered Bonds in any jurisdiction in which offers are not permitted.

Table of Contents

RISK FACTORS

General

Investing in the Offered Bonds involves risk. You should review all the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus before deciding to invest. See Where You Can Find More Information in the accompanying prospectus. In particular, you should carefully consider the risks and uncertainties discussed in Avista s Annual Report on Form 10-K, incorporated herein by reference, in Item 1A Risk Factors and under Forward-Looking Statements in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations .

In addition to the risks and uncertainties referred to above, there are certain risks associated with the Offered Bonds as described below.

We cannot assure you that an active trading market for the Offered Bonds will develop.

We do not intend to apply for listing of the Offered Bonds on any securities exchange or automated quotation system. There can be no assurance as to the liquidity of any market that may develop for the Offered Bonds, the ability of the bondholders to sell their Offered Bonds or the price at which the bondholders will be able to sell the Offered Bonds. Future trading prices of the Offered Bonds will depend on many factors including, among other things, prevailing interest rates, our operating results and the market for similar securities.

The underwriters have informed us that they intend to make a market in the Offered Bonds. However, the underwriters are not obligated to do so, and any such market making activity may be terminated at any time without notice. If a market for the Offered Bonds does not develop, purchasers may be unable to resell the Offered Bonds for an extended period of time. Consequently, a bondholder may not be able to liquidate its investment readily, and the Offered Bonds may not be readily accepted as collateral for loans. In addition, such market making activity will be subject to restrictions of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended.

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

From time to time, we make forward-looking statements such as statements regarding projected or future financial performance, capital expenditures, dividends, capital structure, other financial items, strategic goals and objectives, and plans for operations. These statements have underlying assumptions (many of which are based, in turn, upon further assumptions). Such statements are made both in our reports filed under the Securities Exchange Act of 1934, as amended, and elsewhere. Forward-looking statements are all statements except those of historical fact, including, without limitation, those that are identified by the use of words such as, but not limited to, will, may, could, should, intends, plans, seeks, anticipates, estimates, expects, projects, predicts, and similar expressions.

Forward-looking statements are subject to a variety of risks and uncertainties and other factors. Most of these factors are beyond our control and many of them could have a significant effect on our operations, results of operations, financial condition or cash flows. This could cause actual results to differ materially from those anticipated in our statements. Such risks, uncertainties and other factors include, among others, those listed in Management s Discussion and Analysis of Financial Condition and Results of Operations under Forward-Looking Statements in our annual and quarterly reports incorporated herein by reference, as well as those discussed in Risk Factors in such reports incorporated herein by reference.

Our expectations, beliefs and projections are expressed in good faith. We believe they are reasonable based on, without limitation, an examination of historical operating trends, data contained in our records and other data available from third parties. However, there can be no assurance that our

Table of Contents

expectations, beliefs or projections will be achieved or accomplished. Furthermore, any forward-looking statement speaks only as of the date on which such statement is made. We undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of such factors, nor can we assess the effect of each such factor on our business or the extent to which any such factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

Table of Contents

THE COMPANY

General

Avista Corporation, which was incorporated in the Territory of Washington in 1889 (sometimes called Avista or the Company), is an energy company engaged in the generation, transmission and distribution of energy and, through its subsidiaries, in other energy-related businesses. Our corporate headquarters are in Spokane, Washington, the hub of the Inland Northwest geographic region. Agriculture, mining and lumber were the primary industries in the Inland Northwest for many years; today health care, education, finance, electronic and other manufacturing, tourism and service sectors are growing in importance.

Through 2007, we had three reportable business segments, as follows:

Avista Utilities - an operating division of Avista Corporation comprising our regulated utility operations that started in 1889. Avista Utilities generates, transmits and distributes electricity and distributes natural gas. It also engages in wholesale purchases and sales of electricity and natural gas.

Energy Marketing and Resource Management - electricity and natural gas marketing, trading and resource management. The activities of this business segment were conducted primarily by Avista Energy, Inc. (Avista Energy), an indirect subsidiary of Avista Corporation. On June 30, 2007, Avista Energy and Avista Energy Canada, Ltd. (Avista Energy Canada) completed the sale of substantially all of their contracts and ongoing operations to Shell Energy North America (U.S.), L.P. (Shell Energy), formerly known as Coral Energy Holding, L.P., as well as to certain other subsidiaries of Shell Energy. Completion of this transaction effectively ended the majority of the operations of this business segment. This segment still owns natural gas storage facilities and has operating revenues and resource costs related to the power purchase agreement for a 270 megawatt (MW) natural gas-fired combined cycle combustion turbine plant located in Idaho (Lancaster Plant). The Lancaster Plant is owned by an unrelated third-party and all of the output from the plant is contracted to Avista Energy through 2026. The majority of the rights and obligations under the power purchase agreement were assigned to Shell Energy through the end of 2009. Beginning in 2010, we expect these rights and obligations will be transferred to Avista Utilities, subject to future regulatory approval.

Advantage IQ - a provider of facility information and cost management services for multi-site customers throughout North America. This business segment s primary product lines include consolidated billing, resource accounting, energy analysis and loan profiling services. The activities of this business segment are conducted by Advantage IQ, Inc. (Advantage IQ), an indirect subsidiary of Avista Corporation.

Avista Corporation has other businesses, including sheet metal fabrication, venture fund investments and real estate investments. These activities do not represent a reportable business segment and are conducted by various indirect subsidiaries of Avista Corporation. Over time as opportunities arise, Avista plans to dispose of assets and phase out operations that do not fit with its overall corporate strategy. However, Avista may invest incremental funds to protect its existing investments and invest in new businesses that fit with its overall corporate strategy.

Avista Energy, Advantage IQ and the various other companies are subsidiaries of Avista Capital, Inc. (Avista Capital), which is a wholly owned subsidiary of Avista Corporation.

Avista Utilities

Avista Utilities provides electric distribution and transmission as well as natural gas distribution services in parts of eastern Washington and northern Idaho. It also provides natural gas distribution service in parts of northeast and southwest Oregon. At December 31, 2007, Avista Utilities supplied retail

electric service to approximately 352,000 customers and retail natural gas service to approximately 311,000 customers across its entire service territory.

In addition to providing electric transmission and distribution services, Avista Utilities generates electricity from its generating facilities, which had a total net capability of approximately 1,771 MW at December 31, 2007. Avista Utilities owns and operates hydroelectric projects having a total net capability of approximately 979 MW, a wood-waste fueled generating station having a net capability of 50 MW, gas-fired generating facilities having a total net capability of 520 MW and an undivided interest in a coal-fired generating station with entitlement to 222 MW of net capability. In addition to its own resources, Avista Utilities is party to a number of long-term power purchase and exchange contracts that increase its available resources.

Energy Marketing and Resource Management

On June 30, 2007, Avista Energy and Avista Energy Canada completed the sale of substantially all of their contracts and ongoing operations to Shell Energy, as well as to certain other subsidiaries of Shell Energy. Completion of this transaction effectively ended the majority of the operations of this business segment.

Advantage IQ

Advantage IQ is a provider of facility information and cost management services for multi-site customers throughout North America. Through invoice processing, auditing, payment services and comprehensive reporting, our solutions at Advantage IQ are designed to provide companies with critical and easy-to-access information that enables them to proactively manage and reduce their utility, telecom and waste management expenses.

As part of this process, Advantage IQ analyzes and audits invoices, then presents consolidated bills on-line, as well as processing payments for these expenses. Information gathered from invoices, providers and other customer-specific data allows Advantage IQ to provide its clients with in-depth analytical support, real-time reporting and consulting services.

Other

Avista s other businesses include several subsidiaries, including Avista Ventures, Inc., Pentzer Corporation, Avista Development, Inc. and certain other operations of Avista Capital. Also included is Advanced Manufacturing and Development, a subsidiary of Pentzer Corporation.

Table of Contents

USE OF PROCEEDS

We will use net proceeds from the sale of the Offered Bonds, together with other available funds, to repay $272,860,000 of 9.75% Senior Unsecured Notes which mature on June 1, 2008 and for general corporate purposes. Pending those uses, such proceeds will be invested by the Company in short-term investment vehicles or used to retire short-term debt.

SUMMARY FINANCIAL INFORMATION

Set forth below is certain summary consolidated financial information for the years ended December 31, 2007, 2006 and 2005. This financial information has been derived from the consolidated financial statements of Avista, which are incorporated herein by reference. This information should be read in conjunction with our consolidated financial statements and related notes, management s discussion and analysis of results of operations and other financial information which are incorporated by reference herein.

	Year Ended December 31, (in millions)		
	2007	**2006**	**2005**
Operating Revenues	$ 1,418	$ 1,506	$ 1,360
Income from Operations	138	200	152
Net Income	38	73	45

	At December 31, (in millions)	
	2007	**2006**
Total Assets	$ 3,190	$ 4,057
Net Utility Property[1]	2,351	2,215
Total Debt	1,062	1,093
Preferred Stock	-	26
Stockholders Equity	914	915

(1) Substantially all utility properties owned by the Company are subject to the lien of the Company s Mortgage.

	Year Ended December 31,	
	2007	**2006**
Ratios of Earnings to Fixed Charges[1]	1.71	2.17

(1) The ratios for the years 2005, 2004 and 2003 were 1.74, 1.60 and 1.88, respectively. The ratios are computed using the consolidated earnings and fixed charges of Avista and its subsidiaries. Earnings consist of Income from Continuing Operations increased by income tax expense and fixed charges. Fixed Charges consist of

interest on debt, net amortization of debt expense and premium, and the interest portion of rentals.

Table of Contents

CAPITALIZATION

The following table sets forth our consolidated capitalization (including short-term debt and the current portion of long-term debt) as of December 31, 2007, as well as our consolidated cash and cash equivalents. The following data are unaudited and qualified in their entirety by our financial statements and other information incorporated herein by reference. See Use of Proceeds .

	As of December 31, 2007 (in millions)
Cash and cash equivalents	$11.8
Short-term debt (including current portion of long-term debt)[1]	427.3
Long-term debt[2]	521.5
Long-term debt to affiliated trusts	113.4
Common equity	914.0
Total capitalization	$1,976.2

(1) Short-term debt includes $272.9 million of maturing unsecured senior notes and $45.0 million of maturing secured medium-term notes. Additionally, short-term debt includes $25.0 million of secured medium-term notes with a maturity date of June 2028 that are subject to redemption at the option of the security holders in June 2008 and $83.7 million of secured pollution control bonds that are subject to remarketing on December 30, 2008. If the secured pollution control bonds cannot be successfully remarketed on that date, the Company will be required to purchase the bonds.

Avista Corp. has a committed line of credit agreement with various banks in the total amount of $320.0 million with an expiration date of April 5, 2011. Avista Corp. has delivered $320.0 million of non-transferable first mortgage bonds to the agent bank in order to secure its obligations under the revolving credit agreement. There were no borrowings outstanding under the revolving credit agreement at December 31, 2007.

(2) Long-term debt includes $513.0 million of secured debt, which includes first mortgage bonds (or debt secured by first mortgage bonds).

Table of Contents

DESCRIPTION OF THE OFFERED BONDS

The following description of the particular terms of the Offered Bonds supplements the description of the general terms and provisions of the Bonds set forth under Description of the Bonds in the accompanying prospectus, to which description reference is hereby made. Certain capitalized terms used and not defined in this prospectus supplement are defined under Description of the Bonds in the accompanying prospectus.

General

The Offered Bonds will be issued as one series of Bonds under our Mortgage, which is more fully described in the accompanying prospectus.

The Offered Bonds will be issued in fully registered form only, without coupons. The Offered Bonds will be initially represented by one or more fully registered global securities (the Global Securities) deposited with or on behalf of The Depository Trust Company (DTC), as depositary, and registered in the name of DTC or DTC s nominee. A beneficial interest in a Global Security will be shown on, and transfers or exchanges thereof will be effected only through, records maintained by DTC and its participants, as described below under Book-Entry Only Issuance The Depository Trust Company . The authorized denominations of the Offered Bonds will be $1,000 and any larger amount that is an integral multiple of $1,000. Except in limited circumstances described below, the Offered Bonds will not be exchangeable for Offered Bonds in definitive certificated form.

Principal, Maturity and Interest

We are issuing $ aggregate principal amount of Offered Bonds. The Offered Bonds will mature on June 1, 2018. We may, without the consent of holders of the Offered Bonds, issue additional bonds of the same series having the same interest rate, maturity and other terms (except the public offering price and issue date) as the Offered Bonds. Interest on the Offered Bonds will accrue at the rate of % per annum and will be payable semi-annually in arrears on June 1 and December 1 of each year (each such date, an Interest Payment Date), and at maturity. The first such payment will be made on December 1, 2008. We will make each interest payment to the holders of record on the immediately preceding May 15 and November 15.

Interest on the Offered Bonds will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Optional Redemption

The Offered Bonds will be redeemable in whole at any time, or in part from time to time, at the option of Avista, at a redemption price equal to the greater of:

- 100% of the principal amount of the Offered Bonds being redeemed; or

- the sum of the present values of the remaining scheduled payments of principal of and interest (not including any portion of any scheduled payment of interest which accrued prior to the redemption date) on the Offered Bonds being redeemed discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the Treasury Yield plus basis points,

plus, in either of the above cases, accrued interest on such Offered Bonds to the redemption date.

Treasury Yield means, with respect to any redemption of Offered Bonds, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price. The Treasury Yield will be calculated as of the third business day preceding the redemption date or, if the Offered Bonds to be redeemed are to be defeased prior to the redemption date in accordance

with the terms of the Mortgage, then as of the third business day prior to the earlier of (x) the date notice of such redemption is mailed to bondholders and (y) the date irrevocable arrangements with the Mortgage Trustee for the mailing of such notice have been made, as the case may be (the Calculation Date).

Comparable Treasury Issue means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Offered Bonds to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Offered Bonds.

Comparable Treasury Price means (1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third business day preceding the Calculation Date, as set forth in the H.15 Daily Update of the Federal Reserve Bank of New York or (2) if such release (or any successor release) is not published or does not contain such prices on the Calculation Date, the Reference Treasury Dealer Quotation for the Calculation Date.

H.15(519) means the weekly statistical release entitled Statistical Release H.15 (519) , or any successor publication, published by the Board of Governors of the Federal Reserve System.

H.15 Daily Update means the daily update of H.15(519) available through the worldwide website of the Board of Governors of the Federal Reserve System or any successor site or publication.

Independent Investment Banker means UBS Securities LLC, BNY Capital Markets, Inc., Goldman, Sachs & Co. or, if so determined by us, any other independent investment banking institution of national standing appointed by Avista and reasonably acceptable to the Mortgage Trustee.

Reference Treasury Dealer Quotation means, with respect to the Reference Treasury Dealer, the average, as determined by the Mortgage Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount and quoted in writing to the Mortgage Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third business day preceding the Calculation Date).

Reference Treasury Dealer means a primary U.S. Government securities dealer in New York City appointed by Avista and reasonably acceptable to the Mortgage Trustee.

Book-Entry Only Issuance The Depository Trust Company

DTC will act as initial securities depositary for the Offered Bonds. The Offered Bonds will be issued only as fully-registered securities registered in the name of Cede & Co. (DTC s nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered global certificates will be issued, representing in the aggregate the total principal amount of Offered Bonds and will be deposited with DTC or a custodian therefor.

The following is based upon information furnished by DTC:

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments that DTC s participants (Direct Participants) deposit with DTC. DTC also facilitates the post-trade settlement among Direct

Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). DTCC is the holding company for DTC, National Securities Clearing

Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (Indirect Participants and, together with Direct Participants, Participants). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Offered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Offered Bonds on DTC s records. The ownership interest of each actual purchaser of each Offered Bond (Beneficial Owner) is in turn to be recorded on the Participants records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmation providing details of the transactions, as well as periodic statements of their holdings, from Participants through which the Beneficial Owners purchased the Offered Bonds. Transfers of ownership interests in the Offered Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Offered Bonds, except in the event that use of the book-entry system for the Offered Bonds is discontinued.

To facilitate subsequent transfers, all Offered Bonds deposited by Direct Participants with DTC are registered in the name of DTC s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Offered Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any changes in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Offered Bonds; DTC s records reflect only the identity of the Direct Participants to whose accounts such Offered Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Offered Bonds are being redeemed, DTC s practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Offered Bonds unless authorized by a Direct Participant in accordance with DTC s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to us as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co. s consenting or voting rights to those Direct Participants to whose accounts the Offered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Offered Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC s practice is to credit Direct Participants accounts upon DTC s receipt of funds and corresponding detail information from us or the Mortgage Trustee on the relevant payment date in accordance with their respective holdings shown on DTC s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name , and will be the responsibility of such Participants and not of DTC or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is our responsibility, disbursement of payments to Direct Participants is the responsibility of DTC, and disbursement of payments to the Beneficial Owners is the responsibility of the Participants.

DTC may discontinue providing its services as depositary for the Offered Bonds at any time by giving reasonable notice to us. Under such circumstances, in the event that a successor depositary is not obtained, certificates for the Offered Bonds will be delivered to the Beneficial Owners. Additionally, we may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depositary) with respect to the Offered Bonds. In that event, certificates for the Offered Bonds will be printed and delivered to the holders of record.

The information in this section concerning DTC and DTC s book-entry system has been obtained from DTC, and neither we nor the underwriters take any responsibility for the accuracy thereof. Neither we, the Mortgage Trustee nor the underwriters will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Offered Bonds or for maintaining, supervising or reviewing any such records.

Except as provided herein, a Beneficial Owner of an interest in a global Offered Bond certificate may not receive physical delivery of the Offered Bonds. Accordingly, each Beneficial Owner must rely on the procedures of DTC to exercise any rights under the Offered Bonds.

Miscellaneous

At December 31, 2007, $986.7 million of Mortgage Securities were outstanding. This amount includes $478.7 million of non-transferable Mortgage Securities which were issued in order to provide the benefit of the lien of the Mortgage to secure other of our debt obligations.

Table of Contents

UNDERWRITING

We and the underwriters for the offering named below (the Underwriters) have entered into an underwriting agreement with respect to the Offered Bonds. Subject to certain conditions, each Underwriter has severally agreed to purchase the principal amount of Offered Bonds indicated in the following table.

Underwriter	Principal Amount of Offered Bonds
UBS Securities LLC	
BNY Capital Markets, Inc.	
Goldman, Sachs & Co.	
Banc of America Securities LLC	
KeyBanc Capital Markets Inc.	
Wedbush Morgan Securities Inc.	
Wells Fargo Securities, LLC	
Total	$

The Underwriters are committed to take and pay for all of the Offered Bonds being offered, if any are taken.

Offered Bonds sold by the Underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this Prospectus Supplement. Any Offered Bonds sold by the Underwriters to securities dealers may be sold at a discount from the initial public offering price of up to % of the principal amount of Offered Bonds. Any such securities dealers may resell any Offered Bonds purchased from the Underwriters to certain other brokers or dealers at a discount from the initial public offering price of up to % of the principal amount of Offered Bonds. If all the Offered Bonds are not sold at the initial offering price, the Underwriters may change the offering price and the other selling terms.

We expect that the delivery of the Offered Bonds will be made against payment therefore on or about the closing date specified on the cover of this prospectus supplement, which will be the fifth business day following the date of pricing of the Offered Bonds (this settlement cycle being referred to as T + 5). Under Rule 15c6-1 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Offered Bonds on the date of pricing of the Offered Bonds or the next succeeding two business days will be required, by virtue of the fact that the Offered Bonds initially will settle in T + 5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Offered Bonds who wish to trade Offered Bonds on the date of pricing of the Offered Bonds or the next succeeding business days until the closing of the offering should consult their own advisor.

The Offered Bonds are a new issue of securities with no established trading market. We have been advised by the Underwriters that the Underwriters intend to make a market in the Offered Bonds but they are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the

trading market for the Offered Bonds or that an active public market for the Offered Bonds will develop. If any active public trading market for the Offered Bonds does not develop, the market price and liquidity of the Offered Bonds may be adversely affected. See Risk Factors .

From the date of this prospectus supplement and continuing to and including the later of (i) the completion of the distribution of the Offered Bonds (but in no event shall such period exceed 90 days from the delivery of the Offered Bonds) and (ii) the delivery of the Offered Bonds, we have agreed, subject to certain exceptions, not to offer, sell, contract to sell or otherwise dispose of any debt securities substantially similar to the Offered Bonds, without the prior written consent of the representatives of the Underwriters.

In connection with the offering of the Offered Bonds, the Underwriters may purchase and sell Offered Bonds in the open market. These transactions may include short sales, stabilizing transactions

Table of Contents

and purchases to cover positions created by short sales. Short sales involve the sale by the Underwriters of a greater number of Offered Bonds than they are required to purchase in the offering of the Offered Bonds. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Offered Bonds while the offering of the Offered Bonds is in progress.

The Underwriters also may impose a penalty bid. This occurs when a particular Underwriter repays to the Underwriters a portion of the underwriting discount received by it because the representatives have repurchased Offered Bonds sold by or for the account of such Underwriter in stabilizing or short covering transactions.

These activities by the Underwriters may stabilize, maintain or otherwise affect the market price of the Offered Bonds. As a result, the price of the Offered Bonds may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time. These transactions may be effected in the over-the-counter market or otherwise.

We estimate that our share of the total expenses related to the offering of the Offered Bonds, excluding underwriting discounts and commissions, will be approximately $650,000.

We have agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

Sales of the Offered Bonds by BNY Capital Markets, Inc. will be effected through Broadpoint Capital, Inc., as its distribution agent.

Certain of the Underwriters and their respective affiliates have, from time to time, performed and may in the future perform, various financial advisory, lending and investment banking services for us, for which they received or will receive customary fees and expenses.

LEGAL MATTERS

The validity of the Offered Bonds and certain other matters will be passed upon for Avista by Dewey & LeBoeuf LLP, counsel to Avista, and Marian M. Durkin, Esq., Senior Vice President, General Counsel and Chief Compliance Officer of Avista. The validity of the Offered Bonds and certain other matters will be passed upon for the Underwriters by Latham & Watkins LLP, Los Angeles, California. In giving their opinions, Dewey & LeBoeuf LLP and Latham & Watkins LLP may rely as to matters of Washington, Idaho, Montana and Oregon law upon the opinion of Marian M. Durkin, Esq.

EXPERTS

The consolidated financial statements incorporated in this prospectus supplement and the accompanying prospectus by reference from the Company s Annual Report on Form 10-K for the year ended December 31, 2007 and the effectiveness of Avista Corporation s internal control over financial reporting have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports (which reports (1) express an unqualified opinion on the financial statements and include an explanatory paragraph referring to certain changes in accounting and presentation resulting from the impact of recently adopted accounting standards and (2) express an unqualified opinion on the effectiveness of internal control over financial reporting), which are incorporated herein by reference. Such financial statements have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

Table of Contents

PROSPECTUS

AVISTA CORPORATION

Debt Securities

Preferred Stock
(no par value)

Common Stock
(no par value)

Avista Corporation may offer these securities from time to time on terms and at prices to be determined at the time of sale. The supplement to this prospectus relating to each offering will describe the specific terms of the securities being offered, as well as the terms of the offering and sale including the offering price.

Avista Corporation may sell these securities to or through underwriters, dealers or agents or directly to one or more purchasers.

Outstanding shares of Avista Corporation s common stock are listed on the New York Stock Exchange under the symbol AVA . New shares of common stock will also be listed on the NYSE. Like the outstanding shares of common stock, the new shares will be issued and will trade with the related preferred share purchase rights.

See Risk Factors on page 3 to read about certain factors you should consider before investing in the securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this Prospectus is December 11, 2006.

This prospectus incorporates by reference important business and financial information about Avista Corporation that is not included in or delivered with this prospectus. See Where You Can Find More Information . You may obtain copies of documents containing such information from us, without charge, by either calling or writing to us at:

Avista Corporation
Post Office Box 3727
Spokane, Washington 99220
Attention: Treasurer
Telephone: (509) 489-0500

TABLE OF CONTENTS

About This Prospectus	2
Risk Factors	3
Avista Corporation	3
Use of Proceeds	4
Description of the Bonds	4
Description of the Notes	12
Description of Preferred Stock	21
Description of Common Stock	23
Where You Can Find More Information	33
Legal Matters	34
Experts	34

We have not authorized anyone to give you any information other than this prospectus and the usual supplements to this prospectus. You should not assume that the information contained in this prospectus, any prospectus supplement or any document incorporated by reference in this prospectus is accurate as of any date other than the date mentioned on the cover page of those documents. We are not offering to sell the Securities (defined below) and we are not soliciting offers to buy the Securities in any jurisdiction in which offers are not permitted.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that Avista Corporation filed with the Securities and Exchange Commission (the SEC), using the shelf registration process. Under this shelf registration process, we may, from time to time, sell the securities described in this prospectus in one or more offerings. This prospectus provides a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. That prospectus supplement may include or incorporate by reference a detailed and current discussion of any risk factors and will discuss any special considerations applicable to those securities, including the plan of distribution. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under Where You Can Find More Information . If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information contained in that prospectus supplement.

References in the prospectus to the terms we , us or Avista or other similar terms mean Avista Corporation, unless we state otherwise or the context indicates otherwise.

We may use this prospectus to offer from time to time:

Secured bonds issued under a Mortgage and Deed of Trust, dated as of June 1, 1939 (the Original Mortgage) between Avista and Citibank, N.A., as trustee (the Mortgage Trustee); the Original Mortgage, as amended and supplemented from time to time, being hereinafter called the Mortgage . The secured bonds offered by this prospectus are hereinafter called Bonds .

Unsecured notes, debentures or other debt securities issued under an Indenture, dated as of April 1, 1998 (the Original Indenture) between Avista and The Bank of New York, as successor trustee (the Indenture Trustee); the Original Indenture, as amended and supplemented from time to time, being hereinafter called

the Indenture . The unsecured notes, debentures and other debt securities offered by this prospectus are hereinafter called Notes and, together with the Bonds, are hereinafter called Debt Securities .

Shares of preferred stock, no par value, of Avista Corporation (the Preferred Stock). The Preferred Stock offered by this prospectus is hereinafter called the New Preferred Stock .

Shares of common stock, no par value, of Avista Corporation, together with attached preferred share purchase rights (the Common Stock).

The shares of Common Stock offered by this prospectus, together with the Debt Securities and the New Preferred Stock, are hereafter called Securities .

For more detailed information about the Securities, you can read the exhibits to the registration statement. Those exhibits have been either filed with the registration statement or incorporated by reference to earlier SEC filings listed in the registration statement. See Where You Can Find More Information .

RISK FACTORS

Investing in the Securities involves risk. You should review all the information contained or incorporated by reference in this prospectus before deciding to invest. See Where You Can Find More Information herein. In particular, you should carefully consider the risks and uncertainties discussed in Avista s Annual Report on Form 10-K, incorporated herein by reference, in Item 1A Risk Factors and under Forward-Looking Statements in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (all of which may be updated in Quarterly Reports on Form 10-Q filed subsequently to such Annual Report on Form 10-K).

In addition, you should carefully consider the risks and uncertainties discussed in the applicable prospectus supplement which relate to the specific Securities offered thereby.

AVISTA CORPORATION

General

Avista Corporation, which was incorporated in the Territory of Washington in 1889 (sometimes called Avista), is an energy company engaged in the generation, transmission and distribution of energy and, through its subsidiaries, in other energy-related businesses. Our corporate headquarters are in Spokane, Washington, center of the Inland Northwest geographic region. Agriculture, mining and lumber were the primary industries in the Inland Northwest for many years; today health care, education, finance, electronic and other manufacturing, tourism and service sectors are growing in importance.

Avista s businesses are divided into four segments, as follows:

Avista Utilities generation, transmission and distribution of electric energy and distribution of natural gas to retail customers, as well as wholesale purchases and sales of electric capacity and energy. This business segment is conducted by an operating division of Avista Corporation known as Avista Utilities .

Energy Marketing and Resource Management electricity and natural gas marketing, trading and resource management. This business segment is conducted primarily by Avista Energy, Inc., which is an indirect subsidiary of Avista Corporation.

Advantage IQ facility information and cost management services for multi-site customers. This business segment is conducted by Advantage IQ, Inc., which is an indirect subsidiary of Avista Corporation.

Other includes sheet metal fabrication, radiant floor heating systems and certain real estate investments. This business segment is conducted by various indirect subsidiaries of Avista Corporation. Avista intends to limit its future investments in this business segment.

Avista Energy, Inc., Advantage IQ, Inc. and the various companies in the Other business segment are subsidiaries of Avista Capital, Inc., which is a direct, wholly-owned subsidiary of Avista Corporation.

Table of Contents

Proposed Formation of Holding Company

Avista has entered into a Plan of Share Exchange, dated as of February 13, 2006 (the Plan of Exchange), with AVA Formation Corp., a wholly-owned subsidiary of Avista (AVA). Pursuant to the Plan of Exchange, a statutory share exchange (the Share Exchange) would be effected whereby each outstanding share of Avista Common Stock (including any shares offered by this prospectus) would be exchanged for one share of AVA common stock, no par value (AVA Common Stock), so that the holders of Avista Common Stock would become holders of AVA Common Stock and Avista would become a subsidiary of AVA. AVA is expected to change its name before the effective time of the Share Exchange.

The holders of Avista Common Stock approved the Share Exchange on May 11, 2006. The Federal Energy Regulatory Commission and the Idaho Public Utilities Commission have issued orders authorizing the Share Exchange. Avista also has filed for approval from the utility regulators in Washington, Oregon and Montana. The Share Exchange is subject to the receipt of the remaining regulatory approvals and the satisfaction of other conditions. Avista anticipates that the Share Exchange and the holding company structure implementation, if approved on terms acceptable to Avista, will not be completed earlier than mid-2007.

The other outstanding securities of Avista (including any Debt Securities or New Preferred Stock offered by this prospectus) would not be affected by the Share Exchange, with limited exceptions for options and similar securities outstanding under executive compensation and employee benefit plans.

Avista expects that, after the effective time of the Share Exchange when AVA becomes the sole holder of Avista Common Stock, Avista will distribute to AVA as a dividend all outstanding shares of Avista Capital. This dividend, which is referred to in this prospectus as the Avista Capital Dividend , would effect the structural separation of Avista s non-regulated businesses from the regulated utility business. A restrictive covenant in the Company s 9.75% Senior Notes, which mature June 1, 2008, would not permit the Avista Capital Dividend, so that this dividend cannot be made until these notes are retired.

Reference is made to the Proxy Statement-Prospectus, dated April 11, 2006, excluding those portions thereof that are deemed furnished to, and not filed with, the SEC (the Proxy Statement-Prospectus), which is incorporated herein by reference, for additional information regarding the proposed formation of the holding company, including, without limitation, information regarding the reasons for forming the holding company and the Avista Capital Dividend, the conditions to the Share Exchange and the expected business, regulation and management of AVA and its subsidiaries after the effective time of the Share Exchange.

If the prospectus supplement accompanying this prospectus relates to shares of Avista Common Stock, prospective investors are directed to Description of Common Stock herein for additional information regarding the proposed holding company structure, including a general comparison of Avista Common Stock and AVA Common Stock.

USE OF PROCEEDS

Unless we indicate differently in a supplement to this prospectus, Avista intends to use the net proceeds from the issuance and sale of the Securities offered by this prospectus for any or all of the following purposes: (a) to fund Avista Utilities construction, facility improvement and maintenance programs, (b) to refinance maturing long-term debt, (c) to continue to fund retirements (through redemption, purchase or acquisition) of longer-term debt, (d) to repay short-term debt, (e) to accomplish other general corporate purposes permitted by law and (f) to reimburse Avista s treasury for funds previously expended for any of these purposes.

DESCRIPTION OF THE BONDS

Avista may issue the Bonds in one or more series, or in one or more tranches within a series. The terms of the Bonds will include those stated in the Mortgage and those made part of the Mortgage by the Trust Indenture Act of 1939, as amended (the Trust Indenture Act). The following summary is not complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Mortgage and the Trust Indenture Act. The Bonds, together with all other debt securities outstanding under the Mortgage, are hereinafter called, collectively,

Table of Contents

the Mortgage Securities . Avista has filed the Mortgage, as well as a form of supplemental indenture to the Mortgage to establish a series of Bonds, as exhibits to the registration statement of which this prospectus is a part. Capitalized terms used under this heading which are not otherwise defined in this prospectus have the meanings set forth in the Mortgage. Wherever particular provisions of the Mortgage or terms defined in the Mortgage are referred to, those provisions or definitions are incorporated by reference as part of the statements made in this prospectus and those statements are qualified in their entirety by that reference. Sections 125 through 150 of the Mortgage appear in the first supplemental indenture to the Original Mortgage. References to article and section numbers, unless otherwise indicated, are references to article and section numbers of the Mortgage.

The applicable prospectus supplement will describe the following terms of the Bonds of each series:

- the title of the Bonds;

- any limit upon the aggregate principal amount of the Bonds;

- the date or dates on which the principal of the Bonds is payable or the method of determination thereof and the right, if any, to extend such date or dates;

- (a) the rate or rates at which the Bonds will bear interest, if any, or the method by which such rate or rates, if any, will be determined, (b) the date or dates from which any such interest will accrue, (c) the interest payment dates on which any such interest will be payable, (d) the right, if any, of Avista to defer or extend an interest payment date, (e) the regular record date for any interest payable on any interest payment date and (f) the person or persons to whom the interest on the Bonds will be payable on any interest payment date, if other than the person or persons in whose names the Bonds are registered at the close of business on the regular record date for such interest;

- any period or periods within which, or date or dates on which, the price or prices at which and the terms and conditions upon which the Bonds may be redeemed, in whole or in part, at the option of Avista;

- (a) the obligation or obligations, if any, of Avista to redeem or purchase any of the Bonds pursuant to any sinking fund or other mandatory redemption provisions or at the option of the Holder (as defined below), (b) the period or periods within which, or date or dates on which, the price or prices at which and the terms and conditions upon which the Bonds will be redeemed or purchased, in whole or in part, pursuant to such obligation, and (c) applicable exceptions to the requirements of a notice of redemption in the case of mandatory redemption or redemption at the option of the Holder;

- the terms, if any, upon which the Bonds may be converted into other securities of Avista;

- the denominations in which any of the Bonds will be issuable if other than denominations of $1,000 and any integral multiple of $1,000;

- if the Bonds are to be issued in global form, the identity of the depositary; and

- any other terms of the Bonds.

Payment and Paying Agents

Except as may be provided in the applicable prospectus supplement, Avista will pay interest, if any, on each Bond on each interest payment date to the person in whose name such Bond is registered (for purposes of this section of the

prospectus, the registered holder of any Mortgage Security is herein referred to as a Holder) as of the close of business on the regular record date relating to such interest payment date; *provided, however*, that Avista will pay interest at maturity (whether at stated maturity, upon redemption or otherwise, Maturity) to the person to whom principal is paid.

Unless otherwise specified in the applicable prospectus supplement, Avista will pay the principal of and premium, if any, and interest, if any, on the Bonds at Maturity upon presentation of the Bonds at the corporate trust office of Citibank, N.A. in New York, New York, as paying agent for Avista. Avista may change the place of payment of the Bonds, may appoint one or more additional paying agents (including Avista) and may remove any paying agent, all at its discretion.

Table of Contents

Registration; Registration of Transfer

The Bonds will be issued only in fully registered form. The registered holder of a Bond will be treated as the owner of the Bond for all purposes under the Mortgage. Only registered holders will have rights under the Mortgage. (Mortgage, Sec. 83)

The transfer of Bonds may be registered, and Bonds may be exchanged for other Bonds, upon surrender thereof at the principal office of Citibank, N.A., which has been designated by Avista as its office or agency for such purposes. Avista may change such office or agency, and may designate an additional office or agency, in its discretion. No service charge will be made for any registration of transfer or exchange of Bonds, but Avista may require payment of a sum sufficient to cover any tax or other governmental charge incident thereto. Avista will not be required to make any transfer or exchange of any Bonds for a period of 10 days next preceding any selection of Bonds for redemption, nor will it be required to make transfers or exchanges of any Bonds which have been selected for redemption in whole or in part or as to which Avista shall have received a notice for the redemption thereof in whole or in part at the option of the Holder.

Redemption

The applicable prospectus supplement will indicate the extent, if any, to which the Bonds will be subject to (a) general redemption at the option of Avista or (b) special redemption by the application (either at the option of Avista or pursuant to the requirements of the Mortgage) of (x) cash deposited with the Mortgage Trustee as described under Special Provisions for Retirement of Bonds below or (y) cash deposited with the Mortgage Trustee in connection with the release of property from the lien of the Mortgage.

Notice of redemption will be given by mail not less than 30 days prior to the date fixed for redemption. (Mortgage, Sec. 52)

If less than all the Bonds of a series are to be redeemed, the particular Bonds to be redeemed will be selected by the Mortgage Trustee by lot, according to such method as it shall deem proper in its discretion. (Mortgage, Sec. 52)

Any notice of redemption at the option of Avista may state that such redemption will be conditional upon receipt by the Mortgage Trustee, on or before the date fixed for such redemption, of money sufficient to pay the principal of and premium, if any, and interest, if any, on such Bonds and that if such money has not been so received, such notice will be of no force or effect and Avista will not be required to redeem such Bonds. (Mortgage, Sec. 52)

Issuance of Additional Mortgage Securities

In addition to the Bonds, other debt securities may be issued under the Mortgage. The present principal amount of debt securities which may be outstanding under the Mortgage is $10,000,000,000. However, Avista has reserved the right to amend the Mortgage (without any consent of or other action of Holders of any Mortgage Securities now or hereafter outstanding) to remove this limitation.

Mortgage Securities of any series may be issued from time to time on the basis of:

> 70% of cost or fair value to Avista (whichever is less) of property additions which have not previously been made the basis of any application under the Mortgage and therefore do not constitute funded property after adjustments to offset property retirements;

an equal principal amount of Mortgage Securities which have been or are to be paid, redeemed or otherwise retired and have not previously been made the basis of any application under the Mortgage; or

deposit of cash.

Property additions generally include electric, natural gas, steam or water property acquired after May 31, 1939, but may not include property used principally for the production or gathering of natural gas. Any such property additions may be used if their ownership and operation is within the corporate purposes of Avista regardless of whether or not Avista has all the necessary permission it may need at any time from governmental authorities to operate such property additions.

Table of Contents

The Mortgage provides that no reduction in the book value of the property recorded in the plant account of Avista shall constitute a property retirement, otherwise than in connection with physical retirements of property abandoned, destroyed or disposed of, and otherwise than in connection with the removal of such property in its entirety from the plant account.

The Holders of the Bonds will be deemed to have consented to an amendment to the provision of the Mortgage which requires that Avista deliver an opinion of counsel as to the status of the lien of the Mortgage on property additions being certified to the Mortgage Trustee. The amendment would permit us to deliver to the Mortgage Trustee, in lieu of such opinion, title insurance with respect to such property additions in an amount not less than 35% of the cost or fair value to Avista (whichever is less) of such property additions. Such amendment could not be made without the requisite consent of the Holders of outstanding Mortgage Securities as described under Modification .

No Mortgage Securities may be issued on the basis of property additions subject to prior liens, unless the prior lien bonds secured thereby have been qualified by being deducted from the Mortgage Securities otherwise issuable and do not exceed 70% of such property additions, and unless the Mortgage Securities then to be outstanding which have been issued against property subject to continuing prior liens and certain other items would not exceed 15% of the Mortgage Securities outstanding.

The amount of prior liens on mortgaged property acquired after the date of delivery of the Mortgage may be increased subsequent to the acquisition of such property provided that, if any property subject to such prior lien shall have been made the basis of any application under the Mortgage, all the additional obligation are deposited with the Mortgage Trustee or other holder of a prior lien.

(Mortgage, Secs. 4 through 8, 20 through 30 and 46; First Supplemental, Sec. 2; Eleventh Supplemental, Sec. 5; Twelfth Supplemental, Sec. 1; Fourteenth Supplemental, Sec. 4; Seventeenth Supplemental, Sec. 3; Eighteenth Supplemental, Secs. 1, 2 and 6; Twenty-sixth Supplemental, Sec. 2; Twenty-ninth Supplemental, Art. II)

Net Earnings Test

In general, Avista may not issue Mortgage Securities on the basis of property additions or cash unless net earnings for 12 consecutive months out of the preceding 18 calendar months (before income taxes, depreciation and amortization of property, property losses and interest on any indebtedness and amortization of debt discount and expense) are at least twice the annual interest requirements on all Mortgage Securities at the time outstanding, including the additional issue, and on all indebtedness of prior rank.

Avista is not required to satisfy the net earnings requirement prior to the issuance of Mortgage Securities on the basis of retired Mortgage Securities unless:

- the annual interest requirements on the retired Mortgage Securities on the basis of which the new Mortgage Securities are to be issued have been excluded from a net earnings certificate delivered to the Mortgage Trustee since the retirement of such Mortgage Securities; or

- the retired Mortgage Securities on the basis of which the new Mortgage Securities are to be issued mature by their terms at a date more than two years after the date for authentication and delivery of the new Mortgage Securities and the new Mortgage Securities bear interest at a higher rate than such retired Mortgage Securities.

In general, the Mortgage permits the inclusion of the following items in net earnings:

- revenues collected or accrued subject to possible refund;

any portion of the allowance for funds used during construction; and

any portion of the allowance for funds used to conserve energy (or any analogous amount), which is not included in other income (or any analogous item) in Avista s books of account.

The Mortgage also provides that, in calculating net earnings, no deduction from revenues or other income shall be made for:

expenses or provisions for any non-recurring charge to income of whatever kind or nature (including without limitation the recognition of expense due to the non-recoverability of investment); or

provisions for any refund of revenues previously collected or accrued subject to possible refund.

In general, the interest rate requirement with respect to variable interest rate indebtedness, if any, is determined by reference to the rate or rates to be in effect at the time of the initial issuance. However, if any Mortgage Securities or prior ranking indebtedness bears interest at a variable rate, the annual interest requirements thereon shall be determined by reference to the rate or rates in effect on the date next preceding the date of the new issue of Mortgage Securities.

Security; Structural Subordination

The Bonds, together with all other Mortgage Securities now or hereafter issued under the Mortgage, will be secured by the Mortgage, which constitutes a first mortgage lien on Avista s facilities for the generation, transmission and distribution of electric energy and the storage and distribution of natural gas and substantially all of Avista s assets (except as stated below), subject to:

leases of minor portions of Avista s property to others for uses that do not interfere with Avista s business;

leases of certain property of Avista not used in its utility business;

excepted encumbrances, as defined in the Mortgage; and

encumbrances, defects and irregularities deemed immaterial by Avista in the operation of Avista s business.

There are excepted from the lien all cash and securities (including without limitation securities issued by Avista s subsidiaries); merchandise, equipment, materials or supplies held for sale or consumption in Avista s operations; receivables, contracts, leases and operating agreements; electric energy, and other material or products (including gas) generated, manufactured, produced or purchased by Avista, for sale, distribution or use in the ordinary course of its business. (Mortgage, Granting Clauses)

The Mortgage contains provisions for subjecting to the lien thereof all property (other than property of the kinds excepted from such lien) acquired by Avista after the execution and delivery thereof, subject to purchase money liens and liens existing thereon at the time of acquisition and, subject to limitations in the case of consolidation, merger or sale of substantially all of Avista s assets. (Mortgage, Granting Clauses and Art. XV)

The Mortgage provides that the lien of the Mortgage shall not automatically attach to the properties of another corporation which shall have consolidated or merged with Avista in a transaction in which Avista shall be the surviving or resulting corporation. (Mortgage, Sec. 87)

The Mortgage provides that the Mortgage Trustee shall have a lien upon the mortgaged property, prior to the Mortgage Securities, for the payment of its reasonable compensation and expenses and for indemnity. (Mortgage, Secs. 92 and 97; First Supplemental, Art. XXV)

Although its utility operations are conducted directly by Avista, all of the other operations of Avista are conducted through its subsidiaries. The lien of the Mortgage does not cover the assets of the subsidiaries or the securities of the subsidiaries held by Avista. Any right of Avista, as a shareholder, to receive assets of any of its direct or indirect subsidiaries upon such subsidiary s liquidation or reorganization (and the right of the Holders of the Bonds and other creditors of Avista to participate in those assets) is junior to the claims against such assets of that subsidiary s creditors. As a result, the obligations of Avista to the holders of the Bonds and other creditors are effectively subordinated in right of payment to all indebtedness and other liabilities and commitments (including trade payables and lease obligations) of Avista s direct and indirect subsidiaries.

Table of Contents

Maintenance

The Mortgage provides that Avista will cause (or, with respect to property owned in common with others, make reasonable effort to cause) the mortgaged property to be maintained and kept in good repair, working order and condition, and will cause (or, with respect to property owned in common with others, make reasonable effort to cause) to be made such repairs, renewals and replacements of the mortgaged property as, in Avista s sole judgment, may be necessary to operate the mortgaged property in accordance with common industry practice. Avista may discontinue, or cause or consent to the discontinuance of, the operation and maintenance of any of its properties if such discontinuance is, in the sole judgment of Avista, desirable in the conduct of its business. (Mortgage, Sec. 38)

Special Provisions for Retirement of Bonds

If, during any 12-month period, any of the mortgaged property is taken by eminent domain and/or sold to any governmental authority and/or sold pursuant to an order of a governmental authority, with the result that Avista receives $15,000,000 or more in cash or in principal amount of purchase money obligations, Avista is required to apply such cash and the proceeds of such obligations (subject to certain conditions and deductions, and to the extent not otherwise applied) to the redemption of Mortgage Securities which are, by their, terms, redeemable before maturity by the application of such cash and proceeds. (Mortgage, Sec. 64; Tenth Supplemental, Sec. 4)

Release and Substitution of Property

Unless Avista is in default in the payment of the interest on any Mortgage Securities then outstanding under the Mortgage, or a Completed Default shall have occurred and is continuing, Avista may obtain the release from the lien of the Mortgage of any mortgaged property upon the deposit of cash equal to the amount, if any, that the fair value of the property to be released exceeds the aggregate of:

(1) the principal amount of any obligations secured by purchase money mortgage upon the property released and delivered to the Mortgage Trustee;

(2) the cost or fair value (whichever is less) of property additions which do not constitute funded property, after certain deductions and additions;

(3) an amount equal to 10/7ths of the principal amount of Mortgage Securities that Avista would be entitled to issue on the basis of retired securities (with such entitlement being waived by operation of such release); and

(4) the principal amount of obligations secured by purchase money mortgage upon the property released, and/or an amount in cash delivered to the trustee or other holder of a lien prior to the lien of the Mortgage.

The use of obligations secured by purchase money mortgage as a credit in connection with the release of property, as described in clauses (1) and (4) above, is subject to the following limitations:

(1) the aggregate credit which may be used as described in clauses (1) and (4) above in respect of any property being released may not exceed 70% of the fair value of such property; and

(2) the aggregate principal amount of such obligations described in (1) and (4) above and all other obligations secured by purchase money mortgage delivered to the Mortgage Trustee pursuant to said clauses (1) and (4) and then held as part of the mortgaged property by the Mortgage Trustee or the trustee or other holder of a prior lien shall not exceed 40% of the aggregate principal amount of outstanding Mortgage Securities.

To the extent that property so released does not constitute funded property, the property additions used to effect the release will not, in certain cases, be deemed to constitute funded property, and the waiver of the right to issue Mortgage Securities to effect the release will, in certain cases, cease to be effective as such a waiver, all upon the satisfaction of certain conditions specified in the Mortgage. The Mortgage contains similar provisions as to cash proceeds of such property. The Mortgage also contains special provisions with respect to prior lien bonds pledged and disposition of moneys received on pledged bonds secured by a prior lien. (Mortgage, Secs. 5; 31, 32, 46 through 50, 59, 60, 61, 118 and 134)

Table of Contents

Modification

Modifications Without Consent

Avista and the Mortgage Trustee may enter into one or more supplemental indentures without the consent of any Holders for any of the following purposes:

- to evidence the succession of another corporation to Avista and the assumption by such successor of the covenants of Avista in the Mortgage and the Mortgage Securities;
- to add additional covenants of Avista and additional defaults, which may be applicable only to the Mortgage Securities of specified series;
- to correct the description of property subject to the lien of the Mortgage or to subject additional property to such lien;
- to change or eliminate any provision of the Mortgage or to add any new provision to the Mortgage; provided, that no such change, elimination or addition shall adversely affect the interests of the Holders in any material respect;
- to establish the form or terms of Mortgage Securities of any series;
- to provide for procedures to utilize a non-certificated system of registration for all or any series of Mortgage Securities;
- to change any place or places for payment, registration of transfer or exchange, or notices to and demands upon Avista, with respect to all or any series of Mortgage Securities;
- to increase or decrease the maximum principal amount of Mortgage Securities issuable under the Mortgage;
- to make any other changes which do not adversely affect interests of the Holders in any material respect; or
- to evidence any change required or permitted under the Trust Indenture Act.

(Mortgage, Sec. 120; Twenty-sixth Supplemental Indenture, Sec. 2; Twenty-ninth Supplemental Indenture, Article II)

Modification With Consent

In general, the Mortgage, the rights and obligations of Avista and the rights of the Holders may be modified with the consent of 60% in principal amount of the Mortgage Securities outstanding, and, if less than all series of Mortgage Securities are affected, the consent also of 60% in principal amount of the Mortgage Securities of each series affected. However, no modification of the terms of payment of principal or interest, and no modification affecting the lien or reducing the percentage required for modification, is effective against any Holder without its consent. (Mortgage, Art. XVIII, Sec. 149; First Supplemental, Sec. 10)

Satisfaction and Discharge

Mortgage Securities will be deemed to have been paid for purposes of satisfaction of the lien of the Mortgage if there shall have been irrevocably deposited with the Mortgage Trustee for the payment or redemption of such Mortgage

Securities:

money in an amount which will be sufficient,

Government Obligations, none of which shall contain provisions permitting the redemption thereof at the option of the issuer thereof, the principal of and the interest on which when due, and without regard to reinvestment thereof, will provide moneys which will be sufficient, or

a combination of money and Government Obligations which will be sufficient,

to pay when due the principal of, premium, if any, and interest due and to become due on all outstanding Mortgage Securities on the maturity date or redemption date of such Mortgage Securities. For this purpose, Government

Obligations   include direct obligations of the government of the United States or obligations guaranteed by the government of the United States. (Mortgage, Sec. 106)

The Mortgage Trustee may, and upon request of Avista shall, cancel and discharge the lien of the Mortgage and reconvey the Mortgaged Property to Avista whenever all indebtedness secured thereby has been paid.

The right of Avista to cause its entire indebtedness in respect of the Mortgage Securities of any series to be deemed to be satisfied and discharged as described above will be subject to the satisfaction of conditions specified in the instrument creating such series.

Completed Defaults

Any of the following events will constitute a   Completed Default   under the Mortgage:

- failure to pay principal of, or premium, if any, on any Mortgage Security when due;
- failure to pay interest on any Mortgage Security within sixty (60) days after the same becomes due;
- failure to pay interest on, or principal of, any qualified prior lien bonds beyond any grace period specified in the prior lien securing such prior lien bond;
- certain events relating to bankruptcy, insolvency or reorganization of Avista; and
- failure to perform, or breach of, any other covenants of Avista for a period of 90 days after notice to us from the Mortgage Trustee.

The Mortgage Trustee may withhold notice of default (except in payment of principal, interest or funds for retirement of Mortgage Securities) if it determines that it is in the interest of the Holders. (Mortgage, Secs. 44, 65 and 135)

Remedies

Acceleration of Maturity

If a Completed Default occurs and is continuing, the Mortgage Trustee may, and upon written request of the Holders of a majority in principal amount of Mortgage Securities then outstanding shall, declare the principal of, and accrued interest on, all outstanding Mortgage Securities immediately due and payable; provided, however, that the Holders of a majority in principal amount of outstanding Mortgage Securities may annul such declaration if before any sale of the mortgaged property:

- all agreements with respect to which default shall have been made shall be fully performed or otherwise cured; and
- all overdue interest and all reasonable expenses of the Mortgage Trustee, its agents and attorneys shall have been paid by Avista, except for the principal of any Mortgage Securities that would not have been due except for such acceleration. (Mortgage, Sec. 65)

Possession of Mortgaged Property

Under certain circumstances and to the extent permitted by law, if a Completed Default occurs and is continuing, the Mortgage Trustee has the power to take possession of, and to hold, operate and manage, the mortgaged property, or with or without entry, sell the mortgaged property. If the mortgaged property is sold, whether by the Mortgage Trustee or pursuant to judicial proceedings, the principal of the outstanding Mortgage Securities, if not previously due, will become immediately due. (Mortgage, Secs. 66, 67 and 71)

Right to Direct Proceedings

If a Completed Default occurs and is continuing, the Holders of a majority in principal amount of the Mortgage Securities then outstanding will have the right to direct the time, method and place of conducting any proceedings to be taken for any sale of the mortgaged property, the foreclosure of the Mortgage, or for the appointment of a receiver

or any other proceeding under the Mortgage, provided that such direction does not conflict with any rule of law or with the Mortgage. (Mortgage, Sec. 69)

No Impairment of Right to Receive Payment

Notwithstanding any other provision of the Mortgage, the right of any Holder to receive payment of the principal of and interest on such Mortgage Security, or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the consent of such Holder. (Mortgage, Sec. 148)

Notice of Default

No Holder may enforce the lien of the Mortgage unless such Holder shall have given the Mortgage Trustee written notice of a Completed Default and unless the Holders of 25% in principal amount of the Mortgage Securities have requested the Mortgage Trustee in writing to act and have offered the Mortgage Trustee adequate security and indemnity and a reasonable opportunity to act. (Mortgage, Sec. 79)

Remedies Limited by State Law

The laws of the various states in which the property subject to the lien of the Mortgage is located may limit or deny the ability of the Mortgage Trustee and/or the Holders to enforce certain rights and remedies provided in the Mortgage in accordance with their terms.

Concerning the Mortgage Trustee

The Mortgage Trustee has, and is subject to, all the duties and responsibilities specified with respect to an indenture trustee under the Trust Indenture Act. Subject to such provisions, the Mortgage Trustee is not under any obligation to take any action in respect of any default or otherwise, or toward the execution or enforcement of any of the trusts created by the Mortgage, or to institute, appear in or defend any suit or other proceeding in connection therewith, unless requested in writing so to do by the Holders of a majority in principal amount of the Mortgage Securities then outstanding. Anything in the Mortgage to the contrary notwithstanding, the Mortgage Trustee is under no obligation or duty to perform any act thereunder (other than the delivery of notices) or to institute or defend any suit in respect hereof, unless properly indemnified to its satisfaction. (Mortgage, Sec. 92)

The Mortgage Trustee may at any time resign and be discharged of the trusts created by the Mortgage by giving written notice to Avista and thereafter publishing notice thereof, specifying a date when such resignation shall take effect, as provided in the Mortgage, and such resignation shall take effect upon the day specified in such notice unless a successor trustee shall have previously been appointed by the Holders or Avista and in such event such resignation shall take effect immediately upon the appointment of such successor trustee. The Mortgage Trustee may be removed at any time by the Holders of a majority in principal amount of the Mortgage Securities then outstanding. (Mortgage, Secs. 100 and 101)

If Avista appoints a successor trustee and such successor trustee has accepted the appointment, the Mortgage Trustee will be deemed to have resigned as of the date of such successor trustee s acceptance. (Mortgage, Sec. 102)

Evidence of Compliance with Mortgage Provisions

Compliance with provisions of the Mortgage is evidenced by written statements of Avista s officers or persons selected or paid by Avista. In certain matters, statements must be made by an independent accountant or engineer. Various certificates and other papers are required to be filed annually and upon the happening of certain events, including an

annual certificate with reference to compliance with the terms of the Mortgage and absence of Completed Defaults.

DESCRIPTION OF THE NOTES

Avista may issue the Notes in one or more series, or in one or more tranches within a series. The terms of the Notes will include those stated in the Indenture and those made part of the Indenture by the Trust Indenture Act. The

Table of Contents

following summary is not complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Indenture and the Trust Indenture Act. The Notes, together with all other debt securities outstanding under the Indenture, are hereinafter called, collectively, the Indenture Securities . Avista has filed the Indenture, as well as a form of officer s certificate to establish a series of Notes, as exhibits to the registration statement of which this prospectus is a part. Capitalized terms used under this heading which are not otherwise defined in this prospectus have the meanings set forth in the Indenture. Wherever particular provisions of the Indenture or terms defined in the Indenture are referred to, those provisions or definitions are incorporated by reference as part of the statements made in this prospectus and those statements are qualified in their entirety by that reference. References to article and section numbers, unless otherwise indicated, are references to article and section numbers of the Indenture.

The applicable prospectus supplement or prospectus supplements will describe the following terms of the Notes of each series or tranche:

the title of the Notes;

any limit upon the aggregate principal amount of the Notes;

the date or dates on which the principal of the Notes is payable or the method of determination thereof and the right, if any, to extend such date or dates;

(a) the rate or rates at which the Notes will bear interest, if any, or the method by which such rate or rates, if any, will be determined, (b) the date or dates from which any such interest will accrue, (c) the interest payment dates on which any such interest will be payable, (d) the right, if any, of Avista to defer or extend an interest payment date, (e) the regular record date for any interest payable on any interest payment date and (f) the person or persons to whom interest on the Notes will be payable on any interest payment date, if other than the person or persons in whose names the Notes are registered at the close of business on the regular record date for such interest;

any period or periods within which, or date or dates on which, the price or prices at which and the terms and conditions upon which the Notes may be redeemed, in whole or in part, at the option of Avista;

(a) the obligation or obligations, if any, of Avista to redeem or purchase any of the Notes pursuant to any sinking fund or other mandatory redemption provisions or at the option of the Holder, (b) the period or periods within which, or date or dates on which, the price or prices at which and the terms and conditions upon which the Notes will be redeemed or purchased, in whole or in part, pursuant to such obligation, and (c) applicable exceptions to the requirements of a notice of redemption in the case of mandatory redemption or redemption at the option of the Holder;

the denominations in which any of the Notes will be issuable if other than denominations of $1,000 and any integral multiple of $1,000;

if the Notes are to be issued in global form, the identity of the depositary;

the terms, if any, upon which the Notes may be converted into other securities of Avista; and

any other terms of the Notes.

Payment and Paying Agents

Except as may be provided in the applicable prospectus supplement, Avista will pay interest, if any, on each Note on each interest payment date to the person in whose name such Note is registered (for the purposes of this section of the prospectus, the registered holder of any Indenture Security is herein referred to as a Holder) as of the close of business on the regular record date relating to such interest payment date; *provided, however*, that Avista will pay interest at maturity (whether at stated maturity, upon redemption or otherwise, Maturity) to the person to whom principal is paid. However, if there has been a default in the payment of interest on any Note, such defaulted interest may be payable to the Holder of such Note as of the close of business on a date selected by the Indenture Trustee which is not more than 30 days and not less than 10 days before the date proposed by Avista for payment of such defaulted interest or in any other lawful manner not inconsistent with the requirements of any securities

exchange on which such Note may be listed, if the Indenture Trustee deems such manner of payment practicable. (Indenture, Sec. 307)

Unless otherwise specified in the applicable prospectus supplement, Avista will pay the principal of and premium, if any, and interest, if any, on the Notes at Maturity upon presentation of the Notes at the corporate trust office of The Bank of New York in New York, New York, as paying agent for Avista. Avista may change the place of payment of the Notes, may appoint one or more additional paying agents (including Avista) and may remove any paying agent, all at its discretion. (Indenture, Sec. 502)

Registration; Registration of Transfer

The Notes will be issued only in fully registered form. The registered Holder of a Note will be treated as the owner of the Note for all purposes under the Indenture. Only registered Holders will have rights under the Indenture. (Indenture, Sec. 308)

Unless otherwise specified in the applicable prospectus supplement, Holders may register the transfer of Notes, and may exchange Notes for other Notes of the same series and tranche, of authorized denominations and having the same terms and aggregate principal amount, at the corporate trust office of The Bank of New York in New York, New York, as security registrar for the Notes. Avista may change the place for registration of transfer and exchange of the Notes, may appoint one or more additional security registrars (including Avista) and may remove any security registrar, all at its discretion. (Indenture, Sec. 502)

Except as otherwise provided in the applicable prospectus supplement, no service charge will be made for any transfer or exchange of the Notes, but Avista may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of the Notes. Avista will not be required to execute or to provide for the registration of transfer or the exchange of (a) any Note during a period of 15 days before giving any notice of redemption or (b) any Note selected for redemption in whole or in part, except the unredeemed portion of any Note being redeemed in part. (Indenture, Sec. 305)

Redemption

The applicable prospectus supplement will set forth any terms for the optional or mandatory redemption of Notes. Except as otherwise provided in the applicable prospectus supplement with respect to Notes redeemable at the option of the Holder, Notes will be redeemable by Avista only upon notice by mail not less than 30 nor more than 60 days before the date fixed for redemption. If less than all the Notes of a series, or any tranche thereof, are to be redeemed by Avista, the particular Notes to be redeemed will be selected by such method as shall be provided for such series or tranche, or in the absence of any such provision, by such method of random selection as the Security Registrar deems fair and appropriate. (Indenture, Secs. 403 and 404)

Any notice of redemption at the option of Avista may state that such redemption will be conditional upon receipt by the paying agent or agents, on or before the date fixed for such redemption, of money sufficient to pay the principal of and premium, if any, and interest, if any, on such Notes and that if such money has not been so received, such notice will be of no force or effect and Avista will not be required to redeem such Notes. (Indenture, Sec. 404)

Unsecured Obligations; Structural Subordination

The Indenture is not a mortgage or other lien on assets of Avista or its subsidiaries. In addition to the Notes, other debt securities may be issued under the Indenture, without any limit on the aggregate principal amount. Each series of Indenture Securities will be unsecured and will rank pari passu with all other series of Indenture Securities, except as

otherwise provided in the Indenture, and with all other unsecured and unsubordinated indebtedness of Avista Except as otherwise described in the applicable prospectus supplement, the Indenture does not limit the incurrence or issuance by Avista of other secured or unsecured debt, whether under the Indenture, under any other indenture that Avista may enter into in the future or otherwise.

Although its utility operations are conducted directly by Avista, all of the other operations of Avista are conducted through its subsidiaries. Any right of Avista, as a shareholder, to receive assets of any of its direct or indirect subsidiaries upon the subsidiary s liquidation or reorganization (and the right of the Holders and other

creditors of Avista to participate in those assets) is junior to the claims against such assets of that subsidiary s creditors. As a result, the obligations of Avista to the Holders and other creditors are effectively subordinated in right of payment to all indebtedness and other liabilities and commitments (including trade payables and lease obligations) of Avista s direct and indirect subsidiaries.

Satisfaction and Discharge

Any Indenture Securities, or any portion of the principal amount thereof, will be deemed to have been paid for purposes of the Indenture and, at Avista s election, the entire indebtedness of Avista in respect thereof will be deemed to have been satisfied and discharged, if there shall have been irrevocably deposited in trust with the Indenture Trustee or any paying agent (other than Avista):

money in an amount which will be sufficient, or

in the case of a deposit made before the maturity of such Indenture Securities, Eligible Obligations, which do not contain provisions permitting the redemption or other prepayment thereof at the option of the issuer thereof, the principal of and the interest on which when due, without any regard to reinvestment thereof, will provide moneys which, together with the money, if any, deposited with or held by the Indenture Trustee or such Paying Agent, will be sufficient, or

a combination of money and Eligible Obligations which will be sufficient,

to pay when due the principal of and premium, if any, and interest, if any, due and to become due on such Indenture Securities. For this purpose, Eligible Obligations include direct obligations of, or obligations unconditionally guaranteed by, the United States, entitled to the benefit of the full faith and credit thereof and certificates, depositary receipts or other instruments which evidence a direct ownership interest in such obligations or in any specific interest or principal payments due in respect thereof and such other obligations or instruments as shall be specified in an accompanying prospectus supplement. (Indenture, Sec. 601)

The right of Avista to cause its entire indebtedness in respect of the Indenture Securities of any series to be deemed to be satisfied and discharged as described above will be subject to the satisfaction of conditions specified in the instrument creating such series.

The Indenture will be deemed to have been satisfied and discharged when no Indenture Securities remain outstanding thereunder and Avista has paid or caused to be paid all other sums payable by Avista under the Indenture. (Indenture, Sec. 602)

Events of Default

Any one or more of the following events with respect to a series of Indenture Securities that has occurred and is continuing will constitute an Event of Default with respect to such series of Indenture Securities:

failure to pay interest on any Indenture Security of such series within 60 days after the same becomes due and payable; *provided, however*, that no such failure shall constitute an Event of Default if Avista has made a valid extension of the interest payment period with respect to the Indenture Securities of such series if so provided with respect to such series;

failure to pay the principal of or premium, if any, on any Indenture Security of such series within 3 business days after its Maturity; *provided, however*, that no such failure will constitute an Event of Default if Avista has

made a valid extension of the Maturity of the Indenture Securities of such series, if so provided with respect to such series;

failure to perform, or breach of, any covenant or warranty of Avista contained in the Indenture for 90 days after written notice to Avista from the Indenture Trustee or to Avista and the Indenture Trustee by the Holders of at least 25% in principal amount of the outstanding Indenture Securities of such series as provided in the Indenture unless the Indenture Trustee, or the Indenture Trustee and the Holders of a principal amount of Indenture Securities of such series not less than the principal amount of Indenture Securities the Holders of which gave such notice, as the case may be, agree in writing to an extension of such period before its

expiration; *provided, however*, that the Indenture Trustee, or the Indenture Trustee and the Holders of such principal amount of Indenture Securities of such series, as the case may be, will be deemed to have agreed to an extension of such period if corrective action is initiated by Avista within such period and is being diligently pursued;

default under any bond, debenture, note or other evidence of indebtedness of Avista for borrowed money (including Indenture Securities of other series) or under any mortgage, indenture, or other instrument to evidence any indebtedness of Avista for borrowed money, which default (1) constitutes a failure to make any payment in excess of $5,000,000 of the principal of, or interest on, such indebtedness or (2) has resulted in such indebtedness in an amount in excess of $10,000,000 becoming or being declared due and payable prior to the date it would otherwise have become due and payable, without such payment having been made, such indebtedness having been discharged, or such acceleration having been rescinded or annulled, within a period of 90 days after written notice to Avista by the Indenture Trustee or to Avista and the Indenture Trustee by the Holders of at least 25% in principal amount of the outstanding Securities of such series as provided in the Indenture; or

certain events in bankruptcy, insolvency or reorganization of Avista (Indenture, Sec. 701).

Remedies

Acceleration of Maturity

If an Event of Default applicable to the Indenture Securities of any series occurs and is continuing, then either the Indenture Trustee or the Holders of not less than 33% in aggregate principal amount of the outstanding Indenture Securities of such series may declare the principal amount (or, if any of the outstanding Indenture Securities of such series are Discount Securities, such portion of the principal amount thereof as may be specified in the terms thereof) of all of the outstanding Indenture Securities of such series to be due and payable immediately by written notice to Avista (and to the Indenture Trustee if given by the Holders); *provided, however*, that if an Event of Default occurs and is continuing with respect to more than one series of Indenture Securities, the Indenture Trustee or the Holders of not less than 33% in aggregate principal amount of the outstanding Indenture Securities of all such series, considered as one class, may make such declaration of acceleration and not the Holders of any one such series.

At any time after such a declaration of acceleration with respect to the Indenture Securities of any series has been made, but before a judgment or decree for payment of the money due has been obtained, such declaration and its consequences will, without further act, be deemed to have been rescinded and annulled, if:

Avista has paid or deposited with the Indenture Trustee a sum sufficient to pay

all overdue interest, if any, on all Indenture Securities of such series;

the principal of and premium, if any, on any Indenture Securities of such series which have become due otherwise than by such declaration of acceleration and interest, if any, thereon at the rate or rates prescribed therefor in such Indenture Securities;

interest, if any, upon overdue interest, if any, at the rate or rates prescribed therefor in such Indenture Securities, to the extent that payment of such interest is lawful; and

all amounts due to the Indenture Trustee under the Indenture in respect of compensation and reimbursement of expenses; and

all Events of Default with respect to Indenture Securities of such series, other than the non-payment of the principal of the Indenture Securities of such series which has become due solely by such declaration of acceleration, have been cured or waived as provided in the Indenture. (Indenture, Sec. 702)

Right to Direct Proceedings

If an Event of Default with respect to the Indenture Securities of any series occurs and is continuing, the Holders of a majority in principal amount of the outstanding Indenture Securities of such series will have the right to direct the time, method and place of conducting any proceedings for any remedy available to the Indenture Trustee

in exercising any trust or power conferred on the Indenture Trustee; *provided, however*, that if an Event of Default occurs and is continuing with respect to more than one series of Indenture Securities, the Holders of a majority in aggregate principal amount of the outstanding Indenture Securities of all such series, considered as one class, will have the right to make such direction, and not the Holders of any one of such series; and *provided, further*, that (a) such direction does not conflict with any rule of law or with the Indenture, and could not involve the Indenture Trustee in personal liability in circumstances where indemnity would not, in the Indenture Trustee s sole discretion, be adequate and (b) the Indenture Trustee may take any other action deemed proper by the Indenture Trustee which is not inconsistent with such direction. (Indenture, Sec. 712)

Limitation on Right to Institute Proceedings

No Holder will have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture or for the appointment of a receiver or for any other remedy thereunder unless:

- such Holder has previously given to the Indenture Trustee written notice of a continuing Event of Default with respect to the Indenture Securities of any one or more series;

- the Holders of a majority in aggregate principal amount of the outstanding Indenture Securities of all series in respect of which such Event of Default has occurred, considered as one class, have made written request to the Indenture Trustee to institute proceedings in respect of such Event of Default and have offered the Indenture Trustee reasonable indemnity against costs and liabilities to be incurred in complying with such request; and

- for 60 days after receipt of such notice, the Indenture Trustee has failed to institute any such proceeding and no direction inconsistent with such request has been given to the Indenture Trustee during such 60 day period by the Holders of a majority in aggregate principal amount of Indenture Securities then outstanding.

Furthermore, no Holder of any series of Indenture Securities will be entitled to institute any such action if and to the extent that such action would disturb or prejudice the rights of other Holders of such series. (Indenture, Sec. 707)

No Impairment of Right to Receive Payment

Notwithstanding that the right of a Holder to institute a proceeding with respect to the Indenture is subject to certain conditions precedent, each Holder will have the right, which is absolute and unconditional, to receive payment of the principal of and premium, if any, and interest, if any, on such Indenture Security when due and to institute suit for the enforcement of any such payment. Such rights may not be impaired or affected without the consent of such Holder. (Indenture, Sec. 708)

Notice of Default

The Indenture Trustee is required to give the Holders notice of any default under the Indenture to the extent required by the Trust Indenture Act, unless such default shall have been cured or waived, except that no such notice to Holders of a default of the character described in the third bulleted paragraph under Events of Default may be given until at least 75 days after the occurrence thereof. For purposes of the preceding sentence, the term default means any event which is, or after notice or lapse of time, or both, would become, an Event of Default. The Trust Indenture Act currently permits the Indenture Trustee to withhold notices of default (except for certain payment defaults) if the Indenture Trustee in good faith determines the withholding of such notice to be in the interests of the Holders. (Indenture, Sec. 802)

Consolidation, Merger, Sale of Assets and Other Transactions

Avista may not consolidate with or merge into any other Person, or convey or otherwise transfer, or lease, all of its properties, as or substantially as an entirety, to any Person, unless:

the Person formed by such consolidation or into which Avista is merged or the Person which acquires by conveyance or other transfer, or which leases (for a term extending beyond the last Stated Maturity of the

Table of Contents

Indenture Securities then outstanding), all of the properties of Avista, as or substantially as an entirety, shall be a Person organized and existing under the laws of the United States, any State or Territory thereof or the District of Columbia or under the laws of Canada or any Province thereof; and

such Person shall expressly assume the due and punctual payment of the principal of and premium, if any, and interest, if any, on all the Indenture Securities then outstanding and the performance and observance of every covenant and condition of the Indenture to be performed or observed by Avista.

In the case of the conveyance or other transfer of all of the properties of Avista, as or substantially as an entirety, to any person as contemplated above, Avista would be released and discharged from all obligations under the Indenture and on all Indenture Securities then outstanding unless Avista elects to waive such release and discharge. Upon any such consolidation or merger or any such conveyance or other transfer of properties of Avista, the successor, transferee or lessee would succeed to, and be substituted for, and would be entitled to exercise every power and right of, Avista under the Indenture. (Indenture, Secs. 1001, 1002 and 1003)

For purposes of the Indenture, the conveyance, transfer or lease by Avista of all of its facilities (a) for the generation of electric energy, (b) for the transmission of electric energy, (c) for the distribution of electric energy and/or natural gas, in each case considered alone, (d) all of its facilities described in clauses (a) and (b), considered together, or (e) all of its facilities described in clauses (b) and (c), considered together, will in no event be deemed to constitute a conveyance or other transfer of all the properties of Avista, as or substantially as an entirety, unless, immediately following such conveyance, transfer or lease, Avista owns no unleased properties in the other such categories of property not so conveyed or otherwise transferred or leased.

The Indenture will not prevent or restrict:

any consolidation or merger after the consummation of which Avista would be the surviving or resulting entity; or

any conveyance or other transfer, or lease, of any part of the properties of Avista which does not constitute the entirety, or substantially the entirety, thereof. (Indenture, Sec. 1004)

If Avista conveys or otherwise transfers any part of its properties which does not constitute the entirety, or substantially the entirety, thereof to another Person meeting the requirements set forth in the first paragraph under this heading, and if:

such transferee expressly assumes the due and punctual payment of the principal of and premium, if any, and interest, if any, on all Indenture Securities then outstanding and the performance and observance of every covenant and condition of the Indenture to be performed or observed by Avista; and

there is delivered to the Indenture Trustee an independent expert s certificate (i) describing the property so conveyed or transferred and identifying the same as facilities for the generation, transmission or distribution of electric energy or for the storage, transportation or distribution of natural gas and (ii) stating that the aggregate principal amount of the Indenture Securities then outstanding does not exceed 70% of the fair value of such property,

then Avista would be released and discharged from all obligations and covenants under the Indenture and on all Indenture Securities then outstanding unless Avista elects to waive such release and discharge. In such event, the transferee would succeed to, and be substituted for, and would be entitled to exercise every right and power of, Avista under the Indenture. (Indenture, Sec. 1005)

Modification of Indenture

Modifications Without Consent

Avista and the Indenture Trustee may enter into one or more supplemental indentures, without the consent of any Holders, for any of the following purposes:

to evidence the succession of another Person to Avista and the assumption by any such successor of the covenants of Avista in the Indenture and in the Indenture Securities;

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to add one or more covenants of Avista or other provisions for the benefit of all Holders or for the benefit of the Holders of, or to remain in effect only so long as there shall be outstanding, Indenture Securities of one or more specified series, or one or more tranches thereof, or to surrender any right or power conferred upon Avista by the Indenture;

to change or eliminate any provisions of the Indenture or to add any new provisions to the Indenture, provided that if such change, elimination or addition adversely affects the interests of the Holders of the Indenture Securities of any series or tranche in any material respect, such change, elimination or addition will become effective with respect to such series or tranche only when no Indenture Security of such series or tranche remains outstanding;

to provide collateral security for the Indenture Securities or any series thereof;

to establish the form or terms of the Indenture Securities of any series or tranche as permitted by the Indenture;

to provide for the authentication and delivery of bearer securities and coupons appertaining thereto representing interest, if any, thereon and for the procedures for the registration, exchange and replacement thereof and for the giving of notice to, and the solicitation of the vote or consent of, the Holders thereof, and for any and all other matters incidental thereto;

to evidence and provide for the acceptance of appointment by a successor trustee with respect to the Indenture Securities of one or more series;

to provide for the procedures required to permit the utilization of a non-certificated system of registration for all, or any series or tranche of, the Indenture Securities; or

to change any place or places where (a) the principal of and premium, if any, and interest, if any, on all or any series of Indenture Securities, or any tranche thereof, will be payable, (b) all or any series of Indenture Securities, or any tranche thereof, may be surrendered for registration of transfer, (c) all or any series of Indenture Securities, or any tranche thereof, may be surrendered for exchange and (d) notices and demands to or upon Avista in respect of all or any series of Indenture Securities, or any tranche thereof, and the Indenture may be served; or

to cure any ambiguity, to correct or supplement any provision therein which may be defective or inconsistent with any other provision therein, to make any other changes to the provisions thereof or to add any other provisions with respect to matters and questions arising under the Indenture, so long as such other changes or additions do not adversely affect the interests of the Holders of any series or tranche in any material respect.

Without limiting the generality of the foregoing, if the Trust Indenture Act is amended after the date of the Original Indenture in such a way as to require changes to the Indenture or the incorporation therein of additional provisions or so as to permit changes to, or the elimination of, provisions which, at the date of the Original Indenture or at any time thereafter, were required by the Trust Indenture Act to be contained in the Indenture, the Indenture will be deemed to have been amended so as to conform to such amendment or to effect such changes or elimination, and Avista and the Indenture Trustee may, without the consent of any Holders, enter into one or more supplemental indentures to evidence or effect such amendment. (Indenture, Sec. 1101)

Modifications Requiring Consent

Except as provided above, the consent of the Holders of a majority in aggregate principal amount of the Indenture Securities of all series then outstanding, considered as one class is required for the purpose of adding any provisions to, or changing in any manner, or eliminating any of the provisions of, the Indenture pursuant to one or more supplemental indentures; *provided, however*, that if less than all of the series of Indenture Securities outstanding are directly affected by a proposed supplemental indenture, then the consent only of the Holders of a majority in aggregate principal amount of outstanding Indenture Securities of all series so directly affected, considered as one class, will be required; and *provided, further*, that if the Indenture Securities of any series have been issued in more than one tranche and if the proposed supplemental indenture directly affects the rights of the Holders of one or more, but less than all, of such tranches, then the consent only of the Holders of a majority in

Table of Contents

aggregate principal amount of the outstanding Indenture Securities of all tranches so directly affected, considered as one class, will be required; and *provided, further*, that no such amendment or modification may:

change the Stated Maturity of the principal of, or any installment of principal of or interest on, any Indenture Security other than pursuant to the terms thereof, or reduce the principal amount thereof or the rate of interest thereon (or the amount of any installment of interest thereon) or change the method of calculating such rate or reduce any premium payable upon the redemption thereof, or reduce the amount of the principal of any Discount Security that would be due and payable upon a declaration of acceleration of Maturity or change the coin or currency (or other property) in which any Indenture Security or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity of any Indenture Security (or, in the case of redemption, on or after the redemption date) without, in any such case, the consent of the Holder of such Indenture Security;

reduce the percentage in principal amount of the outstanding Indenture Securities of any series, or any tranche thereof, the consent of the Holders of which is required for any such supplemental indenture, or the consent of the Holders of which is required for any waiver of compliance with any provision of the Indenture or of any default thereunder and its consequences;

reduce the requirements for quorum or voting, without, in any such case, the consent of the Holder of each outstanding Indenture Security of such series or tranche; or

modify certain of the provisions of the Indenture relating to supplemental indentures, waivers of certain covenants and waivers of past defaults with respect to the Indenture Securities of any series, or any tranche thereof, without the consent of the Holder of each outstanding Indenture Security of such series or tranche.

A supplemental indenture which changes or eliminates any covenant or other provision of the Indenture which has expressly been included solely for the benefit of the Holders of, or which is to remain in effect only so long as there shall be outstanding, Indenture Securities of one or more specified series, or one or more tranches thereof, or modifies the rights of the Holders of such series or tranche with respect to such covenant or other provision, will be deemed not to affect the rights under the Indenture of the Holders of any other series or tranche.

If the supplemental indenture or other document establishing any series or tranche of Indenture Securities so provides, and as specified in the applicable prospectus supplement and/or pricing supplement, the Holders of such Indenture Securities will be deemed to have consented, by virtue of their purchase of such Indenture Securities, to a supplemental indenture containing the additions, changes or eliminations to or from the Indenture which are specified in such supplemental indenture or other document. No Act of such Holders will be required to evidence such consent and such consent may be counted in the determination of whether the Holders of the requested principal amount of Indenture Securities have consented to such supplemental indenture. (Indenture, Sec. 1102)

Duties of the Indenture Trustee; Resignation; Removal

The Indenture Trustee will have, and will be subject to, all the duties and responsibilities specified with respect to an indenture trustee under the Trust Indenture Act. Subject to such provisions, the Indenture Trustee will be under no obligation to exercise any of the powers vested in it by the Indenture at the request of any Holder, unless such Holder offers it reasonable indemnity against the costs, expenses and liabilities which might be incurred thereby. The Indenture Trustee will not be required to expend or risk its own funds or otherwise incur personal financial liability in the performance of its duties if the Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it. (Indenture, Secs. 801 and 803)

The Indenture Trustee may resign at any time with respect to the Indenture Securities of one or more series by giving written notice thereof to Avista or may be removed at any time with respect to the Indenture Securities of one or more series by Act of the Holders of a majority in principal amount of the outstanding Indenture Securities of such series delivered to the Indenture Trustee and Avista. No resignation or removal of the Indenture Trustee and no appointment of a successor trustee will become effective until the acceptance of appointment by a successor trustee in accordance with the requirements of the Indenture. So long as no Event of Default or event which, after notice or lapse of time, or both, would become an Event of Default has occurred and is continuing, if Avista has delivered to the Indenture Trustee with respect to one or more series a resolution of its Board of Directors appointing a successor

trustee with respect to that or those series and such successor has accepted such appointment in accordance with the terms of the Indenture, the Indenture Trustee with respect to that or those series will be deemed to have resigned and the successor will be deemed to have been appointed as trustee in accordance with the Indenture. (Indenture, Sec. 810)

Evidence of Compliance

Compliance with the Indenture provisions is evidenced by written statements of Avista officers or persons selected or paid by Avista. In certain cases, Avista must furnish opinions of counsel and certifications of an engineer, appraiser or other expert (who in some cases must be independent). In addition, the Indenture requires that Avista give the Indenture Trustee, not less than annually, a brief statement as to Avista s compliance with the conditions and covenants under the Indenture.

Governing Law

The Indenture and the Indenture Securities will be governed by and construed in accordance with the laws of the State of New York, except to the extent that the Trust Indenture Act shall be applicable.

DESCRIPTION OF PREFERRED STOCK

General

The authorized capital stock of Avista Corporation, as set forth in its Restated Articles of Incorporation, as amended (Avista Articles), consists of 10,000,000 shares of Preferred Stock, cumulative, without nominal or par value, which is issuable in series, and 200,000,000 shares of Common Stock, without nominal or par value, together with attached preferred share purchase rights. Following is a brief description of certain of the rights and privileges of the Preferred Stock.

Avista may issue shares of New Preferred Stock in one or more additional series. The terms of the New Preferred Stock will include those stated in the Avista Articles and in Avista s Bylaws (Avista Bylaws) and those made applicable thereto by the Washington Business Corporation Act (the Washington BCA). The following summary is not complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Avista Articles, the Avista Bylaws and the Washington BCA. Avista has filed the Avista Articles, as well as a form of amendment thereto to establish a series of New Preferred Stock, and the Avista Bylaws as exhibits to the registration statement of which this prospectus is a part. Whenever particular provisions of the Avista Articles or the Avista Bylaws are referred to, those provisions are incorporated by reference as part of the statements made in this prospectus and those statements are qualified in their entirety by that reference.

The Avista Articles provide that the Preferred Stock may be divided into and issued from time to time in one or more series. All shares of Preferred Stock constitute one and the same class of stock, are of equal rank and will otherwise be identical except as to the designation thereof, the date or dates from which dividends on shares thereof will be cumulative, and except that each series may vary as to, and the applicable prospectus supplement will describe:

- the rate or rates of dividends, if any, which may be expressed in terms of a formula or other method by which such rate or rates will be calculated from time to time, and the date or dates on which dividends may be payable,

- whether shares may be redeemed and, if so, the redemption price and terms and conditions of redemption,

- the amount payable on voluntary and involuntary liquidation,

sinking fund provisions, if any, for the redemption or purchase of shares, and

the terms and conditions, if any, on which shares may be converted.

When Preferred Stock is initially issued, the number of shares constituting such series, its distinguishing serial designation and its particular characteristics (insofar as there may be variations between series) may be fixed by resolution of the Board of Directors.

Dividend Rights

The New Preferred Stock of each series will be entitled, on a parity with each other series of Preferred Stock and in preference to the Common Stock, to receive, but only when and as declared by the Board of Directors, dividends at the rate determined for such series and set forth in the applicable prospectus supplement. Such dividends will be cumulative from the date of issuance of the New Preferred Stock and will be payable on the fifteenth day of March, June, September and December in each year, except as otherwise provided in the applicable prospectus supplement.

Liquidation Rights

The New Preferred Stock of each series will be entitled, upon dissolution or liquidation, on a parity with each other series of Preferred Stock and in preference to the Common Stock, to a liquidation preference per share determined for such series plus an amount equivalent to accrued and unpaid dividends thereon, if any, to the date of such event. The liquidation preference of each series of New Preferred Stock will be set forth in the applicable prospectus supplement.

Voting Rights

Except for those purposes for which the right to vote is expressly conferred by the Avista Articles or the Washington BCA, the holders of Preferred Stock have no power to vote.

Under the Avista Articles, whenever and as often as, at any date, dividends payable on any shares of Preferred Stock (including any New Preferred Stock) shall be in arrears in an amount equal to the aggregate amount of dividends accumulated on such shares over the eighteen (18) month period ended on such date, the holders of the Preferred Stock, voting separately and as a single class, are entitled to elect a majority of the Board of Directors, and the holders of the Common Stock, voting separately and as a single class, shall be entitled to elect the remaining directors. Such voting rights of the holders of the Preferred Stock cease when all defaults in the payment of dividends on the Preferred Stock of any and all series have been cured.

In addition, under the Avista Articles the affirmative vote of the holders of at least a majority of the shares of the Preferred Stock is required:

(a) for the adoption of any amendment of the Avista Articles which would: (i) create or authorize any new class of stock ranking prior to or on a parity with the Preferred Stock as to dividends or upon dissolution, liquidation or winding up; (ii) increase the authorized number of shares of the Preferred Stock; or (iii) change any of the rights or preferences of the Preferred Stock at the time outstanding, provided that if any such change would affect the holders of less than the Preferred Stock of all series then outstanding, only the affirmative vote of the holders of at least a majority of the shares of all series so affected is required; and

(b) for the issuance of Preferred Stock, or of any other class of stock ranking prior to or on a parity with such Preferred Stock as to dividends or upon dissolution, liquidation or winding up, unless the net income of Avista available for the payment of dividends for a period of 12 consecutive calendar months within the 15 calendar months immediately preceding the issuance of such shares is at least equal to one and one-half times the annual dividend requirements on shares of Preferred Stock and on all shares of all other classes of stock ranking prior to or on a parity with the Preferred Stock as to dividends or upon dissolution, liquidation or winding up, which will be outstanding immediately

after the issuance of such shares, including the shares proposed to be issued; *provided, however*, that if the shares of Preferred Stock or any such prior or parity stock shall have a variable dividend rate, the annual dividend requirement of such shares shall be determined by reference to the weighted average dividend rate on such shares during the 12-month period for which the net income of Avista available for the payment of dividends shall have been determined; and *provided, further*, that

if the shares of the series to be issued are to have a variable dividend rate, the annual dividend requirement on such shares shall be determined by reference to the initial dividend rate upon the issuance of such shares.

Under the Washington BCA, a vote of the holders of a majority of the outstanding shares of Preferred Stock is required in connection with certain changes in the capital structure of Avista or in certain rights and preferences of the Preferred Stock, including certain of the changes described in (a) above. In addition, the Washington BCA requires the approval of certain mergers, share exchanges (but not the Share Exchange presently contemplated) and other major corporate transactions by the holders of two-thirds of the outstanding Preferred Stock.

Pre-emptive Rights

No holder of Preferred Stock has any pre-emptive rights.

Miscellaneous

The Avista Articles contain no restriction on the redemption or repurchase by Avista of shares of Preferred Stock while there is any arrearage in the payment of dividends on, or sinking fund payments in respect of, the Preferred Stock.

Upon issuance as contemplated by this prospectus and the applicable prospectus supplement, the New Preferred Stock will be fully paid and nonassessable. The holders of the New Preferred Stock will not be subject to liability for further calls or assessment by, or for liabilities of, Avista.

DESCRIPTION OF COMMON STOCK

General

The authorized capital stock of Avista, as set forth in its Restated Articles of Incorporation, as amended, consists of 10,000,000 shares of Preferred Stock, cumulative, without nominal or par value, which is issuable in series, and 200,000,000 shares of Common Stock without nominal or par value, together with attached preferred share purchase rights. Following is a brief description of certain of the rights and privileges of the Common Stock.

Avista may issue additional shares of its Common Stock from time to time. The terms of the Common Stock include those stated in the Avista Articles and the Avista Bylaws and those made applicable thereto by the Washington BCA. The following summary is not complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Avista Articles, the Avista Bylaws and the Washington BCA. Avista has filed the Avista Articles and the Avista Bylaws as exhibits to the registration statement of which this prospectus forms a part. Whenever particular provisions of the Avista Articles or the Avista Bylaws are referred to, those provisions are incorporated as part of the statements made in this prospectus and those statements are qualified in their entirety by that reference.

Dividend Rights

After full provision for all Preferred Stock dividends declared or in arrears, the holders of Common Stock are entitled to receive such dividends as may be lawfully declared from time to time by Avista s Board of Directors.

The Indenture, dated as of April 3, 2001, between Avista and The Bank of New York, as successor trustee, under which $272,860,000 of senior unsecured notes were outstanding as of November 30, 2006, contains restrictions on the payment of dividends. So long as there is no default under the Indenture, Avista does not expect these restrictions to

limit its ability to pay dividends on its capital stock. These notes mature on June 1, 2008.

Voting Rights

The holders of the Common Stock have sole voting power, except as indicated below or as otherwise provided by law. Each holder of Common Stock is entitled to one vote per share, except that, in the election of directors, each holder has cumulative voting rights by which such holder is entitled to that number of votes which is equal to the

Table of Contents

number of directors to be elected multiplied by the number of shares held. These votes may all be cast for a single nominee for director or may be distributed among any two or more nominees.

Under the Avista Articles, whenever and as often as, at any date, dividends payable on any shares of Preferred Stock (including any New Preferred Stock) shall be in arrears in an amount equal to the aggregate amount of dividends accumulated on such shares of Preferred Stock over the eighteen (18) month period ended on such date, the holders of the Preferred Stock, voting separately and as a single class, are entitled to elect a majority of the Board of Directors, and the holders of the Common Stock, voting separately and as a single class, will be entitled to elect the remaining directors. Such voting rights of the holders of the Preferred Stock cease when all defaults in the payment of dividends on the Preferred Stock have been cured.

In addition, the consent of various proportions of the Preferred Stock at the time outstanding is required to adopt any amendment to the Articles which would authorize any new class of stock ranking prior to or on a parity with the Preferred Stock as to certain matters, to increase the authorized number of shares of the Preferred Stock, to change any of the rights or preferences of outstanding Preferred Stock or to issue additional shares of Preferred Stock unless an earnings test is satisfied.

Classified Board of Directors

Both the Avista Articles and the Avista Bylaws provide for a Board of Directors divided into three classes. Each director of a class will generally serve for a term of three years, with only one class of directors being elected in each year. The classification of the Board of Directors reduces the impact of cumulative voting rights.

The Avista Articles and Avista Bylaws also generally provide that directors may be removed only for cause and only by the affirmative vote of the holders of at least a majority of the outstanding shares of Common Stock. The Avista Articles and Avista Bylaws further require an affirmative vote of the holders of at least 80% of the outstanding shares of Common Stock to alter, amend or repeal the provisions relating to the classification of the Board of Directors and the removal of members from, and the filling of vacancies on, the Board of Directors.

Fair Price Provision

The Avista Articles contain a fair price provision which requires the affirmative vote of the holders of at least 80% of the outstanding shares of Common Stock for the consummation of certain business combinations, including mergers, consolidations, recapitalizations, certain dispositions of assets, certain issuances of securities, liquidations and dissolutions involving Avista and a person or entity who is or, under certain circumstances, was, a beneficial owner of 10% or more of the outstanding shares of Common Stock (an Interested Shareholder) unless

- such business combination shall have been approved by a majority of the directors unaffiliated with the Interested Shareholder, or

- certain minimum price and procedural requirements are met. The Avista Articles provide that the fair price provision may be altered, amended or repealed only by the affirmative vote of the holders of at least 80% of the outstanding shares of Common Stock.

Preferred Share Purchase Rights

General

Reference is made to the Rights Agreement, dated as of November 15, 1999 (the Rights Agreement) between Avista and The Bank of New York, as Rights Agent, filed with the SEC. The following statements are qualified in their entireties by such reference.

On November 12, 1999, the Avista Board of Directors authorized the Rights Agreement to replace the then-existing rights plan which expired on February 16, 2000. Under the Rights Agreement, Avista granted one preferred share purchase right (a Right) on each outstanding share of Common Stock to holders of Common Stock outstanding on February 15, 2000 or issued thereafter. The description and terms of Rights are set forth in the Rights Agreement.

Table of Contents

Each Right entitles the registered holder, subject to regulatory approvals and other specified conditions, to purchase one one-hundredth of a share of Preferred Stock at a purchase price of $70.00 (the Purchase Price). The Rights are exercisable only if a person or group

acquires beneficial ownership of 10% or more of the outstanding shares of Common Stock, or

commences a tender or exchange offer, the consummation of which would result in the beneficial ownership by a person or group of 10% or more of the outstanding shares of Common Stock.

Until that time, the Rights are evidenced by and trade with the shares of Common Stock. Each right was originally scheduled to expire on March 31, 2009. However, in connection with the execution by Avista of the Plan of Exchange, the Rights Agreement was amended to provide that the Rights will expire upon the earlier of the effective time of the Share Exchange (as described below) and March 31, 2009.

The purchase of stock pursuant to the Rights may be subject to regulatory approvals and other specified conditions. Under no circumstances will a person or group that acquires 10% of the Common Stock be entitled to exercise Rights.

Flip-in

If any person or group acquires beneficial ownership of 10% or more of the outstanding shares of Common Stock, each unexercised Right will entitle its holder to purchase that number of shares of Common Stock or, at the option of Avista, Preferred Stock, which has a market value at that time of twice the Purchase Price.

Flip-over

In the event that any person or group has acquired beneficial ownership of 10% or more of the outstanding shares of Common Stock, and Avista

consolidates or merges with or into, or

sells 50% or more of its assets or earning power to,

any person or group, each unexercised Right would instead entitle its holder to purchase the acquiring company s common shares having a market value of twice the Purchase Price.

Exchange

If a person or group acquires beneficial ownership of more than 10% but less than 50% of the outstanding shares of Common Stock, Avista may exchange each outstanding Right for one share of Common Stock or cash, securities or other assets having a value equal to the market value of one share of Common Stock. That exchange may be subject to regulatory approvals.

Redemption

Avista may redeem the Rights, at a redemption price of $0.01 per Right, at any time until any person or group has acquired beneficial ownership of 10% or more of the outstanding shares of Common Stock.

Certain Adjustments

The Purchase Price, the amount and type of securities covered by each Right and the number of Rights outstanding will be adjusted to prevent dilution:

- in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Preferred Stock,

- if holders of the Preferred Stock are granted certain rights, options or warrants to subscribe for Preferred Stock or securities convertible into Preferred Stock or equivalent preferred shares at less than the current market price of the Preferred Stock, or

Table of Contents

upon the distribution to holders of the Preferred Stock of evidences of indebtedness or assets (excluding regular quarterly cash dividends) or of subscription rights or warrants (other than those referred to above).

With certain exceptions, no adjustments in the Purchase Price will be made until cumulative adjustments amount to at least 1% of the Purchase Price. Avista will not issue fractional shares of Preferred Stock other than in integral multiples of one ten-thousandth of a share. Instead, Avista will make an adjustment in cash based on the market price of the Preferred Stock on the last trading date prior to the date of exercise.

Amounts Outstanding

Avista distributed one Right to its shareholders for each share of Common Stock owned of record by them at the close of business on February 15, 2000. Until the earliest of

such time as any person or group acquires beneficial ownership of 10% or more of the outstanding shares of Common Stock,

March 31, 2009,

the redemption of the Rights, or

the effective time of the Share Exchange,

Avista has issued and will continue to issue one Right with each share of Common Stock that is issued after February 15, 2000 so that each outstanding share of Common Stock has and will continue to have an appurtenant Right. Avista has initially authorized and reserved 600,000 shares of Preferred Stock for issuance upon exercise of the Rights.

Amendment

Avista may amend the Rights Agreement in any respect until any person or group has acquired beneficial ownership of 10% or more of the outstanding shares of Common Stock. Thereafter, Avista may amend the Rights Agreement in any manner which will not adversely affect the holders of the Rights in any material respect.

Statutory Limitation on Significant Business Transactions

General

The Washington BCA contains provisions that limit our ability to engage in significant business transactions with an acquiring person , each as defined below. We have no right to waive the applicability of these provisions.

Significant Business Transactions Within Five Years of Share Acquisition Time

Subject to certain exceptions, for five years after an acquiring person s share acquisition time , Avista may not engage in any significant business transaction with such acquiring person unless, before such share acquisition time , a majority of the Board of Directors approves either:

such significant business transaction ; or

the purchase of shares made by such acquiring person .

Significant Business Transactions More Than Five Years After Share Acquisition Time

Avista may not engage in certain significant business transactions (including mergers, share exchanges and consolidations) with any acquiring person unless:

the transaction complies with certain fair price provisions specified in the statute; or

no earlier than five years after the acquiring person s share acquisition time , the significant business transaction is approved at an annual or special meeting of shareholders (in which the acquiring person s shares may not be counted in determining whether the significant business transaction has been approved).

Table of Contents

Definitions

As used in this section:

Significant business transaction means any of various specified transactions involving an acquiring person, including:

- a merger, share exchange, or consolidation of Avista or any of its subsidiaries with an acquiring person or its affiliate;
- a sale, lease, transfer or other disposition to an acquiring person or its affiliate of assets of Avista or any of its subsidiaries having an aggregate market value equal to 5% or more of all of the assets determined on a consolidated basis, or all the outstanding shares of Avista, or representing 5% or more of its earning power or net income determined on a consolidated basis;
- termination, at any time over the five-year period following the share acquisition time, of 5% or more of the employees of Avista as a result of the acquiring person s acquisition of 10% or more of the shares of Avista; and
- the issuance or redemption by Avista or any of its subsidiaries of shares (or of options, warrants, or rights to acquire shares) of Avista or any of its subsidiaries to or beneficially owned by an acquiring person or its affiliate except pursuant to an offer, dividend distribution or redemption paid or made *pro rata* to all shareholders (or holders of options, warrants or rights).

Acquiring person means, with certain exceptions, a person (or group of persons) other than Avista or its subsidiaries who beneficially owns 10% or more of the outstanding Common Stock of Avista.

Share acquisition time means the time at which a person first becomes an acquiring person of Avista.

Anti-Takeover Effect

The provisions of the Avista Articles and the Avista Bylaws described above under Classified Board of Directors and Fair Price Provision and the Rights Agreement described above under Preferred Share Purchase Rights, together with the provisions of the Washington BCA described above under Statutory Limitations on Significant Business Transactions, considered either individually or in the aggregate, may have an anti-takeover effect. These provisions could discourage a future takeover attempt which is not approved by Avista s Board of Directors but which individual shareholders might deem to be in their best interests or in which shareholders would receive a premium for their shares over current market prices. As a result, shareholders who might desire to participate in such a transaction might not have an opportunity to do so.

The Rights described above under Preferred Share Purchase Rights would cause substantial dilution to a person or group that attempts to acquire Avista on terms not approved by the Board of Directors, except pursuant to an offer conditioned on a substantial number of Rights being acquired or redeemed. However, the Rights should not interfere with any merger or other business combination approved by the Board of Directors prior to the time that a person or group has acquired beneficial ownership of 10% or more of the Common Stock since until such time the Rights may be redeemed, or the Rights Agreement may be amended, as described above.

The provisions described above under Classified Board of Directors could also cause the removal of the incumbent Board of Directors or management to require more time or render such removal more difficult, procedurally or otherwise.

Liquidation Rights

In the event of any liquidation or dissolution of Avista, after satisfaction of the preferential liquidation rights of the Preferred Stock, the holders of Common Stock would be entitled to share ratably in all assets of Avista available for distribution to shareholders.

Table of Contents

Pre-Emptive Rights

No holder of Common Stock has any pre-emptive rights.

Miscellaneous

The presently outstanding shares of Common Stock are fully paid and non-assessable. Upon issuance as contemplated by this prospectus and the applicable prospectus supplement, additional shares of Common Stock will be fully paid and nonassessable. The holders of such shares of Avista Common Stock are not and will not be subject to liability for further calls or assessment by, or for liabilities of, Avista.

The outstanding shares of Common Stock are listed on the New York Stock Exchange. Any new shares of Avista Common Stock will also be listed on that Exchange subject to official notice of issuance.

The Transfer Agent and Registrar for the Common Stock is The Bank of New York, 101 Barclay Street, 11th Floor, New York, New York 10286.

Proposed Formation of Holding Company

General

Avista is in the process of reorganizing itself into a holding company structure. Pursuant to the Plan of Exchange between Avista and AVA, the Share Exchange would be effected whereby each outstanding share of Avista Common Stock (including any shares offered hereby) would be exchanged for one share of AVA Common Stock, so that the holders of Avista Common Stock would become holders of AVA Common Stock and Avista would become a subsidiary of AVA.

Immediately following the Share Exchange:

- former holders of shares of Avista Common Stock (including any shares of Avista Common Stock offered hereby and issued before the effective time of the Share Exchange) would hold shares of AVA Common Stock;
- AVA would own all of the outstanding shares of Avista Common Stock; and
- Avista will continue to own, directly or indirectly, the outstanding shares of common stock of its subsidiaries that it currently holds.

See Avista Corporation Proposed Formation of Holding Company for additional general information regarding the proposed formation of a holding company.

Effective Time of Share Exchange; Conditions

The Share Exchange will become effective as of a date to be selected by Avista and AVA as provided in the Plan of Exchange, after satisfaction of the conditions set forth in the Plan of Exchange, including:

- approval of the Share Exchange by federal and state regulatory commissions, which approvals shall not include, in the sole judgment of the Avista Board of Directors, any unacceptable conditions;
- listing of AVA Common Stock on the New York Stock Exchange, upon official notice of issuance;

receipt by Avista of a confirmatory opinion of Heller Ehrman LLP to the effect, among other things, that no gain or loss will be recognized by holders of Avista Common Stock whose shares of Avista Common Stock are exchanged for shares of AVA Common Stock pursuant to the Plan of Exchange; and

consents under various financing agreements of Avista.

Notice of Effectiveness of Share Exchange

Promptly after the effective time of the Share Exchange, all shareholders of record of Avista Common Stock as of the date of the Share Exchange will be provided with notice that the Share Exchange has taken place.

Table of Contents

Exchange of Stock Certificates Not Required

If the Share Exchange is consummated, the holders of Avista Common Stock will automatically become the owners of shares of AVA Common Stock on a share-for-share basis, and the present Common Stock certificates of Avista will automatically represent shares of AVA Common Stock. It will not be necessary for holders of Avista Common Stock to physically exchange their Common Stock certificates. After the effective time of the Share Exchange, as and when outstanding certificates of Avista Common Stock are presented for transfer, new certificates bearing AVA s name will be issued. Holders of Avista Common Stock may surrender their old Avista Common Stock certificates in exchange for new AVA Common Stock certificates at any time.

Listing of AVA Common Stock

AVA intends to list AVA Common Stock on the New York Stock Exchange. AVA expects that before the effective time of the Share Exchange, the NYSE will authorize such listing subject to official notice of issuance . Such authorization is a condition to consummation of the Share Exchange. At the effective time, AVA will notify the NYSE that the Share Exchange has been consummated and this will complete the listing process. Thus, Avista shares will be listed on the NYSE until the effective time of the Share Exchange, and AVA shares will be listed at and after the effective time.

After the effective time of the Share Exchange, the Avista Common Stock will no longer be listed on any stock exchange because all shares of Avista Common Stock will be held by one shareholder, AVA.

Dividends

Dividends on AVA Common Stock

Following the effective time of the Share Exchange, AVA will not conduct directly any business operations from which it will derive any revenues. AVA plans to obtain funds for its operations from dividends paid to AVA on the stock of its subsidiaries and from sales of its securities, which may consist of debt securities and preferred stock, as well as additional shares of AVA Common Stock. Dividends on AVA Common Stock will depend primarily upon the results of operations, cash flows, and financial condition of Avista and AVA s other subsidiaries, and their ability to pay dividends on their capital stock owned, directly or indirectly, by AVA.

The payment of dividends on AVA Common Stock is within the discretion of, and subject to declaration by, AVA s Board of Directors. It is contemplated that AVA initially will pay dividends on AVA Common Stock at the current level of dividends paid on Avista Common Stock. In addition, it is contemplated that such dividends of AVA will be declared and paid on approximately the same schedule of dates now followed by Avista with respect to dividends on Avista Common Stock. The most recent dividend declared by the Board of Directors of Avista was $0.141/2 per share of Avista Common Stock, payable on December 15, 2006 to shareholders of record at the close of business on November 30, 2006.

Dividends on Avista Common Stock

Subject to the availability of earnings and the needs of its electric and gas utility business and to the rights of the holders of Avista preferred stock and further, to periodic review and declaration by its Board of Directors, Avista intends to make regular cash payments to AVA in the form of dividends on Avista Common Stock in amounts that, to the extent not otherwise provided by AVA s other subsidiaries, would be sufficient for AVA to pay cash dividends on AVA Common Stock as referred to above, for operating expenses of AVA and for such other purposes as the Board of Directors of AVA may determine.

The declaration and payment of future dividends will be at the discretion of the Board of Directors of each of AVA, Avista and AVA s other direct and indirect subsidiaries. There can be no assurance that payment of dividends will continue at current levels.

Table of Contents

Other Information

Reference is made to the Proxy Statement-Prospectus, which is incorporated herein by reference, for additional information regarding the proposed formation of a holding company, including, without limitation, the federal income tax consequences of the Share Exchange.

Description of AVA Common Stock; Comparative Shareholder Rights

General

The authorized capital stock of AVA consists of 10,000,000 preferred shares, without nominal or par value, which is issuable in series (the AVA Preferred Stock), and 200,000,000 common shares (the AVA Common Stock). Avista has the same number of authorized shares of capital stock, of the same classes.

In the Share Exchange, AVA will issue a number of shares of AVA Common Stock equal to the number of shares of Avista Common Stock then outstanding. The terms of the AVA Common Stock include those stated in the AVA Articles and the AVA Bylaws (each as defined below) and those made applicable thereto by the Washington BCA. The following summary is not complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the AVA Articles, the AVA Bylaws and the Washington BCA. AVA s Amended and Restated Articles of Incorporation and its Amended and Restated Bylaws, each substantially in the form to be in effect immediately prior to the effective time of the Share Exchange (the AVA Articles and the AVA Bylaws , respectively), are attached as Exhibits B and C, respectively, to the Proxy Statement Prospectus, which is incorporated by reference. Whenever particular provisions of the AVA Articles or the AVA Bylaws are referred to, those provisions are incorporated as part of the statements made in this prospectus and those statements are qualified in their entirety by that reference.

Dividend Rights

After full provision for all AVA Preferred Stock dividends declared or in arrears, the holders of AVA Common Stock will be entitled to receive such dividends as may be lawfully declared from time to time by AVA s Board of Directors.

The entitlement of the AVA Common Stock to dividends will be the same as that of the Avista Common Stock.

Voting Rights

The holders of the AVA Common Stock will have sole voting power, subject to any voting rights which may be granted to the holders of the AVA Preferred Stock or any series thereof and except as otherwise provided by law. Each holder of AVA Common Stock will be entitled to one vote per share, except that, in the election of directors, each holder will have cumulative voting rights by which such holder will be entitled to that number of votes which is equal to the number of directors to be elected multiplied by the number of shares held. These votes may all be cast for a single nominee for director or may be distributed among any two or more nominees.

The voting rights of the AVA Common Stock will be substantially the same as those of the Avista Common Stock.

Liquidation Rights

In the event of any liquidation or dissolution of AVA, after satisfaction of the preferential liquidation rights of the AVA Preferred Stock, the holders of AVA Common Stock would be entitled to share ratably in all assets of AVA available for distribution to shareholders.

The entitlement of the AVA Common Stock to assets upon liquidation or dissolution will be the same as that of the Avista Common Stock.

Pre-Emptive Rights

Like the holders of Avista Common Stock, holders of AVA Common Stock will have no pre-emptive rights.

Preferred Stock

The AVA Articles will provide that the Board of Directors may establish series of AVA Preferred Stock and, with respect to each series, determine the preferences, limitations, voting powers and relative rights thereof.

The Avista Board of Directors has similar authority with respect to Avista Preferred Stock, except that the Avista Articles contain limitations on permissible differences among series and provide that, except in the limited circumstances set forth in the Avista Articles and as provided by law, the holders of Avista Preferred Stock have no right to vote in the election of directors or for any other purpose.

Classified Board of Directors

Both the AVA Articles and the AVA Bylaws will provide for a Board of Directors divided into three classes. Each director of a class will generally serve for a term of three years, with only one class of directors being elected in each year. The classification of the Board of Directors reduces the impact of cumulative voting rights.

The Avista Articles and the Avista Bylaws contain substantially the same provisions for a classified Board of Directors.

Miscellaneous Corporate Governance Provisions

The AVA Articles will provide, as the Avista Articles currently provide, without any significant difference, that:

- the number of directors shall not exceed eleven (except in circumstances in which holders of AVA Preferred Stock are entitled to elect members of the Board);

- directors may be removed only for cause and only by the affirmative vote of the holders of a majority of the voting power of the shares of the company entitled generally to vote in the election of directors at a meeting of shareholders expressly called for that purpose;

- any vacancy on the Board may be filled by the remaining directors then in office even though less than a quorum; and

- special meetings of shareholders may be called only by the President, the Chairman of the Board, a majority of the Board of Directors, or the Executive Committee of the Board, and shall be called by the Corporate Secretary at the request of the holders of not less than two-thirds of all the outstanding shares of AVA Common Stock; and only matters specified in the call of or request for a special meeting may be considered or voted on at such meeting.

The AVA Bylaws will provide, as the Avista Bylaws currently provide, without any significant difference, that:

- a holder of AVA Common Stock may nominate persons for election as directors only if written notice (meeting specified requirements) of intention to make such nomination is given to the Corporate Secretary not later than (i) in the case of an annual meeting of shareholders, 90 days in advance of the meeting or (ii) in the case of a special meeting of shareholders, the seventh day after the date on which notice is first given to shareholders; and

- a holder of AVA Common Stock may propose business to be brought before an annual meeting of shareholders only if, among other things (i) such business is a proper matter for shareholder action under the Washington

BCA and (ii) the shareholder shall give written notice (meeting specified requirements of intention to bring such business before the meeting is given to the Corporate Secretary (subject to certain exceptions) not less than 120 nor more than 180 days prior to the first anniversary of the date on which AVA first mailed its proxy materials for the preceding annual meeting of shareholders.

The AVA Articles will provide that the approval of two-thirds (2/3) of the outstanding shares of AVA Common Stock is required to alter, amend or repeal the provisions of the AVA Articles described above or the provision of the AVA Bylaws relating to procedures for the nomination of directors. The Avista Articles require an 80% shareholder vote for such matters.

Table of Contents

Limitation of Liability; Indemnification

The AVA Articles will provide, as the Avista Articles currently provide, that:

directors will not be liable to AVA or its shareholders for monetary damages for conduct as a director, except as such limitation is prohibited by law; and

434,943

580,457

719,595

935,052

(a) Restructuring charges primarily relate to our global cost reduction programs. See Note 14 and Note 17 to the audited consolidated financial statements.

(b) Other charges (income), net includes $1.7 million and $1.1 million of acquisition costs for 2017 and 2016, respectively. Other charges (income), net for 2017 also includes a one-time gain of $3.4 million relating to the sale of a facility in Switzerland in connection with our initiative to consolidate certain Swiss operations into a new facility, while 2016 includes a one-time non-cash pension settlement charge of $8.2 million related to a lump sum offering to former employees of our U.S. pension plan. Other charges (income), net also includes (gains) losses from foreign currency transactions and hedging activities, interest income, and other items.

(c) Provision for taxes for 2017 includes a provisional one-time charge of $72 million for the implementation of the Tax Cuts and Jobs Act. Of this amount, $59 million is expected to be paid over a period of up to eight years. The estimated charge may change with the finalization of implementation. See Note 13 to the audited consolidated financial statements.

(d) Working capital represents total current assets net of cash, less total current liabilities net of short-term borrowings and current maturities of long-term debt.

29

Table of Contents

(e) Other non-current liabilities consist of pension and other post-retirement liabilities, the long-term taxes payable of $48 million related to the Tax Cuts and Jobs Act, plus certain other non-current liabilities. See Note 12 to the audited consolidated financial statements for pension and other post-retirement disclosures.

(f) No dividends were paid during the five-year period ended December 31, 2017.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read together with our audited consolidated financial statements.

Changes in local currencies exclude the effect of currency exchange rate fluctuations. Local currency amounts are determined by translating current and previous year consolidated financial information at an index utilizing historical currency exchange rates. We believe local currency information provides a helpful assessment of business performance and a useful measure of results between periods. We do not, nor do we suggest that investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. We present non-GAAP financial measures in reporting our financial results to provide investors with an additional analytical tool to evaluate our operating results.

We also include in the discussion below disclosures of immaterial qualitative factors that are not quantified. Although the impact of such factors is not considered material, we believe these disclosures can be useful in evaluating our operating results.

Overview

We operate a global business with sales that are diversified by geographic region, product range, and customer. We hold leading positions worldwide in many of our markets and attribute this leadership to several factors, including the strength of our brand name and reputation, our comprehensive offering of innovative instruments and solutions, and the breadth and quality of our global sales and service network.

Net sales in U.S. dollars increased 9% in 2017 and 5% in 2016. Excluding the effect of currency exchange rate fluctuations, or in local currencies, net sales increased 8% in 2017 and increased 7% in 2016. Net sales growth in local currencies during 2017 reflected broad-based growth across most geographies and product categories as a result of favorable global market conditions and strong execution of our growth initiatives. We expect to continue to benefit from our strong global leadership positions, diversified customer base, robust product offering, investment in emerging markets, significant installed base, and the impact of our global sales and marketing programs. Examples of these programs include identifying and investing in growth and market penetration opportunities, more effectively pricing our products and services, increasing our sales force effectiveness through improved guidance, and continuing to optimize our lead generation and lead nurturing processes. While global market conditions are currently favorable, we will face challenging prior period comparisons in 2018 due to strong results in 2017. Economic conditions can also change quickly, particularly in emerging markets, and it is uncertain that favorable market conditions will continue.

With respect to our end-user markets, we experienced increased results during 2017 versus the prior year in our laboratory-related markets, such as pharmaceutical and biotech customers, as well as the laboratories of chemical companies and food and beverage companies. Demand from these markets was generally favorable during 2017. The local currency increase in net sales of our laboratory-related products during 2017 was driven by strong growth in most product categories.

Our industrial markets continued to benefit from our customers' focus on brand protection and food safety within our product inspection end-market. We also experienced improved market conditions in China with core industrial customers catching up on their product replacement cycles. Emerging market economies have historically been an important source of growth based upon the expansion of their domestic economies, as well as increased exports as companies have moved production to low-cost countries. Our industrial-related products are especially sensitive to changes in economic growth.

Table of Contents

Our food retailing sales declined during 2017 due to reduced investment by retailers for our type of products. Traditionally the spending levels in this sector have experienced more volatility than our other customer sectors due to the timing of customer project activity and new regulations.

In 2018, we expect to continue to pursue the overall business growth strategies which we have followed in recent years:

Gaining Market Share. Our global sales and marketing initiative, "Spinnaker," continues to be an important growth strategy. For example, over the past few years, we have added field sales and service resources to pursue under-penetrated market opportunities and will look to continue to make investments to front-end resources in 2018. We also aim to gain market share by implementing sophisticated sales and marketing programs, leveraging our extensive customer databases, and leveraging our product offering to larger customers through key account management. While this initiative is broad-based, efforts to improve these processes include leveraging big data analytics to identify, prioritize, and pursue growth opportunities, the implementation of more effective pricing and value-based selling strategies and processes, improved sales force guidance, training and effectiveness, cross-selling, increased segment marketing, and leads generation and nurturing activities. Our comprehensive service offerings, and our initiatives to globalize and harmonize these offerings, help us further penetrate developed markets. We estimate that we have the largest installed base of weighing instruments in the world, and we continue to leverage big data analytics and invest in sales and marketing activities aimed at increasing the proportion of our installed base that is under service contract, or selling new products that replace old products in our installed base. In addition to traditional repair and maintenance, our service offerings continue to expand into value-added services for a range of market needs, including regulatory compliance.

Expanding Emerging Markets. Emerging markets, comprising Asia (excluding Japan), Eastern Europe, Latin America, the Middle East, and Africa, account for approximately 34% of our total net sales. We have a two-pronged strategy in emerging markets: first, to capitalize on long-term growth opportunities in these markets and second, to leverage our low-cost manufacturing operations in China. We have approximately a 30-year track record in China, and our sales in Asia have grown more than 13% on a compound annual growth basis in local currencies since 1999. We have broadened our product offering to the Asian markets and benefit as multinational customers shift production to China. India has also been a source of emerging market sales growth in past years due to increased life science research activities. Overall, market conditions in emerging markets were favorable during 2017. We experienced a 12% increase in emerging market local currency sales during 2017 versus the prior year, which included 19% local currency sales growth in China. Within China, we continue to redeploy resources and sales and marketing efforts to the faster-growing segments of pharma, food safety, and environment. We believe the long-term growth of these segments will be favorably impacted by the Chinese government's emphasis on science, high-value industries, and product quality. We expect our laboratory, process analytics, and product inspection businesses will particularly benefit from these segments. We also continue to invest and add sales and marketing resources to pursue growth in under-penetrated emerging markets. However, emerging market sales can be volatile. China's credit availability can also be particularly volatile, and certain industrial-related end-user segments still have overcapacity.

Extending Our Technology Lead. We continue to focus on product innovation. In the last three years, we spent approximately 5% of net sales on research and development. We seek to accelerate product replacement cycles, as well as improve our product offerings and their capabilities with additional integrated technologies and software. In addition, we aim to create value for our customers by having an intimate knowledge of their processes via our significant installed product base.

Expanding Our Margins. We continue to strive to improve our margins by more effectively pricing our products and services and optimizing our cost structure. For example, sophisticated data analytic tools

provide us new insights to further refine our price strategies and processes. We also focus on reallocating resources and better aligning our cost structure to support our investments in market penetration initiatives, higher growth areas, and opportunities for margin improvement. We have also initiated various restructuring programs over the past few years in response to changing market conditions. As previously mentioned, shifting production to China has also been an important component of our cost savings initiatives. We have also implemented global procurement and supply chain management programs over the last several years aimed at lowering supply costs, and have further increased our focus on these programs during the past year with the global launch of our SternDrive initiative. SternDrive is our global program for continuous improvement efforts within our supply chain, manufacturing, and back-office operations. Blue Ocean is also an important enabler of our various margin expansion initiatives. Our move to standardized business processes, systems, and data structures throughout our global organization provides greater data transparency and faster access to real-time data. Our cost leadership and productivity initiatives are also focused on continuously improving our invested capital efficiency, such as reducing our working capital levels and ensuring appropriate returns on our expenditures.

Pursuing Strategic Acquisitions. We seek to pursue "bolt-on" acquisitions that may leverage our global sales and service network, respected brand, extensive distribution channels, and technological leadership. We have identified life sciences, product inspection, and process analytics as three key areas for acquisitions. For example, during the third quarter of 2017, we acquired the shares of Biotix, Inc., a manufacturer and distributor of plastic consumables associated with pipettes, including tips, tubes, and reagent reservoirs used in the life sciences market, based in the United States for an initial cash payment of $105 million. We also may be required to pay additional cash consideration up to a maximum amount of $65 million, of which we recorded an estimated $30.7 million as of December 31, 2017. During 2016, we acquired substantially all of the assets of Henry Troemner LLC (Troemner), a supplier of lab equipment, weights, and weight calibration based in the United States for an aggregate purchase price of $95.8 million that has been integrated into our laboratory product offering.

Results of Operations — Consolidated

Net sales

Net sales were $2.7 billion for the year ended December 31, 2017, compared to $2.5 billion in 2016 and $2.4 billion in 2015. This represents an increase of 9% in 2017 and an increase of 5% in 2016 in U.S. dollars and an increase of 8% and 7% in local currencies, respectively. The Biotix and Troemner acquisitions contributed 1% to our net sales in 2017. Global market conditions were favorable during 2017 and we continue to benefit from the execution of our global sales and marketing programs and development of our robust product portfolio. However, we will face difficult prior period comparisons in 2018 due to strong results in 2017. Economic conditions can also change quickly, especially in emerging markets, and it's uncertain that favorable market conditions will continue.

In 2017, our net sales by geographic destination increased in U.S. dollars 8% in the Americas, 6% in Europe, and 11% in Asia/Rest of World. In local currencies, our net sales by geographic destination increased in 2017 by 8% in the Americas, 5% in Europe, and 11% in Asia/Rest of World. The Biotix and Troemner acquisitions contributed approximately 2% to net sales in the Americas during 2017. In addition, our food retailing sales declined in 2017 due to reduced investment by retailers for our type of products in the Americas, which decreased local currency sales in the Americas by 3%. A discussion of sales by operating segment is included below.

As described in Note 17 to our audited consolidated financial statements, our net sales comprise product sales of precision instruments and related services. Service revenues are primarily derived from repair and other services, including regulatory compliance qualification, calibration, certification, preventative maintenance, and spare parts.

Table of Contents

Net sales of products increased 9% in U.S. dollars and in local currencies during 2017 and increased 5% in U.S. dollars and 7% in local currencies in 2016. The Biotix and Troemner acquisitions contributed approximately 2% to our net sales of products during 2017. Service revenue (including spare parts) increased 7% in U.S. dollars and in local currencies in 2017 and increased 4% in U.S. dollars and 6% in local currencies in 2016. The Troemner acquisition contributed approximately 1% to our net sales of service during 2017.

Net sales of our laboratory-related products and services, which represented approximately 50% of our total net sales in 2017, increased 11% in U.S. dollars and 10% in local currencies during 2017. The local currency increase in net sales of our laboratory-related products during 2017 includes strong growth in most product categories, particularly analytical instruments. The Biotix and Troemner acquisitions also contributed approximately 2% to our net sales growth of laboratory-related products and services.

Net sales of our industrial-related products and services, which represented approximately 42% of our total net sales in 2017, increased 8% in U.S. dollars and 8% in local currencies during 2017. In 2017, we experienced strong growth in product inspection and core industrial. Our core-industrial results include very strong results in China.

Net sales of our food retailing products and services, which represented approximately 8% of our total net sales in 2017, decreased 3% in U.S. dollars and 4% in local currencies during 2017. The decline in net sales of our food retailing products is due to a decrease in the Americas driven by reduced investment by these retailers for our type of products.

Gross profit

Gross profit as a percentage of net sales was 57.7% for 2017, compared to 57.2% for 2016 and 56.4% for 2015. Gross profit as a percentage of net sales for products was 60.9% for 2017, compared to 60.8% for 2016 and 60.1% for 2015. Gross profit as a percentage of net sales for services (including spare parts) was 46.1% for 2017, compared to 44.6% for 2016 and 43.6% for 2015.

The increase in gross profit as a percentage of net sales for 2017 includes favorable price realization, offset in part by unfavorable business mix, changes in foreign currency, and increased material costs.

Research and development and selling, general, and administrative expenses

Research and development expenses as a percentage of net sales were 4.7% for 2017, 4.8% for 2016, and 5.0% for 2015. Research and development expenses in U.S. dollars increased 8% in 2017 and 1% in 2016, and in local currencies increased 8% in 2017 and 4% in 2016, relating to increased investments in new product development.

Selling, general, and administrative expenses as a percentage of net sales were 28.9% for 2017, compared to 29.2% for 2016 and 29.3% for 2015. Selling, general, and administrative expenses increased 8% in both U.S. dollars and local currencies in 2017 and increased 4% in U.S. dollars and 6% in local currencies in 2016. The increase during 2017 includes higher cash incentive expense, investments in our field sales organization, and increased employee benefit costs.

Amortization expense

Amortization expense was $42.7 million in 2017, compared to $36.1 million and $31.0 million in 2016 and 2015, respectively. The increase in amortization expense is primarily related to our investments in information technology, including the Company's Blue Ocean program, as well as the Biotix and Troemner acquisitions.

Restructuring charges

During the past few years, we initiated various cost reduction measures. For the year ended December 31, 2017, we have incurred $12.8 million of restructuring expenses which primarily comprise employee-related costs. See Note 14 and Note 17 to our audited consolidated financial statements for a summary of restructuring activity during 2017.

Other charges (income), net

Other charges (income), net consisted of net income of $5.9 million in 2017, compared to net charges of $8.5 million and net income of $0.9 million in 2016 and 2015, respectively. Other charges (income), net includes $1.7 million and $1.1 million of acquisition costs for 2017 and 2016, respectively. Other charges (income), net for 2017 also includes a one-time gain of $3.4 million relating to the sale of a facility in Switzerland in connection with our initiative to consolidate certain Swiss operations into a new facility. Other charges in 2016 includes a one-time non-cash pension settlement charge of $8.2 million related to a lump sum offering to former employees of our U.S. pension plan. Other charges (income), net also includes net (gains) losses from foreign currency transactions and hedging activities, interest income, and other items.

Interest expense and taxes

Interest expense was $32.8 million for 2017, compared to $28.0 million for 2016 and $27.5 million for 2015.

Our annual effective tax rate was 22% for 2017 and 24% for both 2016 and 2015 excluding one-time charges in 2017 associated with the Tax Cuts and Job Act described below. The reduction in our annual effective tax rate from 24% in 2016 and 2015 to 22% in 2017 is primarily related to our adoption of ASU 2016-09 pertaining to excess tax benefits in the current year associated with stock option exercises as discussed in Note 2.

On December 22, 2017, the Tax Cuts and Jobs Act ("the Act") significantly revised U.S. corporate income tax law. The Act includes, among other things, a reduction in the U.S. federal corporate income tax rate from 35% to 21% effective for taxable years beginning after December 31, 2017, and the implementation of a modified territorial tax system that includes a one-time transition tax on deemed repatriated earnings of foreign subsidiaries ("Transition Tax") that is payable over a period of up to eight years. The tax effects of the Act are reflected in Note 13 to our consolidated financial statements for the year ended December 31, 2017.

In connection with the Act, we recorded a provisional one-time charge of $72 million during the fourth quarter of 2017. This amount includes a one-time cash charge of $59 million for un-repatriated foreign earnings which is expected to be paid over a period of up to eight years, and a one-time non-cash charge of $13 million related to certain deferred tax and other non-cash items.

Our accounting for the above items is based upon reasonable estimates of the tax effects of the Act; however, our estimates may change upon the finalization of our implementation and additional interpretive guidance from regulatory authorities. We will complete our accounting for the above tax effects of the Act during 2018, as provided in Staff Accounting Bulletin 118, and will reflect any adjustments to our provisional amounts as an adjustment to the provision for taxes in the reporting period in which the amounts are finally determined.

Additionally, certain provisions of the Act are not effective until 2018. We are in the process of evaluating the impact of these provisions and have not yet recorded any impact in the financial statements, nor have we made any accounting policy elections with respect to these items.

Table of Contents

Results of Operations — by Operating Segment

The following is a discussion of the financial results of our operating segments. We currently have five reportable segments: U.S. Operations, Swiss Operations, Western European Operations, Chinese Operations, and Other. A more detailed description of these segments is outlined in Note 17 to our audited consolidated financial statements.

U.S. Operations (amounts in thousands)

	2017	2016	2015	Increase (Decrease) in % 2017 vs. 2016	Increase (Decrease) in % 2016 vs. 2015
Net sales	$1,043,942	$958,542	$913,842	9%	5%
Net sales to external customers	$944,825	$867,962	$826,354	9%	5%
Segment profit	$177,705	$161,539	$147,491	10%	10%

The increase in both total net sales and net sales to external customers of 9% in 2017 includes strong growth in product inspection and laboratory-related products, offset in part by a significant decline in food retailing, which reduced net sales to external customers by 3% during 2017. Net sales to external customers in our U.S. Operations during 2017 also benefited approximately 3% from the Biotix and Troemner acquisitions.

Segment profit increased $16.2 million in our U.S. Operations segment during 2017, compared to an increase of $14.0 million during 2016. Our segment profit includes the impact of increased net sales and benefits from our margin expansion initiatives, offset in part by increased sales, service, and research and development investments, as well as higher cash incentive and employee benefit costs.

Swiss Operations (amounts in thousands)

	2017	2016	2015	Increase (Decrease) in % [1] 2017 vs. 2016	Increase (Decrease) in % [1] 2016 vs. 2015
Net sales	$697,008	$655,657	$632,326	6%	4%
Net sales to external customers	$133,925	$130,674	$133,684	2%	(2)%
Segment profit	$174,447	$163,663	$160,763	7%	2%

(1) Represents U.S. dollar growth for net sales and segment profit.

Total net sales in U.S. dollars increased 6% in 2017 and 4% in 2016, and in local currencies increased 6% in 2017 and 5% in 2016. Net sales to external customers in U.S. dollars increased 2% in 2017 and decreased 2% in 2016, and in local currencies increased 2% in 2017 and decreased 1% in 2016. The increase in local currency net sales to external customers for 2017 includes modest growth in most product categories.

Table of Contents

Segment profit increased $10.8 million in our Swiss Operations segment during 2017, compared to an increase of $2.9 million during 2016. Segment profit includes the impact of increased net sales and productivity improvements, offset by currency hedging gains in the prior year, higher cash incentive costs, and increased research and development activity.

Western European Operations (amounts in thousands)

	2017	2016	2015	Increase (Decrease) in % [1] 2017 vs. 2016	Increase (Decrease) in % [1] 2016 vs. 2015
Net sales	$844,596	$817,059	$785,660	3%	4%
Net sales to external customers	$673,776	$640,558	$620,128	5%	3%
Segment profit	$117,324	$123,507	$107,424	(5)%	15%

(1) Represents U.S. dollar growth for net sales and segment profit.

Total net sales in U.S. dollars increased 3% in 2017 and 4% in 2016, and in local currencies increased 2% in 2017 and 7% in 2016. Net sales to external customers in U.S. dollars increased 5% in 2017 and 3% in 2016, and in local currencies increased 3% in 2017 and 5% in 2016. The increase in local currency net sales to external customers during 2017 includes growth in most product categories especially in laboratory-related products.

Segment profit decreased $6.2 million in our Western European Operations segment during 2017, compared to an increase of $16.1 million in 2016. The segment profit decline includes increased research and development activity, sales and service investments, higher cash incentive costs, and the impact of inter-segment product transfers, offset in part by increased net sales to external customers and favorable currency translation.

Chinese Operations (amounts in thousands)

	2017	2016	2015	Increase (Decrease) in % [1] 2017 vs. 2016	Increase (Decrease) in % [1] 2016 vs. 2015
Net sales	$685,499	$606,307	$591,178	13%	3%
Net sales to external customers	$452,617	$386,541	$376,291	17%	3%
Segment profit	$231,860	$187,924	$165,532	23%	14%

(1) Represents U.S. dollar growth for net sales and segment profit.

Total net sales in U.S. dollars increased 13% in 2017 and 3% in 2016, and in local currencies increased 15% in 2017 and 10% in 2016. Net sales to external customers in U.S. dollars increased 17% in 2017 and increased 3% in 2016, and in local currencies increased 19% in 2017 and increased 9% in 2016. The increase in net sales to external customers during 2017 reflects very strong growth in most product categories. Our Chinese performance reflects a good economic environment with customers catching up in 2017 on their product replacement cycles, as well as our ability to shift resources towards faster growing markets. While Chinese market conditions have improved and are currently favorable, we will face difficult prior period comparisons in 2018 due to the strong performance in 2017. In addition to the tough comparisons, the Chinese economy has historically been volatile and market conditions may deteriorate, especially in industrial markets.

Segment profit increased $43.9 million in our Chinese Operations segment during 2017, compared to an increase of $22.4 million in 2016. The increase in segment profit during 2017 includes increased local currency net sales volume, benefits from our margin expansion and cost savings initiatives, and inter-segment transfers.

Table of Contents

Other (amounts in thousands)

	2017	2016	2015	Increase (Decrease) in % [1] 2017 vs. 2016	Increase (Decrease) in % [1] 2016 vs. 2015
Net sales	$527,844	$490,231	$447,077	8%	10%
Net sales to external customers	$519,910	$482,522	$438,990	8%	10%
Segment profit	$72,744	$64,060	$50,821	14%	26%

(1) Represents U.S. dollar growth for net sales and segment profit.

Other includes reporting units in Southeast Asia, Latin America, Eastern Europe, and other countries. Total net sales and net sales to external customers in U.S. dollars increased 8% in 2017 and 10% in 2016, and in local currencies increased 6% and 12% in 2017 and 2016, respectively. The local currency increase in total net sales and net sales to external customers includes strong volume growth and increased price realization in several countries.

Segment profit increased $8.7 million in our Other segment during 2017, compared to an increase of $13.2 million during 2016. The increase in segment profit during 2017 includes benefits from increased net sales and our margin expansion initiatives, offset in part by sales and service investments.

Liquidity and Capital Resources

Liquidity is our ability to generate sufficient cash flows from operating activities to meet our obligations and commitments. In addition, liquidity includes the ability to obtain appropriate financing. Currently, our financing requirements are primarily driven by working capital requirements, capital expenditures, share repurchases, and acquisitions. Global market conditions can be uncertain, and our ability to generate cash flows could be reduced by a deterioration in global markets.

Cash provided by operating activities totaled $516.3 million in 2017, compared to $460.8 million in 2016 and $439.8 million in 2015. The increase in 2017 is primarily related to higher net earnings.

Capital expenditures are made primarily for investments in information systems and technology, machinery, equipment, and the purchase and expansion of facilities. Our capital expenditures totaled $127.4 million in 2017, $124.0 million in 2016, and $82.5 million in 2015. Cash flow from investing activities in 2017 also includes proceeds of $9.9 million relating to the sale of a facility in Switzerland in connection with our initiative to consolidate certain Swiss operations into a new facility. We expect to make net investments in new or expanded manufacturing facilities of $40 million to $50 million over the next two years. The 2016 amount also includes a $37 million purchase of our previously leased pipette manufacturing facility.

Cash flows used in financing activities during 2017 included share repurchases. As further described below, in accordance with our share repurchase plan, we repurchased 749,254 shares and 1,348,507 shares in the amount of $400 million and $500 million during 2017 and 2016, respectively.

We continue to explore potential acquisitions. In connection with any acquisition, we may incur additional indebtedness. As further described in Note 3 of our Consolidated Financial Statements, in the third quarter of 2017, we acquired all of the shares of Biotix, Inc., a manufacturer and distributor of plastic consumables associated with pipettes, including tips, tubes, and reagent reservoirs used in the life sciences market, based in the United States for an initial cash payment of $105 million. We may also be required to pay additional cash consideration up to a maximum amount of $65 million of which we recorded an estimated $30.7 million as of December 31, 2017. During 2016, we also acquired substantially all of the assets of Henry Troemner LLC (Troemner), a supplier of lab equipment, weights, and weight calibration based in the United States for an aggregate purchase price of $95.8 million that will be integrated into our laboratory product offering.

Table of Contents

In 2017 and 2016, we also incurred additional acquisition payments totaling $2.1 million and $15.6 million, respectively.

As previously described, we have recorded a provisional one-time charge of $72 million for the estimated income tax effects of the Transition Tax associated with the Tax Cuts and Jobs Act of which $59 million is expected to be paid over a period of up to eight years. We also plan to continue to repatriate earnings from China, Switzerland, Germany, the United Kingdom, and certain other countries in future years and expect the only additional cost associated with the repatriation of such foreign earnings will be withholding taxes. All other undistributed earnings are considered to be permanently reinvested. We believe the ongoing tax impact associated with repatriating our undistributed foreign earnings will not have a material effect on our liquidity.

Senior Notes

As further described in Note 9 of our Consolidated Financial Statements, we have the following Senior Notes.

In 2012, we issued and sold $50 million of 3.67% Senior Notes due December 17, 2022 in a private placement. The 3.67% Senior Notes are senior unsecured obligations of the Company. Interest is payable semi-annually in June and December.

In 2013, we issued and sold $50 million of 4.10% Senior Notes due September 19, 2023 in a private placement. The 4.10% Senior Notes are senior unsecured obligations of the Company. Interest on the 4.10% Senior Notes is payable semi-annually in March and September of each year.

In 2014, we entered into an agreement to issue and sell $250 million of ten-year Senior Notes in a private placement. We issued $125 million with a fixed interest rate of 3.84% ("3.84% Senior Notes") in September 2014 and issued $125 million with a fixed interest rate of 4.24% ("4.24% Senior Notes") in June 2015. The Senior Notes are senior unsecured obligations of the Company. Interest on the 3.84% Senior Notes is payable semi-annually in March and September each year. Interest on the 4.24% Senior Notes is payable semi-annually in June and December each year.

In 2015, we issued in a private placement Euro 125 million fifteen-year Senior Notes with a fixed interest rate of 1.47% ("1.47% Euro Senior Notes"). The Euro Senior Notes are senior unsecured obligations of the Company. We have designated the 1.47% Euro Senior Notes as a hedge of a portion of our net investment in a euro-denominated foreign subsidiary to reduce foreign currency translation risk associated with this net investment. Changes in the carrying value of this debt resulting from fluctuations in the euro to U.S. dollar exchange rate are recorded as foreign currency translation adjustments within other comprehensive income (loss). We recorded in other comprehensive income (loss) related to this net investment hedge an unrealized loss of $18.2 million and an unrealized gain of $5.1 million for the years ended December 31, 2017 and 2016, respectively.

Credit Agreement

In 2015, we entered into an $800 million Amended Credit Agreement (the "Credit Agreement"), which replaced our $800 million Amended and Restated Credit Agreement (the "Prior Credit Agreement"). The Credit Agreement is provided by a group of financial institutions (similar to our Prior Credit Agreement) and has a maturity date of December 17, 2020. It is a revolving credit facility and is not subject to any scheduled principal payments prior to maturity. The obligations under the Credit Agreement are unsecured.

Borrowings under the Credit Agreement bear interest at current market rates plus a margin based on our consolidated leverage ratio, which was, as of December 31, 2017, set at LIBOR plus 97.5 basis points.

Table of Contents

We must also pay facility fees that are tied to our leverage ratio. As of December 31, 2017, approximately $332.6 million was available under the facility.
Our short-term borrowings and long-term debt consisted of the following at December 31, 2017:

	U.S. Dollar	Other Principal Trading Currencies	Total
3.67% $50 million Senior Notes due December 17, 2022	$50,000	$—	$50,000
4.10% $50 million Senior Notes due September 19, 2023	50,000	—	50,000
3.84% $125 million Senior Notes due September 19, 2024	125,000	—	125,000
4.24% $125 million Senior Notes due June 25, 2025	125,000	—	125,000
1.47% EUR 125 million Senior Notes due June 17, 2030	—	149,736	149,736
Debt issuance costs, net	(1,082)	(356)	(1,438)
Total Senior Notes	348,918	149,380	498,298
$800 million Credit Agreement, interest at LIBOR plus 97.5 basis points[1]	396,107	65,765	461,872
Other local arrangements	2,402	17,275	19,677
Total debt	747,427	232,420	979,847
Less: current portion	(2,402)	(17,275)	(19,677)
Total long-term debt	$745,025	$215,145	$960,170

(1) See Note 5 for additional disclosures on the financial instruments associated with the Credit Agreement.
Changes in exchange rates between the currencies in which we generate cash flow and the currencies in which our borrowings are denominated affect our liquidity. In addition, because we borrow in a variety of currencies, our debt balances fluctuate due to changes in exchange rates. Further, we do not have any downgrade triggers relating to ratings from rating agencies that would accelerate the maturity dates of our debt.
We currently believe that cash flows from operating activities, together with liquidity available under our Credit Agreement and local working capital facilities, will be sufficient to fund currently anticipated working capital needs and capital spending requirements for at least the foreseeable future.
Contractual Obligations
The following summarizes certain of our contractual obligations at December 31, 2017 and the effect such obligations are expected to have on our liquidity and cash flows in future periods. We do not have significant outstanding letters of credit or other financial commitments.

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Short- and long-term debt	$981,270	$19,677	$461,857	$50,000	$449,736
Interest on debt	159,780	27,021	60,965	32,381.1	39,413
Non-cancelable operating leases	109,126	33,939	42,424	21,474	11,289
Pension and post-retirement funding[1]	26,403	26,403	—	—	—
Purchase obligations	83,511	80,479	3,032	—	—
Total[1]	$1,360,090	$187,519	$568,278	$103,855	$500,438

(1) In addition to the above table, we also have liabilities for pension and post-retirement funding and income taxes. However, we cannot determine the timing or the amounts for income taxes or the timing and amounts beyond 2018 for pension and post-retirement funding.

We have purchase commitments for materials, supplies, services, and fixed assets in the normal course of business. Due to the proprietary nature of many of our materials and processes, certain supply contracts contain penalty provisions. We do not expect potential payments under these provisions to

materially affect our results of operations or financial condition. This conclusion is based upon reasonably likely outcomes derived by reference to historical experience and current business plans.

Share Repurchase Program

We have a share repurchase program of which there were $583.4 million common shares remaining to be repurchased under the program as of December 31, 2017. The share repurchases are expected to be funded from cash balances, borrowings, and cash generated from operating activities. Repurchases will be made through open market transactions, and the amount and timing of purchases will depend on business and market conditions, the stock price, trading restrictions, the level of acquisition activity, and other factors.

We have purchased 26.7 million common shares since the inception of the program in 2004 through December 31, 2017, at a total cost of $3.9 billion. During the years ended December 31, 2017 and 2016, we spent $400 million and $500 million on the repurchase of 749,254 shares and 1,348,507 shares at an average price per share of $533.84 and $370.75, respectively. We reissued 270,413 shares and 278,623 shares held in treasury for the exercise of stock options and restricted stock units during 2017 and 2016, respectively.

Off-Balance Sheet Arrangements

Currently, we have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material.

Effect of Currency on Results of Operations

Our earnings are affected by changing exchange rates. We are most sensitive to changes in the exchange rates between the Swiss franc, euro, and U.S. dollar. We have more Swiss franc expenses than we do Swiss franc sales because we develop and manufacture products in Switzerland that we sell globally and have a number of corporate functions located in Switzerland. When the Swiss franc strengthens against our other trading currencies, particularly the U.S. dollar and euro, our earnings go down. We also have significantly more sales in the euro than we do expenses. When the euro weakens against the U.S. dollar and Swiss franc, our earnings also go down. We estimate a 1% strengthening of the Swiss franc against the euro would reduce our earnings before tax by approximately $1.6 million to $1.8 million annually.

We also conduct business throughout the world, including Asia Pacific, the United Kingdom, Eastern Europe, Latin America, and Canada. Fluctuations in these currency exchange rates against the U.S. dollar can also affect our operating results. The most significant of these currency exposures is the Chinese renminbi. The impact on our earnings before tax of the Chinese renminbi weakening 1% against the U.S. dollar is a reduction of approximately $1.0 million to $1.2 million annually.

In addition to the effects of exchange rate movements on operating profits, our debt levels can fluctuate due to changes in exchange rates, particularly between the U.S. dollar, the Swiss franc, and euro. Based on our outstanding debt at December 31, 2017, we estimate that a 10% weakening of the U.S. dollar against the currencies in which our debt is denominated would result in an increase of approximately $25.9 million in the reported U.S. dollar value of our debt.

Table of Contents

Taxes

We are subject to taxation in many jurisdictions throughout the world. Our effective tax rate and tax liability will be affected by a number of factors, such as changes in law, the amount of taxable income in particular jurisdictions, the tax rates in such jurisdictions, tax treaties between jurisdictions, the extent to which we transfer funds between jurisdictions, and earnings repatriations between jurisdictions. Generally, the tax liability for each taxpayer within the group is determined either (i) on a non-consolidated/non-combined basis or (ii) on a consolidated/combined basis only with other eligible entities subject to tax in the same jurisdiction, in either case without regard to the taxable losses of non-consolidated/non-combined affiliated legal entities.

Environmental Matters

We are subject to environmental laws and regulations in the jurisdictions in which we operate. We own or lease a number of properties and manufacturing facilities around the world. Like many of our competitors, we have incurred, and will continue to incur, capital and operating expenditures and other costs in complying with such laws and regulations.

We are currently involved in, or have potential liability with respect to, the remediation of past contamination in certain of our facilities. A former subsidiary of Mettler-Toledo, LLC known as Hi-Speed Checkweigher Co., Inc. was one of two private parties ordered by the New Jersey Department of Environmental Protection, in an administrative consent order signed on June 13, 1988, to investigate and remediate certain ground water contamination at a property in Landing, New Jersey. After the other party under this order failed to fulfill its obligations, Hi-Speed became solely responsible for compliance with the order. Residual ground water contamination at this site is now within a Classification Exception Area which the Department of Environmental Protection has approved and within which the Company oversees monitoring of the decay of contaminants of concern. A concurrent Well Restriction Area also exists for the site. The Department of Environmental Protection does not view these vehicles as remedial measures, but rather as “institutional controls” that must be adequately maintained and periodically evaluated. We estimate that the costs of compliance associated with the site over the next several years will approximate a total of $0.4 million.

In addition, certain of our present and former facilities have or had been in operation for many decades and, over such time, some of these facilities may have used substances or generated and disposed of wastes which are or may be considered hazardous. It is possible that these sites, as well as disposal sites owned by third parties to which we have sent wastes, may in the future be identified and become the subject of remediation. Although we believe that we are in substantial compliance with applicable environmental requirements and, to date, we have not incurred material expenditures in connection with environmental matters, it is possible that we could become subject to additional environmental liabilities in the future that could have a material adverse effect on our financial condition, results of operations, or cash flows.

Inflation

Inflation can affect the costs of goods and services that we use, including raw materials to manufacture our products. The competitive environment in which we operate limits somewhat our ability to recover higher costs through increased selling prices.

Moreover, there may be differences in inflation rates between countries in which we incur the major portion of our costs and other countries in which we sell products, which may limit our ability to recover increased costs. We remain committed to operations in China, Eastern Europe, India, and Brazil, which have experienced inflationary conditions. To date, inflationary conditions have not had a material effect on

our operating results. However, as our presence in China, Eastern Europe, India, and Brazil increases, these inflationary conditions could have a greater impact on our operating results.

Quantitative and Qualitative Disclosures about Market Risk

We have only limited involvement with derivative financial instruments and do not use them for trading purposes. We have entered into certain interest rate swap agreements. These contracts are more fully described in Note 5 to our audited consolidated financial statements. The fair value of these contracts was a net loss of $1.3 million at December 31, 2017. Based on our agreements outstanding at December 31, 2017, a 100-basis-point increase in interest rates would result in an increase in the net aggregate market value of these instruments of $5.4 million. Conversely, a 100-basis-point decrease in interest rates would result in a $5.6 million decrease in the net aggregate market value of these instruments at December 31, 2017. Any change in fair value would not affect our consolidated statement of operations unless such agreements and the debt they hedge were prematurely settled.

We also entered into a cross currency swap in 2017. The fair value of this contract was a net loss of $0.1 million at December 31, 2017. Based on our agreements outstanding at December 31, 2017, a 100-basis-point increase in interest rates and foreign currency exchange rates would result in an increase in the net aggregate market value of these instruments of $2.5 million. Conversely, a 100-basis-point decrease in interest rates and foreign currency exchange rates would result in a $1.5 million decrease in the net aggregate market value of these instruments at December 31, 2017. Any change in fair value would not affect our consolidated statement of operations unless such agreements and the debt they hedge were prematurely settled.

Critical Accounting Policies

Management's discussion and analysis of our financial condition and results of operations is based upon our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to pensions and other post-retirement benefits, trade accounts receivable, inventories, intangible assets, income taxes, and revenue. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our audited consolidated financial statements. For a detailed discussion on the application of these and other accounting policies, see Note 2 to our audited consolidated financial statements.

Employee benefit plans

The net periodic pension cost for 2017 and projected benefit obligation as of December 31, 2017 were $4.8 million and $142.6 million, respectively, for our U.S. pension plan. The net periodic cost for 2017 and projected benefit obligation as of December 31, 2017 were $10.8 million and $918.5 million, respectively, for our international pension plans. The net periodic post-retirement benefit for 2017 and expected post-retirement benefit obligation as of December 31, 2017 for our U.S. post-retirement medical benefit plan were $2.6 million and $2.7 million, respectively.

Table of Contents

Pension and post-retirement benefit plan expense and obligations are developed from assumptions utilized in actuarial valuations. The most significant of these assumptions include the discount rate and expected return on plan assets. In accordance with U.S. GAAP, actual results that differ from the assumptions are accumulated and deferred over future periods. While management believes the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect our plan obligations and future expense.

The expected rates of return on the various defined benefit pension plans' assets are based on the asset allocation of each plan and the long-term projected return of those assets, which represent a diversified mix of U.S. and international corporate equities and government and corporate debt securities. In 2002, we froze our U.S. defined benefit pension plan and discontinued our retiree medical program for certain current and all future employees. Consequently, no significant future service costs will be incurred on these plans. For 2017, the weighted average return on assets assumption was 6.50% for the U.S. plan and 3.86% for the international plans. A change in the rate of return of 1% would impact annual benefit plan expense by approximately $6.4 million after tax.

The discount rates for defined benefit and post-retirement plans are set by benchmarking against high-quality corporate bonds. For 2017, the weighted average discount rate assumption was 3.5% for the U.S. plan and 1.0% for the international plans, representing a weighted average of local rates in countries where such plans exist. A change in the discount rate of 1% would impact annual benefit plan expense by approximately $11.0 million after tax.

In early 2016, in order to reduce the size and potential volatility of our U.S. defined benefit pension plan obligation, we offered approximately 700 former employees who had deferred vested pension plan benefits a one-time option to receive a lump sum distribution of their benefits. Based upon the eligible participant acceptance, $14.6 million was paid from plan assets to these former employees in the second quarter of 2016 with a corresponding decrease in the benefit obligation. The Company incurred a one-time non-cash settlement charge recorded in other charges (income), net during the second quarter of 2016 of approximately $8.2 million, of which $8.0 million, $4.9 million after tax, was reclassified from accumulated other comprehensive income.

Equity-based compensation

We also have an equity incentive plan that provides for the grant of stock options, restricted stock units, and other equity-based awards which are accounted for and recognized in the consolidated statement of operations based on the grant-date fair value of the award. This methodology yields an estimate of fair value based in part on a number of management estimates, the most significant of which include future volatility and estimated option lives. Changes in these assumptions could significantly impact the estimated fair value of stock options.

Trade accounts receivable

As of December 31, 2017, trade accounts receivable were $528.6 million, net of a $15.5 million allowance for doubtful accounts.

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts represents our best estimate of probable credit losses in our existing trade accounts receivable. We determine the allowance based upon a review of both specific accounts for collection and the age of the accounts receivable portfolio.

Inventories

As of December 31, 2017, inventories were $255.4 million.

Table of Contents

We record our inventory at the lower of cost or net realizable value. Cost, which includes direct materials, labor, and overhead, is generally determined using the first in, first out (FIFO) method. The estimated net realizable value is based on assumptions for future demand and related pricing. Adjustments to the cost basis of our inventory are made for excess and obsolete items based on usage, orders, and technological obsolescence. If actual market conditions are less favorable than those projected by management, reductions in the value of inventory may be required.

Goodwill and other intangible assets

As of December 31, 2017, our consolidated balance sheet included goodwill of $539.8 million and other intangible assets of $226.7 million.

Our business acquisitions typically result in goodwill and other intangible assets, which affect the amount of future period amortization expense and possible impairment expense. The determination of the value of such intangible assets requires management to make estimates and assumptions that affect our consolidated financial statements.

In accordance with U.S. GAAP, our goodwill and indefinite-lived intangible assets are not amortized, but are evaluated for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that an asset might be impaired. The annual evaluations of goodwill and indefinite-lived intangible assets are generally based on an assessment of qualitative factors to determine whether it is more likely than not that the fair value of the asset is less than its carrying amount.

If we are unable to conclude whether the goodwill asset is not impaired after considering the totality of events and circumstances during our qualitative assessment, we perform the first step of the two-step impairment test by estimating the fair value of the goodwill asset and comparing the fair value to the carrying amount of the goodwill asset. If the carrying amount of the goodwill asset exceeds its fair value, then we perform the second step of the impairment test to measure the amount of the impairment loss, if any.

If we are unable to conclude whether the indefinite-lived intangible asset is not impaired after considering the totality of events and circumstances, we perform an impairment test to measure the amount of the impairment loss, if any.

Both the qualitative and quantitative evaluations consider operating results, business plans, economic conditions, and market data, among other factors. There are inherent uncertainties related to these factors and our judgment in applying them to the impairment analyses. Our assessments to date have indicated that there has been no impairment of these assets.

Should any of these estimates or assumptions change, or should we incur lower than expected operating performance or cash flows, including from a prolonged economic slowdown, we may experience a triggering event that requires a new fair value assessment for our reporting units, possibly prior to the required annual assessment. These types of events and resulting analysis could result in impairment charges for goodwill and other indefinite-lived intangible assets if the fair value estimate declines below the carrying value.

Our amortization expense related to intangible assets with finite lives may materially change should our estimates of their useful lives change.

Table of Contents

Income taxes

Income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect management's assessment of estimated future taxes to be paid on items in the consolidated financial statements. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax asset would increase income or equity in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of the net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

We plan to repatriate earnings from China, Switzerland, Germany, Luxembourg, the United Kingdom, and certain other countries in future years and expect the only additional cost associated with the repatriation of such earnings outside the United States will be withholding taxes. All other undistributed earnings are considered permanently reinvested.

The significant assumptions and estimates described in the preceding paragraphs are important contributors to our ultimate effective tax rate for each year in addition to our income mix from geographical regions. If any of our assumptions or estimates were to change, or should our income mix from our geographical regions change, our effective tax rate could be materially affected. Based on earnings before taxes of $574.2 million for the year ended December 31, 2017, each increase of $5.7 million in tax expense would increase our effective tax rate by 1%.

Revenue recognition

Revenue is recognized when title to a product has transferred and any significant customer obligations have been fulfilled. Standard shipping terms are generally FOB shipping point in most countries and, accordingly, title and risk of loss transfer upon shipment. In countries where title cannot legally transfer before delivery, we defer revenue recognition until delivery has occurred. We generally maintain the right to accept or reject a product return in our terms and conditions and also maintain appropriate accruals for outstanding credits. Shipping and handling costs charged to customers are included in total net sales and the associated expense is recorded in cost of sales for all periods presented. Other than a few small software applications, we do not sell software products without the related hardware instrument as the software is embedded in the instrument. Our products typically require no significant production, modification, or customization of the hardware or software that is essential to the functionality of the products. To the extent our solutions have a significant post-shipment obligation, revenue is deferred on the undelivered element until the obligation has been completed. We also sometimes enter into certain arrangements that require the separate delivery of multiple goods and/or services. These deliverables are accounted for separately if the deliverables have stand-alone value and the performance of undelivered items is probable and within our control. The allocation of revenue between the separate deliverables is typically based on the relative selling price at the time of the sale in accordance with a number of factors including service technician billing rates, time to install, and geographic location.

Certain products are also sold through indirect distribution channels whereby the distributor assumes any further obligations to the customer upon title transfer. Revenue is recognized on these products upon transfer of title and risk of loss to distributors. Distributor discounts are offset against revenue at the time such revenue is recognized.

Table of Contents

Service revenue not under contract is recognized upon the completion of the service performed. Spare parts sold on a stand-alone basis are recognized upon title and risk of loss transfer which are generally at the time of shipment. Revenues from service contracts are recognized ratably over the contract period. These contracts represent an obligation to perform repair and other services including regulatory compliance qualification, calibration, certification, and preventative maintenance on a customer's pre-defined equipment over the contract period. Service contracts are separately priced and payment is typically received from the customer at the beginning of the contract period.

New Accounting Pronouncements

See Note 2 to the audited consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Discussion of this item is included in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 8. Financial Statements and Supplementary Data

The financial statements required by this item are set forth starting on page F-1 and the related financial schedule is set forth on page S-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer, Principal Financial Officer, and Principal Accounting Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer, Principal Financial Officer, and Principal Accounting Officer have concluded that these disclosure controls and procedures are effective.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated

Table of Contents

Framework (2013). Based on our assessment, we concluded that, as of December 31, 2017, the Company's internal control over financial reporting is effective.

PricewaterhouseCoopers LLP, an independent registered public accounting firm that audited the financial statements included in this Report on Form 10-K, has issued their integrated audit report, which covers our internal control over financial reporting, which appears on page F-2.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Table of Contents

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The executive officers of the Company are set forth below. Officers are appointed by the Board of Directors and serve at the discretion of the Board.

Name	Age	Position
Olivier A. Filliol	51	President and Chief Executive Officer
Peter Aggersbjerg	49	Head of Laboratory
Marc de La Guéronnière	54	Head of European and North American Market Organizations
William P. Donnelly	56	Executive Vice President
Michael Heidingsfelder	57	Head of Industrial
Simon Kirk	58	Head of Product Inspection
Christian Magloth	52	Head of Human Resources
Waldemar Rauch	55	Head of Process Analytics
Shawn P. Vadala	49	Chief Financial Officer

Olivier A. Filliol has been a director since January 2009. He has been President and Chief Executive Officer of the Company since January 1, 2008. Mr. Filliol served as Head of Global Sales, Service, and Marketing of the Company from April 2004 to December 2007 and Head of Process Analytics of the Company from June 1999 to December 2007. From June 1998 to June 1999, he served as General Manager of the Company’s U.S. checkweighing operations. Prior to joining the Company, he was a Strategy Consultant with the international consulting firm Bain & Company, working in the Geneva, Paris, and Sydney offices.

Peter Aggersbjerg has been Head of Laboratory of the Company since January 2018. From February 2016 to December 2017, he served as the Head of our Laboratory Weighing strategic business unit. He served as the Global BU Head for Medela's Neonatal Care business and a member of their Group management from February 2011 until joining the Company in February 2016. Prior to Medela, Mr. Aggersbjerg was CEO for Swissimplant from July 2010 to February 2011, Vernal from October 2006 to December 2008, and Tytex from October 2001 to October 2006.

Marc de La Guéronnière has been Head of European Market Organizations of the Company since January 2008 and Head of North American Market Organizations since April 2014. He was Head of Region South and General Manager of the Company’s market organization in Spain from January 2006 to January 2008. He joined the Company in 2001 as the Industrial Business Area Manager for our market organization in France. Prior to joining the Company, Mr. de La Guéronnière held various management positions in Europe and the United States with ABB-Elsag Bailey and Danaher-Zellweger.

William P. Donnelly joined the Company in 1997 and has been Executive Vice President since January 2014. He previously served as Chief Financial Officer of the Company since 1997, except for a two-year period when he ran the Company’s Product Inspection and Pipette businesses. Mr. Donnelly is responsible for Investor Relations, Finance, Supply Chain Management, Information Technology, and the Company’s Blue Ocean Program.

Michael Heidingsfelder joined the Company in April 2012 as Head of Industrial Division. Prior to joining the Company, Mr. Heidingsfelder held various management positions within the Freudenberg Group from 2004 to March 2012 in Europe, Asia, and the Americas, including Chief Operating Officer, Americas, and General Manager, China. Previously, he was a Partner of Roland Berger Strategy Consultants in the U.S. and Europe.

Table of Contents

Simon Kirk joined the Company in January 2012 as Head of Product Inspection. Previously, he worked at Schindler where he served since 2008 as Chief Executive Officer of Jardine Schindler Group, a joint venture responsible for all of Schindler's operations in Southeast Asia. From 2004 until 2008, he was Vice President responsible for Eastern Europe at Schindler. He has also held various management positions at Eaton Corporation, Owens Corning, Imperial Chemical Industries, and British Railways Board.

Christian Magloth joined the Company in October 2010 and has been Head of Human Resources since December 2010. Prior to joining the Company, he served as Head of Human Resources of Straumann, a leading global medical devices company listed on the Swiss stock exchange, from April 2006 to September 2010. He previously served as Head of Human Resources at Hero Group, an international consumer foods company, and in various management positions at Hilti, a leading global construction supply company.

Waldemar Rauch joined the Company in September 2000 as Head of our Ingold business. He has served as Operating Manager since March 2004, was named Head of Process Analytics Division in January 2008, and joined the Group Management Committee in July 2011. Prior to joining the Company, he worked in R&D at Siemens in Germany and held various technical management positions with Atomika Instruments in Germany as well as with Endress + Hauser Flowtec, a leading Swiss supplier of industrial measurement and automation equipment.

Shawn P. Vadala joined the Company in 1997 and has been Chief Financial Officer since January 2014. He is also responsible for the Company's Pricing and Business Intelligence programs. Mr. Vadala previously held various senior financial positions at the Company's Columbus, Ohio and Greifensee, Switzerland offices. Prior to joining the Company, he worked in the Boston and Zurich, Switzerland offices of PricewaterhouseCoopers.

Certifications

Our Chief Executive Officer and Chief Financial Officer provide certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 in connection with our quarterly and annual financial statement filings with the Securities and Exchange Commission. The certifications relating to this annual report are attached as Exhibits 31.1 and 31.2.

The remaining information called for by this item is incorporated by reference from the discussion in the sections “Proposal One: Election of Directors,” “Board of Directors — General Information,” “Board of Directors — Operation,” and “Additional Information — Section 16(a) Beneficial Ownership Reporting Compliance” in the 2018 Proxy Statement.

Item 11. Executive Compensation

The information appearing in the sections captioned “Board of Directors — General Information —Director Compensation,” “Compensation Discussion and Analysis,” “Compensation Committee Report,” and “Additional Information — Compensation Committee Interlocks and Insider Participation” in the 2018 Proxy Statement is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information appearing in the section “Share Ownership” in the 2018 Proxy Statement is incorporated by reference herein. Information appearing in “Securities Authorized for Issuance under Equity Compensation Plans as of December 31, 2017” is included within Note 11 to the financial statements.

Table of Contents

Item 13. Certain Relationships and Related Transactions and Director Independence

Certain Relationships and Related Transactions — None.

Director Independence — The information in the section "Board of Directors — General Information — Independence of the Board" in the 2018 Proxy Statement is incorporated by reference herein.

Item 14. Principal Accounting Fees and Services

Information appearing in the section "Audit Committee Report" in the 2018 Proxy Statement is hereby incorporated by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Exhibits, Financial Statements, and Schedules:

1. Financial Statements. See Index to Consolidated Financial Statements included on page F-1.
2. Financial Statement Schedule. See Schedule II, which is included on page S-1.
3. List of Exhibits. See Exhibit Index included on page E-1.

51

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Mettler-Toledo International Inc.
(Registrant)
Date: February 8, 2018
By: /s/ Olivier A. Filliol
Olivier A. Filliol
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant as of the date set out above and in the capacities indicated.

Signature	Title
/s/ Olivier A. Filliol Olivier A. Filliol	President and Chief Executive Officer
/s/ William P. Donnelly William P. Donnelly	Executive Vice President
/s/ Shawn P. Vadala Shawn P. Vadala	Chief Financial Officer
/s/ Olivier A. Filliol Olivier A. Filliol	Director
/s/ Wah-Hui Chu Wah-Hui Chu	Director
/s/ Francis A. Contino Francis A. Contino	Director
/s/ Elisha Finney Elisha Finney	Director
/s/ Richard Francis Richard Francis	Director
/s/ Connie L. Harvey Connie L. Harvey	Director
/s/ Michael A. Kelly Michael A. Kelly	Director
/s/ Hans Ulrich Maerki Hans Ulrich Maerki	Director
/s/ Thomas P. Salice	Director

Thomas P. Salice

/s/ Robert F. Spoerry Robert F. Spoerry	Director

52

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Company (1)
3.2	Amended By-laws of the Company, effective as of November 3, 2016 (2)
10.1	Credit Agreement among Mettler-Toledo International Inc., certain of its subsidiaries, JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, and certain other financial institutions, dated as of December 17, 2015 (3)
10.11	Note Purchase Agreement dated as of October 10, 2012 by and among Mettler-Toledo International Inc., Massachusetts Mutual Life Insurance Company, C.M. Life Insurance Company, MassMutual Asia Limited, The Lincoln National Life Insurance Company, Lincoln Life & Annuity Company of New York and Aviva Life and Annuity Company Royal Neighbors of America (4)
10.12	Note Purchase Supplement dated July 29, 2013 by and among Mettler-Toledo International Inc., Aviva Life and Annuity Company and Teachers Insurance and Annuity Association of America to a Note Purchase Agreement dated October 10, 2012 by and among Mettler-Toledo International Inc., Massachusetts Mutual Life Insurance Company, C.M. Life Insurance Company, MassMutual Asia Limited, The Lincoln National Life Insurance Company, Lincoln Life & Annuity Company of New York and Aviva Life and Annuity Company Royal Neighbors of America (5)
10.13	Note Purchase Agreement dated as of June 27, 2014 by and among Mettler-Toledo International Inc., Babson Capital Management LLC, Cigna Investments, Inc. and Teachers Insurance and Annuity Association of America (6)
10.14	Note Purchase Agreement dated as of March 31, 2015 by and among Mettler-Toledo International Inc., Metropolitan Life Insurance Company, MetLife Insurance Company USA, OMI MLIC Investments Limited and Massachusetts Mutual Life Insurance Company (7)
10.20	Mettler-Toledo International Inc. 2004 Equity Incentive Plan (8)
10.21	Mettler-Toledo International Inc. 2007 Share Plan, effective February 7, 2008 (9)
10.22	Mettler-Toledo International Inc. 2013 Equity Incentive Plan (10)
10.23	Form of Restricted Stock Unit Agreement (11)
10.24	Form of Performance Share Unit Agreement (11)
10.25	Performance Stock Option Agreement (11)
10.26	Form of Stock Option Agreement Directors (11)
10.27	Form of Stock Option Agreement CEO (11)
10.28	Form of Stock Option Agreement NEOs (11)
10.31	Regulations of the POBS PLUS — Incentive Scheme for Senior Management of Mettler Toledo, effective as of November, 2006 (12)
10.32	Regulations of the POBS PLUS — Incentive Scheme for Members of the Group Management of Mettler Toledo, effective as of January, 2009 (12)
10.50*	Employment Agreement between Peter Aggersbjerg and Mettler-Toledo International Inc., dated as of December 15, 2017
10.51	Employment Agreement between Marc de La Guéronnière and Mettler-Toledo International Inc., dated as of January 27, 2011 (13)
10.52	Employment Agreement between William Donnelly and Mettler-Toledo GmbH, dated as of November 10, 1997 (1)
10.53	Employment Agreement between Olivier Filliol and Mettler-Toledo International Inc., dated as of November 1, 2007 (14)
10.54	Employment Agreement between Michael Heidingsfelder and Mettler-Toledo International Inc., dated as of November 30, 2011 (16)
10.55	Employment Agreement between Simon Kirk and Mettler-Toledo International Inc., dated as of November 28, 2011 (16)
10.56	Employment Agreement between Christian Magloth and Mettler-Toledo International Inc., dated as of March 22, 2010 (13)
10.57	Employment Agreement between Waldemar Rauch and Mettler-Toledo International Inc., dated as of June 10, 2011 (15)
10.59	Employment Agreement between Shawn P. Vadala and Mettler-Toledo International Inc., dated as of October 24, 2016 (11)
10.60	Form of Tax Equalization Agreement between Messrs. Caratsch, Filliol, Kirk, Magloth, and Spoerry, and Mettler-Toledo International Inc., dated October 10, 2007 (9)
10.61	Amendment to Employment Agreement between William Donnelly and Mettler-Toledo International, Inc. dated November 3, 2016 (2)
21*	Subsidiaries of the Company
23.1*	Consent of PricewaterhouseCoopers LLP

E- 1

Exhibit No.	Description
31.1*	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32*	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

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(1) Incorporated by reference to the Company’s Report on Form 10-K dated March 13, 1998
(2) Incorporated by reference to the Company’s Report on Form 8-K dated November 8, 2016
(3) Incorporated by reference to the Company’s Report on Form 8-K dated December 18, 2015
(4) Incorporated by reference to the Company's Report on Form 8-K dated October 16, 2012
(5) Incorporated by reference to the Company's Report on Form 8-K dated July 29, 2013
(6) Incorporated by reference to the Company's Report on Form 8-K dated July 2, 2014
(7) Incorporated by reference to the Company's Report on Form 8-K dated March 31, 2015
(8) Incorporated by reference to the Company’s Form DEF 14-A filed March 29, 2004
(9) Incorporated by reference to the Company’s Report on Form 10-K dated February 15, 2008
(10) Incorporated by reference to the Company's Registration Statement on Form S-8 dated July 26, 2013 (Reg. No. 333-190181)
(11) Incorporated by reference to the Company’s Report on Form 10-K dated February 2, 2017
(12) Incorporated by reference to the Company’s Report on Form 10-K dated February 13, 2009
(13) Incorporated by reference to the Company's Report on Form 10-K dated February 16, 2011
(14) Incorporated by reference to the Company’s Report on Form 8-K dated November 1, 2007
(15) Incorporated by reference to the Company's Report on Form 10-K dated February 13, 2012
(16) Incorporated by reference to the Company's Report on Form 10-K dated February 8, 2013
*Filed herewith

METTLER-TOLEDO INTERNATIONAL INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Statements of Operations for the years ended December 31, 2017, 2016, and 2015	F-4
Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016, and 2015	F-5
Consolidated Balance Sheets as of December 31, 2017 and 2016	F-6
Consolidated Statements of Shareholders’ Equity for the years ended December 31, 2017, 2016, and 2015	F-7
Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016, and 2015	F-8
Notes to the Consolidated Financial Statements	F-9

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Mettler-Toledo International Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Mettler-Toledo International Inc. and its subsidiaries as of December 31, 2017 and 2016 and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2017 appearing on page S-1 (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017 based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for the excess tax benefits from stock option exercises in 2017.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and

Table of Contents

operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Columbus, Ohio
February 8, 2018

We have served as the Company's auditor since 2005.

Table of Contents

METTLER-TOLEDO INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended December 31
(In thousands, except share data)

	2017	2016	2015
Net sales			
Products	$2,135,051	$1,957,879	$1,865,884
Service	590,002	550,378	529,563
Total net sales	2,725,053	2,508,257	2,395,447
Cost of sales			
Products	833,793	767,753	744,867
Service	317,947	304,917	298,587
Gross profit	1,573,313	1,435,587	1,351,993
Research and development	129,265	119,968	119,076
Selling, general, and administrative	787,464	732,622	700,810
Amortization	42,671	36,052	30,951
Interest expense	32,785	28,026	27,451
Restructuring charges	12,772	6,235	11,148
Other charges (income), net	(5,866)	8,491	(867)
Earnings before taxes	574,222	504,193	463,424
Provision for taxes	198,250	119,823	110,604
Net earnings	$375,972	$384,370	$352,820
Basic earnings per common share:			
Net earnings	$14.62	$14.49	$12.75
Weighted average number of common shares	25,713,575	26,517,768	27,680,918
Diluted earnings per common share:			
Net earnings	$14.24	$14.22	$12.48
Weighted average number of common and common equivalent shares	26,393,783	27,023,905	28,269,615

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

Table of Contents

METTLER-TOLEDO INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31
(In thousands, except share data)

	2017	2016	2015
Net earnings	$375,972	$384,370	$352,820
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	83,982	(57,928)	(52,434)
Unrealized gains (losses) on cash flow hedging arrangements:			
Unrealized gains (losses)	1,424	(513)	13,221
Effective portion of (gains) losses included in net earnings	(273)	(4,735)	(8,261)
Defined benefit pension and post-retirement plans:			
Net actuarial gains (losses)	(10,378)	(47,788)	(30,759)
Plan amendments and prior service cost	12,056	—	9,189
Amortization of actuarial (gains) losses and plan amendments and prior service cost	14,873	16,730	9,509
Impact of foreign currency	(12,092)	5,885	5,835
Total other comprehensive income (loss), net of tax	89,592	(88,349)	(53,700)
Comprehensive income	$465,564	$296,021	$299,120

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

Table of Contents

METTLER-TOLEDO INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS
As of December 31
(In thousands, except share data)

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$148,687	$158,674
Trade accounts receivable, less allowances of $15,549 in 2017 and $14,234 in 2016	528,615	454,988
Inventories	255,390	222,047
Other current assets and prepaid expenses	74,031	61,075
Total current assets	1,006,723	896,784
Property, plant, and equipment, net	668,271	563,707
Goodwill	539,838	476,378
Other intangible assets, net	226,718	167,055
Deferred tax assets, net	41,425	33,951
Other non-current assets	66,830	28,902
Total assets	$2,549,805	$2,166,777
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$167,627	$146,593
Accrued and other liabilities	152,834	133,167
Accrued compensation and related items	170,159	140,461
Deferred revenue and customer prepayments	107,166	100,330
Taxes payable	72,210	47,990
Short-term borrowings and current maturities of long-term debt	19,677	18,974
Total current liabilities	689,673	587,515
Long-term debt	960,170	875,056
Deferred tax liabilities, net	51,230	64,306
Other non-current liabilities	301,452	204,957
Total liabilities	2,002,525	1,731,834
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Preferred stock, $0.01 par value per share; authorized 10,000,000 shares	—	—
Common stock, $0.01 par value per share; authorized 125,000,000 shares; issued 44,786,011 and 44,786,011 shares, outstanding 25,541,393 and 26,020,234 shares at December 31, 2017 and 2016, respectively	448	448
Additional paid-in capital	747,138	730,556
Treasury stock at cost (19,244,618 and 18,765,777 shares at December 31, 2017 and 2016, respectively)	(3,368,182)	(3,006,771)
Retained earnings	3,433,282	3,065,708
Accumulated other comprehensive income (loss)	(265,406)	(354,998)
Total shareholders' equity	547,280	434,943
Total liabilities and shareholders' equity	$2,549,805	$2,166,777

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

Table of Contents

METTLER-TOLEDO INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended December 31
(In thousands, except share data)

	Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance at December 31, 2014	28,243,007	$ 448	$ 670,418	$ (2,095,656)	$ 2,357,334	$ (212,949)	$ 719,595
Exercise of stock options and restricted stock units	403,908	—	—	47,393	(17,837)	—	29,556
Repurchases of common stock	(1,556,797)	—	—	(494,966)	—	—	(494,966)
Tax benefit resulting from exercise of certain employee stock options	—	—	12,929	—	—	—	12,929
Share-based compensation	—	—	14,223	—	—	—	14,223
Net earnings	—	—	—	—	352,820	—	352,820
Other comprehensive income (loss), net of tax	—	—	—	—	—	(53,700)	(53,700)
Balance at December 31, 2015	27,090,118	$ 448	$ 697,570	$ (2,543,229)	$ 2,692,317	$ (266,649)	$ 580,457
Exercise of stock options and restricted stock units	278,623	—	—	36,450	(10,979)	—	25,471
Repurchases of common stock	(1,348,507)	—	—	(499,992)	—	—	(499,992)
Tax benefit resulting from exercise of certain employee stock options	—	—	17,680	—	—	—	17,680
Share-based compensation	—	—	15,306	—	—	—	15,306
Net earnings	—	—	—	—	384,370	—	384,370
Other comprehensive income (loss), net of tax	—	—	—	—	—	(88,349)	(88,349)
Balance at December 31, 2016	26,020,234	$ 448	$ 730,556	$ (3,006,771)	$ 3,065,708	$ (354,998)	$ 434,943
Exercise of stock options and restricted stock units	270,413	—	—	38,586	(9,937)	—	28,649
Repurchases of common stock	(749,254)	—	—	(399,997)	—	—	(399,997)
Share-based compensation	—	—	16,582	—		—	16,582
Effect of accounting change (Note 2)	—	—		—	1,539	—	1,539
Net earnings	—	—	—	—	375,972	—	375,972
Other comprehensive income (loss), net of tax	—	—	—	—	—	89,592	89,592
Balance at December 31, 2017	25,541,393	$ 448	$ 747,138	$ (3,368,182)	$ 3,433,282	$ (265,406)	$ 547,280

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

Table of Contents

METTLER-TOLEDO INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31
(In thousands)

	2017	2016	2015
Cash flows from operating activities:			
Net earnings	$375,972	$384,370	$352,820
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	33,458	32,743	33,087
Amortization	42,671	36,052	30,951
Deferred tax (benefit) provision	(2,745)	1,878	7,137
Share-based compensation	16,582	15,306	14,223
Provisional one-time charge on US tax reform (see Note 13)	71,982	—	—
Gain on facility sale	(3,394)	—	—
Non-cash pension settlement charge	—	8,189	—
Other	243	181	155
Increase (decrease) in cash resulting from changes in:			
Trade accounts receivable, net	(38,985)	(52,151)	1,625
Inventories	(13,680)	(12,431)	(18,785)
Other current assets	(6,251)	291	(5,119)
Trade accounts payable	11,885	9,633	1,698
Taxes payable	13,615	(3,072)	2,879
Accruals and other	14,972	39,769	19,126
Net cash provided by operating activities	516,325	460,758	439,797
Cash flows from investing activities:			
Proceeds from sale of property, plant, and equipment	11,973	423	949
Purchase of property, plant, and equipment	(127,426)	(123,957)	(82,506)
Acquisitions	(108,445)	(111,381)	(13,779)
Net hedging settlements on intercompany loans	6,554	3,459	(5,415)
Net cash used in investing activities	(217,344)	(231,456)	(100,751)
Cash flows from financing activities:			
Proceeds from borrowings	1,244,195	905,774	741,864
Repayments of borrowings	(1,185,172)	(594,178)	(594,477)
Proceeds from exercise of stock options	28,649	25,471	29,556
Repurchases of common stock	(399,997)	(499,992)	(494,966)
Acquisition contingent consideration paid	—	(471)	(572)
Other financing activities	(7,205)	(209)	(1,366)
Net cash used in financing activities	(319,530)	(163,605)	(319,961)
Effect of exchange rate changes on cash and cash equivalents	10,562	(5,910)	(5,461)
Net increase (decrease) in cash and cash equivalents	(9,987)	59,787	13,624
Cash and cash equivalents:			
Beginning of period	158,674	98,887	85,263
End of period	$148,687	$158,674	$98,887
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$33,333	$28,025	$27,303
Taxes	$109,730	$92,586	$85,458

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

F-8

Table of Contents

METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data, unless otherwise stated)

1. BUSINESS DESCRIPTION AND BASIS OF PRESENTATION

Mettler-Toledo International Inc. ("Mettler-Toledo" or the "Company") is a leading global supplier of precision instruments and services. The Company manufactures weighing instruments for use in laboratory, industrial, packaging, logistics, and food retailing applications. The Company also manufactures several related analytical instruments and provides automated chemistry solutions used in drug and chemical compound discovery and development. In addition, the Company manufactures metal detection and other end-of-line inspection systems used in production and packaging and provides solutions for use in certain process analytics applications. The Company's primary manufacturing facilities are located in China, Switzerland, the United States, Germany, the United Kingdom, and Mexico. The Company's principal executive offices are located in Columbus, Ohio and Greifensee, Switzerland.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include all entities in which the Company has control, which are its wholly-owned subsidiaries.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

All intercompany transactions and balances have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturity dates of three months or less. The carrying value of these cash equivalents approximates fair value.

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts represents the Company's best estimate of probable credit losses in its existing trade accounts receivable. The Company determines the allowance based upon a review of both specific accounts for collection and the age of the accounts receivable portfolio.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost, which includes direct materials, labor, and overhead, is generally determined using the first in, first out (FIFO) method. The estimated net realizable value is based on assumptions for future demand and related pricing. Adjustments to the cost basis of the Company's inventory are made for excess and obsolete items based on usage, orders, and technological obsolescence. If actual market conditions are less favorable than those projected by management, reductions in the value of inventory may be required.

Table of Contents
METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(In thousands, except share data, unless otherwise stated)

Long-Lived Assets

a) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost less accumulated depreciation. Repair and maintenance costs are charged to expense as incurred. The Company expenses all internal-use software costs incurred in the preliminary project stage and capitalizes certain direct costs associated with the development and purchase of internal-use software within property, plant, and equipment. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of the software, generally not exceeding 10 years.

Depreciation and amortization are charged on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	15 to 50 years
Machinery and equipment	3 to 12 years
Computer software	3 to 10 years
Leasehold improvements	Shorter of useful life or lease term

b) Goodwill and Other Intangible Assets

Goodwill, representing the excess of purchase price over the net asset value of companies acquired, and indefinite-lived intangible assets are not amortized, but are reviewed for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that an asset might be impaired. The annual evaluations of goodwill and indefinite-lived intangible assets are generally based on an assessment of qualitative factors to determine whether it is more likely than not that the fair value of the asset is less than its carrying amount.

If the Company is unable to conclude whether the goodwill asset is not impaired after considering the totality of events and circumstances during its qualitative assessment, the Company performs the first step of the two-step impairment test by estimating the fair value of the goodwill asset and comparing the fair value to the carrying amount of the goodwill asset. If the carrying amount of the goodwill asset exceeds its fair value, then the Company performs the second step of the impairment test to measure the amount of the impairment loss, if any.

If the Company is unable to conclude whether the indefinite-lived intangible asset is not impaired after considering the totality of events and circumstances, the Company performs an impairment test to measure the amount of the impairment loss, if any.

Other intangible assets include indefinite-lived assets and assets subject to amortization. Where applicable, amortization is charged on a straight-line basis over the expected period to be benefited. The straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefits obtained by the Company in each reporting period. The Company assesses the initial acquisition of intangible assets in accordance with the provisions of ASC 805 "Business Combinations" and the continued accounting for previously recognized intangible assets and goodwill in accordance with the provisions of ASC 350 "Intangible - Goodwill and Other" and ASC 360 "Property, Plant, and Equipment."

Accounting for Impairment of Long-Lived Assets

The Company assesses the need to record impairment losses on long-lived assets with finite lives when events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. An impairment loss would be recognized when future estimated undiscounted cash flows expected to result from use of the asset are less than the asset's carrying value, with the loss measured as the difference between carrying value and estimated fair value.

Taxation

The Company files tax returns in each jurisdiction in which it operates. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in the respective jurisdictions in which the Company operates. In assessing the ability to realize deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Deferred taxes are not provided on the unremitted earnings of subsidiaries outside of the United States when it is expected that these earnings are permanently reinvested. Such earnings may become taxable upon the sale or liquidation of these subsidiaries or upon the remittance of dividends. Deferred taxes are provided when the Company no longer considers subsidiary earnings to be permanently invested, such as in situations where the Company's subsidiaries plan to make future dividend distributions.

The Company recognizes accrued amounts of interest and penalties related to its uncertain tax positions as part of income tax expense within its consolidated statement of operations.

Currency Translation and Transactions

The reporting currency for the consolidated financial statements of the Company is the U.S. dollar. The functional currency for the Company's operations is generally the applicable local currency. Accordingly, the assets and liabilities of companies whose functional currency is other than the U.S. dollar are included in the consolidated financial statements by translating the assets and liabilities into the reporting currency at the exchange rates applicable at the end of the reporting period. The statements of operations and cash flows of such non-U.S. dollar functional currency operations are translated at the monthly average exchange rates during the year. Translation gains or losses are accumulated in other comprehensive income (loss) in the consolidated statements of shareholders' equity. Transaction gains and losses are included as a component of net earnings or in certain circumstances as a component of other comprehensive income (loss) where the underlying item is considered a hedge of a net investment or intercompany notes that are long-term in nature.

Revenue Recognition

Revenue is recognized when title to a product has transferred and any significant customer obligations have been fulfilled. Standard shipping terms are generally FOB shipping point in most countries and, accordingly, title and risk of loss transfer upon shipment. In countries where title cannot legally transfer before delivery, the Company defers revenue recognition until delivery has occurred. The Company generally maintains the right to accept or reject a product return in its terms and conditions and also maintains appropriate accruals for outstanding credits. Shipping and handling costs charged to

customers are included in total net sales and the associated expense is recorded in cost of sales for all periods presented. Other than a few small software applications, the Company does not sell software products without the related hardware instrument as the software is embedded in the instrument. The Company’s products typically require no significant production, modification, or customization of the hardware or software that is essential to the functionality of the products. To the extent the Company’s solutions have a significant post-shipment obligation, revenue is deferred on the undelivered element until the obligation has been completed. The Company defers the installation portion of product revenue when installation is required, unless such installation is deemed perfunctory. The Company also sometimes enters into certain arrangements that require the separate delivery of multiple goods and/or services. These deliverables are accounted for separately if the deliverables have stand-alone value and the performance of undelivered items is probable and within the Company's control. The allocation of revenue between the separate deliverables is typically based on the relative selling price at the time of the sale in accordance with a number of factors including service technician billing rates, time to install, and geographic location.

Certain products are also sold through indirect distribution channels whereby the distributor assumes any further obligations to the customer upon title transfer. Revenue is recognized on these products upon transfer of title and risk of loss to distributors. Distributor discounts are offset against revenue at the time such revenue is recognized.

Service revenue not under contract is recognized upon the completion of the service performed. Spare parts sold on a stand-alone basis are recognized upon title and risk of loss transfer which are generally at the time of shipment. Revenues from service contracts are recognized ratably over the contract period. These contracts represent an obligation to perform repair and other services including regulatory compliance qualification, calibration, certification, and preventative maintenance on a customer’s pre-defined equipment over the contract period. Service contracts are separately priced and payment is typically received from the customer at the beginning of the contract period.

Research and Development

Research and development costs primarily consist of salaries, consulting, and other costs. The Company expenses these costs as incurred.

Warranty

The Company generally offers one-year warranties on most of its products. Product warranties are recorded at the time revenue is recognized. While the Company engages in extensive product quality programs and processes, its warranty obligations are affected by product failure rates, material usage, and service costs incurred in correcting a product failure.

Employee Termination Benefits

In situations where contractual termination benefits exist, the Company records accruals for employee termination benefits when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable. All other employee termination arrangements are recognized and measured at their fair value at the communication date unless the employee is required to render additional service beyond the legal notification period, in which case the liability is recognized ratably over the future service period.

Earnings per Common Share

In accordance with the treasury stock method, the Company has included 680,208, 506,137, and 588,697 common equivalent shares in the calculation of diluted weighted average number of common shares for the years ended December 31, 2017, 2016, and 2015, respectively, relating to outstanding stock options and restricted stock units. The determination of the common share equivalents for 2017 includes the effect of the adoption of guidance ASU 2016-09 as described in Note 2.

Outstanding options and restricted stock units to purchase or receive 9,824, 102,017, and 112,562 shares of common stock for the years ended December 31, 2017, 2016, and 2015, respectively, have been excluded from the calculation of diluted weighted average number of common and common equivalent shares as such options and restricted stock units would be anti-dilutive.

Equity-Based Compensation

The Company applies the fair value methodology in accounting for its equity-based compensation plan.

Derivative Financial Instruments

The Company has limited involvement with derivative financial instruments and does not use them for trading purposes. As described more fully in Note 5, the Company enters into foreign currency forward exchange contracts to economically hedge certain short-term intercompany balances involving its international businesses. Such contracts limit the Company’s exposure to currency fluctuations on the items they hedge. These contracts are adjusted to fair market value as of each balance sheet date, with the resulting changes in fair value being recognized in other charges (income), consistent with the underlying hedged item.

The Company also enters into interest rate swap agreements and cross currency swaps in order to manage its exposure to changes in interest rates. The differential paid or received on interest rate swap agreements is recognized in interest expense over the life of the agreements as incurred. Floating to fixed interest rate swap agreements are accounted for as cash flow hedges. Changes in fair value of outstanding interest rate swap agreements that are effective as cash flow hedges are recognized in other comprehensive income as incurred.

Fair Value Measurements

The Company measures or monitors certain assets and liabilities on a fair value basis. Fair value is used on a recurring basis for assets and liabilities in which fair value is the primary basis of accounting, mainly derivative instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability. The Company applies the fair value hierarchy established under U.S. GAAP and when possible looks to active and observable markets to price identical assets and liabilities. If identical assets and liabilities are not traded in active markets, the Company looks to observable market data for similar assets and liabilities.

Business Combinations and Asset Acquisitions

The Company accounts for business acquisitions under the accounting standards for business combinations. The results of each acquisition are included in the Company's consolidated results as of the acquisition date. The purchase price of an acquisition is allocated to tangible and intangible assets and assumed liabilities based on their estimated fair values and any consideration in excess of the net assets acquired is recognized as goodwill. Acquisition transaction costs are expensed when incurred.

In circumstances where an acquisition involves a contingent consideration arrangement, the Company recognizes a liability equal to the fair value of the expected contingent payments as of the acquisition date. Subsequent changes in the fair value of the contingent consideration are recorded to other charges (income), net.

Recent Accounting Pronouncements

In January 2017, the Company adopted ASU 2016-09 to ASC 718 "Compensation - Stock Compensation." The primary impact of adoption was the recognition of excess tax benefits from stock option exercises within the provision for taxes rather than within shareholder's equity and a change in the determination of diluted earnings per common share. The Company adopted the guidance on a prospective basis, and the impact reduced the annual tax rate by 2% in 2017. In addition, the Company recognized additional deferred net tax assets of $1.5 million as a cumulative adjustment within shareholder's equity. The Company also classified on a retrospective basis the excess tax benefits from stock option exercises of $17.7 million and $12.9 million as operating activities in the prior period Statements of Cash Flows. For additional disclosure, see Note 13 to the consolidated financial statements.

In 2014, the FASB issued ASC 606 "Revenue from Contracts with Customers." ASC 606 provides authoritative guidance clarifying the principles for recognizing revenue under U.S. GAAP. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled, in exchange for those goods and services. The Company has completed its assessment of the new standard and expects the impact on its consolidated financial statements to be immaterial. Most of the Company's performance obligations are satisfied at the time the customer takes title, control, and risk of loss of the asset, which is generally upon shipment. The Company does not have variable pricing arrangements that are retrospective (except for rebate programs) or represent a material right to its customers. For transactions with multiple performance obligations, the new standard will not change the timing of revenue recognition or the allocation of the transaction price as the related goods and services are also sold separately and as such have standalone selling prices. Service contracts are recognized ratably over the contract period, which does not exceed a year. The guidance becomes effective for the year beginning January 1, 2018 and the Company will adopt the guidance using the modified retrospective approach.

In March 2017, the FASB issued ASU 2017-7 to ASC 715 "Compensation - Retirement Benefits," which will require the Company to report the non-service cost components of net periodic benefit cost in other charges (income), net. The new guidance must be applied retrospectively and becomes effective for the year beginning January 1, 2018. The non-service costs in 2017 and 2016 were a net benefit of $4.1 million and $9.8 million, respectively. The Company will reclass these amounts from selling, general, and administrative and cost of sales to other charges (income), net in the consolidated statement of operations.

In February 2016, the FASB issued ASU 2016-02 to ASC 842 "Leases." The accounting guidance primarily requires lessees to recognize most leases on their balance sheet as a right to use asset and a lease

liability, with the exception of short-term leases. A lessee will continue to recognize lease expense on a straight-line basis for leases classified as operating leases. The guidance will be adopted in 2019 and the Company is evaluating the adoption method it will elect upon implementation. The Company is in the process of reviewing all the current lease data and evaluating the impact of the adoption on the financial statements.
In August 2017, the FASB issued ASU 2017-12 to ASC 815 "Derivatives and Hedging," which modifies hedge accounting by making more hedge strategies eligible for hedge accounting, amending presentation and disclosure requirements, and changing how companies assess effectiveness. The intent is to simplify the application of hedge accounting and increase transparency of information about an entity’s risk management activities. The amended guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company early adopted the guidance which did not have an impact on the Company's consolidated results of operations and financial position.

3. ACQUISITIONS

In September 2017, the Company acquired all of the shares of Biotix, Inc., a manufacturer and distributor of plastic consumables associated with pipettes, including tips, tubes, and reagent reservoirs used in the life sciences market, based in the United States. The initial cash payment was $105 million and the Company may be required to pay additional cash consideration up to a maximum amount of $65 million based upon earnings thresholds in 2018 and 2019. The estimated fair value of the contingent consideration obligation at the acquisition date of $30.7 million relating to the Biotix acquisition was determined using a Monte Carlo simulation based on the Company's forecast of future results. Goodwill recorded in connection with the acquisition totaled $51.7 million, which is included in the Company's U.S. Operations segment. Identified intangible finite-life assets acquired include customer relationships of $49.5 million, technology and patents of $8.0 million, indefinite life tradenames of $7.1 million, and other intangibles of $0.6 million. The identifiable finite-life intangible assets will be amortized on a straight-line basis over periods ranging from 5 to 18 years and the annual aggregate amortization expense is estimated at $3.7 million. Net tangible assets acquired were $18.8 million and recorded at fair value in the consolidated financial statements.
In 2017, the Company also incurred additional acquisition payments totaling $3.8 million. Goodwill recorded in connection with these acquisitions totaled $0.3 million. The Company recorded $3.1 million of identified intangibles primarily pertaining to technology and patents in connection with these acquisitions, which will be amortized on a straight-line basis over 12 years.
In 2016, the Company acquired substantially all of the assets of Henry Troemner, LLC (Troemner), a supplier of lab equipment, weights, and weight calibration based in the United States for an aggregate purchase price of $95.8 million, which has been included into the Company's laboratory instrument offering. Goodwill recorded in connection with the acquisition totaled $33.8 million, which is included in the Company's U.S. Operations segment. The Company identified intangible assets which included customer relationships of $43.9 million, a tradename of $3.4 million, technology and patents of $2.9 million, and other intangibles of $0.5 million. The identifiable intangible assets will be amortized on a straight-line basis over periods ranging from 3 to 25 years and the annual aggregate amortization expense is estimated at $2.7 million. Net tangible assets acquired were $11.3 million and were recorded at estimated fair value in the consolidated financial statements at the acquisition date.

In 2016, the Company also incurred additional acquisition payments totaling $15.6 million. Goodwill recorded in connection with these acquisitions totaled $7.5 million. The Company also recorded $9.4 million of identified intangibles primarily pertaining to customer relationships in connection with these acquisitions, which will be amortized on a straight-line basis over 10 to 15 years.

4. INVENTORIES

Inventory consisted of the following at December 31:

	2017	2016
Raw materials and parts	$118,790	$100,408
Work-in-progress	43,035	41,454
Finished goods	93,565	80,185
Total inventory	$255,390	$222,047

5. FINANCIAL INSTRUMENTS

The Company has limited involvement with derivative financial instruments and does not use them for trading purposes. The Company enters into certain interest rate swap agreements in order to manage its exposure to changes in interest rates. At December 31, 2017, the interest payments associated with 77% of the Company's debt are fixed obligations. The amount of the Company's fixed obligation interest payments may change based upon the expiration dates of its interest rate swap agreement and the level and composition of its debt. The Company also enters into certain foreign currency forward contracts to limit the Company's exposure to currency fluctuations on the respective hedged items. As also mentioned in Note 9, the Company has designated its euro-denominated debt as a hedge of a portion of its net investment in a euro-denominated foreign subsidiary. For additional disclosures on the fair value of financial instruments, see Note 6.

Cash Flow Hedges

In June 2017, the Company entered into a cross currency swap arrangement designated as a cash flow hedge. The agreement converts $100 million of borrowings under the Company's credit facility into synthetic Swiss franc debt which allows the Company to effectively change the floating rate LIBOR-based interest payment to a fixed Swiss franc income of 0.01%. The swap began in June 2017 and matures in June 2019.

The Company has an interest rate swap agreement designated as a cash flow hedge. The agreement is a swap which has the effect of changing the floating rate LIBOR-based interest payments associated with $50 million in borrowings under the Company's credit agreement to a fixed obligation of 2.52% beginning in October 2015 and matures in October 2020.

In March 2015, the Company entered into a forward-starting interest rate swap agreement. The agreement changes the floating rate LIBOR-based interest payments associated with $100 million in borrowings under the Company's credit agreement to a fixed obligation of 2.25% beginning in February 2017 and matures in February 2022.

The Company's cash flow hedges are recorded gross at fair value in the consolidated balance sheet at December 31, 2017 and 2016 and disclosed in Note 6 to the consolidated financial statements. Amounts reclassified into other comprehensive income and the effective portions of the cash flow hedges are further disclosed in Note 10 to the consolidated financial statements. A derivative gain of $2.0 million

based upon interest rates at December 31, 2017 is expected to be reclassified from other comprehensive income (loss) to earnings in the next 12 months. Through December 31, 2017, no hedge ineffectiveness has occurred in relation to these cash flow hedges.

Other Derivatives

The Company enters into foreign currency forward contracts in order to economically hedge short-term trade and non-trade intercompany balances largely denominated in Swiss franc, other major European currencies, and the Chinese renminbi with its foreign businesses. In accordance with U.S. GAAP, these contracts are considered “derivatives not designated as hedging instruments.” Gains or losses on these instruments are reported in current earnings. The foreign currency forward contracts are recorded at fair value in the consolidated balance sheet at December 31, 2017 and 2016, as disclosed in Note 6 to the consolidated financial statements. The Company recognized in other charges (income), a net gain of $9.4 million and a net loss of $3.3 million during the years ended December 31, 2017 and 2016, respectively, which offset the related transaction gains (losses) associated with these contracts. At December 31, 2017 and 2016, these contracts had a notional value of $394.8 million and $353.0 million, respectively.

The Company may be exposed to credit losses in the event of nonperformance by the counterparties to its derivative financial instrument contracts. Counterparties are established banks and financial institutions with high credit ratings. The Company believes that such counterparties will be able to fully satisfy their obligations under these contracts.

6. FAIR VALUE MEASUREMENTS

At December 31, 2017 and 2016, the Company had derivative assets totaling $1.9 million and $0.8 million, respectively, and derivative liabilities totaling $2.4 million and $5.8 million, respectively. The fair values of the interest rate swap agreements, the cross currency swap agreement, and foreign currency forward contracts that economically hedge short-term intercompany balances are estimated based upon inputs from current valuation information obtained from dealer quotes and priced with observable market assumptions and appropriate valuation adjustments for credit risk. The Company has evaluated the valuation methodologies used to develop the fair values by dealers in order to determine whether such valuations are representative of an exit price in the Company’s principal market. In addition, the Company uses an internally developed model to perform testing on the valuations received from brokers. The Company has also considered both its own credit risk and counterparty credit risk in determining fair value and determined these adjustments were insignificant for the years ended December 31, 2017 and 2016.

The Company had $5.6 million and $21.5 million of cash equivalents at December 31, 2017 and 2016, respectively, the fair value of which is determined through quoted and corroborated prices in active markets. The fair value of cash equivalents approximates cost.

The fair value of the Company's fixed interest rate debt was estimated using Level 2 inputs, primarily discounted cash flow models, based on estimated current rates offered for similar debt under current market conditions for the Company. The fair value of the Company's fixed interest rate debt exceeds the carrying value by approximately $6.6 million and $4.2 million as of December 31, 2017 and December 31, 2016, respectively.

The fair value of the contingent consideration obligation of $30.9 million relating to the Biotix acquisition as of December 31, 2017 is based on the Company's forecast of future results. The fair value measurements are based on significant inputs not observable in the market and thus represent a Level 3 measurement.

Under U.S. GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement consists of observable and unobservable inputs that reflect the assumptions that a market participant would use in pricing an asset or liability.

A fair value hierarchy has been established that categorizes these inputs into three levels:

Level 1: Quoted prices in active markets for identical assets and liabilities

Level 2: Observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3: Unobservable inputs

The following table presents, for each of these hierarchy levels, the Company's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2017 and 2016:

	December 31, 2017				December 31, 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets:								
Cash equivalents	$5,616	$ —	$5,616	$ —	$21,513	$ —	$21,513	$ —
Foreign currency forward contracts not designated as hedging instruments	1,912	—	1,912	—	791	—	791	—
Total	$7,528	$ —	$7,528	$ —	$22,304	$ —	$22,304	$ —
Liabilities:								
Interest rate swap agreements	$1,292	$ —	$1,292	$ —	$3,630	$ —	$3,630	$ —
Cross currency swap agreement	106	—	106	—	—	—	—	—
Foreign currency forward contracts not designated as hedging instruments	986	—	986	—	2,123	—	2,123	—
Total	$2,384	$ —	$2,384	$ —	$5,753	$ —	$5,753	$ —

7. PROPERTY, PLANT, AND EQUIPMENT, NET

Property, plant, and equipment, net consisted of the following at December 31:

	2017	2016
Land	$58,046	$55,885
Building and leasehold improvements	300,850	247,883
Machinery and equipment	382,233	347,344
Computer software	436,249	372,065
Property, plant, and equipment, gross	1,177,378	1,023,177
Less accumulated depreciation and amortization	(509,107)	(459,470)
Property, plant, and equipment, net	$668,271	$563,707

Table of Contents
METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(In thousands, except share data, unless otherwise stated)

8. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill for the years ended December 31:

	2017	2016
Balance at beginning of year	$476,378	$446,284
Goodwill acquired	52,229	41,308
Foreign currency translation	11,231	(11,214)
Balance at year end	$539,838	$476,378

Goodwill and indefinite-lived assets are reviewed for impairment on an annual basis in the fourth quarter. The Company completed its impairment review and determined that, through December 31, 2017, there had been no impairment of these assets.

The components of other intangible assets as of December 31 are as follows:

	2017			2016		
	Gross Amount	Accumulated Amortization	Intangibles, Net	Gross Amount	Accumulated Amortization	Intangibles, Net
Customer relationships	$198,527	$ (41,794)	$ 156,733	$147,466	$ (34,672)	$ 112,794
Proven technology and patents	70,311	(38,890)	31,421	58,394	(35,128)	23,266
Tradenames (finite life)	4,518	(2,807)	1,711	4,182	(2,514)	1,668
Tradenames (indefinite life)	35,562	—	35,562	28,272	—	28,272
Other	3,490	(2,199)	1,291	2,871	(1,816)	1,055
	$312,408	$ (85,690)	$ 226,718	$241,185	$ (74,130)	$ 167,055

The Company recognized amortization expense associated with the above intangible assets of $11.5 million, $8.3 million, and $6.3 million for the years ended December 31, 2017, 2016, and 2015, respectively. The annual aggregate amortization expense based on the current balance of other intangible assets is estimated at $13.9 million for 2018, $13.4 million for 2019, $13.0 million for 2020, $12.4 million for 2021, and $11.9 million for 2022. The finite-lived intangible assets are amortized on a straight-line basis over periods ranging from 3 to 45 years. The straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefits obtained by the Company in each reporting period. Purchased intangibles amortization was $10.9 million, $7.1 million after tax, $7.4 million, $5.0 million after tax, and $5.7 million, $3.9 million after tax, for the years ended December 31, 2017, 2016, and 2015, respectively.

In addition to the above amortization, the Company recorded amortization expense associated with capitalized software of $31.0 million, $27.5 million, and $24.4 million for the years ended December 31, 2017, 2016, and 2015, respectively.

9. DEBT

Debt consisted of the following at December 31:

	2017	2016
3.67% $50 million Senior Notes due December 17, 2022	$50,000	$50,000
4.10% $50 million Senior Notes due September 19, 2023	50,000	50,000
3.84% $125 million Senior Notes due September 19, 2024	125,000	125,000
4.24% $125 million Senior Notes due June 25, 2025	125,000	125,000
1.47% EUR 125 million Senior Notes due June 17, 2030	149,736	131,507
Debt issuance costs, net	(1,438)	(1,642)
Total Senior Notes	498,298	479,865
$800 million Credit Agreement, interest at LIBOR plus 97.5 basis points[1]	461,872	395,191
Other local arrangements	19,677	18,974
Total debt	979,847	894,030
Less: current portion	(19,677)	(18,974)
Total long-term debt	$960,170	$875,056

(1) See Note 5 for additional disclosures on the financial instruments associated with the Credit Agreement.

3.67% Senior Notes

In 2012, the Company issued and sold $50 million of 3.67% Senior Notes due December 17, 2022 in a private placement. The 3.67% Senior Notes are senior unsecured obligations of the Company. Interest is payable semi-annually in June and December.

The 3.67% Senior Notes contain customary affirmative and negative covenants including, among others, limitations on the Company and its subsidiaries with respect to incurrence of liens and priority indebtedness, disposition of assets, mergers, and transactions with affiliates. The note purchase agreement also requires the Company to maintain a consolidated interest coverage ratio of not less than 3.5 to 1.0 and a consolidated leverage ratio of not more than 3.5 to 1.0. The 3.67% Senior Notes also contain customary events of default with customary grace periods, as applicable. The Company was in compliance with its covenants at December 31, 2017.

Issuance costs approximating $0.4 million are being amortized to interest expense over the ten-year term of the 3.67% Senior Notes.

4.10% Senior Notes

In 2013, the Company issued and sold $50 million of 4.10% Senior Notes due September 19, 2023 in a private placement. The 4.10% Senior Notes are senior unsecured obligations of the Company. Interest on the 4.10% Senior Notes is payable semi-annually in March and September each year.

The 4.10% Senior Notes contain customary affirmative and negative covenants, change in control, and prepayment provisions, that are substantially similar to those contained in the previously issued debt of the Company as described above. The 4.10% Senior Notes also contain customary events of default with customary grace periods, as applicable. The Company was in compliance with its covenants at December 31, 2017.

Issuance costs approximating $0.4 million are being amortized to interest expense over the ten-year term of the 4.10% Senior Notes.

3.84% Senior Notes and 4.24% Senior Notes

In 2014, the Company entered into an agreement to issue and sell $250 million of ten-year Senior Notes in a private placement. The Company issued $125 million with a fixed interest rate of 3.84% ("3.84% Senior Notes") in September 2014 and issued $125 million with a fixed interest rate of 4.24% ("4.24% Senior Notes") in June 2015. The Senior Notes are senior unsecured obligations of the Company. Interest on the 3.84% Senior Notes is payable semi-annually in March and September each year, beginning in March 2015. Interest on the 4.24% Senior Notes is payable semi-annually in June and December of each year, beginning in December 2015. The 4.24% Senior Notes were used to repay $100 million of 6.3% Senior Notes which were due June 25, 2015.

The 3.84% Senior Notes and 4.24% Senior Notes contain customary affirmative and negative covenants, change in control, and prepayment provisions, that are substantially similar to those contained in the previously issued debt of the Company as described above. The 3.84% Senior Notes and 4.24% Senior Notes also contain customary events of default with customary grace periods, as applicable. The Company was in compliance with its covenants at December 31, 2017.

Issuance costs approximating $0.9 million are being amortized to interest expense over the ten-year term of the Senior Notes.

1.47% Euro Senior Notes

In 2015, the Company issued in a private placement Euro 125 million with a fixed interest rate of 1.47% fifteen-year Senior Notes ("1.47% Euro Senior Notes"). The Euro Senior Notes are senior unsecured obligations of the Company. The Company has designated the 1.47% Euro Senior Notes as a hedge of a portion of its net investment in a euro denominated foreign subsidiary to reduce foreign currency risk associated with this net investment. Changes in the carrying value of this debt resulting from fluctuations in the euro to U.S. dollar exchange rate are recorded as foreign currency translation adjustments within other comprehensive income (loss). The Company recorded in other comprehensive income (loss) related to this net investment hedge an unrealized loss of $18.2 million and an unrealized gain of $5.1 million for the years ended December 31, 2017 and 2016, respectively.

Interest on the 1.47% Senior Notes is payable in June and December each year. The 1.47% Senior Notes contain customary affirmative and negative covenants, change in control, and prepayment provisions, that are substantially similar to those contained in the previously issued debt of the Company as described above. The 1.47% Senior Notes also contain customary events of default with customary grace periods, as applicable. The Company was in compliance with its covenants at December 31, 2017.

Issuance costs approximating $0.4 million are being amortized to interest expense over the fifteen-year term of the Euro Senior Notes.

Credit Agreement

In 2015, the Company entered into an $800 million Credit Agreement (the "Credit Agreement"), which amended its $800 million Amended and Restated Credit Agreement (the "Prior Credit Agreement"). The Credit Agreement is provided by a group of financial institutions (similar to the Company's Prior Credit Agreement) and has a maturity date of December 17, 2020. It is a revolving credit facility and is not subject to any scheduled principal payments prior to maturity. The obligations under the Credit Agreement are unsecured.

Borrowings under the Credit Agreement bear interest at current market rates plus a margin based on the Company's consolidated leverage ratio, which was set at LIBOR plus 97.5 basis points as of December 31, 2017. The Company must also pay facility fees that are tied to its leverage ratio. The Credit Agreement contains covenants that are substantially similar to those contained in the previously issued debt of the Company as described above, with which the Company was in compliance as of December 31, 2017. The Credit Agreement also places certain limitations on the Company, including limiting the ability to incur liens or indebtedness at a subsidiary level. In addition, the Credit Agreement has several events of default. The Company incurred approximately $0.1 million of debt extinguishment costs during 2015 related to the Prior Credit Agreement. The Company capitalized $1.1 million in financing fees during 2015 associated with the Credit Agreement which will be amortized to interest expense through 2020. During 2017, the Company increased its borrowing under the Credit Agreement by $66.7 million, which primarily was used to fund the Biotix acquisition as described in Note 3. As of December 31, 2017, approximately $332.6 million was available under the facility.

The Company's weighted average interest rate was 3.3% and 3.7% for the years ended December 31, 2017 and 2016, respectively.

10. SHAREHOLDERS' EQUITY

Common Stock

The number of authorized shares of the Company's common stock is 125,000,000 shares with a par value of $0.01 per share. Holders of the Company's common stock are entitled to one vote per share. At December 31, 2017, 3,436,176 shares of the Company's common stock were reserved for issuance pursuant to the Company's stock option plans.

Preferred Stock

The Board of Directors, without further shareholder authorization, is authorized to issue up to 10,000,000 shares of preferred stock, par value $0.01 per share in one or more series and to determine and fix the rights, preferences, and privileges of each series, including dividend rights and preferences over dividends on the common stock and one or more series of the preferred stock, conversion rights, voting rights (in addition to those provided by law), redemption rights, and the terms of any sinking fund therefore, and rights upon liquidation, dissolution, or winding up, including preferences over the common stock and one or more series of the preferred stock. The issuance of shares of preferred stock, or the issuance of rights to purchase such shares, may have the effect of delaying, deferring, or preventing a change in control of the Company or an unsolicited acquisition proposal.

Share Repurchase Program

The Company has a share repurchase program of which there was $583.4 million common shares remaining to be repurchased under the program as of December 31, 2017. The share repurchases are expected to be funded from cash balances, borrowings, and cash generated from operating activities. Repurchases will be made through open market transactions, and the amount and timing of purchases will depend on business and market conditions, the stock price, trading restrictions, the level of acquisition activity, and other factors.

The Company has purchased 26.7 million common shares since the inception of the program in 2004 through December 31, 2017, at a total cost of $3.9 billion. During the years ended December 31, 2017 and 2016, the Company spent $400 million and $500 million on the repurchase of 749,254 shares and

METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(In thousands, except share data, unless otherwise stated)

1,348,507 shares at an average price per share of $533.84 and $370.75, respectively. The Company reissued 270,413 shares and 278,623 shares held in treasury for the exercise of stock options and restricted stock units during 2017 and 2016, respectively.

Accumulated Other Comprehensive Income (Loss)

The following table presents changes in accumulated other comprehensive income by component for the period ended December 31, 2017 and 2016:

	Currency Translation Adjustment, Net of Tax	Net Unrealized Gain (Loss) on Cash Flow Hedging Arrangements, Net of Tax	Pension and Post-Retirement Benefit Related Items, Net of Tax	Total
Balance at December 31, 2015	$(57,394)	$ 3,016	$ (212,271)	$(266,649)
Other comprehensive income (loss), net of tax:				
Net unrealized actuarial gains (loss), prior service costs, and plan amendments	—	—	(47,788)	(47,788)
Net unrealized gains (loss) on cash flow hedging arrangements	—	(513)	—	(513)
Foreign currency translation adjustment	(57,928)	—	5,885	(52,043)
Amounts recognized from accumulated other comprehensive income (loss), net of tax	—	(4,735)	16,730	11,995
Net change in other comprehensive income (loss), net of tax	(57,928)	(5,248)	(25,173)	(88,349)
Balance at December 31, 2016	$(115,322)	$ (2,232)	$ (237,444)	$(354,998)
Other comprehensive income (loss), net of tax:				
Net unrealized actuarial gains (loss), prior service costs, and plan amendments	—	—	1,678	1,678
Net unrealized gains (loss) on cash flow hedging arrangements	—	1,424	—	1,424
Foreign currency translation adjustment	83,982	—	(12,092)	71,890
Amounts recognized from accumulated other comprehensive income (loss), net of tax	—	(273)	14,873	14,600
Net change in other comprehensive income (loss), net of tax	83,982	1,151	4,459	89,592
Balance at December 31, 2017	$(31,340)	$ (1,081)	$ (232,985)	$(265,406)

The following table presents amounts recognized from accumulated other comprehensive income (loss) for the twelve month period ended December 31, 2017 and 2016:

	2017	2016	Location of Amounts Recognized in Earnings
Effective portion of losses (gains) on cash flow hedging arrangements:			
Interest rate swap agreements	$ 1,679	$ 1,034	Interest expense
Cross currency swap	(1,416)	—	(a)
Foreign currency forward contracts	—	(6,756)	Cost of sales - products
Total before taxes	263	(5,722)	
Provision for taxes	536	(987)	Provision for taxes
Total, net of taxes	$ (273)	$ (4,735)	
Recognition of defined benefit pension and post-retirement items:			
Recognition of actuarial losses, plan amendments, prior service cost, and settlement charge before taxes	$ 20,137	$ 23,925	(b)
Provision for taxes	5,264	7,195	Provision for taxes
Total, net of taxes	$ 14,873	$ 16,730	

(a) The cross currency swap reflects an unrealized gain of $0.2 million recorded in other charges (income) that was offset by underlying unrealized loss on the hedged debt. The cross currency swap also reflects a realized gain of $1.2 million recorded in interest expense.

(b) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension and post-retirement cost. See Note 12 for additional details for the year ended December 31, 2017.

11. EQUITY INCENTIVE PLAN

The Company’s equity incentive plan provides employees and directors of the Company additional incentives to join and/or remain in the service of the Company as well as to maintain and enhance the long-term performance and profitability of the Company. The Company’s 2013 equity incentive plan was approved by shareholders on May 2, 2013 and provides that 2 million shares of common stock, plus any shares that remained available for grant under the Company's prior equity incentive plan as well as options outstanding that terminate without being exercised, may be the subject of awards. The plan provides for the grant of options, restricted stock units, and other equity-based awards. The exercise price of options granted shall not be less than the fair market value of the common stock on the date of the award. Options primarily vest equally over a five-year period from the date of grant and have a maximum term of up to ten years and six months. Restricted units primarily vest equally over a five-year period from the date of grant. Performance share units generally vest after a three-year period from the date of the grant based upon satisfaction of the performance condition. The compensation committee of the Board of Directors has generally granted restricted share units to participating managers and non-qualified stock options and performance share units to executive officers.

All share-based compensation arrangements granted to employees, including stock option grants, are recognized in the consolidated statement of operations based on the grant-date fair value of the award over the period during which an employee is required to provide service in exchange for the award. Share-based compensation expense is recorded within selling, general, and administrative in the consolidated

F-24

statement of operations with a corresponding offset to additional paid-in capital in the consolidated balance sheet. The fair values of stock options granted were calculated using the Black-Scholes pricing model. The aggregate intrinsic value of an option is the amount by which the fair value of the underlying stock exceeds its exercise price.
The following table summarizes all stock option activity from December 31, 2016 through December 31, 2017:

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2016	1,215,481	$192.63	$274.6
Granted	46,877	671.60	
Exercised	(245,562)	116.67	
Forfeited	(8,320)	241.83	
Outstanding at December 31, 2017	1,008,476	$232.99	$392.2
Options exercisable at December 31, 2017	755,407	$180.66	$331.5

The following table details the weighted average remaining contractual life of options outstanding at December 31, 2017 by range of exercise prices:

Number of Options Outstanding	Weighted Average Exercise Price	Remaining Contractual Life of Options Outstanding	Options Exercisable
102,357	$ 89.23	1.7	102,357
124,585	$ 133.00	2.8	124,585
298,180	$ 159.96	4.4	298,180
125,523	$ 244.99	5.9	100,716
357,831	$ 365.57	8.0	129,569
1,008,476		5.4	755,407

As of the date granted, the weighted average grant-date fair value of the options granted during the years ended December 31, 2017, 2016, and 2015 was $206.56, $118.31, and $92.81, respectively.
Such weighted average grant-date fair value was determined using the following assumptions:

	2017	2016	2015
Risk-free interest rate	2.00%	1.26%	1.65%
Expected life in years	5.8	5.7	5.7
Expected volatility	28 %	29 %	28 %
Expected dividend yield	—	—	—

The total intrinsic value of options exercised during the years ended December 31, 2017, 2016, and 2015 was approximately $105.6 million, $69.5 million, and $90.7 million, respectively.
The total fair value of options vested during the years ended December 31, 2017, 2016, and 2015 was approximately $8.3 million, $7.4 million, and $8.6 million, respectively.
During the fourth quarter of 2016, the Company granted 12,678 performance-based options, with a grant-date fair value of $1.5 million. Compensation expense is recognized over the five-year vesting provisions based upon the probability of the performance condition being met.

Table of Contents
METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(In thousands, except share data, unless otherwise stated)

The following table summarizes all restricted stock unit and performance share unit activity from December 31, 2016 through December 31, 2017:

	Number of Restricted Stock Units	Aggregate Intrinsic Value (in millions)	Number of Performance Share Units	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2016	70,547	$ 29.5	4,532	$ 1.9
Granted	13,202		3,518	
Vested	(24,851)		—	
Forfeited	(2,509)		—	
Outstanding at December 31, 2017	56,389	$ 34.9	8,050	$ 5.0

The weighted average grant-date fair value of the restricted stock units granted during years ended 2017 and 2016 was $671.60 and $397.95 per unit, respectively, and the restricted units vest ratably primarily over a five-year period. The total fair value of the restricted stock units on the date of grant of $8.7 million for 2017 and $8.3 million for 2016 will be recorded as compensation expense on a straight-line basis over the vesting period. The total fair value of restricted stock units vested during the years ended December 31, 2017, 2016, and 2015 was approximately $6.8 million, $6.3 million, and $6.0 million, respectively. Approximately $6.5 million and $6.4 million of compensation expense was recognized during the years ended December 31, 2017 and 2016, respectively.
The Company granted performance share units with a market condition. Grantees of performance share units will be eligible to receive shares of the Company's common stock depending upon the Company's total shareholder return relative to the performance of companies in the S&P 500 Healthcare and S&P 500 Industrials over a three-year period. The awards actually earned will range from zero to 200% of the targeted number of performance share units for the three-year performance period and will be paid, to the extent earned, in the fiscal quarter following the end of the applicable three-year performance period. These awards were valued using a monte carlo simulation based on the following assumptions:

	2017	2016
Risk-free interest rate	1.73%	0.98%
Expected life in years	3.0	3.0
Expected volatility	28 %	29 %
Expected dividend yield	—	—

As of the date granted, the fair value of the performance share units granted was $844.39 for 2017 and $470.17 for 2016, respectively. The total fair value of the performance share units on the date of the grant was $3.0 million for 2017 and $2.1 million for 2016 and will be recorded as compensation expense on a straight-line basis over the 3-year period.
At December 31, 2017, a total of 2,230,063 shares of common stock were available for grant in the form of stock options, restricted stock units, or performance share units.
As of December 31, 2017, the unrecorded deferred share-based compensation balance related to stock options, restricted stock units, and performance share units was $53.0 million and will be recognized using a straight-line method over an estimated weighted average amortization period of 2.3 years.

Table of Contents
METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(In thousands, except share data, unless otherwise stated)

12. BENEFIT PLANS

The Company maintains a number of retirement and other post-retirement employee benefit plans.
Certain subsidiaries sponsor defined contribution plans. Benefits are determined and funded annually based upon the terms of the plans. Amounts recognized as cost under these plans amounted to $17.2 million, $15.4 million, and $16 million for the years ended December 31, 2017, 2016, and 2015, respectively.
Certain subsidiaries sponsor defined benefit plans. Benefits are provided to employees primarily based upon years of service and employees' compensation for certain periods during the last years of employment. Prior to 2002, the Company's U.S. operations also provided post-retirement medical benefits to their employees. Contributions for medical benefits are related to employee years of service.
The following tables set forth the change in benefit obligation, the change in plan assets, the funded status, and amounts recognized in the consolidated financial statements for the Company's defined benefit plans and post-retirement plan at December 31, 2017 and 2016:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Benefits		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Change in benefit obligation:								
Benefit obligation at beginning of year	$138,155	$154,415	$838,277	$818,269	$2,985	$3,272	$979,417	$975,956
Service cost, gross	565	432	29,600	29,936	—	—	30,165	30,368
Interest cost	4,374	4,428	8,511	10,664	70	76	12,955	15,168
Actuarial losses (gains)	6,979	845	33,036	42,786	18	318	40,033	43,949
Plan amendments and other	—	—	(15,153)	—	137	150	(15,016)	150
Benefits paid	(7,502)	(21,965)	(30,356)	(33,977)	(537)	(831)	(38,395)	(56,773)
Impact of foreign currency	—	—	54,563	(29,401)	—	—	54,563	(29,401)
Benefit obligation at end of year	$142,571	$138,155	$918,478	$838,277	$2,673	$2,985	$1,063,722	$979,417
Change in plan assets:								
Fair value of plan assets at beginning of year	$104,103	$119,118	$716,169	$725,597	$—	$—	$820,272	$844,715
Actual return on plan assets	14,869	6,876	49,055	15,927	—	—	63,924	22,803
Employer contributions	97	74	22,961	22,291	400	681	23,458	23,046
Plan participants' contributions	—	—	13,503	13,277	137	150	13,640	13,427
Benefits paid	(7,502)	(21,965)	(30,356)	(33,977)	(537)	(831)	(38,395)	(56,773)
Impact of foreign currency and other	—	—	36,883	(26,946)	—	—	36,883	(26,946)
Fair value of plan assets at end of year	$111,567	$104,103	$808,215	$716,169	$—	$—	$919,782	$820,272
Funded status	$(31,004)	$(34,052)	$(110,263)	$(122,108)	$(2,673)	$(2,985)	$(143,940)	$(159,145)

Table of Contents
METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(In thousands, except share data, unless otherwise stated)

Amounts recognized in the consolidated balance sheets consist of:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Benefits		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Other non-current assets	$—	$—	$40,493	$10,530	$—	$—	$40,493	$10,530
Accrued and other liabilities	(88)	(92)	(4,990)	(4,293)	(411)	(467)	(5,489)	(4,852)
Pension and other post-retirement liabilities	(30,916)	(33,960)	(145,766)	(128,345)	(2,262)	(2,518)	(178,944)	(164,823)
Accumulated other comprehensive loss (income)	61,819	69,528	254,870	255,855	(2,365)	(5,057)	314,324	320,326
Total	$30,815	$35,476	$144,607	$133,747	$(5,038)	$(8,042)	$170,384	$161,181

The following amounts have been recognized in accumulated other comprehensive income (loss), before taxes, at December 31, 2017 and have not yet been recognized as a component of net periodic pension cost:

	U.S. Pension Benefits	Non-U.S. Pension Benefits	Other Benefits	Total	Total, After Tax
Plan amendments and prior service cost	$—	$(30,698)	$(372)	$(31,070)	$(24,289)
Actuarial losses (gains)	61,819	285,568	(1,993)	345,394	257,274
Total	$61,819	$254,870	$(2,365)	$314,324	$232,985

The following changes in plan assets and benefit obligations were recognized in other comprehensive income (loss), before taxes, for the year ended December 31, 2017:

	U.S. Pension Benefits	Non-U.S. Pension Benefits	Other Benefits	Total	Total, After Tax
Net actuarial losses (gains)	$(1,153)	$14,330	$ 18	$13,195	$10,378
Plan amendment	—	(15,153)	—	(15,153)	(12,056)
Amortization of:					
Actuarial (losses) gains	(6,556)	(23,144)	1,895	(27,805)	(20,821)
Plan amendments and prior service cost	—	6,897	779	7,676	5,948
Impact of foreign currency	—	16,085	—	16,085	12,092
Total	$(7,709)	$(985)	$ 2,692	$(6,002)	$(4,459)

The accumulated benefit obligations at December 31, 2017 and 2016 were $142.6 million and $138.2 million, respectively, for the U.S. defined benefit pension plan and $785.7 million and $818.9 million, respectively, for all non-U.S. plans. Certain of the plans included within non-U.S. pension benefits have accumulated benefit obligations which exceed the fair value of plan assets. The projected benefit obligation, the accumulated benefit obligation, and fair value of assets of these plans as of December 31, 2017 were $202.3 million, $192.0 million, and $50.0 million, respectively.

Table of Contents
METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(In thousands, except share data, unless otherwise stated)

The assumed discount rates and rates of increase in future compensation levels used in calculating the projected benefit obligations vary according to the economic conditions of the country in which the retirement plans are situated. The weighted average rates used for the purposes of the Company's plans are as follows:

	U.S.		Non-U.S.	
	2017	2016	2017	2016
Discount rate	3.49 %	3.97 %	0.97 %	0.98 %
Compensation increase rate	n/a	n/a	0.87 %	0.85 %
Expected long-term rate of return on plan assets	6.50 %	6.75 %	3.86 %	4.09 %

The assumed discount rates, rates of increase in future compensation levels, and the long-term rate of return used in calculating the net periodic pension cost vary according to the economic conditions of the country in which the retirement plans are situated. The weighted average rates used for the purposes of the Company's plans are as follows:

	U.S.			Non-U.S.		
	2017	2016	2015	2017	2016	2015
Discount rate	3.97 %	4.27 %	4.00 %	0.98 %	1.31 %	1.65 %
Compensation increase rate	n/a	n/a	n/a	0.85 %	1.03 %	1.61 %
Expected long-term rate of return on plan assets	6.75 %	7.25 %	7.50 %	4.09 %	4.58 %	4.82 %

Net periodic pension cost and net periodic post-retirement benefit for the defined benefit plans and U.S. post-retirement plan include the following components for the years ended December 31:

	U.S.			Non-U.S.			Other Benefits			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2
Service cost, net	$565	$432	$837	$16,341	$16,804	$18,664	$—	$—	$—	$16,906	$17,236	$
Interest cost on projected benefit obligations	4,374	4,428	6,431	8,511	10,664	14,071	70	76	139	12,955	15,168	2
Expected return on plan assets	(6,737)	(7,781)	(9,575)	(30,349)	(33,168)	(36,832)	—	—	—	(37,086)	(40,949)	(
Recognition of actuarial losses/(gains) and prior service costs	6,556	7,606	7,626	16,247	12,923	10,639	(2,674)	(4,567)	(5,247)	20,129	15,962	1
Settlement charge	—	7,963	—	—	—	—	—	—	—	—	7,963	–
Net periodic pension cost / (benefit)	$4,758	$12,648	$5,319	$10,750	$7,223	$6,542	$(2,604)	$(4,491)	$(5,108)	$12,904	$15,380	$

The amounts remaining in accumulated other comprehensive income (loss) that are expected to be recognized as a component of net periodic pension cost during 2018 are as follows:

	U.S. Pension Benefits	Non-U.S. Pension Benefits	Other Benefits	Total
Plan amendments and prior service costs	$ —	$(6,966)	$(372)	$(7,338)

Actuarial losses (gains)	5,804	21,620	(1,250)	26,174
Total	$ 5,804	$ 14,654	$ (1,622)	$ 18,836

The projected post-retirement benefit obligation was principally determined using discount rates of 2.55% in 2017 and 3.41% in 2016. Net periodic post-retirement benefit cost was principally determined using discount rates of 3.41% in 2017, 3.54% in 2016, and 4.00% in 2015. The health care cost trend rate was 7.0% in 2017, 7.5% in 2016, and 8.00% in 2015, decreasing to 5.00% in 2022. A one-percentage-point change in health care cost trend rates would have an immaterial impact on total service and interest cost components and the post-retirement benefit obligation.

The Company’s overall asset investment strategy is to achieve long-term growth while minimizing volatility by widely diversifying among asset types and strategies. Target asset allocations and investment return criteria are established by the pension committee or designated officers of each plan. Target asset allocation ranges for the U.S. pension plan include 35-55% in equity securities, 18-28% in fixed income securities, and 20-40% in other types of investments. International plan assets relate primarily to the Company’s Swiss plan with target allocations of 24-45% in equities, 35-55% in fixed income securities, and 15-25% in other types of investments. Actual results are monitored against targets and the trustees are required to report to the members of each plan, including an analysis of investment performance on an annual basis at a minimum. Day-to-day asset management is typically performed by third-party asset managers, reporting to the pension committees or designated officers.

The long-term rate of return on plan asset assumptions used to determine pension expense under U.S. GAAP is generally based on estimated future returns for the target investment mix determined by the trustees as well as historical investment performance.

The following table presents the fair value measurement of the Company’s plan assets by hierarchy level:

	December 31, 2017				December 31, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs for Identical Assets (Level 2)	Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs for Identical Assets (Level 2)	Unobservable Inputs (Level 3)	Total
Asset Category:								
Cash and Cash Equivalents	$154,751	$—	$ —	$154,751	$131,468	$—	$ —	$131,468
Equity Securities:								
Mettler-Toledo Stock	3,154	—	—	3,154	2,846	—	—	2,846
Equity Mutual Funds:								
U.S.[1]	6,011	27,984	—	33,995	5,860	24,257	—	30,117
International[2]	80,836	61,341	—	142,177	54,760	52,404	—	107,164
Emerging Markets[3]	100,346	1,096	—	101,442	78,999	793	—	79,792
Fixed Income Securities:								
Corporate/Government Bonds[4]	72,334	—	—	72,334	69,578	—	—	69,578
Fixed Income Mutual Funds:								
Insurance Contracts[5]	—	23,421	1,514	24,935	—	19,955	1,300	21,255
Core Bond[6]	136,157	57,499	—	193,656	121,884	52,955	—	174,839
Real Asset Mutual Funds:								
Real Estate[7]	79,218	8,836	—	88,054	69,284	—	—	69,284
Commodities[8]	37,302	—	—	37,302	22,964	—	5,594	28,558
Other Types of Investments:								
Global Allocation Funds[9]	11,781	12,545	—	24,326	11,981	11,285	—	23,266
Insurance Linked Securities[10]	12,147	—	—	12,147	—	—	—	—
Total assets in fair value hierarchy	$694,037	$192,722	$ 1,514	$888,273	$569,624	$161,649	$ 6,894	$738,167

Investments measured at net asset value:		
Emerging Markets [3]	5,950	4,407
Multi-Strategy Fund of Hedge Funds [11]	25,559	77,698
Total pension assets at fair value	$919,782	$820,272

METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(In thousands, except share data, unless otherwise stated)

(1) Represents primarily large capitalization equity mutual funds tracking the S&P 500 Index.
(2) Represents all capitalization core and value equity mutual funds located primarily in Switzerland, the United Kingdom, and Canada.
(3) Represents core and growth mutual funds and funds of mutual funds invested in emerging markets primarily in Eastern Europe, Latin America, and Asia.
(4) Represents investments in high-grade corporate and government bonds located in Switzerland and the European Union.
(5) Represents fixed and variable rate annuity contracts provided by insurance companies.
(6) Represents fixed income mutual funds invested in the U.S., the United Kingdom, Switzerland, and European government bonds, high-grade corporate bonds, mortgage-backed securities, and collateralized mortgage obligations.
(7) Represents mutual funds invested in real estate located primarily in Switzerland.
(8) Represents commodity funds invested across a broad range of sectors.
(9) Represents mutual funds invested globally in both equities and fixed income securities.
(10) Represents a broadly diversified portfolio of assets that carry exposure to insurance risks, particularly insurance linked securities.
(11) Represents investments in underlying globally diversified hedge funds. Investments that are measured using the net asset value (NAV) per share practical expedient have not been categorized in the fair value hierarchy. The amounts presented above are intended to permit reconciliation of the fair value hierarchy to the fair value of total plan assets in order to determine the amounts included in the consolidated balance sheet.

The fair value of the Company’s stock and corporate and government bonds are valued at the year-end closing price as reported on the securities exchange on which they are traded. Mutual funds are valued at the exchange-listed year end closing price or at the net asset value of shares held by the fund at the end of the year. Insurance contracts are valued by discounting the related cash flows using a current year end market rate or at cash surrender value, which is presumed to equal fair value. Funds of hedge funds are valued at the net asset value of shares held by the fund at the end of the year.

The following table presents a roll-forward of activity for the years ended December 31, 2017 and 2016 for Level 3 asset categories:

	Commodities	Insurance Contract	Total
Balance at December 31, 2015	$ 33,505	$ 1,367	$ 34,872
Actual return on plan assets:			
Related to assets held at end of year	—	25	25
Related to assets sold during the year	(2,857)	—	(2,857)
Sales	(21,278)	(38)	(21,316)
Impact of foreign currency	(3,776)	(54)	(3,830)
Balance at December 31, 2016	$ 5,594	$ 1,300	$ 6,894
Actual return on plan assets:			
Related to assets held at end of year	—	21	21
Related to assets sold during the year	—	—	—
Sales	(5,711)	(98)	(5,809)
Purchases	—	108	108
Impact of foreign currency	117	183	300
Balance at December 31, 2017	$ —	$ 1,514	$ 1,514

There were no transfers between any asset levels during the years ended December 31, 2017 and 2016.

Table of Contents
METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(In thousands, except share data, unless otherwise stated)

The following benefit payments, which reflect expected future service as appropriate, are expected to be paid:

	U.S. Pension Benefits	Non-U.S. Pension Benefits	Other Benefits Net of Subsidy	Total
2018	$ 7,972	$ 45,118	$ 411	$ 53,501
2019	8,140	43,125	400	51,665
2020	8,344	45,352	265	53,961
2021	8,453	42,561	249	51,263
2022	8,641	43,990	227	52,858
2023-2028	43,855	219,011	769	263,635

In 2018, the Company expects to make employer pension contributions of approximately $25.9 million to its non-U.S. pension plan and employer contributions of approximately $0.4 million to its U.S. post-retirement medical plan.
In February 2016, the Company offered former employees a one-time option to receive a lump sum distribution of their vested pension plan benefits. Based upon the eligible participant acceptance, $14.6 million was paid from plan assets to these former employees in the second quarter of 2016 with a corresponding decrease in the benefit obligation. The Company incurred a one-time non-cash settlement charge recorded in other charges (income), net during the second quarter of 2016 of approximately $8.2 million, of which $8.0 million, $4.9 million after tax, was reclassified from accumulated other comprehensive income.

13. TAXES

The sources of the Company's earnings before taxes were as follows for the years ended December 31:

	2017	2016	2015
United States	$ 45,105	$ 37,363	$ 20,992
Non-United States	529,117	466,830	442,432
Earnings before taxes	$ 574,222	$ 504,193	$ 463,424

Table of Contents
METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(In thousands, except share data, unless otherwise stated)

The provisions for taxes consist of:

	Current	Deferred	Total
Year ended December 31, 2017:			
United States federal	$55,660	$10,173	$65,833
State and local	361	3,471	3,832
Non-United States	144,974	(16,389)	128,585
Total	$200,995	$(2,745)	$198,250
Year ended December 31, 2016:			
United States federal	$20,116	$(4,817)	$15,299
State and local	2,947	1,149	4,096
Non-United States	94,882	5,546	100,428
Total	$117,945	$1,878	$119,823
Year ended December 31, 2015:			
United States federal	$11,071	$3,029	$14,100
State and local	2,164	617	2,781
Non-United States	90,232	3,491	93,723
Total	$103,467	$7,137	$110,604

The provisions for tax expense for the years ended December 31, 2017, 2016, and 2015 differed from the amounts computed by applying the United States federal income tax rate of 35% to the earnings before taxes as a result of the following:

	2017	2016	2015
Expected tax	$200,978	$176,467	$162,198
United States state and local income taxes, net of federal income tax benefit	376	3,064	2,551
Change in valuation allowance (excluding U.S. tax reform)	—	—	(1,098)
Net effect of U.S. tax reform (see below)	71,982	—	—
Non-United States income taxes at other than a 35% rate	(43,691)	(65,917)	(54,798)
Excess tax benefits from stock option exercises	(35,171)	—	—
Other, net	3,776	6,209	1,751
Total provision for taxes	$198,250	$119,823	$110,604

As discussed further below, the 2017 provision for income taxes includes a provisional one-time charge of $72 million. Our annual effective tax rate in 2017 was 22% excluding this one-time charge. The reduction in the Company's annual effective tax rate from 24% in 2016 and 2015 to 22% (excluding the one-time charge) in 2017 is primarily related to the Company's adoption of ASU 2016-09 pertaining to excess tax benefits associated with stock option exercises.

On December 22, 2017, the Tax Cuts and Jobs Act ("the Act") significantly revised U.S. corporate income tax law. The Act includes, among other things, a reduction in the U.S. federal corporate income tax rate from 35% to 21% effective for taxable years beginning after December 31, 2017, and the implementation of a modified territorial tax system that includes a one-time transition tax on deemed repatriated earnings of foreign subsidiaries ("Transition Tax") that is payable over a period of up to eight years.

The Company has recorded a provisional one-time charge of $72 million relating to the Act during the fourth quarter of 2017. Of this amount, $59 million is expected to be payable over a period of up to 8 years of which $48 million is included as a component of other non-current liabilities, $7 million is included in deferred tax liabilities and $4 million is included in taxes payable. The components of the Company's provisional one-time charge include:

- A one-time cash charge of $59 million for un-repatriated foreign earnings due to the estimated Transition Tax of $52 million, and $7 million of foreign withholding taxes, and U.S. federal, state, and local taxes related to the reassessment of planned repatriation of certain foreign earnings that were previously determined to be permanently reinvested. All other undistributed earnings are considered permanently reinvested.

- A one-time non-cash charge of $13 million primarily related to changes in the current year treatment of certain deferred tax items and other non-cash items. The effect of remeasuring the U.S. net deferred tax balances resulting from the reduction of the U.S. income tax rate from 35% to 21% was immaterial.

Shortly after the Act was enacted, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”) which provides guidance on accounting for the Act’s impact. SAB 118 provides a measurement period, which in no case should extend beyond one year from the Act enactment, during which a company acting in good faith may complete the accounting for the impacts of the Act. In accordance with SAB 118, the Company will reflect the income tax effects of the Act in the reporting period in which the accounting is complete.

The Company's accounting for the above items is based upon reasonable estimates of the tax effects of the Act; however, its estimates may change upon the finalization of its implementation and additional interpretive guidance from regulatory authorities. Among other things, the Company needs to complete its analysis of historical foreign earnings and related taxes paid and its analysis of foreign cash equivalents. In addition, the Company needs to complete its analysis of deemed repatriation of deferred foreign income and related state tax effects.

The Company will complete its accounting for the above tax effects of the Act during 2018 as provided in SAB 118 and will reflect any adjustments to its provisional amounts as an adjustment to the provision for taxes in the reporting period in which the amounts are finally determined.

Additionally, certain provisions of the Act are not effective until 2018. The Company is in the process of evaluating the impact of these provisions and has not yet recorded any impact in the financial statements, nor have we made any accounting policy elections with respect to these items.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below at December 31:

	2017	2016
Deferred tax assets:		
Inventory	$13,779	$17,612
Accrued and other liabilities	62,175	93,379
Accrued post-retirement benefit and pension costs	55,545	72,004
Net operating loss and tax credit carryforwards	32,247	15,844
Other	12,099	10,326
Total deferred tax assets	175,845	209,165
Less valuation allowance	(12,857)	(10,730)
Total deferred tax assets less valuation allowance	162,988	198,435
Deferred tax liabilities:		
Inventory	4,730	3,741
Property, plant, and equipment	50,440	56,718
Acquired intangibles amortization	66,755	77,295
Prepaid post-retirement benefit and pension costs	27,747	36,741
International earnings	23,121	19,575
Unrealized currency gains	—	34,720
Total deferred tax liabilities	172,793	228,790
Net deferred tax (liability) asset	$(9,805)	$(30,355)

The increase in the valuation allowance during 2017 is primarily attributable to increases in valuation allowances against the Company's state net operating losses. Upon adoption of ASU 2016-09 in the first quarter of 2017, the Company recorded $69 million in additional deferred tax assets related primarily to U.S. tax credit carryforwards which arose directly from tax deductions for share-based compensation arrangements, against which a full valuation allowance was recorded in the first quarter and subsequently released in the fourth quarter, along with $11 million of other pre-existing valuation allowances, in connection with the determination of the Transition Tax related to the Act as described above.

The Company continues to record valuation allowances related to certain of its deferred income tax assets due to the uncertainty of the ultimate realization of future benefits from such assets. The potential decrease or increase of the valuation allowance in the near term is dependent on the future ability of the Company to realize the deferred tax assets that are affected by the future profitability of operations in various worldwide jurisdictions.
A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

	2017	2016
Unrecognized tax benefits at beginning of year	$20,240	$15,259
Increases related to current tax positions	2,484	7,824
Increases (decreases) related to prior year tax positions	1,434	(885)
Decreases relating to taxing authority settlements	(856)	(794)
Decreases resulting from a lapse of the applicable statute of limitations	(186)	(896)
Other, net	974	(268)
Unrecognized tax benefits at end of year	$24,090	$20,240

Included in the balance of unrecognized tax benefits at December 31, 2017 and 2016 were $24.1 million and $16.6 million, respectively, of tax benefits that if recognized would reduce the Company's effective tax rate. The Company recognizes accrued amounts of interest and penalties related to its uncertain tax positions as part of its income tax expense within its consolidated statement of operations. The amount of accrued interest and penalties included within other non-current liabilities within the Company's consolidated balance sheet as of December 31, 2017 and 2016 was $2.8 million and $2.2 million, respectively.

The Company believes that it is reasonably possible that the unrecognized tax benefit balance could change over the next twelve months, primarily related to potential disputes raised by the taxing authorities over income and expense recognition. The Company does not expect a change would have a material impact on its financial position, results of operations, or cash flows.

The Company plans to repatriate earnings from China, Switzerland, Germany, the United Kingdom, and certain other countries in future years and believes that there will be no additional cost associated with the repatriation of such foreign earnings other than withholding taxes for which a deferred tax liability has been recorded. All other undistributed earnings not subject to the Transition Tax, or any additional outside basis difference inherent in these entities, are considered to be permanently reinvested on which no U.S. deferred income taxes or foreign withholding taxes have been provided. It is not practicable to estimate the amount of deferred tax liability related to these undistributed earnings and additional outside basis differences in these entities due to the complexity of the calculation and the uncertainty regarding assumptions necessary to compute the tax.

As of December 31, 2017, the major jurisdictions for which the Company is subject to examinations are Germany for years after 2012, the United States after 2013, France after 2016, Switzerland after 2014, the United Kingdom after 2014, and China after 2013. Additionally, the Company is currently under examination in various taxing jurisdictions in which it conducts business operations. While the Company has not yet received any material assessments from these taxing authorities, the Company believes that adequate amounts of taxes and related interest and penalties have been provided for any adverse adjustments as a result of these examinations and that the ultimate outcome of these examinations will not result in a material impact on the Company's consolidated results of operations or financial position.

14. RESTRUCTURING CHARGES

During the past few years, we initiated cost reduction measures. For the years ended December 31, 2017 and 2016, we have incurred $12.8 million and $6.2 million, respectively, of restructuring expenses which primarily comprise employee related costs. Liabilities related to restructuring activities are included in accrued and other liabilities in the consolidated balance sheet.

Table of Contents
METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(In thousands, except share data, unless otherwise stated)

A roll-forward of the Company's accrual for restructuring activities for the years ended December 31, 2017 and 2016 is as follows:

	Total
Balance at December 31, 2015	$12,211
Restructuring charges	6,235
Cash payments / utilization	(8,376)
Impact of foreign currency	(539)
Balance at December 31, 2016	$9,531
Restructuring charges	12,772
Cash payments / utilization	(12,663)
Impact of foreign currency	980
Balance at December 31, 2017	$10,620

15. OTHER CHARGES (INCOME), NET

Other charges (income), net consisted of net income of $5.9 million in 2017, compared to net charges of $8.5 million and net income of $0.9 million in 2016 and 2015, respectively. Other charges (income), net includes $1.7 million and $1.1 million of acquisition costs for 2017 and 2016, respectively. Other charges (income), net for 2017 also includes a one-time gain of $3.4 million relating to the sale of a facility in Switzerland in connection with the Company's initiative to consolidate certain Swiss operations into a new facility. Other charges in 2016 includes a one-time non-cash pension settlement charge of $8.2 million related to a lump sum offering to former employees of the Company's U.S. pension plan. Other charges (income), net also includes net (gains) losses from foreign currency transactions and hedging activities, interest income, and other items.

16. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases certain of its facilities and equipment under operating leases. The future minimum lease payments under non-cancelable operating leases are as follows at December 31, 2017:

2018	$33,939
2019	25,292
2020	17,132
2021	11,729
2022	9,745
Thereafter	11,289
Total	$109,126

Rent expense for operating leases amounted to $36.9 million, $34.9 million, and $33.2 million for the years ended December 31, 2017, 2016, and 2015, respectively.

Legal

The Company is party to various legal proceedings, including certain environmental matters, incidental to the normal course of business. Management does not expect that any of such proceedings will have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

17. SEGMENT REPORTING

The Company has five reportable segments: U.S. Operations, Swiss Operations, Western European Operations, Chinese Operations, and Other. U.S. Operations represent certain of the Company's marketing and producing organizations located in the United States. Western European Operations include the Company's marketing and producing organizations in Western Europe, excluding operations located in Switzerland. Swiss Operations include marketing and producing organizations located in Switzerland as well as extensive R&D operations that are responsible for the development, production, and marketing of precision instruments, including weighing, analytical, and measurement technologies for use in a variety of laboratory and industrial applications. Chinese Operations represent the Company's marketing and producing organizations located in China. The Company's market organizations are geographically focused and are responsible for all aspects of the Company's sales and service. Operations that exist outside these reportable segments are included in Other.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on segment profit for segment reporting (gross profit less research and development and selling, general, and administrative expenses, before amortization, interest expense, restructuring charges, other charges (income), net, and taxes). Inter-segment sales and transfers are priced to reflect consideration of market conditions and the regulations of the countries in which the transferring entities are located.

The following tables show the operations of the Company's reportable segments:

For the Year Ended December 31, 2017	Net Sales to External Customers	Net Sales to Other Segments	Total Net Sales	Segment Profit	Depreciation	Total Assets	Purchase of Property, Plant, and Equipment	Goodwill
U.S. Operations	$944,825	$99,117	$1,043,942	$177,705	$ 7,659	$1,937,688	$(38,969)	$409,520
Swiss Operations	133,925	563,083	697,008	174,447	5,551	1,374,150	(19,589)	22,171
Western European Operations	673,776	170,820	844,596	117,324	4,052	1,805,294	(7,094)	91,927
Chinese Operations	452,617	232,882	685,499	231,860	7,168	1,068,811	(13,246)	690
Other[(a)]	519,910	7,934	527,844	72,744	3,474	310,667	(4,131)	15,530
Eliminations and Corporate[(b)]	—	(1,073,836)	(1,073,836)	(117,496)	5,554	(3,946,805)	(44,397)	—
Total	$2,725,053	$—	$2,725,053	$656,584	$ 33,458	$2,549,805	$(127,426)	$539,838

METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(In thousands, except share data, unless otherwise stated)

For the Year Ended December 31, 2016	Net Sales to External Customers	Net Sales to Other Segments	Total Net Sales	Segment Profit	Depreciation	Total Assets	Purchase of Property, Plant, and Equipment	Goodwill
U.S. Operations	$867,962	$90,580	$958,542	$161,539	$ 6,094	$1,747,338	$(52,255)	$357,785
Swiss Operations	130,674	524,983	655,657	163,663	6,199	1,212,637	(7,260)	21,239
Western European Operations	640,558	176,501	817,059	123,507	4,048	1,120,751	(6,857)	82,500
Chinese Operations	386,541	219,766	606,307	187,924	6,879	702,571	(16,288)	636
Other[(a)]	482,522	7,709	490,231	64,060	3,461	277,476	(4,540)	14,218
Eliminations and Corporate[(b)]	—	(1,019,539)	(1,019,539)	(117,696)	6,062	(2,893,996)	(36,757)	—
Total	$2,508,257	$—	$2,508,257	$582,997	$ 32,743	$2,166,777	$(123,957)	$476,378

For the Year Ended December 31, 2015	Net Sales to External Customers	Net Sales to Other Segments	Total Net Sales	Segment Profit	Depreciation	Total Assets	Purchase of Property, Plant, and Equipment	Goodwill
U.S. Operations	$826,354	$87,488	$913,842	$147,491	$ 6,153	$1,487,422	$(7,113)	$317,856
Swiss Operations	133,684	498,642	632,326	160,763	6,488	1,134,648	(6,650)	21,841
Western European Operations	620,128	165,532	785,660	107,424	4,076	1,010,639	(5,940)	92,389
Chinese Operations	376,291	214,887	591,178	165,532	7,086	506,390	(14,770)	692
Other[(a)]	438,990	8,087	447,077	50,821	2,883	260,276	(4,306)	13,506
Eliminations and Corporate[(b)]	—	(974,636)	(974,636)	(99,924)	6,401	(2,440,040)	(43,727)	—
Total	$2,395,447	$—	$2,395,447	$532,107	$ 33,087	$1,959,335	$(82,506)	$446,284

(a) Other includes reporting units in Southeast Asia, Latin America, Eastern Europe, and other countries.
(b) Eliminations and Corporate includes the elimination of inter-segment transactions as well as certain corporate expenses and intercompany investments, which are not included in the Company's operating segments.

A reconciliation of earnings before taxes to segment profit follows:

	2017	2016	2015
Earnings before taxes	$574,222	$504,193	$463,424
Amortization	42,671	36,052	30,951
Interest expense	32,785	28,026	27,451
Restructuring charges	12,772	6,235	11,148
Other charges (income), net	(5,866)	8,491	(867)
Segment profit	$656,584	$582,997	$532,107

During 2017, restructuring charges of $12.8 million were recognized, of which $6.2 million, $1.8 million, $3.0 million, $0.8 million, and $1.0 million relate to the Company's U.S., Swiss, Western European, Chinese, and Other Operations, respectively. Restructuring charges of $6.2 million were recognized in 2016, of which $2.0 million, $1.5 million, $2.4 million, $0.2 million, and $0.2 million relate to the Company's U.S., Swiss, Western European, Chinese,

and Other Operations, respectively.

The Company sells precision instruments, including weighing instruments and certain analytical and measurement technologies, and related services to a variety of customers and industries. None of these end-customers account for more than 1% of net sales. Service revenues are primarily derived from repair and other services including regulatory compliance qualification, calibration, certification, and preventative maintenance.

Table of Contents
METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(In thousands, except share data, unless otherwise stated)

A breakdown of the Company's sales by product category for the years ended December 31 follows:

	2017	2016	2015
Laboratory	$1,358,493	$1,225,000	$1,154,905
Industrial	1,158,335	1,067,858	1,034,310
Retail	208,225	215,399	206,232
Total net sales	$2,725,053	$2,508,257	$2,395,447

In certain circumstances, our operating segments sell directly into other geographies. A breakdown of net sales to external customers by geographic customer destination and property, plant, and equipment, net for the years ended December 31 follows:

	Net Sales			Property, Plant, and Equipment, Net	
	2017	2016	2015	2017	2016
United States	$888,241	$815,153	$768,815	$220,401	$168,494
Other Americas	162,672	153,607	157,962	3,406	3,833
Total Americas	1,050,913	968,760	926,777	223,807	172,327
Germany	192,126	182,644	176,491	49,376	28,393
France	130,427	118,681	110,477	6,386	5,009
United Kingdom	64,361	61,513	71,679	19,617	12,631
Switzerland	63,090	62,115	64,622	259,007	246,312
Other Europe	399,923	374,008	349,178	8,050	6,511
Total Europe	849,927	798,961	772,447	342,436	298,856
China	439,373	374,996	362,950	92,269	83,713
Rest of World	384,840	365,540	333,273	9,759	8,811
Total Asia/Rest of World	824,213	740,536	696,223	102,028	92,524
Total	$2,725,053	$2,508,257	$2,395,447	$668,271	$563,707

Table of Contents
METTLER-TOLEDO INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(In thousands, except share data, unless otherwise stated)

18. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial data for the years ended December 31, 2017 and 2016 are as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2017				
Net sales	$ 594,567	$ 653,656	$ 698,799	$ 778,031
Gross profit	$ 342,900	$ 374,917	$ 400,277	$ 455,219
Net earnings[(1)]	$ 92,466	$ 101,580	$ 104,950	$ 76,976
Basic earnings per common share:				
Net earnings	$ 3.57	$ 3.94	$ 4.10	$ 3.01
Weighted average number of common shares	25,932,112	25,751,374	25,613,433	25,562,542
Diluted earnings per common share:				
Net earnings	$ 3.48	$ 3.84	$ 3.99	$ 2.93
Weighted average number of common and common equivalent shares	26,586,061	26,439,529	26,303,529	26,229,052
Market price per share:				
High	$ 486.90	$ 601.16	$ 635.17	$ 689.11
Low	$ 414.52	$ 473.87	$ 571.25	$ 606.80

(1) Provision for taxes for 2017 includes a provisional one-time charge of $72 million for the implementation of the Tax Cuts and Jobs Act. Of this amount, $59 million is expected to be paid over a period of up to eight years. The estimated charge may change with the finalization of implementation.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2016				
Net sales	$ 539,674	$ 608,286	$ 650,598	$ 709,699
Gross profit	$ 299,907	$ 347,576	$ 369,494	$ 418,610
Net earnings	$ 65,674	$ 79,588	$ 101,332	$ 137,776
Basic earnings per common share:				
Net earnings	$ 2.44	$ 2.99	$ 3.84	$ 5.27
Weighted average number of common shares	26,931,293	26,631,015	26,375,468	26,139,024
Diluted earnings per common share:				
Net earnings	$ 2.40	$ 2.93	$ 3.77	$ 5.17
Weighted average number of common and common equivalent shares	27,421,019	27,143,284	26,888,810	26,631,269
Market price per share:				
High	$ 347.09	$ 385.50	$ 419.83	$ 429.91
Low	$ 298.14	$ 347.76	$ 363.19	$ 397.73

Table of Contents

Schedule II — Valuation and Qualifying Accounts (in thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
		(1)	(2)		
Description	Balance at the Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	-Deductions-	Balance at End of Period
			Note (A)	Note (B)	
Accounts receivable — allowance for doubtful accounts:					
Year ended December 31, 2017	$ 14,234	$1,403	$1,005	$ 1,093	$15,549
Year ended December 31, 2016	$ 14,435	$1,087	$(760)	$ 528	$14,234
Year ended December 31, 2015	$ 15,961	$883	$(2,302)	$ 107	$14,435
Deferred tax valuation allowance:					
Year ended December 31, 2017	$ 10,730	$9,513	$72,170	$ 79,556	$12,857
Year ended December 31, 2016	$ 25,435	$—	$—	$ 14,705	$10,730
Year ended December 31, 2015	$ 36,263	$—	$—	$ 10,828	$25,435

Note (A)
For accounts receivable, amounts comprise currency translation adjustments.
For deferred tax valuation allowance in 2017, 2016, and 2015, amounts relate primarily to changes in foreign tax credit carryforwards and R&D credit carryforwards.
Note (B)
For accounts receivable, amounts represent excess of uncollectible balances written off over recoveries of accounts previously written off.
For deferred tax valuation allowance, the decrease in 2017, 2016, and 2015 relates primarily to decreases in foreign tax credit and R&D credit carryforwards.