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

FORM 10-Q

(mark one)
|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1998

OR

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

For the transition period from to

Commission file number 0-22418

ITRON, INC.
(Exact name of registrant as specified in its charter)

Washington	91-1011792
(State of Incorporation)	(I.R.S. Employer Identification Number)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes__X__ No____

As of April 30, 1998, there were outstanding 14,695,476 shares of the registrant's common stock, no par value, which is the only class of common or voting stock of the registrant.

ITRON, INC.

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Part 1: Financial Information

Item 1: Financial Statements

ITRON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except per share data)

	Three months ended March 31, 1998	1997
Revenues		
AMR systems	$50,356	$25,260
Handheld systems	9,680	9,560
Outsourcing	3,672	5,763
Total revenues	63,708	40,583
Cost of revenues		
AMR systems	34,768	15,154
Handheld systems	5,125	6,969
Outsourcing	3,020	4,841
Total cost of revenues	42,913	26,964
Gross profit	20,795	13,619
Operating expenses		
Sales and marketing	6,594	7,525
Product development	8,923	7,329
General and administrative	3,017	2,424
Amortization of intangibles	591	537
Total operating expenses	19,125	17,815
Operating income (loss)	1,670	(4,196)
Interest and other, net	(1,417)	(1,063)
Income (loss) before income taxes	253	(5,259)
Benefit (provision) for income taxes	(100)	2,000
Net income (loss)	$ 153	$ (3,259)
Basic earnings (loss) per share	$ 0.01	$ (0.24)
Diluted earnings (loss) per share	$ 0.01	$ (0.24)
Weighted average shares outstanding	14,631	13,419
Diluted shares outstanding	14,852	13,419

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

ITRON, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands)

	March 31, 1998	December 31, 1997
Assets		
Current assets		
Cash and cash equivalents	$ 1,721	$ 3,023
Accounts receivable, net	68,029	61,442
Current portion of long-term contracts receivable	9,702	8,445
Inventories	25,771	31,985
Deferred income taxes, net	5,568	5,668
Other	3,050	1,888
Total current assets	113,841	112,451
Property and equipment, net	48,745	49,067
Equipment used in outsourcing, net	46,650	42,848
Intangible assets, net	21,057	21,472
Long-term contracts receivable	12,196	11,119
Other	3,488	3,254
Total assets	$245,977	$240,211
Liabilities and shareholders' equity		
Current liabilities		
Short-term borrowings	$ 14,499	$ 1,560
Accounts payable and accrued expenses	21,822	26,644
Wages & benefits payable	5,985	9,181
Deferred revenue	6,504	6,759
Total current liabilities	48,810	44,144
Convertible subordinated debt	63,400	63,400
Mortgage notes payable	6,440	6,440
Project financing	2,414	2,414
Warranty and other obligations	3,935	3,386
Total noncurrent liabilities	76,189	75,640
Shareholders' equity		
Common stock	105,736	105,193
Retained earnings	16,468	16,315
Other	(1,226)	(1,081)
Total shareholders' equity	120,978	120,427
Total liabilities and shareholders' equity	$245,977	$240,211

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

ITRON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Three months ended March 31, 1998	1997
OPERATING ACTIVITIES		
Net income (loss)	$ 153	$ (3,259)
Noncash charges (credits) to income:		
Depreciation and amortization	4,657	3,774
Deferred income taxes	160	(1,994)
Changes in operating accounts, net of acquisitions:		
Accounts receivable	(7,731)	7,514
Long-term contracts receivable	(2,334)	(5,447)
Inventories	6,214	3,269
Accounts payable and accrued expenses	(3,678)	(1,339)
Wages and benefits payable	(3,196)	(144)
Deferred revenue	(255)	(145)
Other, net	(1,300)	1,508
Cash provided (used) by operating activities	(7,310)	3,737
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(2,737)	(2,894)
Acquisition of equipment used in outsourcing	(4,504)	(8,864)
Acquisitions of intangibles and patent defense costs	(481)	(60)
Other, net	(287)	(13)
Cash used by investing activities	(8,009)	(11,831)
FINANCING ACTIVITIES		
Short-term borrowings, net	12,939	(33,062)
Convertible subordinated debt	-	57,800
Issuance of common stock	543	52
Other, net	535	(17)
Cash provided by financing activities	14,017	24,773
Increase(decrease)in cash and cash equivalents	(1,302)	16,679
Cash and cash equivalents at beginning of period	3,023	2,243
Cash and cash equivalents at end of period	$ 1,721	$ 18,922

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

ITRON, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1998

Note 1: Basis of Presentation

The consolidated financial statements presented in this Form 10-Q are unaudited and reflect, in the opinion of management, all normal recurring adjustments necessary for a fair presentation of operations for the three month period ended March 31, 1998. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Form 10-K for the year ended December 31, 1997, as filed with the Securities and Exchange Commission on March 31, 1998.

The Company reports revenue in three categories: AMR (automatic meter reading) systems, Handheld systems (EMR or electronic meter reading), and Outsourcing. AMR and Handheld systems revenues include all product and other revenue associated with each business segment. Outsourcing includes revenues for contracts under which the Company installs, owns, and operates an AMR system to provide automated meter reading services over a period of time, typically 15 years.

The results of operations for the three month period ended March 31, 1998, are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period.

Note 2: Balance Sheet Components

Inventories (unaudited, in thousands):	March 31, 1998	December 31, 1997
Material	$13,579	$14,418
Work in process	1,770	3,138
Finished goods	7,246	7,304
Field inventories awaiting installation	927	5,178
Total manufacturing inventories	23,522	30,038
Service	2,249	1,947
Total inventories	$25,771	$31,985

Note 3: Impact of Recent Accounting Pronouncements

Comprehensive Income
Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, (SFAS 130), "Reporting Comprehensive Income," that establishes new rules for reporting and display of comprehensive income and its components. Adoption of SFAS 130 requires unrealized gains or losses on foreign currency translation adjustments be included in other comprehensive income, which prior to adoption were reported separately in stockholders' equity. The components of comprehensive income, net of related tax, are as follows (in thousands):

	Three months ended March 31, 1998	1997
Income (loss) attributable to common shareholders	$153	$(3,259)
Foreign Currency translation adjustment	(87)	(10)
Comprehensive income	$66	$(3,269)

Segment Reporting
The Company will adopt Statement of Financial Accounting Standards No. 131, (SFAS 131), "Disclosures About Segments of an Enterprise and Related Information," effective December 31, 1998. SFAS 131 relates to the nature and disclosure of business segment results and financial position and is not expected to have a significant impact on the Company's financial statements.

Note 4: Contingencies

The Company, together with certain directors and officers, is a defendant in two shareholder-initiated proposed class actions (one in Federal court and one in Washington State court), alleging securities and other statutory and common law violations arising out of alleged misleading disclosures or omissions made by the Company regarding its business and technology. The Company is also a defendant in a patent infringement lawsuit filed by CellNet Data Systems. The Company believes these actions are without merit and intends to vigorously defend against them. At this time, it is not possible to predict the ultimate outcome of these proceedings.

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

RESULTS OF OPERATIONS

The following table summarizes the major components of operating income for the three months ended March 31, 1998 and 1997, and changes between those two periods:

	Percentage of Total Revenue		
Three months ended March 31,	1998	1997	% Change
Revenues			
AMR systems	79%	62%	99%
Handheld systems	15%	24%	1%
Outsourcing	6%	14%	(36%)
Total revenues	100%	100%	57%
Cost of revenues			
AMR systems	69%	60%	129%
Handheld systems	53%	73%	(26%)
Outsourcing	82%	84%	(38%)
Total cost of revenues	67%	66%	59%
Gross profit	33%	34%	53%
Operating expenses			
Sales and marketing	10%	19%	(12%)
Product development	14%	18%	22%
General and administrative	5%	6%	24%
Amortization of intangibles	1%	1%	10%
Total operating expenses	30%	44%	7%
Operating income	3%	(10%)	140%

Revenues

The Company's total revenues increased $23.1 million, or 57%, to $63.7 million in the first quarter of 1998 from $40.6 million in the first quarter of 1997. AMR systems revenues nearly doubled in the quarter ended March 31, 1998 over the comparable quarter in 1997. Total meter module shipments for the current quarter exceeded 650,000 units, all of which were shipped under sales contracts. This compares to approximately 425,000 units shipped under sales contracts in the prior year's quarter, and 200,000 units shipped under outsourcing agreements. Equipment shipped and installed under a large fixed network system contract booked in 1997 generated approximately 60% of the quarter-to-quarter revenue growth. Shipments and installations of water meter modules for a single multi-year contract, also awarded in 1997, and slightly higher international AMR sales, accounted for most of the remaining revenue growth. The Company expects that AMR sales will grow over the longer term. However, much of the expected growth in AMR continues to be dependent upon the timing and resolution of industry regulatory reform issues in the United States, mergers and acquisitions in the utility industry, development of international markets, and various other factors.

Handheld systems revenue was level to the prior year's quarter at $9.7 million. However, the mix of revenues was quite different in the 1998 quarter. The first quarter of 1997 included significant handheld shipments to a Korean customer. Shipments to that customer were completed late in 1997. The absence of similar international handheld shipments in the 1998 quarter was offset by higher domestic revenues. The Company believes that handheld systems revenues will continue to decline as a percentage of total revenues as more utilities adopt and expand AMR system deployments. Future handheld systems revenues are expected to be derived primarily from domestic upgrade and replacement business and further penetration into international markets.

Outsourcing revenues declined 36% from $5.8 million in the 1997 quarter to $3.7 million in the 1998 quarter. Lower installation related expenses at Duquesne Light Company ("Duquesne"), which is substantially complete, resulted in lower reported revenues. At March 31, 1998, Itron had installed approximately 550,000 meter modules for this project out of an expected total of 615,000 modules. The Company's agreement with Duquesne provides for certain one-time monetary penalties for failure to meet specified milestones, including certain milestones that are designated as critical. There is one remaining critical milestone. The maximum penalty, should the Company fail to meet that milestone, is $10 million. The Company believes it will fully satisfy the future critical milestone. In addition, there is one remaining non-critical milestone that carries a $2 million penality should the company fail to meet that milestone. (For additional information see "Amended Duquesne Agreement," an exhibit to the Company's Form 10-Q filed on November 14, 1997, and "Description of Business--Certain Risk Factors--Dependence on the Installation, Operations and Maintenance of AMR

Systems Pursuant to Outsourcing Contracts" in the Company's Annual Report on Form 10-K for the year ended December 31, 1997.) Outsourcing revenues are expected to decrease in 1998 from the level experienced in 1997, both in terms of absolute dollars and as a percentage of total revenues, as the Company did not sign any new outsourcing contracts during 1997.

Cost of Revenues

Gross margin of 33% of revenues for the current quarter was slightly less than 1997's first quarter of 34%. AMR gross margins declined to 31% from 40% in the prior year's quarter due to a higher mix of fixed network revenues and a higher level of installation activities instead of product sales. Lower margins on fixed network products are caused, in part, by the early life cycle status of those products. Handheld systems gross margin increased to 47% of revenues due primarily to a lower mix of international business. Outsourcing gross margins remained approximately level for the comparative quarters. The Company expects overall gross margins for the full year 1998 may be slightly less than 1997 as a result of the large fixed network AMR order at below-average margin in 1998. Future gross margins may be affected by competitive price pressure, the Company's ability to utilize existing manufacturing capacity, the mix and volumes of meter modules shipped, the risks inherent in cost estimation for outsourcing contracts, potential performance-related contractual penalties and other factors.

Operating Expenses

Sales and marketing expenses of $6.6 million for the three month period ended March 31, 1998, decreased 12% from the comparable period in 1997 and also decreased as a percentage of revenue. Last year's first quarter sales and marketing expenses were unusually high from non-recurring consulting services. The Company expects that sales and marketing expenses will remain at approximately 10% to 12% of total revenues for the remainder of the year.

Product development expenses of $8.9 million in the current quarter increased $1.6 million, or 22%, from the comparable quarter in 1997, but decreased as a percentage of revenues from 18% to 14%. The increased expenses for the 1998 quarter were due to the acquisition of DCI in 1997, and a higher level of development activities for products for the commercial and industrial segment of the utility marketplace. The Company expects that 1998 product development expenses will remain at approximately 13% to 15% of total revenues for the remainder of the year.

General and administrative expenses of $3 million for the three months ended March 31, 1998, increased approximately $600,000, or 24%, over the first quarter of 1997, but decreased as a percentage of total revenues from 6% to 5%. The higher level of expenses resulted from the inclusion of DCI for the full quarter in 1998 and increased investments in corporate support functions. General and administrative expenses are expected to remain at 5% to 6% of total revenues for the remainder of the year.

Amortization of intangibles increased slightly in the 1998 quarter and are expected to remain approximately level over the remainder of the year.

Interest and Other, Net

Net interest expense increased to $1.3 million for the first quarter of 1998 as compared to $1.0 million in the 1997 quarter from the full quarter affect of the $63.4 million subordinated debt offering completed in March and April of 1997, and from the project financing initially received in mid-1997. Interest capitalized in the first quarter of 1998 was $270,000 compared to $217,000 capitalized in the first quarter of 1997. Capitalized interest relates to construction costs for outsourcing agreements. The Company expects net interest expense to gradually increase over the course of the year, as outsourcing installations near completion, resulting in lower interest capitalization, and from expected additional drawings on the project financing facility.

Income Taxes

The income tax provision for the current quarter was slightly less than 40% of pre-tax income compared to a tax benefit percentage of 38% in the first quarter of 1997. The Company's tax rate may vary because of varying foreign operating results, changes in tax jurisdictions in which the Company operates, and changes in tax legislation.

FINANCIAL CONDITION

Cash required for operating activities was $7.3 million for the first quarter of 1998 compared to cash provided from operating activities of $3.7 million in last year's first quarter. The shift in operating cash for the comparative quarters resulted primarily from increased accounts receivable. Most of this increase was due to a higher level of current year turnkey installations, which typically have deferred billing terms. The increase in the current portion of long-term contracts receivable caused by an excess of revenue recognition for outsourcing contracts over actual billings. Outsourcing revenues are recognized using the percentage-of-completion method of accounting while billing occurs when meters are read. Payment of 1997 performance incentives were also made in the first quarter of 1998.

Investments totaled $8.0 million during the 1998 quarter, down from $11.8 million in the prior year's quarter due to a slowing of equipment needed for outsourcing installations. Overall 1998 investments are expected to be less than the full year 1997 as outsourcing installations near completion.

Financing activities for the first quarter of 1998 consisted mostly of drawings on the Company's bank line of credit. Financing sources in the 1997 quarter included proceeds from the initial sale of the Company's $63.4 million subordinated debt.

Existing sources of liquidity at March 31, 1998 include $1.7 million of existing cash and cash equivalents and approximately $35 million of available borrowings under the Company's bank line of credit. The Company expects to renew this agreement upon its expiration on May 31, 1998. Cash requirements for the remainder of 1998 are expected to be provided from the bank line of credit, from operations, and from an existing project financing facility. The Company believes these sources of liquidity are sufficient to fund its operations for the next twelve months.

Certain Forward-Looking Statements

When included in this Quarterly Report on Form 10-Q, the words "expects," "intends," "anticipates," "plans," "projects" and "estimates," and analogous or similar expressions are intended to identify forward-looking statements. Such statements, which include, but are not limited to, statements contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those reflected in such forward-looking statements. Such risks and uncertainties include, among others, changes in the utility regulatory environment, delays or difficulties in introducing new products, increased competition and various other matters, many of which are beyond the Company's control. These and other risks are described in more detail in "Description of Business -- Certain Risk Factors" in the Company's most recent Annual Report on Form 10-K, and such description is hereby incorporated herein by reference. These forward-looking statements speak only as of the date of this report. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change on the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Part 2: Other Information

Item 6: Exhibits and Reports on Form 8-K

a) Exhibits

Exhibit 11 - Statement re Computation of Earnings per Share

Exhibit 27 - Financial Data Schedule

b) Reports on Form 8-K

No reports on Form 8-K were filed by the registrant during the quarter ended March 31, 1998.

SIGNATURE

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

ITRON, INC.
(Registrant)

By: /s/ DAVID G. REMINGTON

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

Date: May 15, 1998

ITRON, INC.
COMPUTATION OF EARNINGS PER SHARE
(In thousands)

	Three Months Ending March 31, 1998	1997
Weighted average number of common shares outstanding	14,631	13,419
EPS based on average market price	$0.01	($0.24)

	1998	1997
Weighted average number of common shares outstanding	14,631	13,419
Dilutive effect of outstanding common stock options and warrants at average market price	221	-
Weighted average shares outstanding based on ending market price	14,852	13,419
Diluted EPS based on average market price	$0.01	($0.24)

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3-MOS
DEC-31-1998
MAR-31-1998
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