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

FORM 10-Q

(mark one)

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

For the quarterly period ended June 30, 2000

OR

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

For the transition period from to

Commission file number 0-22418

ITRON, INC.

(Exact name of registrant as specified in its charter)

Washington
(State of Incorporation)

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

2818 North Sullivan Road
Spokane, Washington 99216-1897
(509) 924-9900

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

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

As of July 31, 2000, there were outstanding 15,242,615 shares of the registrant's common stock, no par value, which is the only class of common or voting stock of the registrant.

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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 June 30,		Six months ended June 30,	
	2000	1999	2000	1999
Revenues				
Sales	\$ 34,706	\$ 37,588	\$ 70,372	\$ 76,797
Service	10,108	13,633	22,100	26,369
Total revenues	44,814	51,221	92,472	103,166
Cost of revenues				
Sales	21,332	23,593	42,222	47,830
Service	6,309	10,910	15,001	19,954
Total cost of revenues	27,641	34,503	57,223	67,784
Gross profit	17,173	16,718	35,249	35,382
Operating expenses				
Sales and marketing	5,104	6,577	10,223	12,375
Product development	5,306	6,953	11,482	13,555
General and administrative	4,167	3,362	8,683	6,387
Amortization of intangibles	465	490	931	980
Restructuring charges	-	-	(185)	1,121
Total operating expenses	15,042	17,382	31,134	34,418
Operating income (loss)	2,131	(664)	4,115	964
Other income (expense)				
Equity in affiliates	248	(146)	755	(311)
Interest, net	(974)	(1,530)	(2,541)	(3,405)
Other	1	87	342	107
Total other income (expense)	(725)	(1,589)	(1,444)	(3,609)
Income (loss) before income taxes and extraordinary item	1,406	(2,253)	2,671	(2,645)
Income tax (provision) benefit	(530)	670	(1,010)	830
Income (loss) before extraordinary item	876	(1,583)	1,661	(1,815)
Extraordinary gain on early retirement of				

debt, net of income taxes of \$570 and \$1,970	-	-	1,047	3,660
Net income (loss)	\$ 876	\$ (1,583)	\$ 2,708	\$ 1,845
Earnings per share				
Basic and diluted				
Income (loss) before extraordinary item	\$ 0.06	\$ (0.11)	\$ 0.11	\$ (0.12)
Extraordinary item	-	-	0.07	0.25
Net income (loss) share	\$ 0.06	\$ (0.11)	\$ 0.18	\$ 0.12

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

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

	June 30,	December 31,
	2000	1999
=====		

ASSETS		
Current assets		
Cash and cash equivalents	\$ 30,703	\$ 1,538
Accounts receivable, net	35,814	46,561
Current portion of long-term contracts receivable	2,246	2,579
Inventories, net	16,373	15,300
Equipment held for sale, net	-	32,750
Deferred income tax asset	6,532	8,016
Other	717	1,340
	-----	-----
Total current assets	92,385	108,084
	-----	-----
Property, plant and equipment, net	28,939	31,627
Equipment used in outsourcing, net	8,762	5,951
Intangible assets, net	14,005	15,196
Deferred income tax asset	25,726	26,922
Long-term contracts receivable	3,811	1,813
Other	3,167	2,486
	-----	-----
Total assets	\$ 176,795	\$ 192,079
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	\$ -	\$ 3,646
Accounts payable and accrued expenses	32,121	35,369
Wages and benefits payable	8,896	16,396
Deferred revenue	7,476	8,413
	-----	-----
Total current liabilities	48,493	63,824
	-----	-----
Convertible subordinated debt	53,459	57,234
Mortgage notes and leases payable	5,975	6,280
Project financing	6,949	7,216
Warranty and other obligations	10,822	10,000
	-----	-----
Total liabilities	125,698	144,554
	-----	-----
Shareholders' equity		
Common stock	108,732	107,603
Retained deficit	(55,798)	(58,506)
Accumulated other comprehensive income	(1,837)	(1,572)
	-----	-----
Total shareholders' equity	51,097	47,525

	\$ 176,795	\$ 192,079
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The accompanying notes are an integral part of these financial statements.

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

	Six months ended June 30,	
	2000	1999
OPERATING ACTIVITIES		
Net income	\$ 2,708	\$ 1,845
Noncash charges (credits) to income:		
Depreciation and amortization	7,133	9,347
Deferred income tax provision (benefit)	2,110	(841)
Equity in affiliates, net	(564)	311
Extraordinary gain on early extinguishment of debt, net of taxes	(1,047)	(3,660)
Changes in operating accounts:		
Accounts receivable	10,988	15,960
Inventories	(1,073)	326
Accounts payable and accrued expenses	(2,063)	(3,152)
Wages and benefits payable	(7,500)	773
Long-term contracts receivable	(1,665)	(4,570)
Deferred revenue	(937)	(3,623)
Other, net	(475)	251
Cash provided by operating activities	7,615	12,967
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(2,490)	(3,331)
Equipment used in outsourcing	(3,074)	(4,751)
Proceeds from sale of equipment used in outsourcing	32,690	-
Proceeds from sale of business interest	431	-
Other, net	(739)	153
Cash provided (used) by investing activities	26,818	(7,929)
FINANCING ACTIVITIES		
Change in short-term borrowings, net	(3,646)	(5,176)
Payments on project financing	(267)	(248)
Issuance of common stock	1,129	744
Purchase and retirement of subordinated debt	(2,098)	-
Other, net	(386)	(213)
Cash provided (used) by financing activities	(5,268)	(4,893)
Increase in cash and cash equivalents	29,165	145
Cash and cash equivalents at beginning of period	1,538	2,743
Cash and cash equivalents at end of period	\$ 30,703	\$ 2,888

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

ITRON, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2000

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 and six-month periods ended June 30, 2000. 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 regarding interim results. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Form 10-K for the year ended December 31, 1999, as filed with the Securities and Exchange Commission on March 30, 2000. The results of operations for the three and six-month periods ended June 30, 2000 are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period.

Note 2: Earnings Per Share and Capital Structure

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2000	1999	2000	1999
Weighted average shares outstanding	15,127	14,807	15,080	14,782
Effect of dilutive securities:				
Stock options	211	-	280	556
Convertible debt	-	-	-	-
Weighted average shares outstanding assuming conversion	15,338	14,807	15,360	15,338

Options to purchase common stock have been granted at fair market value to directors, employees and other key personnel. These options will dilute the ownership of our stock if they are exercised. The dilutive effect of these options is included for purposes of calculating diluted earnings per share using the "treasury stock" method. We also have subordinated convertible notes outstanding. These notes are not included in the above calculation as the shares are anti-dilutive in all periods when using the "if converted" method.

Note 3: Restructuring

We recorded charges totaling \$20.6 million in 1998 and 1999 for restructuring activities that have improved efficiencies and reduced costs. These activities include workforce reductions, the sale or disposition of assets, the write-off of certain of our intangible assets and the closure and consolidation of facilities. In 1999, we aggressively extended our restructuring activities to further reduce spending and to realign the Company into six market-focused business units.

Restructuring reserves and activity for the first half of 2000 are detailed below (in thousands).

	Cash/ Non-Cash	Reserve Balance 12/31/99	Restructuring Charge	Activity	Reserve Balance 6/30/00
Severance and related charges	Cash	\$8,988	\$315	\$7,429	\$1,874
Asset impairment	Non-cash	3,600	(500)	2,620	480
Consolidation of facilities	Cash	2,981	-	(108)	3,089
Totals		\$15,569	\$(185)	\$9,941	\$5,443

The reserve balances for severance and related charges and asset impairment are expected to be fully utilized in 2000. Facility consolidation reserves are dependent on our ability to sublease vacant space, which is under a non-cancelable operating lease through 2008.

Note 4: Balance Sheet Components

	June 30, 2000	December 31, 1999
Inventories (in thousands)		
Raw material	\$ 7,807	\$ 6,428

Work in process	580	1,462
Finished goods	6,561	5,702
Field inventories awaiting installation	473	466
	-----	-----
Total manufacturing inventories	15,421	14,058
Service inventories	952	1,242
	-----	-----
Total inventories	\$16,373	\$15,300
	-----	-----

Note 5: Segment Information

Effective January 2000, we reorganized internally around strategic business units ("SBUs") focused on the customer segments that we serve. These SBUs include Electric Systems, Natural Gas Systems, Water & Public Power Systems, Energy Information Systems, and International Systems. As indicated below, our new business SBU has been merged with Water & Public Power.

Sales for these SBUs include hardware, custom and licensed software, consulting, project management, and installation and support activities. Service revenues are derived from post-sale maintenance support and outsourcing services, where we own and operate, or simply operate systems for a periodic fee. Intersegment revenues are immaterial.

Management intends to review the operating results of each segment both before and after allocations of corporate expenses. As of the date of this report, allocations of such expenses have not been determined. It is management's intention to finalize these allocations during 2000. Allocation methods may change over time. Certain amounts in the 1999 financial statements have been reclassified to conform with the 2000 presentation.

Segment revenues and gross profits for the comparable quarters are detailed below. In the first quarter Form 10-Q, information was reported in the Segment Information footnote and Management's Discussion and Analysis as "New Businesses" and "Other" respectively. This information is now included in the Water & Public Power segment.

	June 30, 2000	June 30, 1999

(in thousands)		
Revenues		
Electric	\$12,780	\$12,506
Natural Gas	9,671	16,915
Water & Public Power	13,884	13,901
Energy Information Systems	5,835	3,327
International	2,644	4,572
	-----	-----
Total revenues	44,814	51,221
	-----	-----
Gross profit		
Electric	4,422	(958)
Natural Gas	4,254	9,260
Water & Public Power	4,314	5,284
Energy Information Systems	3,003	1,777
International	1,180	1,355
	-----	-----
Total gross profit	17,173	16,718
	-----	-----
CORPORATE ITEMS		
Operating expenses		
Sales and marketing	5,104	6,577
Product development	5,306	6,953
General and administrative	4,167	3,362
Amortization of intangibles	465	490
Restructuring charges	-	-
	-----	-----
Total operating expenses	15,042	17,382
Operating income (loss)	2,131	(664)
Other income (expense)		
Equity in affiliates	248	(146)
Interest, net	(974)	(1,530)
Other	1	87
	-----	-----
Total other income (expense)	(725)	(1,589)
	-----	-----
Income (loss) before income taxes and extraordinary item	\$1,406	\$ (2,253)
	=====	=====

Note 6: Contingencies

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

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

OVERVIEW

We are a leading global provider of integrated systems solutions for utilities and other customers to collect, communicate, analyze, and manage information about energy and water usage. We design, develop, manufacture, market, install and service hardware, software and integrated systems that enable customers to obtain, analyze and use meter data.

Our solutions integrate a broad array of meter modules, radio and telephone-based communications systems, and data management, delivery and storage applications. In addition, we have handheld computers and supporting products to record visually obtained meter data.

Sales include hardware, custom and licensed software, consulting, project management and installation and sales support activities. Services include post-sale maintenance support and outsourcing services where we own and operate, or simply operate systems for a periodic fee.

We currently derive the majority of our revenues from sales of products and services to utilities; however, our business may increasingly consist of sales to other energy and water industry participants such as energy service providers, end user customers, wholesale power markets, and others. We have experienced variability of operating results on both an annual and a quarterly basis due primarily to utility purchasing patterns and delays of purchasing decisions. In recent years these delays have generally been a result of changes or potential changes to federal and state regulation of the electric utility industry and mergers and acquisitions in the utility industry.

RESULTS OF OPERATIONS

Revenues (in millions)	Three months ended June 30,			Six months ended June 30,		
	2000	Increase (Decrease)	1999	2000	Increase (Decrease)	1999
Electric	\$ 12.8	2%	\$ 12.5	\$ 28.2	(10%)	\$ 31.3
Natural Gas	9.7	(43%)	16.9	22.0	(14%)	25.7
Water & Public Power	13.9	0%	13.9	25.5	(19%)	31.6
Energy Information Systems	5.8	76%	3.3	11.1	59%	7.0
International	2.6	(43%)	4.6	5.7	(25%)	7.6
Total revenues	\$ 44.8	(13%)	\$ 51.2	\$ 92.5	(10%)	\$103.2

Total revenues decreased 13% in the second quarter of 2000 compared to the second quarter of 1999.

Electric segment revenues in the second quarter were approximately level with the prior year's quarter. Year-to-date Electric revenues were down 10% from the same period in 1999. Revenues for the three months and the six months ended June 30, 1999 in this segment were net of a \$4.2 million price concession for a network installation. Second quarter outsourcing revenues in the Electric segment were \$1.2 million compared to \$5.1 million in last year's second quarter. Outsourcing revenues decreased year-over-year due to the sale of our network installation at Duquesne in the first quarter of 2000. This year's outsourcing revenues are for a mobile AMR application that is expected to be fully installed by the first quarter of 2001. Net of the price concession and

outsourcing activities, revenues for the three months and the six months ended June 30, 2000 were comparable to the same periods in 1999.

Revenues in the Natural Gas segment decreased 43% in the second quarter of 2000 compared to the second quarter of 1999 largely due to unusually high shipments in 1999 to one customer with a large multi-year contract.

Second quarter revenues for the Water & Public Power ("WPP") segment were relatively level in 2000 compared with the comparable quarter in 1999. Revenues for the six months ended June 30, 2000 were down 19% compared to 1999 because the installation of equipment for two direct sales to large municipalities was substantially completed in the second quarter of 1999. Sales to an affiliate have lowered average selling prices compared with last year. The subsequent resale by the affiliate to end-customers is reported using the equity method of accounting (see "Other Income/Expense" below).

Revenues in the Energy Information Systems ("EIS") segment increased 76% and 59% respectively for the three and six-month periods ended June 30, 2000 over the comparable periods in 1999. EIS revenues primarily consist of product sales for commercial and industrial customer energy usage, and product sales to the wholesale energy market. EIS revenues increased largely as a result of substantial consulting and software customization activities for a wholesale energy settlement system in Ontario, Canada. Revenues from wholesale markets were \$2.1 million in the second quarter of 2000 compared to \$500,000 in the second quarter of 1999.

International revenues of \$2.6 million in the second quarter of 2000 were 43% less than the second quarter of 1999. The 1999 quarter included \$700,000 of revenues from a noncore-business subsidiary that was sold in January 2000. Most of the remaining decrease is due the timing of orders and shipments of handheld systems to the Asia/Pacific region.

Gross Margin

The following table shows gross margin as a percentage of corresponding revenue and the percentage change in gross margin by business segment:

	Three months ended June 30,			Six months ended June 30,		
	2000	Increase (Decrease)	1999	2000	Increase (Decrease)	1999
Electric	35%	43%	(8%)	34%	14%	10%
Natural Gas	44%	(11%)	55%	45%	(8%)	53%
Water and Public Power	31%	(7%)	38%	30%	(9%)	39%
Energy Information	51%	(2%)	53%	50%	9%	59%
International	45%	15%	30%	46%	16%	30%
Total gross margin	38%	4%	34%	38%	4%	34%

Total gross margin was 38% of revenues in the second quarter of 2000 compared with 34% of revenues in the second quarter of 1999. During the three months and six months ended June 30, 2000, gross margin benefited from the consolidation of our high volume manufacturing operations in Minnesota. In an effort intended to reduce fixed costs and benefit gross margin, the Company also outsourced low volume manufacturing and service repair operations to Servatron during the second quarter of 2000. Servatron is an affiliated company formed by a group of former Company employees (see Exhibit 10.22 in Item 6).

Gross margin for the Electric segment improved to 35% of revenue in the current quarter compared with (8)% for the second quarter last year. Last year's negative gross margin was caused by the \$4.2 million price concession discussed above. The 1999 quarter also included significant outsourcing activities for the Duquesne project which depressed the overall Electric gross margin by 13 percentage points when compared to the 2000 quarter. Year-to-date Electric gross margins of 34% are much higher than the prior year gross margin of 10% for the same reasons.

Higher material costs and lower production volume decreased Natural Gas gross margins in the second quarter and six-month periods of 2000 as compared to the similar periods in 1999.

Higher material costs and a higher mix of sales through indirect channels in 2000 has resulted in lower gross margins in the WPP segment.

Operating Expenses

(in millions)	Three months ended June 30,			Six months ended June 30,		
	2000	Increase (Decrease)	1999	2000	Increase (Decrease)	1999
Sales and marketing	\$ 5.1	(22%)	\$ 6.6	\$ 10.2	(17%)	\$ 12.4
Product development	5.2	(24%)	6.9	11.5	(15%)	13.5
General and administrative	4.2	24%	3.4	8.7	36%	6.4
Amortization of intangibles	0.5	(5%)	0.5	0.9	(5%)	1.0
Restructuring charges	-	0%	-	(0.2)	(117%)	1.1
Total operating expenses	\$15.0	(13%)	\$17.4	\$31.1	(10%)	\$34.4

As discussed earlier, effective January 1, 2000 we reorganized into strategic business units. With the reorganization, certain personnel related to management and sales support that had been classified as sales and marketing in previous years are now classified as general and administrative. Approximately one-half of the year-to-date decrease in sales and marketing is due to this reclassification. The remaining decrease results from a reduction in international staff, fewer domestic salespeople for the comparative periods, and lower commission expense from lower revenues.

The decrease in product development expenses in 2000 compared with 1999 results primarily from restructuring measures in 1999 which included the closure of several product development locations and associated staff reductions.

The increased general and administrative expenses in 2000 compared with 1999 result from: the reclassification of personnel previously included in sales and marketing; expenses for executive recruiting and relocation; and increased legal and consulting costs. Higher legal costs in the current year are mostly the result of increased patent and FCC licensing activity.

Amortization of intangibles remained relatively constant for the comparative periods.

Restructuring charges in the first half of 2000 were slightly negative due to the partial reversal of expected losses for equipment to be sold or disposed. Restructuring measures are substantially complete.

Other Income (Expense)

(in millions)	Three months ended June 30,			Six months ended June 30,		
	2000	Increase (Decrease)	1999	2000	Increase (Decrease)	1999
Equity in affiliates	\$ 0.3	270%	\$ (0.2)	\$ 0.8	343%	\$ (0.3)
Interest, net	(1.0)	36%	(1.5)	(2.5)	25%	(3.4)
Other	-	(100%)	0.1	0.3	220%	0.1
Total other income (expense)	\$ (0.7)	54%	\$ (1.6)	\$ (1.4)	60%	\$ (3.6)

We have a 50% ownership interest in an affiliate, which acts as a distributor for our products in specific regions of the U.S. Equity in affiliates was \$248,000 in the second quarter of 2000 due to increased sales by this affiliate. Year-to-date equity in affiliates includes a \$150,000 net gain on the sale of our interest in another partially-owned domestic affiliate.

Net interest expense decreased 36% from the similar quarter last year due to lower bank borrowings, a reduction of subordinated debt outstanding, and net invested cash during the current quarter. We received approximately \$32.7 million from the sale of our outsourcing installation at Duquesne through June of this year and used the proceeds to pay down short-term bank borrowings. Excess cash is invested in short-term investment grade securities. The reduction in subordinated debt resulted from a debt repurchase transaction in the first quarter of 2000. The gain on the early retirement of subordinated debt for each period is reflected as an extraordinary item on the statement of operations.

Income Taxes

The effective income tax rate was approximately 38% for the comparative quarters. Our effective income tax rate can vary from period to period because of fluctuations in foreign operating results, changes in the valuation allowances for deferred tax assets, new or revised tax legislation, and changes in the level of business performed in differing tax jurisdictions.

Extraordinary Item - Gain on Early Retirement of Debt

In the first quarter of 2000 we repurchased \$3.8 million principal amount of subordinated debt for \$2.1 million in cash. The gain on this early retirement of debt, net of expenses and income taxes, was \$1.0 million. In March 1999 we completed an offer to exchange \$15.8 million principal amount of new subordinated debt for \$22.0 million principal amount of original subordinated debt. The after-tax effect of the transaction, net of expenses, was a gain of \$3.7 million.

FINANCIAL CONDITION

(in millions)	Three months ended June 30,			Six months ended June 30,		
	2000	Increase (Decrease)	1999	2000	Increase (Decrease)	1999
Cash flow information:	-----	-----	----	----	-----	----
Operating activities	\$ 0.4	(94%)	\$ 6.9	\$ 7.6	(41%)	\$ 12.9
Investing activities	(2.1)	53%	(4.5)	26.8	439%	(7.9)
Financing activities	(3.6)	(157%)	(1.4)	(5.2)	(6%)	(4.9)
Increase (decrease) in cash	=====	=====	=====	=====	=====	=====
	\$ (5.3)	(630%)	\$ 1.0	\$ 29.2	293%	\$ 0.1

Year-to-date cash flow from operating activities was \$7.6 million through June of 2000 compared to \$12.9 million in the same period last year. We used approximately \$2.6 million and \$7.5 million of cash for involuntary termination benefits and other restructuring related costs during the second quarter and six-month periods ending June 30, 2000, respectively. Additional severance payments of approximately \$1.9 million will be made in the third quarter of 2000.

On March 31, 2000 we received \$32.0 million from the sale of our network installation at Duquesne Light Company to an affiliate of Duquesne, which is reflected in investing activities. In the second quarter we collected an additional \$700,000 in sales proceeds which had been held in escrow pending certain post-closing items. Other investing activities used \$6 million in the first half of 2000, consisting of normal capital additions and the acquisition of equipment for our outsourcing contract with Southern California Edison. Total capital additions for 2000, including outsourcing equipment requirements, are expected to be approximately \$10 million.

During the first half of 2000, financing activities used \$5.2 million in cash, \$3.6 million of which was used to pay down short-term bank borrowings and \$2.1 million was used for the repurchase and retirement of subordinated debt.

Management believes that existing cash resources and available borrowings under the credit facility are more than adequate to meet the Company's needs for the remainder of 2000.

Certain Forward-Looking Statements

When included in this discussion, the words "expects," "intends," "believes," "anticipates," "plans," "projects" and "estimates," and similar expressions are intended to identify forward-looking statements. Such statements 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 laws or regulations (including FCC licensing actions), the rate of customer demand for our products, the effectiveness of our cost reductions programs, our ability to effect additional initiatives for growth and profitability, delays or difficulties in introducing new products and acceptance of those products, ability to obtain project financing in amounts necessary to fund future outsourcing agreements, increased competition and various other matters, many of which are beyond the Company's control. For a more complete description of these and other risks, see "FCC Regulations" section in this document and "Certain Risk Factors" and "Description of

Business - FCC Regulation" included in the Company's Annual Report on Form 10-K for the year ended December 31, 1999. 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 1: Legal Proceedings

Benghiat Patent Litigation

On April 3, 1999, the Company served Ralph Benghiat, an individual, with a complaint seeking a declaratory judgement that a patent owned by Benghiat is invalid and not infringed by Itron's handheld meter reading devices. Benghiat has filed a counterclaim alleging patent infringement by the same devices. Both lawsuits were filed in the United States District Court for the District of Minnesota. The lawsuit is currently in the motion and discovery stage with a tentative trial date in October 2000. Because of pending summary judgement motions, the trial date will probably be rescheduled in 2001. While the Company believes that its products do not infringe the Benghiat patent, there can be no assurance that it will prevail in this matter, or that if it does prevail, that legal costs incurred in connection therewith will not have a material adverse effect on its financial condition.

FCC Regulation

In 1994 the Company was issued a non-exclusive nationwide Federal Communications Commission (FCC) license to operate in the 1427-1432 MHz band. With the exception of meter modules that operate in MAS bands and the 910-920 MHz band, our network products operate in parts of this band. At the time our license was issued, the 1427-1432 MHz band was allocated primarily for use by the federal government, which consented to our use of the band on a secondary, non-interference basis. Current government use of the band is limited to a discrete number of well-defined locations, and we did not expect the fact that we were secondary to federal government operations to have either a present or future material impact on our business.

The 1427-1432 MHz band is among 235 MHz of spectrum that has been earmarked for reallocation from federal government users to private sector users (to be licensed by the FCC). The band is subject to continuing federal government use in specified areas through 2004. The FCC initially decided to include the 1427-1432 MHz band in a spectrum reserve that would not be reallocated and assigned until 2006. In July 1999, however, the FCC proposed to accelerate this timetable and allocate the upper portion of the band to wireless medical telemetry operations. We filed a petition with the FCC for rulemaking proposing instead that the band be allocated for automatic meter reading and utility telemetry operations.

On June 8, 2000, the FCC issued a Report and Order allocating three MHz of the band (1429-1432MHz) on a primary basis for use by wireless medical telemetry. Use of the remaining two MHz (1427-1429MHz) will be the subject of further rulemaking proceedings by the FCC, which may or may not grant Itron the right to use that band. Until that time, we may continue operating in the 1427-1429MHz band. We have had discussions with the FCC and the medical telemetry community concerning the sharing of the entire five MHz of the band. In addition, we are working with our congressional delegations in Washington, Minnesota and North Carolina to provide a legislative solution that would permit Itron to use the entire 5 MHz of the band on a co-primary basis with wireless medical telemetry. While we believe we will reach an acceptable solution for use of the band, there can be no assurance that there will be an allocation for the band that is compatible with Itron's business.

If we are not successful in our efforts to continue operations in the 1427-1432 MHz band, we believe that current installations will be permitted to continue under a grandfathering provision. However, there can be no assurance that such grandfathering will be permitted or that we will have any rights whatsoever in the band after final rulemaking by the FCC. In such event, our network products (other than modules)

would have to be redesigned to operate at a different frequency spectrum, which could have a material adverse effect on our business. For further discussion, please see "FCC Regulation Intellectual Property" and "Certain Risk Factors - Availability and Regulation of Radio Spectrum" in our Annual Report on Form 10K on file with the SEC.

CellNet Patent Litigation

On October 3, 1996, the Company filed a patent infringement suit against CellNet Data Systems ("CellNet") in the United States District Court for the District of Minnesota. The suit alleges that CellNet is infringing on its United States Patent No. 5,553,094 entitled "Radio Communication Network for Remote Data Generating Stations," issued on September 3, 1996. The Company is seeking injunctive relief as well as monetary damages, costs and attorneys' fees. On January 28, 1999, the Court issued its decision on motions and cross motions for summary judgement that had previously been filed by the Company and CellNet. In its decision, the Court held the Company's patent valid, but not infringed. The Company believes the non-infringement decision was incorrect and has filed an appeal. The litigation stay resulting from CellNet's filing for bankruptcy protection has been lifted. All briefs have been filed and oral arguments are expected this October. There can be no assurance that the Company will prevail on appeal in this action.

The Company is not involved in any other material legal proceedings.

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

The Company held its annual meeting of shareholders on June 28, 2000. Two directors were elected for a term of one year until 2001, Michael J. Chesser and LeRoy D. Nosbaum. Three directors were elected for a term of three years, Michael B. Bracy, Mary Ann Peters, and Graham M. Wilson. Ted C. DeMerritt, Jon E. Eliassen, Paul A. Redmond and S. Edward White continued their terms as directors.

The following summarizes all matters voted on at the meeting:

Matter 1. Election of Directors:		
Nominee	In Favor	Withheld
Michael J. Chesser	14,245,560	154,181
LeRoy D. Nosbaum	14,270,255	129,486
Michael B. Bracy	14,248,880	150,861
Mary Ann Peters	14,235,864	163,877
Graham M. Wilson	14,251,711	148,030

Matter 2. Approval of the Company's 2000 Stock Incentive Compensation Plan:			
For	Against	Abstain	Broker Non-Votes
8,282,903	2,122,349	35,971	3,968,518

Item 6: Exhibits and Reports on Form 8-K

a) Exhibits

- Exhibit 10.21 - Form of Change of Control Agreement between Registrant and executive officers Tim Gelvin and Bob Whitney.
(A) (10.1)
- Exhibit 10.22 - Contribution Agreement between Itron, Inc. and Servatron, Inc. dated May 15, 2000.
- Exhibit 10.23 - Credit Agreement between Itron, Inc. and Servatron, Inc. dated June 22, 2000.

Exhibit 27 - Financial Data Schedule

(A) Incorporated by reference to designated exhibit included in the Company's 1999 Annual Report on Form 10-K dated March 26, 2000.

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: August 14, 2000

CONTRIBUTION AGREEMENT

BETWEEN

SERVATRON, INC.

AND

ITRON, INC.

May 15, 2000

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CONTRIBUTION AGREEMENT BETWEEN
SERVATRON, INC. AND ITRON, INC.

THIS CONTRIBUTION AGREEMENT, dated as of May 15, 2000, is made and entered into by and between SERVATRON, INC., a Washington corporation ("Servatron"), and ITRON, INC., a Washington corporation ("ITRON"). Capitalized terms not otherwise defined herein have the meanings set forth in Section 12.1.

RECITALS

A. ITRON is engaged in the business of manufacturing and selling data acquisition and wireless communication equipment for collecting and analyzing electric, gas, and water usage data; and

B. ITRON desires to sell, transfer and assign to Servatron, and Servatron desires to purchase and acquire from ITRON, certain of the assets of ITRON relating to the operation of ITRON's manufacturing and depot service business.

C. As consideration for the sale of the manufacturing equipment, Servatron has agreed to issue, and ITRON has agreed to accept, 3,000,000 shares of Servatron's Series A Preferred Stock.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I

SALE OF ASSETS AND CLOSING

1.1 Assets Transferred. On the terms and subject to the conditions set forth in

this Agreement, ITRON will sell, transfer, convey, assign and deliver to Servatron, and Servatron will purchase and pay for, at the Closing, free and clear of all Liens other than Permitted Liens, all of ITRON's right, title and interest in, to and under the assets of ITRON listed in Section 1.1 of the Disclosure Schedule, as the same shall exist on the Closing Date (collectively, the "Assets"):

1.2 Liabilities. Except for obligations assumed in connection with the Depot Repair Services Agreement and the Manufacturing Agreement, Servatron shall not assume by virtue of this Agreement or the transactions contemplated hereby, and shall have no liability for, any Liabilities of ITRON. ITRON shall be responsible for any and all Liabilities of any kind, character or description arising from the Assets prior to the Closing Date. Servatron shall be responsible for any and all Liabilities of any kind, character or description arising from the Assets as of the Closing Date.

1.3 Purchase Price; Allocation.

(a) Purchase Price. The consideration to be paid by Servatron to ITRON for the Assets is the issuance to ITRON of 3,000,000 shares of preferred stock, \$0.001 par value per share, of Servatron ("Servatron Preferred Stock"), which number of shares shall be equal to thirty percent (30%) of the fully diluted issued and outstanding shares of common stock of Servatron as of the date of Closing (including any issued and outstanding convertible preferred stock of Servatron and any shares of stock of Servatron reserved or set aside for issuance by Servatron pursuant to stock options, warrants or other rights).

(b) Servatron and ITRON agree that the Assets have a fair market value of One Million Dollars (\$1,000,000) and agree to allocate that amount to the Assets as set forth in Disclosure Schedule 1.1.

1.4 Closing. The Closing will take place at the offices of Graham & Dunn PC, located at 1420 Fifth Avenue, 33rd Floor, Seattle, Washington 98101, or at such other place as Servatron and ITRON mutually agree, at 11:00 A.M. Pacific Standard Time, on May 15, 2000, or if the conditions specified in Articles VI and VII are not satisfied on the Closing Date, at such later date when such conditions are satisfied, as agreed to by the parties. ITRON will assign and transfer to Servatron good and valid title in and to the Assets (free and clear of all Liens by delivery of the duly executed: (a) Bill of Sale substantially in the form of Exhibit A hereto (the "Bill of Sale"), (b) Manufacturing Agreement; (c) Depot Repair Services Agreement; (d) Shareholders Agreement; (e) Closing Certificate of ITRON; (f) Secretary's Certificate of ITRON; and (g) Opinion of Counsel from ITRON's Counsel. At Closing Servatron shall deliver to ITRON the duly executed: (a) original Stock Certificate representing the Servatron Preferred Stock; (b) Manufacturing Agreement; (c) Depot Repair Services Agreement; (d) Shareholders Agreement; (e) Closing Certificate of Servatron; (f) Secretary's Certificate of Servatron; and (g) Opinion of Counsel from Servatron's Counsel.

1.5 Further Assurances; Post-Closing Cooperation.

(a) At any time or from time to time after the Closing, at Servatron's request and without further consideration, ITRON shall execute and deliver to Servatron such other instruments of sale, transfer, conveyance, assignment and confirmation, provide such materials and information and take such other actions as Servatron may reasonably deem necessary or desirable in order more effectively to transfer, convey and assign to Servatron, and to confirm Servatron's title to, all of the Assets, and, to the full extent permitted by Law, to put Servatron in actual possession and operating control of the Assets (the "Assignment Instruments") and to assist Servatron in exercising all rights with respect thereto, and otherwise to cause ITRON to fulfill its obligations under this Agreement and the Operative Agreements.

(b) Following the Closing, each party will afford the other party, its counsel and its accountants, during normal business hours, reasonable access to the books, records and other data relating to the Assets in its possession with respect to periods prior to the Closing and the right to make copies and extracts therefrom, to the extent that such access may be reasonably required by the requesting party in connection with (i) the preparation of Tax Returns, (ii) the determination or enforcement of rights and obligations under this Agreement or any Operative Agreement, (iii) compliance with the requirements of any Governmental or Regulatory Authority, (iv) the determination or enforcement of the rights and obligations of any Indemnified Party or (v) in connection with any actual or threatened Action or Proceeding. Further each party agrees for a period extending six (6) years after the Closing Date not to destroy or

otherwise dispose of any such books, records and other data unless such party shall first offer in writing to surrender such books, records and other data to the other party and such other party shall not agree in writing to take possession thereof during the ten (10) day period after such offer is made.

(c) If, in order properly to prepare its Tax Returns, other documents or reports required to be filed with Governmental or Regulatory Authorities or its financial statements or to fulfill its obligations hereunder, it is necessary that a party be furnished with additional information, documents or records relating to the Assets not referred to in paragraph (c) above, and such information, documents or records are in the possession or control of the other party, such other party shall use its best efforts to furnish or make available such information, documents or records (or copies thereof) at the recipient's request, cost and expense. Any information obtained by either party in accordance with this paragraph shall be held confidential by such party in accordance with Section 13.5.

(d) Notwithstanding anything to the contrary contained in this Section 1.5, if the parties are in an adversarial relationship in litigation or arbitration, the furnishing of information, documents or records in accordance paragraphs (b) or (c) of this Section shall be subject to applicable rules relating to discovery.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF ITRON

ITRON hereby represents and warrants to Servatron as follows:

2.1 Organization of ITRON. ITRON is a corporation validly existing under the Laws of the State of Washington, and has full corporate power and authority to own, use and lease the Assets.

2.2 Authority; Binding Nature of Agreement. ITRON has full corporate power and authority to execute and deliver this Agreement and the Operative Agreements to which it is a party, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby, including, without limitation, to sell and transfer (pursuant to this Agreement) the Assets. The execution and delivery by ITRON of this Agreement and the Operative Agreements to which it is a party, and the performance by ITRON of its obligations hereunder and thereunder, have been duly and validly authorized by the Board of Directors of ITRON. This Agreement has been duly and validly executed and delivered by ITRON, and upon the execution and delivery by ITRON of the Operative Agreements to which it is a party, such Operative Agreements will constitute, legal, valid and binding obligations of ITRON enforceable against ITRON in accordance with their terms.

2.3 Noncontravention. The execution, delivery and performance by ITRON of each of this Agreement and the consummation of the transactions contemplated hereby, do not violate or contravene any provision of its articles or certificate of incorporation or by-laws and do not violate any applicable rule of Governmental or Regulatory Authorities or result in a breach of or constitute a default under any contract, obligation, indenture or other instrument to which it is a party or by which it may be bound, which violation, breach or default would have an ITRON Material Adverse Effect.

2.4 Books and Records. Except as set forth in Section 2.4 of the Disclosure Schedule, none of the Books and Records are recorded, stored, maintained, operated or otherwise wholly or partly dependent upon or held by any means (including any electronic, mechanical or photographic process, whether computerized or not) which (including all means of access thereto and therefrom) are not under the exclusive ownership and direct control of one or more Employees.

2.5 No Undisclosed Liabilities. Except as disclosed in Section 2.5 of the Disclosure Schedule, ITRON has good, indefeasible, and merchantable title to and ownership of the Assets free and clear of all Liens. There are no Liabilities or Liens against, relating to or affecting any of the Assets.

2.6 No Warranties. ITRON does not warrant the condition of the Assets. All Assets are provided "as is, where is," FOB ITRON's plant.

2.7 Brokers. All negotiations relative to this Agreement and the transactions contemplated hereby have been carried out by ITRON directly with Servatron without the intervention of any Person on behalf of ITRON in such manner as to give rise to any valid claim by any Person against Servatron for a finder's fee,

brokerage commission or similar payment.

2.8 Product Liability. To the Knowledge of ITRON, ITRON has no Liability, and there is no known basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand against ITRON giving rise to any Liability, arising out of any injury to individuals or property as a result of the ownership, possession, or use of any product distributed, sold or delivered by ITRON that was manufactured using the Assets.

2.9 Transition Benefits. ITRON shall provide those Servatron employees who were previously employed by ITRON and who are listed on Schedule 2.9 attached hereto ("Former Employees") with the transition benefits listed on such schedule for the time periods specified thereon. The Former Employees and Larry Panattoni shall not be subject to the non-solicitation provisions of Article VIII.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF SERVATRON

Servatron hereby represents and warrants to ITRON as follows:

3.1 Organization. Servatron is a corporation validly existing under the Laws of the State of Washington. Servatron has full corporate power and authority to enter into this Agreement and the Operative Agreements to which it is a party, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby.

3.2 Authority. Servatron has full corporate power and authority to execute and deliver this Agreement and the Operative Agreements to which it is a party, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby, including, without limitation, to sell and transfer (pursuant to this Agreement) the Assets. The execution and delivery by Servatron of this Agreement and the Operative Agreements to which it is a party, and the performance by Servatron of its obligations hereunder and thereunder, have been duly and validly authorized by the Board of Directors of Servatron and the Shareholders. This Agreement has been duly and validly executed and delivered by Servatron, and upon the execution and delivery by Servatron of the Operative Agreements to which it is a party, such Operative Agreements will constitute, legal, valid and binding obligations of Servatron enforceable against Servatron in accordance with their terms.

3.3 Capitalization. The authorized capital stock of Servatron is as set forth in Section 3.3 of the Disclosure Schedule. No shares of such capital stock are issued and outstanding except for the shares as identified in Section 3.3 of the Disclosure Schedule. The shares of capital stock of Servatron are owned of record and beneficially by the Persons in the number set forth in Section 3.3 of the Disclosure Schedule. All such shares of capital stock are validly issued, fully paid and nonassessable. Except as set forth on Section 3.3 of the Disclosure Schedule, there are no (i) securities convertible into or exchangeable for any of the capital stock or other securities of Servatron, (ii) options, warrants or other rights to purchase or subscribe to capital stock or other securities of Servatron or securities which are convertible into or exchangeable for capital stock or other securities of Servatron, (iii) contracts, commitments, agreements, understandings or arrangements of any kind relating to the issuance, sale or transfer of any capital stock or other equity securities of Servatron, any such convertible or exchangeable securities or any such options, warrants or other rights or (iv) other Persons with an ownership interest in the assets, properties or business of Servatron.

3.4 Noncontravention. The execution, delivery and performance by Servatron of each of this Agreement and the consummation of the transactions contemplated hereby, do not violate or contravene any provision of its articles or certificate of incorporation or by-laws and do not violate any applicable rule of Governmental or Regulatory Authorities or result in a breach of or constitute a default under any contract, obligation, indenture or other instrument to which it is a party or by which it may be bound, which violation, breach or default would have a Servatron Material Adverse Effect.

3.5 Brokers. All negotiations relative to this Agreement and the transactions contemplated hereby have been carried out by Servatron directly with ITRON without the intervention of any Person on behalf of Servatron in such manner as to give rise to any valid claim by any Person against Servatron for a finder's fee, brokerage commission or similar payment.

3.6 Legal Proceedings. Except as disclosed in Section 3.6 of the Disclosure Schedule there are no pending or, to Servatron's knowledge, threatened actions,

claims, investigations, suits or proceedings, by or before any governmental authority, arbitrator, court or administrative agency that could have an Servatron Material Adverse Effect.

3.7 Insurance. All current policies of insurance of any kind or nature owned by or issued to Servatron, including, without limitation, policies of fire, theft, product liability, public liability, property damage, other casualty, employee fidelity, workers' compensation and employee health and welfare insurance, are in full force and effect and are of a nature and provide such coverage as is sufficient and as is customarily carried by companies of its size and character.

3.8 Labor Matters. Other than any of the following which in the aggregate have no reasonable likelihood of having an Servatron Material Adverse Effect: (i) there are no strikes, work stoppages, slowdowns or lockouts pending or to Servatron's knowledge threatened against or involving it; (ii) there are no arbitrations or grievances pending or to its knowledge threatened against or involving it; (iii) there is no organizing activity involving it pending or to its knowledge threatened by any labor union or group of employees; (iv) there are no representation proceedings pending against it or to its knowledge threatened with the National Labor Relations Board; (v) no labor organization or group of its employees has made a pending demand on it for recognition; (vi) there are no unfair labor practice charges, grievances or complaints pending or in process or to its knowledge threatened by or on behalf of any employee or group of its employees; (vii) there are no complaints or charges against it pending or to its knowledge threatened to be filed with any federal, state or local court, governmental agency or arbitrator based on, arising out of, in connection with, or otherwise relating to its employment of any individual; and (viii) it is in material compliance with all applicable rules and orders of Governmental or Regulatory Authorities, and all orders of any Governmental Authority or arbitrator, relating to the employment of labor including all such laws relating to wages, hours, collective bargaining, discrimination, civil rights, and the payment of withholding and/or social security and similar taxes. As of the date hereof Servatron is not a party to, and has no obligations under, any collective bargaining agreement.

3.9 Environmental, Health, and Safety Matters. Except as disclosed in Disclosure Schedule 3.9, Servatron is in compliance in all material respects with all Environmental Laws applicable to it, other than such noncompliance as in the aggregate will not have an Servatron Material Adverse Effect. Servatron has not received notice that it is the subject of any federal or state investigation evaluating whether any Remedial Action is needed. There have been no Releases by Servatron that could reasonably be expected to result in an Servatron Material Adverse Effect.

3.10 Employee Benefits. Except as disclosed in Disclosure Schedule 3.10, Servatron is in compliance in all material respects with the applicable provisions of ERISA. Servatron has not violated any provision of any Plan maintained or contributed to by it in a manner that could result in a Material Adverse Effect. No "reportable event" (as defined in Title IV of ERISA) has occurred and is continuing with respect to any Plan initiated by it.

3.11 Tax Matters. Except as disclosed in Disclosure Schedule 3.11, Servatron has filed, or caused to be filed, all federal, state, local and foreign tax returns required to be filed by it, and has paid, or caused to be paid, all taxes as are shown on such returns, or on any assessment received by it, to the extent that such taxes have become due, except as otherwise contested in good faith. Servatron has set aside proper amounts on its books, determined in accordance with GAAP, for the payment of all taxes for the years that have not been audited by the respective tax authorities and for taxes being contested by it.

3.12 Intellectual Property. Except as disclosed in Disclosure Schedule 3.12, Servatron owns or licenses or otherwise has the right to use all material licenses, Permits, patents, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, copyright applications, franchises, authorizations and other intellectual property rights that are necessary for the operation of its businesses, without infringement upon or conflict with the rights of any other Person with respect thereto, including without limitation, all trade names. No slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by Servatron infringes upon or conflicts with any rights owned by any other Person, which infringement or conflict is reasonably likely to have an Servatron Material Adverse Effect, and no claim or litigation regarding any of the foregoing is pending or, to its knowledge, threatened, the existence of which is reasonably likely to have an Servatron Material Adverse Effect. No patent, invention, device, application, principle or any statute,

law, rule, regulation, standard or code is pending or, to its knowledge, proposed, other than those the consequences of which in the aggregate have no reasonable likelihood of having an Servatron Material Adverse Effect.

ARTICLE IV

COVENANTS OF ITRON

ITRON hereby covenants and agrees with Servatron that, at all times from and after the date of this Agreement until the Closing and, with respect to any covenant or agreement by its terms to be performed in whole or in part after the Closing, for the period specified herein or, if no period is specified herein, for a period of two (2) years after the Closing, ITRON will comply with all covenants and provisions of this Article IV, except to the extent Servatron may otherwise consent in writing.

4.1 Regulatory and Other Approvals. ITRON will (a) take all commercially reasonable steps necessary or desirable, and proceed diligently and in good faith and use all commercially reasonable efforts, as promptly as practicable to obtain all consents, approvals or actions of, to make all filings with and to give all notices to Governmental or Regulatory Authorities or any other Person required of ITRON to consummate the transactions contemplated hereby and by the Operative Agreements, (b) provide such other information and communications to such Governmental or Regulatory Authorities or other Persons as Servatron or such Governmental or Regulatory Authorities or other Persons may reasonably request in connection therewith and (c) cooperate with Servatron as promptly as practicable in obtaining all consents, approvals or actions of, making all filings with and giving all notices to Governmental or Regulatory Authorities or other Persons required of Servatron to consummate the transactions contemplated hereby and by the Operative Agreements. ITRON will provide prompt notification to Servatron when any such consent, approval, action, filing or notice referred to in clause (a) above is obtained, taken, made or given, as applicable, and will advise Servatron of any communications (and, unless precluded by Law, provide copies of any such communications that are in writing) with any Governmental or Regulatory Authority or other Person regarding any of the transactions contemplated by this Agreement or any of the Operative Agreements.

4.2 Securities Law Matters. ITRON agrees to hold the Servatron Preferred Stock received pursuant to this Agreement pursuant to the terms of the investment letter attached hereto as Exhibit B.

4.3 Notice and Cure. ITRON will notify Servatron in writing (where appropriate, through updates to the Disclosure Schedule) of, and contemporaneously will provide Servatron with true and complete copies of any and all information or documents relating to, and will use all commercially reasonable efforts to cure before the Closing, any event, transaction or circumstance, as soon as practicable after it becomes Known to ITRON, occurring after the date of this Agreement that causes or will cause any covenant or agreement of ITRON under this Agreement to be breached or that renders or will render untrue any representation or warranty of ITRON contained in this Agreement as if the same were made on or as of the date of such event, transaction or circumstance. ITRON also will notify Servatron in writing (where appropriate, through updates to the Disclosure Schedule) of, and will use all commercially reasonable efforts to cure, before the Closing, any violation or breach, as soon as practicable after it becomes Known to ITRON, of any representation, warranty, covenant or agreement made by ITRON in this Agreement, whether occurring or arising before, on or after the date of this Agreement. No notice given pursuant to this Section shall have any effect on the representations, warranties, covenants or agreements contained in this Agreement for purposes of determining satisfaction of any condition contained herein or shall in any way limit Servatron's right to seek indemnity under Article X.

4.4 Fulfillment of Conditions. ITRON will execute and deliver at the Closing each Operative Agreement that ITRON is required hereby to execute and deliver as a condition to the Closing, will take all commercially reasonable steps necessary or desirable and proceed diligently and in good faith to satisfy each other condition to the obligations of Servatron contained in this Agreement and will not take or fail to take any action that could reasonably be expected to result in the nonfulfillment of any such condition.

ARTICLE V

COVENANTS OF SERVATRON

Servatron covenants and agrees with ITRON that, at all times from and after the date of this Agreement until the Closing and, with respect to any covenant or agreement by its terms to be performed in whole or in part after the

Closing, for the period specified herein or, if no period is specified herein, for a period of two (2) years after the Closing, Servatron will comply with all covenants and provisions of this Article V, except to the extent ITRON may otherwise consent in writing.

5.1 Regulatory and Other Approvals. Servatron will (a) take all commercially reasonable steps necessary or desirable, and proceed diligently and in good faith and use all commercially reasonable efforts, as promptly as practicable to obtain all consents, approvals or actions of, to make all filings with and to give all notices to Governmental or Regulatory Authorities or any other Person required of Servatron to consummate the transactions contemplated hereby and by the Operative Agreements, (b) provide such other information and communications to such Governmental or Regulatory Authorities or other Persons as ITRON or such Governmental or Regulatory Authorities or other Persons may reasonably request in connection therewith and (c) cooperate with ITRON as promptly as practicable in obtaining all consents, approvals or actions of, making all filings with and giving all notices to Governmental or Regulatory Authorities or other Persons required of ITRON to consummate the transactions contemplated hereby and by the Operative Agreements. Servatron will provide prompt notification to ITRON when any such consent, approval, action, filing or notice referred to in clause (a) above is obtained, taken, made or given, as applicable, and will advise ITRON of any communications (and, unless precluded by Law, provide copies of any such communications that are in writing) with any Governmental or Regulatory Authority or other Person regarding any of the transactions contemplated by this Agreement or any of the Operative Agreements.

5.2 Notice and Cure. Servatron will notify ITRON in writing of, and contemporaneously will provide ITRON with true and complete copies of any and all information or documents relating to, and will use all commercially reasonable efforts to cure before the Closing, any event, transaction or circumstance, as soon as practicable after it becomes Known to Servatron, occurring after the date of this Agreement that causes or will cause any covenant or agreement of Servatron under this Agreement to be breached or that renders or will render untrue any representation or warranty of Servatron contained in this Agreement as if the same were made on or as of the date of such event, transaction or circumstance. Servatron also will notify ITRON in writing of, and will use all commercially reasonable efforts to cure, before the Closing, any violation or breach, as soon as practicable after it becomes Known to Servatron, of any representation, warranties, covenant or agreement made by Servatron in this Agreement, whether occurring or arising before, on or after the date of this Agreement. No notice given pursuant to this Section shall have any effect on the representations, warranties, covenants or agreements contained in this Agreement for purposes of determining satisfaction of any condition contained herein or shall in any way limit ITRON's right to seek indemnity under Article X.

5.3 Fulfillment of Conditions. Servatron will execute and deliver at the Closing each Operative Agreement that Servatron is hereby required to execute and deliver as a condition to the Closing, will take all commercially reasonable steps necessary or desirable and proceed diligently and in good faith to satisfy each other condition to the obligations of ITRON contained in this Agreement and will not take or fail to take any action that could reasonably be expected to result in the nonfulfillment of any such condition.

ARTICLE VI

CONDITIONS TO OBLIGATIONS OF SERVATRON

The obligations of Servatron hereunder to purchase the Assets are subject to the fulfillment, at or before the Closing, of each of the following conditions (all or any of which may be waived in whole or in part by Servatron in its sole discretion):

6.1 Representations and Warranties. Each of the representations and warranties made by ITRON in this Agreement (other than those made as of a specified date earlier than the Closing Date) shall be true and correct in all material respects on and as of the Closing Date as though such representation or warranty was made on and as of the Closing Date, and any representation or warranty made as of a specified date earlier than the Closing Date shall have been true and correct in all material respects on and as of such earlier date.

6.2 Performance. ITRON shall have performed and complied with, in all material respects, each agreement, covenant and obligation required by this Agreement or any Operative Agreement to be so performed or complied with by ITRON at or before the Closing.

6.3 Closing Certificates. ITRON shall have delivered to Servatron a certificate, dated the Closing Date and executed by the Chairman of the Board, the President or any Vice President of ITRON, substantially in the form and to the effect of Exhibit C hereto, and a certificate, dated the Closing Date and executed by the Secretary or any Assistant Secretary of ITRON, substantially in the form and to the effect of Exhibit D hereto.

6.4 Orders and Laws. There shall not be in effect on the Closing Date any Order or Law restraining, enjoining or otherwise prohibiting or making illegal the consummation of any of the transactions contemplated by this Agreement or any of the Operative Agreements or which could reasonably be expected to otherwise result in a material diminution of the benefits of the transactions contemplated by this Agreement or any of the Operative Agreements to Servatron, and there shall not be pending or threatened on the Closing Date any Action or Proceeding or any other action in, before or by any Governmental or Regulatory Authority which could reasonably be expected to result in the issuance of any such Order or the enactment, promulgation or deemed applicability to Servatron or the transactions contemplated by this Agreement or any of the Operative Agreements of any such Law.

6.5 Regulatory Consents and Approvals. All consents, approvals and actions of, filings with and notices to any Governmental or Regulatory Authority necessary to permit Servatron and ITRON to perform their obligations under this Agreement and the Operative Agreements and to consummate the transactions contemplated hereby and thereby (a) shall have been duly obtained, made or given, (b) shall be in form and substance reasonably satisfactory to Servatron, (c) shall not be subject to the satisfaction of any condition that has not been satisfied or waived and (d) shall be in full force and effect, and all terminations or expirations of waiting periods imposed by any Governmental or Regulatory Authority necessary for the consummation of the transactions contemplated by this Agreement and the Operative Agreements shall have occurred.

6.6 Opinion of Counsel. Servatron shall have received the opinion of Perkins Coie. LLP, counsel to ITRON, dated the Closing Date, substantially in the form and to the effect of Exhibit E hereto.

6.7 Shareholders' Agreement. ITRON shall have entered into a shareholders' agreement and a stock restriction agreement, substantially in the form and to the effect of Exhibit F hereto (the "Shareholders' Agreement").

6.8 Deliveries. ITRON shall have delivered to Servatron the Bill of Sale and the other Assignment Instruments.

6.9 Completion of Due Diligence. Servatron shall have completed its due diligence review of ITRON and shall have been satisfied, in its sole discretion, with the results thereof.

6.10 Proceedings. All proceedings to be taken on behalf of ITRON in connection with the transactions contemplated by this Agreement and all documents incident thereto shall be reasonably satisfactory in form and substance to Servatron, and Servatron shall have received copies of all such documents and other evidences as Servatron may reasonably request in order to establish the consummation of such transactions and the taking of all proceedings in connection therewith.

ARTICLE VII

CONDITIONS TO OBLIGATIONS OF ITRON

The obligations of ITRON hereunder to sell the Assets are subject to the fulfillment, at or before the Closing, of each of the following conditions (all or any of which may be waived in whole or in part by ITRON in its sole discretion):

7.1 Representations and Warranties. Each of the representations and warranties made by Servatron in this Agreement shall be true and correct in all material respects on and as of the Closing Date as though such representation or warranty was made on and as of the Closing Date.

7.2 Performance. Servatron shall have performed and complied with, in all material respects, each agreement, covenant and obligation required by this Agreement or any Operative Agreement to be so performed or complied with by Servatron at or before the Closing.

7.3 Closing Certificates. Servatron shall have delivered to ITRON a certificate, dated the Closing Date and executed by the Chairman of the Board, the President or any Vice President of Servatron, substantially in the form and to the effect

of Exhibit G hereto, and a certificate, dated the Closing Date and executed by the Secretary or any Assistant Secretary of Servatron, substantially in the form and to the effect of Exhibit H hereto.

7.4 Orders and Laws. There shall not be in effect on the Closing Date any Order or Law that became effective after the date of this Agreement restraining, enjoining or otherwise prohibiting or making illegal the consummation of any of the transactions contemplated by this Agreement or any of the Operative or which could reasonably be expected to otherwise result in a material diminution of the benefits of the transactions contemplated by this Agreement or any of the Operative Agreements to ITRON, and there shall not be pending or threatened on the Closing Date any Action or Proceeding or any other action in, before or by any Governmental or Regulatory Authority which could reasonably be expected to result in the issuance of any such Order or the enactment, promulgation or deemed applicability to ITRON or the transactions contemplated by this Agreement or any of the Operative Agreements of any such Law.

7.5 Regulatory Consents and Approvals. All consents, approvals and actions of, filings with and notices to any Governmental or Regulatory Authority necessary to permit ITRON and Servatron to perform their obligations under this Agreement and the Operative Agreements and to consummate the transactions contemplated hereby and thereby (a) shall have been duly obtained, made or given, (b) shall not be subject to the satisfaction of any condition that has not been satisfied or waived and (c) shall be in full force and effect, and all terminations or expirations of waiting periods imposed by any Governmental or Regulatory Authority necessary for the consummation of the transactions contemplated by this Agreement and the Operative Agreements shall have occurred.

7.6 Opinion of Counsel. ITRON shall have received the opinion of Graham & Dunn PC, counsel to Servatron, dated the Closing Date, substantially in the form and to the effect of Exhibit I hereto.

7.7 Shareholders' Agreement. The shareholders of Servatron listed in Section 3.3 of the Disclosure Schedule shall have entered into the Shareholders' Agreement.

7.8 Completion of Due Diligence. ITRON shall have completed its due diligence review of Servatron and shall have been satisfied, in its sole discretion, with the results thereof.

7.9 Proceedings. All proceedings to be taken on the part of Servatron in connection with the transactions contemplated by this Agreement and all documents incident thereto shall be reasonably satisfactory in form and substance to ITRON, and ITRON shall have received copies of all such documents and other evidences as ITRON may reasonably request in order to establish the consummation of such transactions and the taking of all proceedings in connection therewith.

ARTICLE VIII

NON-SOLICITATION

Servatron agrees not to solicit or hire any employees of ITRON for one year from the date of this Agreement. ITRON agrees not to hire any employees of Servatron for one year from the date of this Agreement. Notwithstanding the foregoing, Servatron may hire employees of ITRON who have been terminated by ITRON or who have resigned at ITRON's request and ITRON may hire employees of Servatron who have been terminated by Servatron who have resigned at Servatron's request.

ARTICLE IX

SURVIVAL OF REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS

Notwithstanding any right of Servatron to investigate the accuracy of the representations and warranties of the other party contained in this Agreement, ITRON and Servatron have the right to rely fully upon the representations, warranties, covenants and agreements of the other contained in this Agreement. The representations, warranties, covenants and agreements of ITRON and Servatron contained in this Agreement will survive the Closing (a) until sixty (60) days after the expiration of all applicable statutes of limitation (including all periods of extension, whether automatic or permissive) with respect to the representations and warranties or (b) with respect to the covenants or agreements contained in this Agreement, until sixty (60) days following the last date on which such covenant or agreement is to be performed or, if no such date is stated for twelve (12) months after Closing, except that any representation, warranty, covenant or agreement that would otherwise

terminate in accordance with clause (a) or (b) above will continue to survive if a claim for indemnity shall have been made under Article IX on or prior to such termination date, until such claim has been satisfied or otherwise resolved.

ARTICLE X

INDEMNIFICATION

10.1 ITRON's Indemnification. ITRON shall indemnify the Servatron Indemnified Parties in respect of, and hold each of them harmless from and against, any and all Losses suffered, incurred or sustained by any of them or to which any of them becomes subject, resulting from, arising out of or relating to any misrepresentation, breach of warranty or nonfulfillment of or failure to perform any covenant or agreement on the part of ITRON contained in this Agreement (determined in all cases as if the terms "material" or "materially" were not included therein) and for any Losses or Liabilities arising from the Assets incurred prior to the Closing Date.

10.2 Servatron's Indemnification. Servatron shall indemnify the ITRON Indemnified Parties in respect of, and hold each of them harmless from and against, any and all Losses suffered, incurred or sustained by any of them or to which any of them becomes subject, resulting from, arising out of or relating to any misrepresentation, breach of warranty or nonfulfillment of or failure to perform any covenant or agreement on the part of Servatron contained in this Agreement (determined in all cases as if the terms "material" or "materially" were not included therein) and for any Losses or Liabilities arising from the Assets arising on or after the Closing Date.

10.3 Indemnification Procedure.

(a) Upon obtaining knowledge thereof, the party to be indemnified hereunder (the "Indemnitee") shall promptly notify the indemnifying party hereunder (the "Indemnitor") in writing of any damage, claim, loss, liability or expense or other matter which the Indemnitee has determined has given or could give rise to a claim for which indemnification rights are granted hereunder (such written notice referred to as the "Notice of Claim"). The Notice of Claim shall specify, in all reasonable detail, the nature and estimated amount of any such claim giving rise to a right of indemnification, to the extent the same can reasonably be estimated. Any failure on the part of an Indemnitee to give timely notice to the Indemnitor of a claim shall not affect the right of the Indemnitee to obtain indemnification from the Indemnitor with respect to such claim unless the Indemnitor is actually harmed by such failure to notify, and, in such case, only to the extent of such actual harm.

(b) With respect to any matter set forth in a Notice of Claim relating to a third party claim the Indemnitor shall defend, in good faith and at its expense, any such claim or demand, and the Indemnitee, at its expense, shall have the right to participate in the defense of any such third party claim. So long as Indemnitor is defending, in good faith, any such third party claim, the Indemnitee shall not settle or compromise such third party claim. The Indemnitee shall make available to the Indemnitor or its representatives all records and other materials reasonably required by them for use in contesting any third party claim and shall cooperate fully with the Indemnitor in the defense of all such claims. If the Indemnitor does not defend any such third party claim or if the Indemnitor does not provide the Indemnitee with prompt and reasonable assurances that the Indemnitor will satisfy the third party claim, the Indemnitee may, at its option, elect to defend any such third party claim, at the Indemnitor's expense, but subject to the Indemnitor's right to assume such defense from the Indemnitee at any time. An Indemnitor may not settle or compromise any claim without obtaining a full and unconditional release of the Indemnitee, unless the Indemnitee consents in writing to such settlement or compromise.

10.4 Exclusivity. After the Closing, to the extent permitted by Law, the indemnities set forth in this Article X shall be the exclusive remedies of Servatron, ITRON and their respective officers, directors, employees, agents and Affiliates for any misrepresentation, breach of warranty or nonfulfillment or failure to be performed of any covenant or agreement contained in this Agreement, and the parties shall not be entitled to a rescission of this Agreement or to any further indemnification rights or claims of any nature whatsoever in respect thereof, all of which the parties hereto hereby waive.

ARTICLE XI

TERMINATION

11.1 Termination. This Agreement may be terminated, and the transactions

contemplated hereby may be abandoned:

(a) at any time before the Closing, by mutual written agreement of ITRON and Servatron;

(b) at any time before the Closing, by ITRON or Servatron, in the event (i) of a material breach hereof by the non-terminating party if such non-terminating party fails to cure such breach within five (5) Business Days following notification thereof by the terminating party or (ii) upon notification of the non-terminating party by the terminating party that the satisfaction of any condition to the terminating party's obligations under this Agreement becomes impossible or impracticable with the use of commercially reasonable efforts if the failure of such condition to be satisfied is not caused by a breach hereof by the terminating party; or

(c) at any time after June 30, 2000 (the "Termination Date") by ITRON or Servatron upon notification of the non-terminating party by the terminating party if the Closing shall not have occurred on or before such date and such failure to consummate is not caused by a breach of this Agreement by the terminating party.

11.2 Effect of Termination. If this Agreement is validly terminated pursuant to Section 11.1, this Agreement will forthwith become null and void, and there will be no liability or obligation on the part of ITRON or Servatron (or any of their respective officers, directors, employees, agents or other representatives or Affiliates), except as provided in the next succeeding sentence. Notwithstanding any other provision in this Agreement to the contrary, upon termination of this Agreement pursuant to Section 11.1(b) or (c), ITRON will remain liable to Servatron for any breach of this Agreement by ITRON existing at the time of such termination, and Servatron will remain liable to ITRON for any breach of this Agreement by Servatron existing at the time of such termination, and ITRON or Servatron may seek such remedies, including damages and fees of attorneys, against the other with respect to any such breach as are provided in this Agreement or as are otherwise available at Law or in equity.

ARTICLE XII

DEFINITIONS

12.1 Defined Terms.

(a) Defined Terms. As used in this Agreement, the following defined terms have the meanings indicated below:

"AAA" has the meaning ascribed to it in Section 13.11.

"Actions or Proceedings" means any action, suit, proceeding, arbitration or Governmental or Regulatory Authority investigation or audit.

"Affiliate" means any Person that directly, or indirectly through one of more intermediaries, controls or is controlled by or is under common control with the Person specified. For purposes of this definition, control of a Person means the power, direct or indirect, to direct or cause the direction of the management and policies of such Person whether by contract or otherwise and, in any event and without limitation of the previous sentence, any Person owning ten percent (10%) or more of the voting securities of another Person shall be deemed to control that Person.

"Agreement" means this Contribution Agreement and the Exhibits, the Disclosure Schedule and the Schedules hereto and the certificates delivered in accordance with Sections 6.3 and 7.3, as the same shall be amended from time to time.

"Assets" has the meaning ascribed to it in Section 1.1.

"Assignment Instruments" has the meaning ascribed to it in Section 1.5.

"Books and Records" of any Person means all files, documents, instruments, papers, books and records relating to the business, operations, condition of (financial or other), results of operations and Assets of such Person, including, without limitation, financial statements, Tax Returns and related work papers and letters from accountants, budgets, pricing guidelines, ledgers, journals, deeds, title policies, minute books, stock certificates and books, stock transfer ledgers, contracts, customer lists, computer files and programs, retrieval programs, operating data and plans and environmental studies

and plans.

"Business Day" means a day other than Saturday, Sunday or any day on which banks located in the State of Washington are authorized or obligated to close.

"Closing" means the closing of the transactions contemplated by Section 1.5.

"Closing Date" means the date specified in Section 1.5.

"Code" means the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

"Condition of the Assets" means the business, condition (financial or otherwise), results of operations, and Assets.

"Disclosure Schedule" means the record delivered by the parties and dated as of the date hereof, containing all lists, descriptions, exceptions and other information and materials as are required to be included therein by Servatron and ITRON pursuant to this Agreement.

"Employee" means each employee or officer of ITRON primarily engaged in the conduct of the business dependent upon the Assets.

"Environmental Law" means all applicable federal, state and local laws, statutes, ordinances and regulations, and any applicable judicial or administrative interpretation, order, consent decree or judgment, relating to the regulation and protection of the environment. Environmental Laws include but are not limited to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. ss. 9601 et seq.); the Hazardous Material Transportation Act, as amended (49 U.S.C. ss. 180 et seq.); the Federal Insecticide, Fungicide, and Rodenticide Act, as amended (7 U.S.C. ss. 136 et seq.); the Resource Conservation and Recovery Act, as amended (42 U.S.C. ss. 6901 et seq.); the Toxic Substance Control Act, as amended (42 U.S.C. ss. 7401 et seq.); the Clean Air Act, as amended (42 U.S.C. ss. 740 et seq.); the Federal Water Pollution Control Act, as amended (33 U.S.C. ss. 1251 et seq.); and the Safe Drinking Water Act, as amended (42 U.S.C. ss. 300f et seq.); and their state and local counterparts or equivalents and any applicable transfer of ownership notification or approval statutes.

"GAAP" means generally accepted accounting principles, consistently applied throughout the specified period and in the immediately prior comparable period.

"Governmental or Regulatory Authority" means any court, tribunal, arbitrator, authority, agency, commission, official or other instrumentality of the United States, any foreign country or any domestic or foreign state, county, city or other political subdivision.

"Indebtedness" of any Person means all obligations of such Person (i) for borrowed money, (ii) evidenced by notes, bonds, debentures or similar instruments, (iii) for the deferred purchase price of goods or services (other than trade payables or accruals incurred in the ordinary course of business), (iv) under capital leases and (v) in the nature of guarantees of the obligations described in clauses (i) through (iv) above of any other Person.

"Indemnified Party" means a Servatron Indemnified Party or a ITRON Indemnified Party.

"Indemnitee" has the meaning ascribed to it in Section 10.3.

"Indemnitor" has the meaning ascribed to it in Section 10.3.

"Intellectual Property" means all patents and patent rights, trademarks and trademark rights, trade names and trade name rights, service marks and service mark rights, service names and service name rights, brand names, inventions, processes, formulae, copyrights and copyright rights, trade dress, business and product names, logos, slogans, trade secrets, industrial models, processes, designs, methodologies, Software and other computer programs (including all source codes) and related documentation, research products, technical information, manufacturing, engineering and technical drawings, know-how and all pending applications for and registrations of patents, trademarks, service marks and copyrights.

"IRS" means the United States Internal Revenue Service.

"ITRON" has the meaning ascribed to it in the forepart of this Agreement.

"ITRON Indemnified Parties" means Servatron and its respective officers, directors, employees, agents and Affiliates.

"ITRON Material Adverse Effect" means any event, occurrence, fact, condition, change or effect that is materially financially adverse to the business, operations, results of operations, condition (financial or otherwise), prospects, properties (including intangible properties), assets (including intangible assets) or liabilities of ITRON.

"Knowledge of Servatron" or "Known to Servatron" means the knowledge of any officer, director or key employees of Servatron.

"Knowledge of ITRON" or "Known to ITRON" means the knowledge of any officer, director or key employee of ITRON.

"Laws" means all laws, statutes, rules, regulations, ordinances and other pronouncements having the effect of law of the United States, any foreign country or any domestic or foreign state, county, city or other political subdivision or of any Governmental or Regulatory Authority.

"Liabilities" means all Indebtedness, obligations and other liabilities of a Person (whether absolute, accrued, contingent, fixed or otherwise, or whether due or to become due).

"Licenses" means all licenses, permits, certificates of authority, authorizations, approvals, registrations, franchises and similar consents granted or issued by any Governmental or Regulatory Authority.

"Liens" means any mortgage, pledge, assessment, security interest, lease, lien, adverse claim, levy, charge or other encumbrance of any kind, or any conditional sale contract, title retention contract or other contract to give any of the foregoing.

"Loss" means any and all damages, fines, fees, penalties, deficiencies, losses and expenses (including, without limitation, interest, court costs, fees of attorneys, accountants and other experts or other expenses of litigation or other proceedings or of any claim, default or assessment).

"Manufacturing Agreement" means the Manufacturing Agreement between Servatron, Inc. and ITRON, Inc. dated May 15, 2000.

"Notice of Claim" has the meaning ascribed to it in Section 10.3.

"Operative Agreements" means, collectively, the Bill of Sale and the other Assignment Instruments, the Shareholders' Agreement, the Manufacturing Agreement, the Depot Repair Services Agreement and any support or other agreements to be entered into in connection with this transaction.

"Order" means any writ, judgment, decree, injunction or similar order of any Governmental or Regulatory Authority (in each such case whether preliminary or final).

"Permit" means any permit, approval, authorization, license, variance or permission required from a Governmental Authority under an applicable governmental rule.

"Permitted Lien" means (i) any Lien for Taxes not yet due or delinquent or being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with GAAP, (ii) any statutory Lien arising in the ordinary course of business by operation of Law with respect to a Liability that is not yet due or delinquent and (iii) any minor imperfection of title or similar Lien which individually or in the aggregate with other such Liens does not materially impair the value of the property subject to such Lien.

"Person" means any natural person, corporation, general partnership, limited partnership, limited liability company, proprietorship, other business organization, trust, union, association or Governmental or Regulatory Authority.

"Purchase Price" has the meaning ascribed to it in Section 1.3(a).

"Release" means, as to any Person, any unpermitted spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration of a Contaminant into the environment.

"Remedial Action" means all actions required to clean up, remove, prevent or minimize a Release or threat of Release or to perform pre-remedial studies and investigations and post-remedial monitoring and care.

"Servatron" has the meaning ascribed to it in the forepart of this Agreement.

"Servatron Indemnified Parties" means ITRON and its respective officers, directors, employees, agents and Affiliates.

"Servatron Preferred Stock" has the meaning ascribed to it in Section 1.3(a).

"Servatron Material Adverse Effect" means any event, occurrence, fact, condition, change or effect that is materially adverse to the business, operations, results of operations, condition (financial or otherwise), prospects, properties (including intangible properties), assets (including intangible assets) or liabilities of Servatron.

"Shareholders" mean all the holders of capital stock of ITRON.

"Shareholders' Agreement" has the meaning ascribed to it in Section 6.7.

"Tax Returns" means any return (including any information return), report, statement, declaration, estimate, schedule, notice, notification, form, election, certificate or other document or information filed with or submitted to, or required to be filed with or submitted to, any Governmental Body in connection with the determination, assessment, collection or payment of any Tax or in connection with the administration, implementation or enforcement of or compliance with any Legal Requirement relating to any Tax.

"Taxes" means any tax (including any income tax, franchise tax, capital gains tax, gross receipts tax, value-added tax, surtax, excise tax, ad valorem tax, transfer tax, stamp tax, sales tax, use tax, property tax, business tax, withholding tax or payroll tax), levy, assessment, tariff, duty (including any customs duty), deficiency or fee, and any related charge or amount (including any fine, penalty or interest), imposed, assessed or collected by or under the authority of any Governmental or Regulatory Authority.

"Termination Date" has the meaning ascribed to it in Section 11.1(c).

12.2 Construction of Certain Terms and Phrases. Unless the context of this Agreement otherwise requires, (i) words of any gender include each other gender; (ii) words using the singular or plural number also include the plural or singular number, respectively; (iii) the terms "hereof," "herein," "hereby" and derivative or similar words refer to this entire Agreement; (iv) the terms "Article" or "Section" refer to the specified Article or Section of this Agreement; and (v) the phrases "ordinary course of business" and "ordinary course of business consistent with past practice" refer to the business and practice of ITRON in connection with the business. Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified. All accounting terms used herein and not expressly defined herein shall have the meanings given to them under GAAP.

ARTICLE XIII

MISCELLANEOUS

13.1 Notices. All notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if delivered personally or by facsimile transmission or mailed (first class postage prepaid) to the parties at the following addresses or facsimile numbers:

If to Servatron, to:

Servatron, Inc.

East 15520 Fairview Avenue
Spokane, WA 99216
(502) 891-3110
Facsimile No.: (509) 891-3110
Attn: Larry Panattoni (509) 891-3100

with a copy to:

Graham & Dunn PC
1420 Fifth Avenue, 33rd Floor
Seattle, WA 98101
Facsimile No.: (206) 340-9599
Attn: Michael Tobiason, Esq.

If to ITRON, to:

ITRON, Inc.
2818 North Sullivan Road
Spokane, WA 99216
Facsimile No.: (509) 891-3334
Attn: Chief Executive Officer

All such notices, requests and other communications will (i) if delivered personally to the address as provided in this Section, be deemed given upon delivery, (ii) if delivered by facsimile transmission to the facsimile number as provided in this Section, be deemed given upon receipt, and (iii) if delivered by mail in the manner described above to the address as provided in this Section, be deemed given upon receipt (in each case regardless of whether such notice, request or other communication is received by any other Person to whom a copy of such notice, request or other communication is to be delivered pursuant to this Section). Any party from time to time may change its address, facsimile number or other information for the purpose of notices to that party by giving notice specifying such change to the other party hereto.

13.2 Entire Agreement. This Agreement and the Operative Agreements supersede all prior discussions and agreements between the parties with respect to the subject matter hereof and thereof, including, without limitation, that certain letter of intent dated March 15, 2000, and contain the sole and entire agreement between the parties hereto with respect to the subject matter hereof and thereof.

13.3 Expenses. Except as otherwise expressly provided in this Agreement (including, without limitation, as provided in Section 11.2), whether or not the transactions contemplated hereby are consummated, each party will pay its own costs and expenses incurred in connection with the negotiation, execution and closing of this Agreement and the Operative Agreements and the transactions contemplated hereby and thereby.

13.4 Public Announcements. At all times at or before the Closing, ITRON and Servatron will not issue or make any reports, statements or releases to the public or generally to the employees, customers, suppliers or other Persons to whom ITRON sells goods or provides services in connection with the Assets or with whom ITRON otherwise has significant business relationships in connection with the Assets with respect to this Agreement or the transactions contemplated hereby without the consent of the other, which consent shall not be unreasonably withheld. If either party is unable to obtain the approval of its public report, statement or release from the other party and such report, statement or release is, in the opinion of legal counsel to such party, required by Law in order to discharge such party's disclosure obligations, then such party may make or issue the legally required report, statement or release and promptly furnish the other party with a copy thereof. ITRON and Servatron will also obtain the other party's prior approval of any press release to be issued immediately following the Closing announcing the consummation of the transactions contemplated by this Agreement.

13.5 Confidentiality. Each party hereto will hold, and will use its best efforts to cause its Affiliates, and their respective Representatives to hold, in strict confidence from any Person (other than any such Affiliate), unless (a) compelled to disclose by judicial or administrative process (including, without limitation, in connection with obtaining the necessary approvals of this Agreement and the transactions contemplated hereby of Governmental or Regulatory Authorities) or by other requirements of Law or (b) disclosed in an Action or Proceeding brought by a party hereto in pursuit of its rights or in the exercise of its remedies hereunder, all documents and information concerning the other party or any of its Affiliates furnished to it by the other party or such other party's Representatives in connection with this Agreement or the transactions

contemplated hereby, except to the extent that such documents or information can be shown to have been (i) previously known by the party receiving such documents or information, (ii) in the public domain (either prior to or after the furnishing of such documents or information hereunder) through no fault of such receiving party or (iii) later acquired by the receiving party from another source if the receiving party is not aware that such source is under an obligation to another party hereto to keep such documents and information confidential; provided that following the Closing the foregoing restrictions will not apply to Servatron's use of documents and information concerning the Assets furnished by ITRON hereunder.

13.6 Waiver. Any term or condition of this Agreement may be waived at any time by the party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the party waiving such term or condition. No waiver by any party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion. All remedies, either under this Agreement or by Law or otherwise afforded, will be cumulative and not alternative.

13.7 Amendment. This Agreement may be amended, supplemented or modified only by a written instrument duly executed by or on behalf of each party hereto.

13.8 No Third Party Beneficiary. The terms and provisions of this Agreement are intended solely for the benefit of each party hereto and their respective successors or permitted assigns, and it is not the intention of the parties to confer third-party beneficiary rights upon any other Person other than any Person entitled to indemnity under Article X.

13.9 No Assignment; Binding Effect. Neither this Agreement nor any right, interest or obligation hereunder may be assigned by any party hereto without the prior written consent of the other party hereto and any attempt to do so will be void, except (a) for assignments and transfers by operation of Law and (b) that Servatron may assign any or all of its rights, interests and obligations hereunder (including, without limitation, its rights under Article X) to (i) a wholly-owned subsidiary, provided that any such subsidiary agrees in writing to be bound by all of the terms, conditions and provisions contained herein, but no such assignment shall relieve Servatron of its obligations hereunder. Subject to the preceding sentence, this Agreement is binding upon, inures to the benefit of and is enforceable by the parties hereto and their respective successors and assigns.

13.10 Headings. The headings used in this Agreement have been inserted for convenience of reference only and do not define or limit the provisions hereof.

13.11 Arbitration. Any controversy or claim arising out of or relating to this Agreement shall be submitted to and be finally resolved by arbitration, pursuant to the provisions of the United States Arbitration Act (9 U.S.C. ss. 1 et seq.), to be conducted by an arbitration service mutually agreed upon by the parties, with such arbitration to be held in Spokane, Washington in accordance with the American Arbitration Association's ("AAA") Commercial Arbitration Rules then in effect. If the parties cannot agree upon the arbitration service to conduct the arbitration in Spokane, then the arbitration shall be conducted by Judicial Dispute Resolution, LLC, and shall be held in Seattle, Washington. If the amount in controversy is less than \$500,000, the arbitration shall be conducted by a single arbitrator; if the amount in controversy is \$500,000 or more, the arbitration shall be conducted by a panel of three arbitrators. The arbitrator(s) shall be selected by mutual agreement of the parties. If the parties cannot agree on the selection of the arbitrator(s) then the arbitrator(s) shall be chosen by Judicial Dispute Resolution, LLC. Each party hereby irrevocably agrees that service of process, summons, notices or other communications related to the arbitration procedure shall be deemed served and accepted by the other party if given in accordance with Section 13.1 of this Agreement. The arbitrator(s) shall render a judgment of default against any party who fails to appear in a properly noticed arbitration proceeding. Any award or decision rendered in such arbitration shall be final and binding on both parties, and judgment may be entered thereon in any court of competent jurisdiction if necessary; provided, however, that the arbitrators' decision is subject to judicial review as provided by applicable law. Either party may apply for and obtain from any court of competent jurisdiction relief in the nature of temporary interlocutory relief, provided such party simultaneously submits the matter in controversy to arbitration for final resolution of the merits of such controversy or claim pursuant to this Section 13.11.

13.12 Invalid Provisions. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future Law, and if the rights or obligations of any party hereto under this Agreement will not be materially and adversely affected thereby, (a) such provision will be fully severable, (b) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (c) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance here from and (d) in lieu of such illegal, invalid or unenforceable provision, there will be added automatically as a part of this Agreement a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible.

13.13 Governing Law. This Agreement shall be governed by and construed in accordance with the Laws of the State of Washington applicable to a contract executed and performed in such State, without giving effect to the conflicts of laws principles thereof. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Washington without reference to its choice of law rules. The parties hereby irrevocably consent to exclusive personal jurisdiction and venue in the state and federal courts located in Spokane County, Washington with respect to any actions, claims or proceedings arising out of or in connection with this Agreement, and agree not to commence or prosecute any such action, claim or proceeding other than in the aforementioned courts.

13.14 Remedies. With respect to the obligations of Section 2.9 hereof, each of the parties expressly acknowledges and agrees that the other party would be damaged irreparably in the event that any of the provisions of this Agreement are not performed in accordance with their specific terms or otherwise are breached. Accordingly, each of the parties hereto agrees that the other party shall be entitled to an injunction to prevent breaches of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof in any court of competent jurisdiction, in addition to any other remedy to which they may be entitled at law or in equity.

13.15 Attorneys' Fees. The prevailing party in any arbitration, legal or equitable proceedings brought hereunder will be awarded reasonable attorneys' fees, expert witness costs and expenses, and all other costs and expenses incurred directly or indirectly in connection with such proceeding.

13.16 Counterparts. This Agreement may be executed in any number of counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

PURCHASER:
Servatron, Inc., a Washington
corporation

ITRON:
ITRON, Inc., a Washington corporation

By: _____
/s/Larry Panattoni
President

By: _____
/s/Robert Nielsen
COO

CREDIT AGREEMENT

THIS CREDIT AGREEMENT is entered into as of May __, 2000 by and between SERVATRON, INC., a Washington corporation ("Borrower"), and ITRON, INC., a Washington corporation ("Lender").

RECITALS

Borrower has requested the credit facilities described herein from Lender, and Lender has agreed to provide said credit facilities to Borrower on the terms and conditions contained herein.

NOW, THEREFORE, in consideration of the mutual covenants and promises of the parties contained herein, Lender and Borrower hereby agree as follows:

ARTICLE I. DEFINITIONS

1.1 DEFINED TERMS

All terms defined above shall have the meanings set forth above. Any accounting term used in this Agreement that is not specifically defined herein shall have the meaning customarily given to it under GAAP, and all other terms contained in this Agreement that are not defined herein shall, unless the context indicates otherwise, have the meanings provided in the Code to the extent such terms are defined therein. The following terms shall have the meanings set forth below (with all such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Agreement" means this Credit Agreement as amended, modified or supplemented from time to time.

"Applicable Rate" means, at any date, the lesser of (a) a per annum rate equal to the sum of the Prime Rate plus 100 basis points, plus; during the continuation of an Event of Default, an additional 300 basis points, or (b) the Highest Lawful Rate.

"Bankruptcy Code" means the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time, including (unless the context otherwise requires) any rules or regulations promulgated thereunder.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks are authorized or required to be closed in Spokane, Washington.

"Closing Date" means the date of this Agreement.

"Code" means the Uniform Commercial Code of the State of Washington, as amended from time to time.

"Collateral" means (a) all of Borrower's right, title, and interest in and to all accounts, goods, general intangibles, money, instruments, chattel paper, deposit accounts, documents and investment property; (b) all products, proceeds, rents and profits of the foregoing; and (c) all of the foregoing, whether now owned or existing or hereafter acquired or arising or in which Borrower now has or hereafter acquires any rights.

"Contaminant" means any pollutant, hazardous substance, toxic substance, hazardous waste or other substance regulated or forming the basis of liability under any Environmental Law.

"Default" means (i) an Event of Default, (ii) an event or condition that with the giving of notice or the passage of time, or both, would constitute an Event of Default, or (iii) the filing against Borrower of a petition commencing an involuntary case under the Bankruptcy Code.

"Disclosure Schedule" means Schedule I attached hereto.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time, including (unless the context otherwise requires) any rules or regulations promulgated thereunder.

"Environmental Law" means all applicable federal, state and local laws,

statutes, ordinances and regulations, and any applicable judicial or administrative interpretation, order, consent decree or judgment, relating to the regulation and protection of the environment. Environmental Laws include but are not limited to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. ss. 9601 et seq.); the Hazardous Material Transportation Act, as amended (49 U.S.C. ss. 180 et seq.); the Federal Insecticide, Fungicide, and Rodenticide Act, as amended (7 U.S.C. ss. 136 et seq.); the Resource Conservation and Recovery Act, as amended (42 U.S.C. ss. 6901 et seq.); the Toxic Substance Control Act, as amended (42 U.S.C. ss. 7401 et seq.); the Clean Air Act, as amended (42 U.S.C. ss. 740 et seq.); the Federal Water Pollution Control Act, as amended (33 U.S.C. ss. 1251 et seq.); and the Safe Drinking Water Act, as amended (42 U.S.C. ss. 300f et seq.), and their state and local counterparts or equivalents and any applicable transfer of ownership notification or approval statutes.

"Environmental Liabilities and Costs" means, as to any Person, all liabilities, obligations, responsibilities, Remedial Actions, losses, damages, punitive damages, consequential damages, treble damages, costs and expenses (including, without limitation, all fees, disbursements and expenses of counsel, experts and consultants and costs of investigation and feasibility studies), fines, penalties, sanctions and interest incurred as a result of any claim or demand by any other Person, whether based in contract, tort, implied or express warranty, strict liability, criminal or civil statute, including, without limitation, any thereof arising under any Environmental Law, Permit, order or agreement with any Governmental Authority or other Person, and which relate to any violation or alleged violation of an Environmental Law or a Permit, or a Release or threatened Release.

"Event of Default" has the meaning set forth in Section 8.1 hereof.

"GAAP" means generally accepted accounting principles as in effect in the United States from time to time, consistently applied.

"Governmental Authority" means any domestic or foreign national, state or local government, any political subdivision thereof, any department, agency, authority or bureau of any of the foregoing, or any other entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including the Federal Deposit Insurance Corporation, the Federal Reserve Board, the Comptroller of the Currency, any central bank or any comparable authority.

"Governmental Rule" means any applicable law, rule, regulation, ordinance, order, code interpretation, judgment, decree, directive, guidelines, policy or similar form of decision of any Governmental Authority.

"Highest Lawful Rate" means, at the particular time in question, the maximum rate of interest which, under applicable law, Lender is then permitted to charge Borrower on the applicable Loan, and if the maximum rate changes at any time, the Highest Lawful Rate shall increase or decrease, as the case may be, as of the effective time of each such change, without notice to Borrower.

"Indebtedness" of any Person means, without duplication, (a) all liabilities of such Person as determined in accordance with GAAP, (b) all obligations of such Person created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (c) all lease obligations of such Person, (d) all contingent obligations of such Person, (e) all obligations of such Person to purchase, redeem, retire, defease or otherwise acquire for value any Stock or Stock Equivalents of such Person with a mandatory repurchase or redemption date of less than ten years from the date of issuance thereof, (f) all obligations secured by (or for which the holder of such obligations has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property owned by such Person, even though such Person has not assumed or become liable for the payment of such obligations, and (g) all liabilities of such Person in connection with the failure to make when due any contribution or payment pursuant to or under any Plan. For purposes of determining the amount of Indebtedness in a circumstance when the creditor has recourse only to specified assets, the amount shall be the lesser of (i) the amount of such obligation or (ii) the fair market value of such assets.

"Indemnities" has the meaning set forth in Section 9.3 hereof.

"Lien" means any mortgage, deed of trust, pledge, hypothecation,

assignment, deposit arrangement, encumbrance, lien (statutory or other), security interest, priority or other security agreement or preferential arrangement of any kind or nature whatsoever, including, without limitation, any conditional sale or other title retention agreement or the interest of a lessor under any capital lease.

"Loan" means an advance made by Lender to Borrower pursuant to Section 2.1.

"Loan Documents" means this Agreement, the Note and each other agreement, note, notice, document, contract or instrument to which Borrower now or hereafter is a party and that is required by Lender in connection with the Obligations.

"Material Adverse Effect" means a material adverse effect on (a) the condition (financial or otherwise), business, performance, operations or properties of Borrower, (b) the ability of Borrower to perform its obligations under the Loan Documents, or (c) the rights and remedies of Lender under the Loan Documents.

"Maturity Date" means the earlier of January 18, 2004 or the due date determined pursuant to Section 8.2.

"Note" means a promissory note executed by Borrower in favor of Lender evidencing Loans, substantially in the form attached as Exhibit A hereto.

"Obligations" means all of Borrower's obligations under the Loan Documents, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising.

"PBGC" means the Pension Benefit Guaranty Corporation established pursuant to Title IV of ERISA.

"Permit" means any permit, approval, authorization, license, variance or permission required from a Governmental Authority under an applicable Governmental Rule.

"Permitted Liens" means

- (a) Liens arising by operation of law for taxes, assessments or governmental charges not yet due;
- (b) statutory Liens of mechanics, materialmen, shippers, warehousemen, carriers, and other similar persons for services or materials arising in the ordinary course of business for which payment is not yet due;
- (c) nonconsensual Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security;
- (d) Liens for taxes or statutory Liens of mechanics, materialmen, shippers, warehousemen, carriers and other similar persons for services or materials that are due but are being contested in good faith and by appropriate and lawful proceedings promptly initiated and diligently conducted and for which reserves satisfactory to Lender have been established;
- (e) Liens listed on the Disclosure Schedule;
- (f) Liens granted in the Loan Documents;
- (g) purchase money Liens upon or in any property of Borrower and used by Borrower in the ordinary course of business and Liens to secure capital leases and any related payment and performance obligations if, in each case, the incurrence of such Indebtedness is permitted by Section 7.2; provided, however, that: (i) any such Lien is created solely for the purpose of securing Indebtedness representing, or incurred to finance, refinance or refund, the cost (including, without limitation, the cost of construction and the reasonable fees and expenses relating to such Indebtedness) of the property subject thereto, (ii) the principal amount of the Indebtedness secured by such Lien does not exceed such cost, and (iii) such Lien does not extend to or cover any other property other than such item of property, any improvements on such item, and the proceeds from the disposition of such items;
- (h) zoning restrictions, easements, rights of way, survey exceptions, encroachments, covenants, licenses, reservations, leasehold interests,

restrictions on the use of real property or minor irregularities incident thereto which do not in the aggregate materially detract from the value or use of the property or assets of Borrower or impair, in any material manner, the use of such property for the purposes for which such property is held by Borrower;

(i) the interests of lessors or lessees of property leased pursuant to leases permitted hereunder;

(j) Liens of a depository institution arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of setoff, or similar rights and remedies as to deposit accounts or other funds maintained with such institution, provided that (i) such deposit account is not a dedicated cash collateral account and is not subject to restrictions against access by Borrower in excess of those set forth by regulations promulgated by any Government Authority, and (ii) such deposit account is not intended by Borrower to provide collateral to the depository institution;

(k) judgment Liens to the extent the existence of such Liens is not an Event of Default under Section 8.1(g); (l) Liens granted to secure obligations to the Senior Lender provided that the principal amount secured thereby does not exceed \$_____; (m) any Lien securing Indebtedness ("New Indebtedness") that constitutes a refinancing of any Indebtedness (in whole or in part) secured, at the time of refinancing, by a Permitted Lien ("Old Indebtedness"), provided that (i) any such Lien is limited to all or part of the property that secured the Old Indebtedness and (ii) the New Indebtedness is not greater than the Old Indebtedness; and (n) Liens (other than Liens on the Collateral) on the property of Borrower or any Subsidiary securing (i) the non-delinquent performance of bids, trade contracts (other than for borrowed money), operating leases, and statutory obligations, (ii) contingent obligations on surety and appeal bonds, and (iii) other non-delinquent obligations of a like nature; in each case incurred in the ordinary course of business, provided all such Liens in the aggregate would not (even if enforced) cause a Material Adverse Effect.

"Person" means an individual, partnership, corporation (including, without limitation, a business trust), joint stock company, limited liability company, trust, unincorporated association, joint venture or other entity, or a Governmental Authority.

"Plan" means an employee benefit plan, as defined in Section 3(3) of ERISA, which Borrower maintains, contributes to or has an obligation to contribute to on behalf of participants who are or were employed by any of them.

"Prime Rate" means, for any day, an interest rate per annum equal to the rate of interest most recently announced by Bank of America, N.A. Bank at its principal office as its prime rate, with any change in the prime rate to be effective as of the day such change is publicly announced by Bank of America, N.A.

"Release" means, as to any Person, any unpermitted spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration of a Contaminant into the environment.

"Remedial Action" means all actions required to clean up, remove, prevent or minimize a Release or threat of Release or to perform pre-remedial studies and investigations and post-remedial monitoring and care.

"Senior Lender" means Sterling Savings Bank and its successors and assigns.

"Stock" means shares of capital stock, beneficial or partnership interests, participations or other equivalents (regardless of how designated) of or in a corporation or other entity, whether voting or nonvoting, and includes, without limitation, common stock and preferred stock.

"Stock Equivalents" means all securities convertible into or exchangeable for Stock and all warrants, options or other rights to purchase or subscribe for any Stock, whether or not presently convertible, exchangeable or exercisable.

1.2 HEADINGS

Headings in this Agreement and each of the other Loan Documents are for convenience of reference only and are not part of the substance hereof or thereof.

1.3 ADDITIONAL DEFINITION PROVISIONS

Whenever the terms "herein," "hereof," "hereto," "hereunder," "therein," "thereof," "thereto," "thereunder," and similar terms contained in this Agreement or any Loan Document refer to this Agreement or other Loan Document, such terms refer to the whole of this Agreement or other Loan Document and not to any particular article, section, paragraph or provision.

ARTICLE II. THE CREDIT

2.1 REVOLVING LOANS

(a) On the terms and subject to the conditions contained in this Agreement, Lender agrees to make loans (each a "Loan") to Borrower from time to time until the Maturity Date in an aggregate amount not to exceed \$500,000 at any time outstanding. Borrower may from time to time borrow, partially or wholly repay its outstanding borrowings (subject to the limitations of Section 2.1(c) below), and reborrow, subject to all the limitations, terms and conditions contained herein. Borrower shall repay the outstanding principal balance of the Loans, together with all accrued and unpaid interest and related fees on the Maturity Date. The Loans shall be evidenced by a Note payable to the order of Lender.

(b) Borrower shall request each advance of a Loan by giving Lender irrevocable written notice at least one Business Day in advance of the proposed date of borrowing, which specifies (i) the principal amount of the requested advance (which amount must be a minimum of \$50,000 with increments above \$50,000 being in integral multiples of \$50,000) and (ii) the proposed date of borrowing, which shall be a Business Day. Borrower may not make more than one borrowing request in any week.

(c) From time to time on any Business Day, Borrower may make a voluntary prepayment, in whole or in part, of the outstanding principal amount of the Loans; provided, however, that (i) each voluntary partial prepayment must be in a minimum amount of \$_____ with increments above \$_____ being in integral multiples of \$-----.

2.2 INTEREST

The outstanding principal balance of the Loans shall bear interest at the Applicable Rate. All fees, expenses and other amounts not paid when due shall bear interest (from the date due until paid) at the Applicable Rate. Interest shall be computed on the basis of a 360-day year, actual days elapsed, and shall be payable monthly, in arrears, on the first day of each month and on the Maturity Date.

2.3 OTHER PAYMENT TERMS

(a) Manner. Borrower shall make all payments due to Lender under the Loan Documents by payment to Lender in lawful money of the United States and in same day or immediately available funds not later than 11:00 a.m. (Spokane time) on the date due.

(b) Date. Whenever any payment due hereunder shall fall due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall be included in the computation of interest or fees, as the case may be.

(c) Application of Payments. All payments under the Loan Documents (including prepayments) shall be applied first to unpaid fees, costs and expenses then due and payable under the Loan Documents, second to accrued interest then due and payable under the Loan Documents and finally to reduce the principal amount of the outstanding Loans.

(d) Payment Provisions. Borrower shall make all payments due hereunder free and clear of, and without deduction or withholding for or on account of, any setoff, counterclaim, defense, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind. If after receipt of any payment of, or proceeds of Collateral applied to the payment of, any of the Obligations Lender is required to surrender or return such payment or proceeds to any person or entity for any reason, then the Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Agreement shall continue in full force and effect as if such payment or proceeds had not been received by Lender. Borrower hereby indemnifies and holds

Lender harmless for the amount of any payments or proceeds surrendered or returned. This Section 2.3(d) shall remain effective notwithstanding any contrary action which may be taken by Lender in reliance upon such payment or proceeds and shall survive the payment in full and performance of all of Borrower's other Obligations.

ARTICLE III. SECURITY

3.1 GRANT OF SECURITY INTEREST

Borrower hereby grants to Lender a security interest in all of the Collateral as security for the full and prompt payment in cash and performance of the Obligations.

3.2 PERFECTION; DUTY OF CARE

(a) Until all the Obligations have been fully satisfied and paid in cash, Borrower shall perform all steps reasonably requested by Lender to perfect, maintain and protect Lender's security interest in the Collateral, including, without limitation, (i) executing and filing financing and continuation statements in form and substance satisfactory to Lender, and (ii) delivering all Collateral in which Lender's security interest may be perfected by possession together with such indorsements as Lender may request. Borrower hereby authorizes Lender to execute and file one or more UCC financing statements signed only by Lender evidencing the security interest granted hereby.

(b) Borrower shall pay all taxes, assessments and governmental charges levied or assessed or imposed upon or with respect to the Collateral; provided, however, Borrower shall not be required to pay any tax if the validity and/or amount thereof is being contested in good faith and by appropriate and lawful proceedings promptly initiated and diligently conducted of which Borrower has given prior notice to Lender and for which appropriate reserves have been established and so long as levy and execution have been and continue to be stayed. If Borrower fails to pay or so contest and reserve for such taxes, assessments and governmental charges, Lender may (but shall not be required to) pay the same and add the amount of such payment to the principal of the Loans.

(c) In order to protect or perfect the security interest granted under the Loan Documents, Lender may discharge any Lien that is not a Permitted Lien or bond the same, pay for any insurance that Borrower has failed to maintain as required by this Agreement and, upon an Event of Default, maintain guards, pay any service bureau, or obtain any record and add the same to the principal of the Loans.

(d) Lender shall have no duty of care with respect to the Collateral, except to exercise reasonable care with respect to the Collateral in its custody, but shall be deemed to have exercised reasonable care if such property is accorded treatment either (i) substantially equal to that which it accords its own property or (ii) as Borrower requests in writing, provided that no failure to comply with any such request nor any omission to do any such act requested by Borrower shall be deemed a failure to exercise reasonable care. Lender's failure to take steps to preserve rights against any parties or property shall not be deemed to be a failure to exercise reasonable care with respect to the Collateral in its custody.

ARTICLE IV. REPRESENTATIONS AND WARRANTIES

Borrower makes the following representations and warranties to Lender, subject to the exceptions set forth on the Disclosure Schedule, which representations and warranties shall survive the execution of this Agreement and shall continue in full force and effect until the performance and payment in full, in cash, of all Obligations:

4.1 LEGAL STATUS; SUBSIDIARIES

Borrower is a corporation, duly organized and validly existing under the laws of Washington, and is qualified or licensed to do business (and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which such qualification or licensing is required or in which the failure to so qualify or to be so licensed could have a Material Adverse Effect. Borrower is not known by, and has not, during the preceding five years, been known as or used, any other corporate or fictitious name and has not acquired any of its assets in a bulk transfer (other than in the asset purchase involving Lender). Borrower has no subsidiaries and does not own or hold, directly or indirectly,

any capital stock or equity security of, or any equity interest in, any Person.

4.2 AUTHORIZATION AND VALIDITY

The Loan Documents have been duly authorized and the performance by Borrower of its obligations under the Loan Documents constitute a proper corporate purpose under all applicable law. The Loan Documents, upon their execution and delivery in accordance with the provisions hereof, will constitute legal, valid and binding agreements and obligations of Borrower, enforceable against it in accordance with their respective terms.

4.3 NO VIOLATION

The execution, delivery and performance by Borrower of each of the Loan Documents do not violate or contravene any provision of its articles or certificate of incorporation or by-laws and do not violate any Governmental Rule or result in a breach of or constitute a default under any contract, obligation, indenture or other instrument to which it is a party or by which it may be bound, which violation, breach or default would have a Material Adverse Effect.

4.4 LITIGATION

There are no pending or, to Borrower's knowledge, threatened, actions, claims, investigations, suits or proceedings, by or before any governmental authority, arbitrator, court or administrative agency that could have a Material Adverse Effect.

4.5 CORRECTNESS OF FINANCIAL STATEMENT

The financial statements of Borrower dated as of _____ heretofore delivered by Borrower to Lender, (a) present fairly its financial condition and results of operations; (b) disclose all liabilities of Borrower that are required to be reflected or reserved against under GAAP, whether liquidated or unliquidated, fixed or contingent; and (c) have been prepared in accordance with GAAP. Except as disclosed to Lender pursuant to Section 6.3, since the date of such financial statements, there has been no change or changes which have resulted in a Material Adverse Effect.

4.6 TAXES

Borrower has filed, or caused to be filed, all federal, state, local and foreign tax returns required to be filed by it, and has paid, or caused to be paid, all taxes as are shown on such returns, or on any assessment received by it, to the extent that such taxes have become due, except as otherwise contested in good faith and except for those taxes the nonpayment of which would not, in the aggregate, have a Material Adverse Effect. Borrower has set aside proper amounts on its books, determined in accordance with GAAP, for the payment of all taxes for the years that have not been audited by the respective tax authorities and for taxes being contested by it.

4.7 ERISA

Borrower is in compliance in all material respects with the applicable provisions of ERISA. Borrower has not violated any provision of any Plan maintained or contributed to by it in a manner that could reasonably be expected to result in a Material Adverse Effect. No "reportable event" (as defined in Title IV of ERISA) has occurred and is continuing with respect to any Plan initiated by it.

4.8 OTHER OBLIGATIONS

Borrower is not in default with respect to any Indebtedness or any of its material contractual obligations.

4.9 ENVIRONMENTAL MATTERS

Borrower is in compliance in all material respects with all Environmental Laws applicable to it, other than such noncompliance as in the aggregate will not have a Material Adverse Effect. Borrower has not received notice that it is the subject of any federal or state investigation evaluating whether any Remedial Action is needed. There have been no Releases by Borrower that could reasonably be expected to result in a Material Adverse Effect.

4.10 LIENS

Borrower has good, indefeasible, and merchantable title to and ownership of the Collateral, free and clear of all Liens, except Permitted Liens. There are no Liens of any nature whatsoever on any of Borrower's properties other than Permitted Liens.

4.11 NO BURDENSOME RESTRICTIONS; NO DEFAULTS

Borrower is not a party to any contractual obligation the compliance with which would have a Material Adverse Effect. No facts or circumstances exist which would constitute a breach of any obligation, representation or warranty of Borrower hereunder if this Agreement were in effect immediately prior to Borrower's execution hereof.

4.12 INSURANCE

All current policies of insurance of any kind or nature owned by or issued to Borrower, including, without limitation, policies of fire, theft, product liability, public liability, property damage, other casualty, employee fidelity, workers' compensation and employee health and welfare insurance, are in full force and effect and are of a nature and provide such coverage as is sufficient and as is customarily carried by companies of its size and character. Borrower has no reason to believe that it will be unable to comply with Section 6.5.

4.13 LABOR MATTERS

Other than any of the following which in the aggregate have no reasonable likelihood of having a Material Adverse Effect: (i) there are no strikes, work stoppages, slowdowns or lockouts pending or to Borrower's knowledge threatened against or involving it; (ii) there are no arbitrations or grievances pending or to its knowledge threatened against or involving it; (iii) there is no organizing activity involving it pending or to its knowledge threatened by any labor union or group of employees; (iv) there are no representation proceedings pending against it or to its knowledge threatened with the National Labor Relations Board; (v) no labor organization or group of its employees has made a pending demand on it for recognition; (vi) there are no unfair labor practice charges, grievances or complaints pending or in process or to its knowledge threatened by or on behalf of any employee or group of its employees; (vii) there are no complaints or charges against it pending or to its knowledge threatened to be filed with any federal, state or local court, governmental agency or arbitrator based on, arising out of, in connection with, or otherwise relating to its employment of any individual; and (viii) it is in material compliance with all Governmental Rules, and all orders of any Governmental Authority or arbitrator, relating to the employment of labor including all such laws relating to wages, hours, collective bargaining, discrimination, civil rights, and the payment of withholding and/or social security and similar taxes. As of the date hereof Borrower is not a party to, and has no obligations under, any collective bargaining agreement.

4.14 FORCE MAJEURE

Neither Borrower's business nor its properties are currently suffering from the effects of any fire, explosion, accident, strike, lockout or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or of the public enemy or other casualty (whether or not covered by insurance), other than those the consequences of which in the aggregate could not reasonably be expected to have a Material Adverse Effect.

4.15 INTELLECTUAL PROPERTY

Borrower owns or licenses or otherwise has the right to use all material licenses, Permits, patents, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, copyright applications, franchises, authorizations and other intellectual property rights that are necessary for the operation of its businesses, without infringement upon or conflict with the rights of any other Person with respect thereto, including, without limitation, all trade names. No slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by Borrower infringes upon or conflicts with any rights owned by any other Person, which infringement or conflict is reasonably likely to have a Material Adverse Effect, and no claim or litigation regarding any of the foregoing is pending or, to its knowledge, threatened, the existence of which is reasonably likely to have a Material Adverse Effect. No patent, invention, device, application, principle or any statute, law, rule, regulation, standard or code is pending or, to its knowledge, proposed, other than those the

consequences of which in the aggregate have no reasonable likelihood of having a Material Adverse Effect.

4.16 SOLVENCY

Borrower has received consideration that is the reasonably equivalent value of the obligations and liabilities that it has incurred to Lender. Borrower is not insolvent as defined in any applicable state or federal statute, nor will it be rendered insolvent by the execution and delivery of this Agreement or the other Loan Documents. Borrower does not intend to, nor does it believe that it will, incur debts beyond its ability to pay them as they mature. Borrower has capital sufficient to carry on its business and transactions and all business and transactions in which it is about to engage.

4.17 TRUTH, ACCURACY OF INFORMATION

All financial and other information furnished to Lender in connection with this Agreement is accurate in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the information furnished, in light of the circumstances under which furnished, not misleading. The representations and warranties in Sections 4.10 and 4.15 are based solely upon the representations and warranties made by Lender to Borrower in connection with the sale of the Collateral by Lender to Borrower.

4.18 CHIEF EXECUTIVE OFFICE AND OTHER LOCATIONS

Borrower's chief executive office and principal place of business is East 15520 Fairview Avenue, Spokane, WA 99216. Borrower's books and records are located at its chief executive office, and the only other offices and/or locations where it keeps the Collateral (except for Inventory which is in transit) or conducts any of its business are set forth in Section 4.18 of the Disclosure Schedule.

4.19 COMPLIANCE WITH LAW

Borrower is in compliance with all Governmental Rules and law, except where the failure to do so would not have a Material Adverse Effect.

ARTICLE V. CONDITIONS

5.1 CONDITIONS OF INITIAL EXTENSION OF CREDIT

The obligation of Lender to extend any credit contemplated by this Agreement is subject to the fulfillment to Lender's satisfaction of all of the following conditions:

(a) Documentation. Lender shall have received, in form and substance satisfactory to it, each of the following duly executed:

- (i) this Agreement, and the Note;
- (ii) a corporate borrowing resolution from Borrower;
- (iii) a good standing certificate and certified copy of Borrower's articles of incorporation;
- (iv) a copy of Borrower's by-laws certified by its secretary as correct and complete;
- (v) a certificate of incumbency from Borrower;
- (vi) an opinion of Graham & Dunn, P.C., counsel to Borrower, as to such matters as Lender shall reasonably require; and
- (vii) such other documents as Lender may require.

(b) Financial Condition. No event or circumstance exists that can reasonably be expected to have a Material Adverse Effect.

(c) Insurance. Borrower shall have delivered to Lender evidence of the insurance coverage, including loss payable endorsements, required pursuant to Section 6.5.

5.2 CONDITIONS OF EACH EXTENSION OF CREDIT

The obligation of Lender to make any Loan (including any Loan being made by Lender on the Closing Date) shall be subject to the further conditions precedent that:

(a) the following statements shall be true on the date of such Loan, both before and after giving effect thereto and to the application of the proceeds therefrom, and the acceptance by Borrower of the proceeds of such Loan shall constitute a representation and warranty by Borrower that on the date of such Loan or such issuance such statements are true:

(i) the representations and warranties of Borrower contained in the Loan Documents are correct in all material respects on and as of such date as though made on and as of such date or, as to those representations and warranties limited by their terms to a specified date, were correct in all material respects on and as of such date; and

(ii) no Default is continuing or would result from the Loan being made;

(b) Lender shall have received such additional documents, information and materials as Lender may reasonably request; and

(c) no event or circumstance exists that can reasonably be expected to have a Material Adverse Effect.

ARTICLE VI. AFFIRMATIVE COVENANTS

Borrower covenants that so long as Lender remains committed to extend credit to Borrower pursuant to the terms hereof and until performance and payment in full, in cash, of all Obligations, Borrower shall:

6.1 PUNCTUAL PAYMENTS

Punctually pay all principal, interest, fees and other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein.

6.2 ACCOUNTING RECORDS

Keep accurate books and records of its financial affairs sufficient to permit the preparation of financial statements therefrom in accordance with GAAP.

6.3 FINANCIAL STATEMENTS AND REPORTS

Provide to Lender all of the following, in form and detail reasonably satisfactory to Lender and with sufficient copies for distribution to Lender:

(i) as soon as available but not later than 90 days after and as of the end of each fiscal year, reviewed financial statements of Borrower, prepared in accordance with GAAP and prepared by an independent certified public accountant acceptable to Lender, together with such accountant's report with respect thereto;

(ii) as soon as available but not later than 30 days after and as of the end of each month, financial statements of Borrower prepared in accordance with GAAP (subject to normal year-end adjustments and, if Borrower so elects, without footnotes) together with a comparison of Borrower's financial condition for such month and year-to-date with the corresponding month and year-to-date in the immediately preceding fiscal year;

(iii) contemporaneously with the delivery of each financial statement required hereby, a certificate of Borrower's chief executive officer substantially in the form of Exhibit B attached hereto (A) certifying that such financial statements fairly present in all material respects Borrower's balance sheet as of the end of such month/year and income and cash flow for such month/year and year-to-date (subject to normal year-end adjustments), and (B) stating that no Default existed at any time during the period covered by such statement, except for those events or conditions, if any, described in such certificate in reasonable detail together with a statement of any action taken or proposed to be taken with respect thereto;

(iv) not later than March 30 of each year, or sooner if available, Borrower shall furnish to Lender detailed projections for Borrower's current fiscal year setting forth projected income, cash flow and borrowing availability under this Agreement for each quarter and the projected balance sheet as of the end of each quarter, together with a certificate of Borrower's chief executive officer setting forth the assumptions on which such projections are based and certifying that, in the judgment of such officer, such assumptions are reasonable based on careful consideration and on the information known to Borrower at the time such projections were prepared;

(v) not later than 20 days after and as of the end of each month: (i) a report of the aging (based on due date) of Borrower's accounts payable as of the end of the preceding month in the following categories: current; 1-30 days past due; 31-60 days past due, 61-90 days past due and over 90 days past due; and (ii) a report of the aging (based on due date) of Borrower's accounts as of the end of the preceding month in the following categories: current; 1-30 days past due; 31-60 days past due, 61-90 days past due and over 90 days past due; and

(vi) from time to time such other information as Lender may reasonably request.

6.4 COMPLIANCE

Preserve and maintain all licenses, Permits, governmental approvals, rights, privileges, franchises, intellectual property and general intangibles necessary for the conduct of its business and comply in all material respects, with all Governmental Rules, contractual obligations, commitments, instruments, licenses, Permits and franchises, other than such failure to preserve or maintain or noncompliance the consequences of which in the aggregate are not reasonably likely to have a Material Adverse Effect.

6.5 INSURANCE

(a) Maintain with responsible insurance companies reasonably acceptable to Lender insurance with respect to its properties and business (including business interruption and extra expense endorsements) against such casualties and contingencies and of such types, with such deductibles and in such amounts as is customary in the case of similar businesses. Such insurance shall contain a lender's loss payable endorsement acceptable to Lender and shall name Lender as an additional named insured. The policies or a certificate thereof signed by the insurer shall be delivered to Lender within five Business Days after the issuance or renewal of the policies to Borrower. Each such policy shall provide that such policy may not be amended (except to increase coverage) or canceled without thirty days prior written notice to Lender. At least fifteen days before the expiration of a policy, Borrower shall deliver to Lender a binder (or other evidence reasonably acceptable to Lender) indicating that such policy has been renewed or that a substitute for such policy will be issued effective upon the expiration of such policy. If Borrower fails to do so, Lender may (but shall not be required to) procure such insurance and add the cost thereof to the Loans.

(b) Maintain in full force and effect such liability and other insurance with respect to its activities as may be reasonably required by Lender. Such liability insurance shall name Lender as an additional insured with respect to the activities of Borrower and shall be provided by insurer(s) acceptable to Lender.

6.6 FACILITIES

Keep all properties useful or necessary to its business in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that such property shall be fully and efficiently preserved and maintained.

6.7 TAXES AND OTHER LIABILITIES

Pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation Federal and state income taxes and state and local property taxes and assessments, except such as Borrower may in good faith contest or as to which a bona fide dispute may arise, and for which Borrower has made provision for adequate reserves in accordance with GAAP.

6.8 LITIGATION

Promptly give notice in writing to Lender of any litigation pending or threatened against it with a claim in excess of \$50,000.

6.9 NOTICE TO LENDER

(a) Promptly (but in no event more than two Business Days after the occurrence of each such event or matter) give written notice to Lender in reasonable detail of: (i) the occurrence of any Default; (ii) any termination or cancellation of any insurance policy which Borrower is required to maintain, unless such policy is replaced without any break in coverage with an equivalent or better policy; (iii) any uninsured or partially uninsured loss or losses through liability or property damage, or through fire, theft or any other cause affecting the property of Borrower in excess of an aggregate of \$50,000 during any twelve month period; (iv) any change in the organizational structure of Borrower; or (v) the occurrence of any event that could reasonably be expected to have a Material Adverse Effect.

(b) As soon as possible and in any event within ten days after Borrower knows or has reason to know that any "reportable event" (as defined in Title IV of ERISA) that triggers an obligation to file a notice with the PBGC with respect to any Plan has occurred, deliver to Lender a statement of the President or chief financial officer of Borrower setting forth details as to such reportable event and the action which Borrower proposes to take with respect thereto, together with a copy of the notice of such reportable event to the PBGC.

(c) Promptly, upon receipt (but in no event more than two Business Days after receipt) of a notice by Borrower, any affiliate of Borrower or any administrator of any Plan that the PBGC has instituted proceedings to terminate a Plan or to appoint a trustee to administer a Plan, provide to Lender a copy of such notice.

6.10 CONDUCT OF BUSINESS

Except as otherwise permitted by this Agreement, (a) conduct its business in the ordinary course and (b) use its reasonable efforts in the ordinary course and consistent with past practice to (i) preserve its business and the goodwill and business of the customers, advertisers, suppliers and others with whom it has business relations, (ii) keep available the services and goodwill of its present employees, and (iii) preserve all rights, Permits, licenses, approvals, privileges, registered patents, trademarks, trade names, copyrights and service marks and other intellectual property with respect to its business.

6.11 PRESERVATION OF CORPORATE EXISTENCE, ETC.

Preserve and maintain its corporate existence, rights (charter and statutory) and material franchises, licenses, permits, intellectual property and general intangibles, unless the failure to so preserve and maintain is not reasonably likely to have a Material Adverse Effect.

6.12 ACCESS

At any reasonable time and from time to time upon at least two Business Days prior notice from Lender (unless a Default shall have occurred and be continuing, in which case no prior notice is necessary), permit Lender and/or any agents or representatives thereof, to (i) examine and make copies of and abstracts from Borrower's records and books of account, (ii) visit Borrower's properties, (iii) discuss Borrower's affairs, finances and accounts with any of its officers or directors who may then be reasonably available, (iv) communicate directly with Borrower's independent certified public accountants, (v) arrange for verification of Borrower's accounts under reasonable procedures directly with the obligors thereon or by other methods, and (vi) examine and inspect its assets. Borrower shall authorize its independent certified public accountants to disclose to Lender any and all financial statements and other information of any kind, including, without limitation, copies of any management letter, work papers or the substance of any oral information that such accountants may have with respect to Borrower's business, financial condition, results of operations or other affairs. Borrower shall execute and deliver at the request of Lender such instruments as may be necessary for Lender to obtain such information concerning the business of Borrower as Lender may require from accountants, service bureaus or others having custody of or maintaining records or assets of Borrower, provided that the foregoing shall not (and is not intended to) require

Borrower to take any action that would constitute a waiver of Borrower's attorney/client privilege with any of Borrower's attorneys..

6.13 PERFORMANCE AND COMPLIANCE WITH OTHER COVENANTS

Perform and observe all the terms, covenants and conditions required to be performed and observed by it under its contractual obligations (including, without limitation, to pay all rent and other charges payable under any lease and all debts and other obligations as the same become due), and do all things necessary to preserve and to keep unimpaired its rights under such contractual obligations, other than such failures the consequences of which in the aggregate are not reasonably likely to have a Material Adverse Effect.

6.14 FISCAL YEAR; ACCOUNTING PRACTICES

Notify Lender at least 45 days in advance of any action Borrower intends to take to change (i) its fiscal year or (ii) its method of accounting, or any accounting practice used by it, or the application of GAAP in a manner inconsistent with the financial statements previously delivered by it to Lender.

6.15 ENVIRONMENTAL

(a) Promptly give notice to Lender upon obtaining knowledge of (i) any claim, injury, proceeding, investigation or other action, including a request for information or a notice of potential environmental liability, by or from any Governmental Authority or any third-party claimant that could result in Borrower incurring Environmental Liabilities and Costs or (ii) the discovery of any Release at, on, under or from any real property, facility or equipment owned or leased by Borrower in excess of reportable or allowable standards or levels under any applicable Environmental Law, or in any manner or amount that could reasonably be expected to result in Borrower incurring Environmental Liabilities and Costs.

(b) Upon discovery of the presence on any property owned or leased by Borrower of any Contaminant that reasonably could be expected to result in Environmental Liabilities and Costs, take all Remedial Action required by applicable Environmental Law.

6.16 LIENS

Keep the Collateral free and clear of all Liens, except Permitted Liens.

6.17 FURTHER ASSURANCES

At Lender's request at any time and from time to time, duly execute and deliver, or cause to be duly executed and delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary or proper to evidence, perfect, maintain and enforce the security interests and the priority thereof in the Collateral and to otherwise effectuate the provisions or purposes of this Agreement or any of the other Loan Documents, at Borrower's expense.

ARTICLE VII. NEGATIVE COVENANTS

Borrower covenants that so long as Lender remains committed to extend credit to Borrower pursuant to the terms hereof and until performance and payment in full, in cash, of all Obligations, Borrower will not:

7.1 LIENS

Create or suffer to exist any Lien upon or with respect to any of its properties, whether now owned or hereafter acquired, or assign any right to receive income, except Permitted Liens.

7.2 INDEBTEDNESS

Create or suffer to exist any Indebtedness except:

(a) the Obligations;

(b) current liabilities in respect of taxes, assessments and governmental charges or levies incurred, or liabilities for labor, materials, inventory, services, supplies and rentals incurred, or for goods or services purchased, in the ordinary course of business consistent with industry practice

in respect of arm's length transactions and the past practice of Borrower;

(c) Indebtedness of Borrower referenced on Section 7.2 of the Disclosure Schedule and all renewals, extensions, refinancing or refunding of such Indebtedness in a principal amount which does not exceed the principal amount outstanding immediately before such refinancing, together with all prepayment fees, penalties and expenses in respect of the Indebtedness being renewed, extended, refinanced or refunded, provided each such renewal, extension, refinancing or refunding is on terms and conditions no less favorable to the creditors than the Indebtedness being renewed, extended, refinanced or refunded;

(d) purchase money Indebtedness (including capital leases) to finance the purchase of fixed assets (including equipment); provided that (i) the total of all such Indebtedness shall not exceed an aggregate principal amount of \$_____ at any one time outstanding (in addition to any such Indebtedness referred to in Section 7.2(c)); (ii) such Indebtedness when incurred shall not exceed the purchase price of the assets financed; and (iii) no such Indebtedness shall be refinanced for a principal amount in excess of the principal balance outstanding thereon at the time of such refinancing;

(e) Indebtedness subordinated in writing to the Obligations on terms acceptable to Lender in favor of the prior payment in full in cash of the Obligations;

(f) Indebtedness to the Senior Lender provided that the principal amount thereof does not exceed \$1,500,000 outstanding at any time; (g) Indebtedness secured by Permitted Liens; and (h) In addition to all other Indebtedness permitted by this Agreement, aggregate Indebtedness not to exceed at any one time outstanding \$_____.

7.3 RESTRICTED PAYMENTS, REDEMPTIONS

(a) Declare or make any dividend payment or other distribution of assets, properties, cash, rights, obligations or securities on account or in respect of any of its Stock or Stock Equivalents except dividends paid by Borrower solely in Stock or Stock Equivalents of Borrower;

(b) purchase, redeem or otherwise acquire for value any of Borrower's Stock or Stock Equivalents; or

(c) prepay or redeem any Indebtedness that is subordinated to the Obligations or make any payment in respect of such Indebtedness at any time that a Default is continuing or would be caused by such payment.

7.4 MERGERS, STOCK ISSUANCES, SALE OF ASSETS, ETC.

(a) Merge or consolidate with any Person or acquire all or substantially all of the Stock or Stock Equivalents of any Person, except for (i) any such merger, consolidation, or acquisition in which the Stock or Stock Equivalents are acquired in exchange for, or out of the cash proceeds of the substantially concurrent sale of, new common or preferred equity of Borrower;

(b) Acquire all or substantially all of (i) the assets of any Person or (ii) the assets constituting the business of a division, branch or other unit operation of any Person, except for any such acquisition in which the assets are acquired in exchange for, or out of the cash proceeds of the substantially concurrent sale of, new common or preferred equity of Borrower; or

(c) Sell, convey, transfer, lease or otherwise dispose of any of its assets or any interest therein to any Person, or permit or suffer any other Person to acquire any interest in any of the assets of Borrower, except (i) Permitted Liens, (ii) the sale or disposition of inventory in the ordinary course of business and/or assets which have become obsolete or are replaced in the ordinary course of business, (iii) equipment to the extent that such equipment is exchanged for credit against the purchase price of similar replacement equipment, or the proceeds of such sale are reasonably promptly applied to the purchase price of such replacement equipment, and (iv) any other assets or interest, provided that (A) at the time of any such sale, conveyance, transfer or disposition, no Default shall exist or shall result from such transaction, (B) at least 80% of the aggregate sales price from such sale, conveyance, transfer or disposition shall be paid in cash, and (C) the aggregate value of all assets so sold by Borrower shall not exceed in any fiscal year \$_____.

7.5 INVESTMENTS IN OTHER PERSONS

Directly or indirectly, make or maintain any loan or advance to any other Person or own, purchase or otherwise acquire any Stock, Stock Equivalents, other equity interest, obligations or other securities of, or otherwise invest in, any other Person (any such transaction being an "Investment"), except:

(a) Investments in accounts, contract rights and chattel paper, notes receivable and similar items arising in the ordinary course of business;

(b) incidental advances to employees of Borrower in the ordinary course of business;

(c) Investments in direct obligations to the United States of America or any agency thereof, banker's acceptances and certificates of deposit issued by any commercial bank in the United States of America;

(d) Investments acquired in exchange for, or out of the cash proceeds of the substantially concurrent sale of, new common or preferred equity of Borrower; and

(e) In addition to the Investments permitted under this Agreement, any other Investments to the extent that they do not exceed at any one time outstanding \$_____.

7.6 CHANGE IN NATURE OF BUSINESS

Directly or indirectly engage in any business activity other than contract manufacturing and new activities that are reasonably incidental to or can reasonably be expected to facilitate such manufacturing.

7.7 GUARANTIES

Guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any assets of Borrower as security for, any liabilities or obligations of any other Person except any of the foregoing required by this Agreement.

7.8 PLANS

(a) Adopt or become obligated to contribute to any Plan subject to Title IV or any multiemployer Plan or any other Plan subject to Section 412 of the Internal Revenue Code (except for any such Plan listed on the Disclosure Schedule on the Closing Date), (b) establish or become obligated with respect to any new welfare benefit Plan, or modify any existing welfare benefit Plan, which is reasonably likely to result in an increase of the present value of future liabilities for post-retirement life insurance and medical benefits, or (c) establish or become obligated to contribute to any new unfunded pension Plan, or modify any existing unfunded pension Plan, which is reasonably likely to result in an increase in the present value of future unfunded liabilities under all such plans.

7.9 CANCELLATION OF INDEBTEDNESS OWED TO IT

Cancel any claim or Indebtedness owed to it except for legitimate business purposes in the reasonable judgment of Borrower and in the ordinary course of business.

7.10 ENVIRONMENTAL

Dispose, or permit any other Person to dispose, of any Contaminant by placing it in or on the ground or waters of any property owned or leased by Borrower, except in material compliance with Environmental Law or the terms of any Permit, unless such action(s), in the aggregate, have no reasonable likelihood of having a Material Adverse Effect.

7.11 TRANSACTIONS WITH AFFILIATES

Enter into any transaction directly or indirectly with or for any affiliate except in the ordinary course of business on a basis no less favorable to such affiliate than would be obtained in a comparable arm's length transaction with a Person not an affiliate involving assets that are not material to the business and operations of Borrower.

Open any new location or change its name unless (i) Borrower gives Lender (a) 30 days prior written notice of the intended name change, (b) 30 days prior written notice of the intended opening of such new location, and (ii) Borrower executes and delivers to Lender such agreements, documents and instruments as Lender deems reasonably necessary or desirable to protect its interests in the Collateral, including, without limitation, UCC-1 financing statements.

ARTICLE VIII. EVENTS OF DEFAULT

8.1 EVENTS OF DEFAULT

The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

(a) Borrower shall fail to pay when due any amount payable under any of the Loan Documents;

(b) any financial statement or certificate furnished to Lender in connection with, or any representation or warranty made by Borrower under, any of the Loan Documents shall prove to be false or misleading in any material respect when furnished or made;

(c) any default by Borrower in the performance of or compliance with any obligation, agreement or other provision contained in Sections 6.5, 6.11, 7.2, 7.3, 7.4, 7.5, 7.7, and 7.12;

(e) any default by Borrower in the performance of or compliance with any obligation, agreement or other provision contained in any Loan Document (other than those referred to in subsections (a) through (c) above) for ten Business Days after written notice thereof has been given to Borrower by Lender;

(f) any breach by Borrower in the payment or performance of any obligation under the terms of any contract or instrument (other than any of the Loan Documents) evidencing Indebtedness in excess of \$100,000 if such breach has not been cured to the satisfaction of the affected creditor or waived by such creditor within any applicable cure period provided under the contract or instrument;

(g) any judgment(s), order(s) or writ(s) in excess of an aggregate of \$100,000 is/are rendered or entered against Borrower, except any judgment for which Borrower is fully insured (subject to standard deductibles) or except if the enforcement of such judgment, order or writ has been stayed or the liability thereon bonded in a manner and on terms reasonably satisfactory to Lender; or the service of notice(s) of levy and/or of writ(s) of attachment or execution, or other like process, against any of the assets of Borrower with respect to obligations in excess of an aggregate of \$100,000;

(h) Borrower shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally be unable to or fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; Borrower shall file a voluntary petition in bankruptcy, or seek to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Code, or under any state or other Federal law granting relief to debtors, whether now or hereafter in effect; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or other Federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower and is not dismissed, stayed or vacated within sixty days thereafter; Borrower shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower shall be adjudicated a bankrupt, or an order for relief shall be entered by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or Federal law relating to bankruptcy, reorganization or other relief for debtors;

(i) tax lien(s) (other than a Permitted Lien) greater than \$50,000 in the aggregate shall have been filed against Borrower or any of its property by any federal, state, or municipal authority;

(j) if any of the following events occur: (a) any Plan incurs any "accumulated funding deficiency" (as defined in ERISA) whether waived or not,

(b) Borrower or any affiliate engages in any "prohibited transaction" (as defined in ERISA), (c) any Plan is terminated, (d) a trustee is appointed by an appropriate United States district court to administer any Plan, or (e) the PBGC institutes proceedings to terminate any Plan or to appoint a trustee to administer any Plan;

(k) the dissolution or liquidation of Borrower, or Borrower or its directors or stockholders shall take action seeking to effect the dissolution or liquidation of Borrower; or

(l) there shall exist or occur any event or condition that Lender in good faith believes impairs, or is substantially likely to impair, the prospect of payment or performance by Borrower of any of the Obligations.

8.2 REMEDIES

(a) During the continuance of any Event of Default (other than an Event of Default referred to in Section 8.1(h) hereof), Lender may by written notice to Borrower, (i) terminate the obligations of Lender to extend any further credit under any of the Loan Documents, and (ii) declare all indebtedness of Borrower under the Loan Documents to be immediately due and payable without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by Borrower, and/or take such enforcement action as is permitted under this Section 8.2. Upon the occurrence or existence of any Event of Default described in Section 8.1(h) hereof, immediately and without notice, (A) the obligations, if any, of Lender to extend any further credit under any of the Loan Documents shall automatically cease and terminate, and (B) all indebtedness of Borrower under the Loan Documents shall automatically become immediately due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by Borrower. Borrower acknowledges that portions of the Collateral may be difficult to preserve and dispose of and may be subject to complex maintenance and management; accordingly, Lender shall have the widest possible latitude in the exercise of its rights and remedies hereunder as to such portions of Collateral.

(b) During the continuance of an Event of Default, Lender, in addition to any other rights and remedies contained in the Loan Documents, shall have all of the rights and remedies of a secured party under the Code and all other applicable law, all of which rights and remedies shall be cumulative and nonexclusive to the extent permitted by law. Lender may cause the Collateral to remain on Borrower's premises, at Borrower's expense, pending sale or other disposition thereof. Lender shall have the right to conduct such sales on Borrower's premises or elsewhere, at Borrower's expense, on such occasion(s) as Lender may see fit, and Borrower, at Lender's request, will, at Borrower's expense, assemble the Collateral and make it available to Lender at such place(s) as Lender may reasonably designate from time to time. Any sale, lease or other disposition by Lender of the Collateral, or any part thereof, may be for cash or other value. Borrower shall execute and deliver, or cause to be executed and delivered, such instruments, documents, assignments, deeds, waivers, certificates and affidavits and take such further action as Lender shall reasonably require in connection with such sale, and Borrower hereby constitutes Lender as its attorney-in-fact to execute any such instrument, document, assignment, deed, waiver, certificate or affidavit on behalf of Borrower and in its name. At any sale of the Collateral, the Collateral to be sold may be sold in one lot as an entirety or in separate lots as Lender may determine. Lender shall not be obligated to make any sale of any Collateral if it determines not to do so, regardless of the fact that notice of sale was given. Lender may, without notice or publication, adjourn any public or private sale or cause the sale to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which it was so adjourned. In case any sale of Collateral is made on credit or for future delivery, the Collateral so sold may be retained by Lender until the sale price is paid, but Lender shall not incur any liability if any purchaser fails to pay for any Collateral so sold and, in case of any such failure, such Collateral may be sold again. At any public sale, Lender (i) may bid for or purchase, free (to the extent permitted by law) from any rights of redemption, stay or appraisal on the part of Borrower with respect to the Collateral, the Collateral offered for sale, (ii) make payment on account thereof by using any claim then due and payable to Lender from Borrower as a credit against the purchase price, and (iii) upon compliance with the terms of sale, hold, retain and dispose of such property without further accountability to Borrower therefor.

(c) Lender is hereby granted a license and right to use, without charge upon the occurrence and during the continuance of an Event of Default and until

the Obligations are fully and finally paid in cash, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, advertising material or any property of a similar nature in completing the production, advertising for sale and sale of any Collateral.

(d) Any notice required to be given by Lender with respect to any of the Collateral which notice is given pursuant to Section 9.1 and deemed received pursuant to Section 9.1 at least five Business Days before a sale, lease, disposition or other intended action by Lender with respect to any of the Collateral shall constitute fair and reasonable notice to Borrower of any such action. A public sale in the following fashion shall be conclusively presumed to be reasonable: (i) the sale is held in a county where any part of the Collateral is located or in which Borrower has a place of business; (ii) the sale is conducted by auction, but it need not be by a professional auctioneer; (iii) any Collateral is sold as is and without any preparation for sale; and (iv) Borrower is given notice of such public sale pursuant to the preceding sentence.

(e) Upon the occurrence and during the continuance of an Event of Default, Lender shall have, with respect to Borrower's accounts, all rights and powers to: (i) direct any and all account debtors to make all payments in respect of such accounts directly to Lender or otherwise demand payment of any or all of such accounts; (ii) enforce payment of any or all of such accounts by legal proceedings or otherwise; (iii) exercise Borrower's rights and remedies with respect to any actions or proceedings brought to collect such accounts; (iv) sell or assign any such account upon such terms, for such amount and at such time or times as Lender deems advisable; (v) settle, adjust, compromise, extend or renew any such account; (vi) discharge or release any such accounts; and (vii) prepare, file and sign Borrower's name on any proof of claim in bankruptcy or any similar document against an account debtor, and to otherwise exercise the rights granted herein.

(f) Lender shall have no obligation (i) to preserve any rights to the Collateral against any Person, (ii) to make any demand upon or pursue or exhaust any rights or remedies against Borrower or others with respect to payment of the Obligations, (iii) to pursue or exhaust any rights or remedies with respect to any of the Collateral or any other security for the Obligations, or (iv) to marshal any assets in favor of Borrower or any other Person against or in payment of any or all of the Obligations.

(g) Borrower shall pay to Lender on demand and as part of the Obligations, all costs and expenses, including court costs and costs of sale, incurred by Lender in exercising any of its rights or remedies hereunder, and all costs and expenses incurred in connection with any review of any part of the Collateral.

8.3 LENDER AS BORROWER'S ATTORNEY

Borrower hereby appoints Lender or any other Person whom Lender may designate, as Borrower's attorney, with power during the continuation of an Event of Default: to indorse Borrower's name on any checks, notes, acceptances, money orders, drafts or other forms of payment or security that may come into Lender's possession; to sign Borrower's name on any invoice or bill of lading relating to any account, on drafts against customers, on schedules and assignments of accounts, on notices of assignment, financing statements and other public records, and on notices to customers; to notify the post office authorities to change the address for delivery of Borrower's mail to an address designated by Lender; to receive, open and process all mail addressed to Borrower; to ask for, demand, sue for, collect, receive, receipt and give acquittance for any and all moneys due or to become due with respect to any Collateral; to settle, compromise, prosecute or defend any action, claim or proceeding with respect to Collateral; to sell, assign, pledge, transfer and make any agreement with respect to or otherwise deal with the Collateral; and to do all things necessary to perfect Lender's security interest in the Collateral, to preserve and protect the Collateral and to otherwise carry out this Agreement; provided, however, that nothing contained in this Section 8.3 will be construed as requiring or obligating Lender to take any action. Provided Lender acts in a reasonable manner, Borrower ratifies and approves all acts of such attorney, and neither Lender nor the attorney will be liable for any acts or omissions nor for any error of judgment or mistake of fact or law. This power being coupled with an interest is irrevocable until the Obligations have been fully satisfied and indefeasibly paid in cash or the financing arrangements between Lender and Borrower are terminated, whichever shall later occur.

9.1

NOTICES

Any notice required or permitted to be given hereunder will be in writing, will be addressed to the party to be notified at the address set forth below, or at such other address as each party may designate for itself from time to time by notice hereunder, and will be deemed to have been validly given (i) five days following deposit in the United States mail, with proper first-class postage prepaid, (ii) the next Business Day after notice was delivered to a regularly scheduled overnight delivery carrier, or (iii) upon receipt of notice given by fax, mailgram, telegram, telex or personal delivery:

To Borrower: Servatron, Inc.
 East 15520 Fairview Avenue
 Spokane, Washington 99216
 Attn: Larry Panattoni
 Fax No.:

To Lender: Itron, Inc.
 2818 N. Sullivan Road
 Spokane, Washington 99216
 Attn: David G. Remington
 Fax No.: _____

9.2

COSTS, EXPENSES, ATTORNEYS' FEES

Borrower shall pay immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (whether incurred at the trial or appellate level, in an arbitration proceeding, in bankruptcy, (including, without limitation, any adversary proceeding, contested matter or motion) or otherwise), incurred by Lender in connection with (a) the negotiation and preparation of the Loan Documents, (b) the enforcement, preservation or protection (or attempted enforcement, preservation or protection) of Lender's rights, including, without limitation, periodic collateral examinations, and/or the collection of any amounts which become due under any of the Loan Documents, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, and including any of the foregoing incurred in connection with any bankruptcy proceeding relating to Borrower.

9.3

INDEMNIFICATION

To the fullest extent permitted by law, Borrower hereby agrees to protect, indemnify, defend and hold harmless each of Lender and its officers, directors, shareholders, employees, agents, attorneys and affiliates (collectively, "Indemnitees") from and against any liabilities, losses, damages or expenses of any kind or nature and from any suits, claims or demands (including in respect of or for reasonable attorneys' fees (whether incurred at the trial or appellate level, in an arbitration proceeding, in bankruptcy (including, without limitation, any adversary proceeding, contested matter or motion) or otherwise) and other expenses, including the allocated costs and expenses of internal counsel) arising on account of or in connection with any matter or thing or action or failure to act by Indemnitees, or any of them, arising out of or relating to this Agreement, any other Loan Document, including without limitation any use by Borrower of any Loan proceeds, except to the extent such liability arises from the willful misconduct or gross negligence of the Indemnitees. Upon receiving knowledge of any suit, claim or demand asserted by a third party that Lender believes is covered by this indemnity, such Indemnitee shall give Borrower notice of the matter and an opportunity to defend it, at Borrower's sole cost and expense, with legal counsel satisfactory to Lender. Lender may also require Borrower to defend the matter. Any failure or delay of Lender to notify Borrower of any such suit, claim or demand shall not relieve Borrower of its obligations under this Section 9.3, but shall reduce such obligations to the extent of any increase in those obligations caused solely by an unreasonable failure or delay in providing such notice. This Section 9.3 shall survive the payment in full and performance of all of Borrower's other Obligations.

9.4

SUCCESSORS AND ASSIGNS

(a) The Loan Documents shall be binding upon and inure to the benefit of the successors and assigns of the parties; provided, however, that Borrower may not assign or transfer its interest hereunder. Lender reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Lender's rights and benefits under each of the Loan

Documents.

(b) Without limitation, Lender may disclose the Loan Documents, and any financial or other information relating to Borrower, to its affiliates, auditors and legal counsel, to any potential participant or assignee and to any Governmental Authority to the extent that such disclosure is required by law and as required in order to comply with a subpoena or order issued by a court of competent jurisdiction or by a legislative or regulatory body.

9.5 SETOFF

In addition to any of Lender's other rights and remedies, Lender shall have the right without prior notice to Borrower, any such notice being expressly waived by Borrower to the extent permitted by applicable law, during the continuance of an Event of Default to setoff and apply against any indebtedness, whether matured or unmatured, of Borrower to Lender any amount owing from Lender or any affiliate thereof to Borrower at any time during the continuation of an Event of Default. This right of setoff may be exercised by Lender against Borrower or against any trustee in bankruptcy, debtor in possession, assignee for the benefit of creditors, receiver or execution, judgment or attachment creditor of Borrower or against anyone else claiming through or against Borrower or such trustee in bankruptcy, debtor in possession, assignee for the benefit of creditors, receiver, or execution, judgment or attachment creditor, notwithstanding the fact that such right of setoff shall not have been exercised by Lender prior to the occurrence of an Event of Default. Lender agrees promptly to notify Borrower after any such setoff and application made by Lender, provided that the failure to give such notice shall not affect the validity of such setoff and application.

9.6 NO WAIVER; CUMULATIVE REMEDIES

No failure on the part of Lender to exercise, and no delay in exercising, any right, power, privilege or remedy under any Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power, privilege or remedy preclude any other or further exercise thereof or the exercise of any other right, power, privilege or remedy. The rights and remedies under the Loan Documents are cumulative and not exclusive of any rights, powers, privileges and remedies that may otherwise be available to Lender.

9.7 ENTIRE AGREEMENT; AMENDMENT

The Loan Documents constitute the entire agreement between Borrower and Lender with respect to the Loans and supersede all prior negotiations, communications, discussions, correspondence and agreements concerning the subject matter hereof. The Loan Documents may be amended or modified only by a written document executed by the parties hereto.

9.8 NO THIRD PARTY BENEFICIARIES

This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any other of the Loan Documents to which it is not a party.

9.9 TIME

Time is of the essence of each and every provision of this Agreement and each other of the Loan Documents.

9.10 SEVERABILITY OF PROVISIONS

If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

9.11 GOVERNING LAW

This Agreement shall be governed by and construed in accordance with the laws of the State of Washington.

9.12 WAIVER OF JURY TRIAL

EACH OF BORROWER AND LENDER, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING, COUNTERCLAIM OR OTHER LITIGATION IN ANY WAY ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS OR EVENTS REFERENCED HEREIN OR THEREIN OR CONTEMPLATED HEREBY OR THEREBY, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS OR OTHERWISE. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT AND/OR ANY OTHER OF THE LOAN DOCUMENTS. A COPY OF THIS SECTION MAY BE FILED WITH ANY COURT AS WRITTEN EVIDENCE OF THE WAIVER OF THE RIGHT TO TRIAL BY JURY AND THE CONSENT TO TRIAL BY COURT.

9.13 COUNTERPARTS

This Agreement may be executed in any number of identical counterparts, any set of which signed by all the parties hereto shall be deemed to constitute a complete, executed original for all purposes.

9.14 WASHINGTON STATUTORY NOTICE

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR FOREBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

SERVATRON, INC.

ITRON, INC.

By: /s/ Larry Panattoni
Title: President

By: /s/ David G. Remington
Title: CFO

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