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

FORM 10K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM __________ TO ___________

COMMISSION FILE NUMBER 0-22418

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

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

2818 NORTH SULLIVAN ROAD
SPOKANE, WASHINGTON 99216-1897
(509) 924-9900
(Address and telephone number of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to section 12(g) of the Act:

TITLE OF EACH CLASS

COMMON STOCK, NO PAR VALUE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

As of February 26, 1999, there were outstanding 14,762,791 shares of the registrant's common stock, no par value, which is the only class of common or voting stock of the registrant. As of that date, the aggregate market value of the shares of common stock held by non-affiliates of the registrant (based on the closing price for the common stock on the Nasdaq National Market on February 26, 1999) was approximately $87,918,418.

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part III is incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Shareholders of the Company to be held May 5, 1999.

PART I

ITEM 1: BUSINESS

OVERVIEW

GENERAL

Itron, Inc. ("Itron" or the "Company") was incorporated in Washington in 1977 and is a leading global provider of integrated system solutions for collecting, communicating, analyzing and managing information about electric, gas and water usage. The Company designs, develops, manufactures, markets, sells, installs and services hardware, software and integrated systems primarily for use by the utility industry. The Company's major product lines include Automatic Meter Reading ("AMR") systems and Electronic Meter Reading ("EMR") or Handheld systems. The Company both sells its products and provides outsourcing services.

Itron's first systems, shipped in the early 1980s, consisted of handheld computers and software and were developed to replace the manual, paper-intensive process used by most utilities at that time to read meters. Handheld systems and products allow a utility to capture visually obtained meter data in a handheld computer for billing purposes. Many of these systems are still in wide use today. Over 1,500 utilities around the world in more than 45 counties use Itron's Handheld systems to read approximately 275 million meters. Itron's systems are installed at approximately 75% of the largest utilities (those with 50,000 or more meters), in the United States and Canada including 22 of the largest 25 utilities. Handheld systems products and services represented 22% of the Company's total revenues in 1998.

In the early 1990s, Itron began the process of taking usage information from meters one step further with the introduction of highly automated and integrated AMR technologies. Itron's AMR technologies today provide utilities and their customers with information that goes far beyond meter reading. Using an assortment of communications technologies, Itron's AMR systems collect data from a variety of residential, commercial and industrial points and deliver that information to enable innovation. Itron is the largest supplier of systems for the emerging AMR market having shipped over 13.5 million AMR meter modules to more than 400 utilities as of December 31, 1998. AMR systems sales and services, including outsourcing, were 78% of the Company's total revenues in 1998.

CURRENT MARKET FOR AMR

The electric utility industry is undergoing basic structural changes as electric power generation is opened up to full competition with retail customers ultimately having access to multiple suppliers. The Company believes that the move to a competitive electricity supply market will motivate utilities and other industry participants to reduce costs, increase operating efficiencies and enhance service quality. In addition, the Company believes that there are a number of new business opportunities that will develop from the value of the information generated by AMR products and systems that will enable the Company, and the Company's customers, to offer new, innovative products and services, including some not traditionally offered by utilities.

The Company believes that as the electric industry deregulates, there will be increased focus initially on serving the needs of commercial and industrial ("C&I") customers, where the economic incentive to switch energy service suppliers is greatest. Most utilities today use the Company's Multiple Vendor Data Collection and Analysis System ("MV-90") software to process meter data for their C&I customers. Building on this position, in 1997 and 1998, the Company developed communications capabilities, complex billing and settlement applications, data warehousing and management applications, and internet delivery capabilities for C&I customers. In 1999, the Company expects to complete development of a new radio-based data collection system for C&I metering. The Company

believes that the C&I market will provide it with growth opportunities over the next few years and beyond as utilities, energy service providers ("ESPs"), and others increasingly focus their attention on this critical customer group.

Utility industry restructuring has, in recent years, slowed the growth of residential AMR. The Company has continued to expand its product offerings for residential AMR because it expects an acceleration of this market as utilities emerge from de-regulation. In 1998, the Company completed the development of several new products for the residential AMR market and developed new distribution channels to extend its market reach. The Company believes these actions will improve growth opportunities in the near-term for the residential AMR market. In particular, the Company expanded and diversified its opportunities with the release of new meter modules for the water industry, which is not currently impacted by regulatory restructuring, with the release of a new lower-cost Mobile AMR and Handheld AMR technologies, and with the introduction of Network alternatives that do not require large scale, saturated deployment. The Company also significantly expanded its reach into the municipal and smaller utility market with distribution agreements it recently signed with several large meter manufacturers, including Schlumberger and Badger Meter.

The Company believes that utility industry restructuring will create opportunities which it is uniquely positioned to take advantage of. The Company believes that its AMR product offerings in aggregate are more extensive than that of any other AMR supplier. The Company's AMR solutions support electric, gas, water and combination utilities and other ESPs and include solutions for all classes of utility customers - residential, commercial and industrial. The Company utilizes radio, telephone and cellular technologies as well as private and public communications networks. In addition, the Company has significant experience in high-volume AMR meter module production; established relationships with over 1,500 utilities worldwide; proven interfaces with numerous utility host billing systems; and advanced software for large commercial and industrial customers and power exchanges.

1998 HIGHLIGHTS

During 1998, the Company reorganized into two main divisions, Residential Systems and C&I Systems, in order to focus on the strategically different needs of each of these markets.

As a result of slower activity in the residential AMR market, the Company implemented restructuring measures during 1998 to reduce costs and improve operating efficiencies. These measures resulted in a $4.1 million restructuring charge in 1998. The Company is still considering several alternatives to further improve operating efficiencies and may incur additional restructuring charges. Because of the restructuring measures taken in 1998, the Company was able to substantially reduce its spending level, and as a result, reported a return to profitability in the fourth quarter of the year.

The Company made substantial inroads in the water AMR market in 1998 through expansion of installations on existing contracts, additional contract awards, the introduction of new water AMR products, and expansion of distribution channels for water AMR products. Shipments of water AMR modules were approximately 430,000 in 1998, up 180% from 1997, primarily as a result of further installation for the Company's contract with the City of Philadelphia and adding new water utility customers. The Company had approximately 63 water utilities as customers by the end of 1998, almost double from where it started the year. The Company was also awarded its second large water AMR order from the City of Houston and will begin installation of that system in 1999. In the last half of 1998, the Company introduced water meter modules for the largest segment of the water market, outdoor pit-set meters. Shortly after year-end, the Company announced that it had signed an agreement with Badger Meter to distribute Itron's AMR technology. This, along with the distribution agreement the Company signed with Schlumberger during 1998, significantly broadens the sales reach for the Company's products, primarily to smaller utilities and municipalities.

The Company also made significant progress on its Network AMR deployments in 1998. By year end the

Company was reading approximately 490,000 meters at Duquesne Light Company ("Duquesne") on a daily basis, up from approximately 5,000 meters at the beginning of 1997. See "Description of Business--Duquesne Network AMR Contract." The Company also began expansion of its second large Network AMR contract with Virginia Power early in 1998 and by December 31, 1998, this system was delivering daily billing data for more than 280,000 meters.

The Company made substantial progress on the development of its C&I Network during 1998. The C&I Network is being specifically designed for solid state C&I electric and gas meters. Traditionally, the only way utilities could deliver advanced metering and data management functionality to their key C&I customers was to install a dedicated phone line. Typically a utility's C&I Customers represent a significant portion of total revenue, although they are a small percentage of total customers. While utilities could easily cost justify that ongoing expense for large customers, it often proved cost-prohibitive for smaller customers. The Company's C&I Network utilizes the Company's radio-based communications technology to create local area networks to read meters within a defined geographical area. It then utilizes telephone and or cellular technology to access all meters within the local area network. The C&I Network is expected to provide the benefits of advanced metering to this critical customer group. The Company expects that the C&I Network will go on the market late in 1999.

Also during 1998, the Company completed the development and began test installations of a new Network AMR product, the MicroNetwork, which is a flexible, drop-in network meter reading solution designed to deliver frequent reads and reads on request for small isolated meter populations where a large saturated fixed network is not appropriate or economic. The MicroNetwork provides customers with a flexible and cost effective Network AMR solution by combining low cost radio meter modules with a variety of telecommunications technologies that send data to a host processor.

In addition, the Company introduced new products for Handheld and Mobile AMR late in 1998 that it believes will contribute to sales of Handheld systems in the near term and sales of AMR meter modules in 1999 and beyond. The newest product for the Handheld market is a credit-card sized radio device that enables communications between handheld computers and module-equipped meters. In addition to being lighter weight and lower cost than previous versions, the product uses a standard PCMCIA Type II format which makes it compatible with handheld computers not manufactured by the Company, and which allows the Company's customers to use their handheld computers for applications other than meter reading. The Company's latest product for Mobile AMR, the DataPac, is a lighter-weight, lower cost version of its previous technology for Mobile AMR, the Data Command Unit ("DCU"). Unlike the DCU, which is designed for reading larger numbers of meters, the DataPac is portable and does not require a dedicated vehicle. Using the DataPac, smaller utilities and municipalities will be able to reap the benefits of Mobile AMR technology that were previously out of reach due to the cost of the technology.

DESCRIPTION OF BUSINESS

OVERVIEW OF CURRENT ENVIRONMENT IN THE UTILITY INDUSTRY

The electric utility industry is undergoing fundamental structural changes. Current restructuring in the electric utility industry is focused on opening the electric power generation industry to full competition and ultimately providing retail customers access to multiple suppliers (referred to as "direct access or customer choice"). Similar to regulatory changes that have already occurred in the transportation and telecommunications industries, customer demands and regulatory mandates by state and federal governments are forcing utilities to make the transition from regulated monopolies, in certain respects, into competitive enterprises.

Federal legislation, such as the National Energy Policy Act of 1992 (the "EP Act"), eased restrictions on independent power producers in an effort to increase competition in the wholesale electric power generation

market and authorized the Federal Energy Regulatory Commission ("FERC") to require utilities to transport and deliver ("wheel") energy for a supplier of bulk power to wholesale customers. Under the EP Act, individual states have the sole authority to mandate the wheeling of electric power to retail customers. While regulatory initiatives vary from state to state, many involve the separation of certain functions currently performed by utilities, including power generation, transmission and distribution (functional unbundling) and a shift from rate-of-return to performance-based ratemaking or market-based pricing. Most states have undertaken some form of regulatory reform. In California, the California Public Utility Commission ("CPUC") mandated retail wheeling beginning on March 31, 1998 for large commercial and industrial customers and January 1, 1999 for all remaining customers. Effective January 1, 1999, several other states, including Arizona, Maine, Massachusetts, Montana, Nevada, New Hampshire, New Jersey, New York, Pennsylvania and Rhode Island, began transitioning to a competitive electricity supply. A number of other states have legislation or commission orders to mandate retail wheeling. In addition, the CPUC has also unbundled the functions of metering and customer billing. This means that electricity customers in California will be able to select their meter reading and billing provider in addition to their electricity supplier. Several other states, including Arizona, Nevada and Pennsylvania, are also transitioning to competitive meter reading suppliers.

While utility companies may retain some, most or all of their traditional functions, the Company believes that it is likely that some of these functions will also be provided by new entities such as Independent System Operators ("ISOs") and ESPs. Utilities may turn the operational control of certain of their transmission facilities over to ISOs. ESPs and aggregators are expected to provide both electricity and natural gas to commercial, industrial and residential customers and may, in some jurisdictions, perform meter reading and customer billing. In addition to ESPs, a number of new entities will likely emerge to provide metering and data services. Such companies also may buy and sell electricity and may have to deal with the frequent specification of prices and costs for the transference of power. Thus, the Company's future customer base will likely be comprised of traditional utility companies, ESPs and new market entrants. As such companies emerge, the Company believes that the ability to measure the supply and use of energy on a frequent basis will become increasingly critical and that the electric service industry will be driven toward daily, hourly or even more frequent usage and pricing for certain customers.

The Company believes that regulatory reform will result in new opportunities for the Company including the development of reconciliation systems for the supply of power to, and purchase of power from, electric power transmission grids; opportunities to provide services, such as meter reading and other functions typically performed by utilities and sales of systems directly to end-user customers. The Company also believes that there are opportunities to use the Company's core technology in related markets, such as tank monitoring, wherein a module is installed on a propane or gas tank and sends information regarding tank levels to a host whereby delivery trucks can be automatically dispatched. Itron has built on board computers that communicate to the headquarters using GPS positioning. In addition, the Company believes there are a number of new business opportunities that will eventually develop for capitalizing on the value of the information that can be derived from the Company's AMR products, systems and services.

ITRON SOLUTIONS

The Company believes it has an extensive and cost-effective portfolio of AMR and data management solutions that provides utilities and other industry participants with numerous options for responding to evolving operational needs, marketing opportunities and regulatory reform requirements.

BROAD PRODUCT LINE OFFERING. Itron's core AMR meter module technology has been adapted to read numerous types of electric, gas and water meters, including the most common meter types made by major meter manufacturers. Itron's broad product line enables utilities and other industry participants to perform meter reading functions for themselves, as well as for other utilities or power suppliers serving a particular geographic

area. Itron's AMR solutions include the use of radio and telephone-based technologies and support all classes of utility customers - residential, commercial, large commercial and industrial - in all environments - rural, suburban and urban. Itron's products also provide the data management software capabilities necessary to handle the large volumes of data required by C&I electricity customers and the emerging participants in the competitive supply of electricity such as ISOs and power exchanges.

LARGEST AMR METER MODULE SUPPLIER: As of December 31, 1998 the Company had shipped more than 13.5 million meter modules since 1987 and is the AMR industry's most experienced meter module provider. The Company believes that its high production volume of AMR meter modules generally allows it to offer utilities economically attractive AMR solutions. In 1996 the Company made substantial investments in high-speed manufacturing automation and test equipment that further strengthened its position as a market leader in the supply of meter modules.

TECHNOLOGY MIGRATION PATHWAY: The Company's radio-based AMR solutions encompass Handheld ("Off-Site"), Mobile and Network reading technology options. Because the same AMR radio meter modules can be used with any of these alternatives, the Company's products facilitate the migration from one level of systems automation to another. This upgrade flexibility means that customers can install AMR systems initially for reasons related to cost savings, improving operations and enhancing service quality. These same systems can be the foundation for more advanced AMR solutions in the future as the marketplace requires.

DATA AND SYSTEMS INTEGRATION: The Company has developed software applications that integrate data from various data collection systems. This data integration provides customers with the flexibility to deploy different data collection technologies in different portions of their service territories, depending upon economic and functional requirements, while integrating the data into a common format. Itron has also developed interfaces to over 1,500 utility billing systems worldwide, enabling smooth transition of collected data to billing.

NATIONWIDE RADIO SPECTRUM AND INTELLECTUAL PROPERTY RIGHTS: The Company has been issued a renewable nationwide U.S. Federal Communications Commission ("FCC") license to operate in the 1427-1432 MHz band, allowing it to operate its Network AMR technology throughout the United States. Itron believes the spectrum available under this license is adequate to meet the spectrum requirements for Network AMR and the requirements for a substantial implementation of advanced utility functions, as well as certain other applications. Itron also owns a number of AMR related patents that provide it with numerous options for further AMR deployment, including licensing its technology to others.

MULTIPLE FINANCING SOLUTIONS: The Company works with its customers to facilitate alternative ways in which to finance AMR technologies. The Company sells products, outsources entire systems, provides installation, operations, or maintenance services, and arranges customized financial solutions for its customers. These customized financial solutions vary from simple third party leases to complex project financing structures depending on the financial and operational goals of the Company's customers.

BENEFIT OPTIMIZED DEPLOYMENT: The range of AMR solutions offered by the Company enables its customers to deploy the solutions that are the most cost effective in each portion of the utility's service territory. The Company has developed a conceptual and analytical methodology - termed "Benefit Optimized Deployment" - which facilitates a potential AMR customer's comprehensive and quantified analysis of the question: "What technology, where and when?"

ITRON'S STRATEGIES

Itron's strategy is to be a profitable leading provider of AMR solutions for collecting, communicating, analyzing and managing information about electric, gas and water usage. Following are key elements of the Company's strategy:

DEVELOP, ENHANCE AND DEPLOY PRODUCTS TO SERVE C&I MARKETS: The Company believes that as the electric industry deregulates, there will be a heightened focus by utilities, ESPs and others on serving the needs of the largest users of electricity - C&I customers. The Company intends to continue to broaden its AMR product line for serving this critical and growing customer group. The Company is the leading provider of software systems for metering data acquisition and analysis for large C&I customers of electric and gas utilities. In 1998, the Company expanded its software offerings to support billing of C&I customers who purchase power under complex rates and schedules, to deliver meter data and information via the Internet, and to warehouse large amounts of meter data. In addition, the Company completed initial testing of its new C&I Network, which is primarily radio-based, and is being designed to provide the benefits of advanced metering to a larger number of C&I customers for a lower cost by eliminating the dedicated phone lines used by most utilities today.

PROVIDE COST-EFFECTIVE METER READING SOLUTIONS: The Company offers a broad range of meter reading solutions that create value for utilities through cost savings and operational improvements and by allowing them to offer new products and services to customers through automation of their meter reading function. These benefits include, among others, reductions in labor costs, safety improvements, elimination of estimated bills, more accurate bills, reduced customer bill disputes, energy theft detection capabilities, improved forecasting of energy demand, and information about outage detection and power restoration. Investments in the Company's core AMR business products enable utilities to convert recurring operating expenses related to meter reading into assets that provide a strategic migration path to more advanced AMR solutions.

EXPAND NETWORK AMR TECHNOLOGY AND INSTALLATIONS: The Company is committed to delivering Network AMR solutions and believes that the demand for Network AMR will continue to grow as electric utilities increasingly focus on the consequences of competition brought on by regulatory reforms and as gas and water utilities begin to take advantage of the benefits provided by accurate and more frequent meter reads. The Company believes utilities, ESPs and others will deploy Network AMR in certain parts of their service territories where frequent reads and other advanced meter reading functionality are required. The Company has offered a network AMR product for saturated deployments for a number of years, incorporating both radio- and telephone-based communications technologies. With the introduction of the Company's MicroNetwork in 1998, customers are able to target specific locations where groups of meters, or selected meters within an area, require more frequent reads and where large saturated fixed networks are difficult to cost justify.

DEVELOP NEW RELATIONSHIPS FOR DELIVERY OF AMR PRODUCTS AND SERVICES: The Company intends to expand its distribution channels for AMR products and meter reading and other services by continuing to enter into joint ventures and partnerships with companies who bring experience and strengths that complement the Company's core competencies. For example, in late 1997, the Company formed a joint venture, Star Data Services ("SDS") with UK Data Collection Services, Limited ("UKDCS") of England, the company that operates the meter data collection system that supports the competitive electricity supply market in England and Wales, to provide metering, data collection, load profiling, settlement, and a variety of other operational services in North America. In 1998, and shortly after year-end, the Company broadened its reach for selling AMR products by entering into distribution and reseller agreements with a number of key utility industry particpants, including Schlumberger,and Badger Meter, with emphasis on the largely untapped water AMR market.

BUILD UPON EXTENSIVE CUSTOMER BASE AND INDUSTRY EXPERIENCE: The Company has established itself as the world's leading supplier of AMR systems as a result of having shipped more than 13.5 million AMR meter modules to over 400 utilities as of December 31, 1998. The Company's EMR systems have been installed at over 1,500 utilities in more than 45 countries and are being used to read approximately 275 million meters worldwide. These installations include approximately 75% of the utilities in North America that have meter populations greater than 50,000. The Company believes that its extensive customer base, long-term relationships with its customers, upgrades and extensions to its current products and proven interfaces with numerous utility host billing systems, provide a solid foundation upon which the Company can expand its

product offerings and services to existing utility customers, as well as new utility customers and other industry participants.

EXPAND COMMUNICATIONS ALTERNATIVES: The Company expanded its AMR product offering to include telephone-based technologies for electric meters in 1997 and has further developed telephone-based technologies for both electric and gas meters in 1998. Telephone and cellular technologies can be a very attractive economic alternative for direct access customers, regional or national accounts, rural meters or for selective clusters of meters. Telephone can also be a viable solution for areas where radio communications are not possible or are difficult. In 1998, the Company expanded its communications capabilities to include the ARDIS wireless nationwide public communications network. In addition to ARDIS, in 1998 the Company began communicating over digital networks using Internet Protocol (high speed/high volume Internet communications). The Company is currently in test with PCS networks as well.

DEVELOP NEW BUSINESS OPPORTUNITIES: The Company is developing strategies to take advantage of and to create new business opportunities from the substantial amount of information that can be derived from its AMR systems and products. The new business opportunities include new customers for the information (such as retail end users) and new services that can be offered. The Company's SDS Joint Venture is a first step toward developing this new direction. As deregulation unfolds, the Company will increasingly focus on the prospects for selling services to the expanding universe of market participants. In addition, the Company believes there are a number of technologically adjacent markets in which the use of its core AMR technology can be extended, such as tank monitoring, and is working with strategic partners and others on exploring these types of applications and products.

AUTOMATIC METER READING SYSTEMS AND PRODUCTS

The Company's AMR product line primarily involves the use of radio and telephone technology to collect meter data. The Company's radio-based AMR solutions encompass Off-Site AMR, Mobile AMR and Network AMR. Due to the geographic features and varying population density of a utility's service territory, generally no single meter reading solution is technologically or economically, suited to all parts of the utility's service territory. The Company's AMR applications are intended to provide flexibility ranging from selective installation for high cost-to-read meters or geographically dispersed meters requiring advanced metering functionality, to full implementation of an AMR system covering a large portion of a utility's service area. Additionally, in a deregulated marketplace, target marketing of specific features will be desirable. The Company provides technology that can be selectively deployed to targeted end-use customers. This flexibility enables the Company's customers to achieve economic and operational benefits from their initial investments in the Company's AMR systems, while enabling migration to more comprehensive AMR solutions in the future as the marketplace requires.

METER MODULES: The Company's AMR product offerings are based on a family of meter modules. These meter modules, which can be easily attached to utility meters, encode consumption and tamper information and transmit this data, including meter module identification, to a remote receiver. The Company has expanded its meter module offerings through development of meter modules that read additional meter types, as well as development of modules with differing capabilities that enable utilities to use the most cost-effective module for a particular meter reading need. In 1998, the Company developed and released a variety of new meter modules for electric, gas and water meters, including below ground level, pit-set water meter modules.

The Company began shipping its radio meter modules to customers in late 1986 and has adapted the radio meter modules core technology to read numerous types of electric, gas and water meters, including the most common meter types made by major meter manufacturers. The Company's compact radio meter modules for gas and water meters are self-contained low-power units, powered by long-life batteries with an expected minimum life in excess of ten years. Radio meter modules for electric meters, which are normally integrated under the glass

of standard residential meters, are electricity line powered and do not require batteries. Radio meter modules can be installed by the meter manufacturer during the manufacturing process or easily retrofitted in existing meters.

In addition to its radio meter modules, the Company also offers telephone-based AMR products for electric and gas meters. For residential and commercial applications, the Company's telephone based modules for electric meters attach under the glass of those meters and collect and report consumption, demand, time-of-use and load profile data. In addition, certain telephone-based modules for electric use report power outages, restoration of power and power quality information. For the electric market, in addition to AMR modules attached to meters, the Company offers telephone-based modules that are installed inside customer premises to monitor and report power outages and restoration of power, power quality (under and over voltages) and connections to selective circuits or contact closures inside the premise, such as circuits for refrigeration or HVAC equipment. For C&I large volume gas meters, the Company's telephone-based modules collect information that is used to bill transport gas and interruptible gas customers, as well as critical load survey data for applications such as peak day forecasting, supply forecasting and assessments, rate design and marketing. For residential gas applications, including hard-to-read meters, modules are attached to existing or new residential gas meters to provide consumption and load survey data.

The Company also offers a separate line of meter modules for use outside of North America. The primary differences between the meter modules used by the Company in North America and those used in international markets are the radio frequency band in which they operate and the physical configuration of the module. In addition, the Company has developed meter module technology to address opportunities available in international markets that are not present in North America. For example, in certain European countries, usage of steam and hot water produced by a central facility for residential heating is metered using devices known as "heat allocators" located on radiators. The Company has developed a radio-based meter module that enables remote collection of data recorded by heat allocators, eliminating the need to access each radiator in order to collect consumption data. As of December 31, 1998 Itron had shipped in excess of 200,000 such modules in Europe. The Company estimates that there are 110 million heat allocators installed in Europe.

OFF-SITE METER READING: The Company's Off-Site AMR solution enables radio-equipped meters to be read remotely, by a person from up to 1,000 feet away, with a handheld computer equipped with a radio unit. Off-Site AMR offers a practical and cost-effective way for utilities to read high cost-to-read meters by eliminating the need for meter readers to gain visual access to those meters. Once a utility has upgraded its Itron handheld computers with radio technology, it can selectively install meter modules on high cost-to-read meters. System software automatically identifies radio-equipped meters within a route. When remote reads are needed, the system prompts the meter reader to initiate the wireless remote read. Meter information is shown on the handheld display and is automatically recorded in the handheld database, allowing the meter reader to move on to the next meter on a route. When a route is completed, data from both visual and radio reads are uploaded from the handheld computer to the utility host system for customer billing. The benefits from Off-site AMR include short-term payback from the meter reading productivity improvements that result from being able to remotely access information on difficult to read meters. Another major benefit from Off-site AMR is greatly improved meter reading safety by installing meter modules in the most hazardous meter locations.

MOBILE AMR: The Company's Mobile AMR solution uses a Data Collection Unit ("DCU"), which is mounted in a vehicle, or a Datapac which is transportable between vehicles, to collect and store data transmitted by meter modules as the vehicle passes module-equipped meters. The DCU or Datapac receives information transmitted by multiple meter modules simultaneously. A touch-screen display enables the operator to observe and operate the equipment. The Mobile AMR application includes software that manages and moves information to and from a utility's billing system. Once installed, the software transfers information from the host system to create route files for the DCU and Datapac for each route, manages the storage of the meter data as it is collected and, at the end of the day, uploads the information to the utility's billing system. A Mobile AMR system enables an

operator to read in an eight-hour day an average of approximately 10,000 meters with a DCU or roughly half that number of meters with a Datapac. This compares to an average walking route of 300 to 500 meters per day. Factors affecting the actual number of reads per day include, among others, route density and design, speed limits, weather and environment. As in the case of Off-site AMR, Mobile AMR also improves meter reader safety by removing the need for meter readers to gain visual access to meters in dangerous environments. The cost savings associated with reductions in estimated reads or unread meters is also realized in other parts of a utility's operations, including reduced customer calls to a utility call center related to billing; reduced billing adjustments and associated transactions and reduced field visits. Some utilities have also used Mobile AMR systems to enhance outage detection capability by driving through neighborhoods to determine whether power has been restored. Other utilities have used Mobile AMR systems to read certain customers' meters on specific days to offer selectable billing dates to those customers.

NETWORK AMR: The Company offers a number of Network AMR products. The Company's Network solutions provides utilities with the capability of automating meter reading in desired segments of a utility's service area, thereby eliminating the need to send meter readers to or near customer premises. The Company has large scale Network AMR deployments with two utilities and smaller scale installations at ten utilities. Under a contract with Duquesne, the Company has installed a large scale Network AMR system that was reading just under 500,000 meters on a daily basis as of December 31, 1998. See "Duquesne Network AMR Contract." Installation of the Company's large scale Network AMR system at Virginia Power is nearing completion and as of December 31, 1998 the system was reading approximately 280,000 meters on a daily basis. When expansion of this system is complete in 1999, it will cover approximately 430,000 meters. The Company's Network AMR technology provides utilities with a number of utility-related applications, including daily or more frequent meter reads, time-of-use pricing, on-request meter reads for final reads or customer inquiries, tamper monitoring and reporting, high-level outage detection and power restoration reporting, load profiling and virtual connect/disconnect capabilities.

Meter data collected by the Company's radio meter modules is transmitted to a Cell Control Unit ("CCU"), which is a neighborhood communications controller. The CCU performs memory and computational functions, in addition to functioning as a radio receiver and transmitter. Weighing approximately 15 pounds, Itron's CCU can be easily installed on utility poles, streetlights, or other locations. While the geographic area covered by each CCU varies depending on local topography, physical structures, terrain and other factors, in general each CCU serves an average of 50 homes. Information collected by CCUs is then transmitted to a Network Control Node ("NCN"), which is the primary routing and control device for the Network. Each NCN typically supports approximately 400 CCUs. NCNs manage information routing in the network between CCUs and the system host processor and can serve as a gateway to other communication networks. Communications between the CCUs and NCNs utilize the Company's nationwide licensed frequencies in the 1427-1432 MHz band .

The final link in the Company's Network AMR solution is from the NCNs to one or more host computers, known as Genesis Itron Host Processors ("GIHPs"). The GIHP is an open-architected control computer and database management system that provides network control and advanced AMR functionality, and acts as the interface to the Network from other utility systems. The GIHP provides a Standard Query Language ("SQL") database server to utility host billing and operating systems. Communications between NCNs and the utility's GIHP typically utilize radio, telephone, frame relay or other wired communication media.

In 1998, the Company introduced a new Network AMR product known as the MicroNetwork. The MicroNetwork is a flexible, drop-in network meter reading solution designed to deliver frequent reads and reads on request for small isolated meter populations. The MicroNetwork is an ideal data collection solution for apartment complexes, campuses, small residential communities, high rise buildings, strip malls, suburban neighborhoods and rural communities - any place where groups of meters, or selected meters, require or can benefit from accurate and more frequent reads. The MicroNetwork is also an ideal solution for the growing sub-metering market where it can be used to gather electricity, gas and water consumption by individual users in

buildings or apartment complexes currently served by a centralized master meter.

The MicroNetwork consists of three components: Itron meter modules; locally installed communications nodes called concentrators; and an Itron host processor system. The system uses a two-step process to gather metering data. First, using Itron's radio communications technology, the concentrator units automatically gather consumption data collected from nearby electric, gas, and water meters equipped with Itron meter modules. The MicroNetwork then utilizes telephone and/or cellular communications technology to send the consumption data to the host processor system. There the metering data is processed and forwarded to billing services and other utility business operations as needed.

The Company made substantial investments in development of its Network AMR products in 1996, 1997 and 1998. The Company expects some portion of its product development spending in 1999 will be for Network development, including performance enhancements and adding functionality, but that the amount spent will be less than annual spending in the prior three years. See " Product Development."

TELEPHONE-BASED TECHNOLOGY. The Company also offers products that allow electric and gas utilities to implement telephone-based AMR solutions. Modules can be programmed to collect various types of meter reading data including standard consumption, time-of-use, demand and interval data for load profiling. These systems use inbound communications in which the meter modules call in to the utility's central processing computer at pre-scheduled times to report meter reading information. The devices are connected to and share existing customer telephone lines. Telephone-based AMR functionality is primarily designed for selective deployments of direct access customers or for geographically dispersed customers requiring advanced metering functionality such as regional or national accounts. Additionally, telephone-based devices that report power outages and power quality events (over and under voltages) can be selectively deployed to strategic points in the utility distribution system. This provides a target solution to achieve operational and system reliability improvements where a full saturation network is difficult to cost justify. This technology may also be used to automate areas not suited for cost effective implementation of radio technologies such as remote or rural areas.

The Company also provides other telephone-based devices that monitor and report power outage, restoration and power quality (over/under voltage) information. The devices are easily installed by the end-use customer. The devices may be deployed at key locations throughout a utility's distribution system to improve operations, enhance power quality and improve overall system reliability and service by allowing utilities to isolate outages and determine when power has been restored more quickly.

COMMERCIAL AND INDUSTRIAL SOFTWARE PRODUCTS AND SERVICES

Commercial and industrial ("C&I") meters have much more sophisticated measurement capabilities than do meters for residential customers. Therefore, they have much more data that must be conveyed back to a utility from the meter. There is a wide variety of these meters with no standards for communications agreed upon by the multiple meter vendors. The Company, through its UTS subsidiary, is the leading provider in the United States of software systems for metering data acquisition and analysis for the large C&I customers of electric and gas utilities. UTS also has systems installed in approximately 20 countries outside the United States.

UTS's MV-90 supports communication protocols for almost all the large C&I electric and gas meter suppliers in the United States and Europe. MV-90 supports all methods of data retrieval from large C&I meters (handheld readers, radio, telephone and other communication technologies) and was designed with a full range of applications software to support data collection from meters, data validation and editing, and analysis of energy usage data. MV-90 software can be licensed for use on single computers or local/wide area networks. In addition to the base system, there are layered application packages that support applications such as load research, real time pricing (hourly price transmission to C&I customers), gas transportation, and interruptible rates (notification and control of loads at large C&I customers).

UTS has capitalized on a specialized market within the electric utility industry and now supplies MV-90 software for revenue billing, load research and demand-side management to approximately 70% of the major utilities in the United States and to most of the electric and gas utilities in Canada, Europe, the Middle East, Australia, Central America and South America. The Company estimates that approximately 35% of the $250 billion annual revenues billed by the electric utility industry in the United States is billed using data collected by MV-90 software systems. UTS also has a "read only" version of the MV-90 software that allows C&I customers to read the utility's delivery point meters (both electric and gas) on a frequent basis to analyze their own energy consumption. This software can also receive hourly pricing data from energy suppliers for customers who purchase power on a real-time pricing basis (price varies by the hour). It also supports load curtailment with messaging to notify larger C&I customers. Such read-only, real-time pricing and load control software applications are sold to C&I customers by the marketing departments of various utilities.

The Company believes that competition in the utility industry will drive metering technology and systems toward enhancing and facilitating communications between large C&I customers and their power suppliers. In 1998, the Company released new products for C&I customers and expanded installations for other products for this sector of the market. These new products include MV-PBS, MV-COMM, MV-STAR and MV-WEB. The Company's product for Large Power Billing & Settlement Systems ("MV-PBS") is targeted to utilities and power marketers that support complex billing for large C&I customers, franchise operations, national accounts and aggregators. MV-PBS allows utilities and other energy suppliers to bill energy and related services sold under complex contracts, where each contract for products and services may be unique to that customer. The current legacy billing systems used by most utilities were designed for large volume, rate class billing with very little flexibility to bill complex contracts required for unbundling of power (generation, transmission and distribution), as well as new products such as real-time pricing and retail wheeling. MV-PBS is used in a client-server environment and is fully integrated with UTS's MV-90 multi-vendor data collection system.

In order to manage high-volumes of C&I meters, the Company developed MV-COMM, a front-end processor for its base MV-90 platform, that greatly enhances speed, performance and communication between meters and the host processor. Initially developed for the Independent System Operator (ISO) in California, MV-COMM enabled the Company to meet the ISO's requirement to read a minimum of 3,000 electronic meters with five minute interval data within two minute time periods at the end of each hour. MV-COMM has now been installed at several other locations, including in the UK, where more than 70,000 electronic meters with 1/2 hourly data are read each night.

In order to meet the needs for warehousing large volumes of interval metering data, the Company, in late 1997, acquired the exclusive distribution rights in North America for the STAR Data Management System (MV-STAR). MV-STAR was developed by UKDCS, the operator of the meter data collection system supporting the competitive electricity supply market in England and Wales. When integrated with MV-90, MV-STAR provides the ability to manage the large volumes of hourly or other interval data, which will be increasingly required in competitive electricity markets such as California and the UK. The Company also recently integrated MV-STAR with MV-PBS to provide large-scale financial settlement systems, such as the one the Company recently sold to Tucson Electric Power.

Recognizing that data delivery to a variety of market participants, including utilities, ESPs, ISOs, power exchanges, and retail customers, is just as critical as the collection of the metering data, the Company developed MV-WEB, an Internet-based data delivery solution that provides C&I customers with access to their usage data. Like other UTS products, MV-WEB interfaces with the MV-90 base platform to provide C&I customers with secure and immediate access to their load data from a PC workstation equipped with a standard web browser. By using the Internet to deliver load data, MV-WEB employs a proven, cost-effective communications infrastructure that's in place, functioning, and used by most C&I customers every day.

In 1998, the Company completed initial testing of its new C&I Network. The C&I Network operates in much the same manner as the Company's MicroNetwork but is specifically designed for solid state C&I electric and gas meters. Traditionally, the only way utilities could deliver advanced metering and data management functionality to their key C&I customers was to install a dedicated phone line. While utilities could easily cost justify that ongoing expense for large customers, it often proved cost-prohibitive for smaller customers. The Company's C&I Network utilizes the Company's radio-based communications technology and is being designed to provide the benefits of advanced metering to this critical customer group at a much lower cost by eliminating the ongoing expense of dedicated phone lines.

The C&I network accomplishes this by deploying the Company's external meter modems, or EMM's, to communicate advanced energy usage data from solid-state electric and gas meters. Using the Company's radio communications technology, the metering data is transmitted from the meter modems, using peer to peer communications, through a system of electronic relays to a hub which routes data from a designated population of C&I meters. Using telephone and/or cellular communications, the hub then routes all the data collected from C&I meters in its area to an MV-90 host processor, where the data is used for a variety of billing, load research and system engineering applications.

EMR HANDHELD SYSTEMS AND PRODUCTS

The Company's handheld systems allow utilities to automate a substantial portion of their meter reading and billing functions. The Company provides five basic models of handheld computers to meet the varying requirements of its utility customers. Each model is designed for use in harsh environments with standard text and graphics, backlit displays, several memory sizes, multiple communications options, interface devices for electronic meters and easy to use keyboards that can be customized to the needs of the utility customer.

Handheld systems are used as follows: (1) key customer data is downloaded from an Itron host processor to an Itron handheld computer prior to commencement of a meter reader's daily route; (2) a meter reader visually reads meters along a route and enters the readings into a handheld computer; and (3) after a meter reader's daily route has been completed, collected data is uploaded directly into a utility's host billing system. The Company's family of software systems provides data consolidation and storage, reformatting, linkage to a utility's host billing system, meter reading route management, route downloading and time-of-use and interval data recording data management and distribution.

JOINT VENTURE SERVICES

The Company has entered into and expects to continue to enter into joint ventures or alliances with utility industry participants including utilities and non-regulated utility entities, among others. These alliances and joint ventures offer, and are expected to offer, a wide range of services, such as AMR meter module and Network component installation, AMR outsourcing, Network-based information services, meter reading services and development of additional business opportunities to maximize thevalue and use of the information provided by Itron's AMR products and systems.

Currently the Company has two active joint ventures:

- EnSite - a 50/50 joint venture between the Company and Duquesne Enterprises, which provides for the resale of the Company's products and AMR outsourcing to utilities in and around Duquesne Light Company's service territory.

- STAR Data Services - a 50/50 joint venture between UTS and UKDCS which provides metering, data

collection, load profiling and settlement services to utilities, ESPs, retail customers, and others on a fee-for-service basis in North America. STAR Data Services is primarily focused on large C&I accounts.

DUQUESNE NETWORK AMR CONTRACT

In January 1996, the Company entered into a contract with Duquesne providing for the Company to install, operate and maintain an AMR system and provide meter reading and advanced communication services to Duquesne over a 15 year period. In 1998 the Company completed "Phase II," or the construction phase of the contract with Duquesne and effective January 1, 1999, the Company entered "Phase III" or the operations phase of its contract with Duquesne. Approximately 562,000 modules have been installed to date for the system at Duquesne. This integrated system includes a radio-based fixed network and cellular and land-line phone networks that provide daily reads for approximately 490,000 of Duquesne's residential, commercial and small commercial meters. Duquesne's rural customers are read using a vehicle-based Mobile AMR system on a monthly basis. The system at Duquesne also supports an array of sophisticated services, including time-of-use, demand, load profiling, outage detection and restoration reporting, power quality monitoring, on-request reads and daily tamper reporting. By collecting daily reads Duquesne is also able to perform accurate load forecasting and reconciliation functions to efficiently manage energy supplier deliveries under the Pennsylvania Customer Choice Program.

The Duquesne Contract contains numerous milestones, some of which are "critical" milestones and carry significant monetary penalties. At the end of 1998, the Company had received acceptance from Duquesne on the completion of all critical milestones. See "Certain Risk Factors--Dependence on the Installation, Operations and Maintenance of AMR Systems Pursuant to Outsourcing Contracts" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations." For information on revenue recognition for outsourcing contracts, see Note 1 to the Company's Consolidated Financial Statements.

CUSTOMERS

The Company has established itself as a leading supplier of handheld EMR systems and AMR meter modules for the AMR market. The Company believes that its extensive customer base, long-term customer relationships and experience in meeting the needs of the utility industry provide a solid foundation from which it can supply additional products and services to its existing customers, as well as new utility customers and other industry participants.

The Company's EMR systems are installed at over 1,500 electric, gas, water and combination utilities in more than 45 countries and are being used to read approximately 275 million meters worldwide. Itron's EMR systems are installed at approximately 75% of the largest utilities (those with greater than 50,000 customer meters) in the United States and Canada ("Domestic market"). As a result of the high market penetration the Company has already achieved in the Domestic market, EMR sales are expected to be predominantly system upgrades and replacements. The Company estimates that the number of meters outside of the Domestic market is approximately two to three times the number of meters within that market. Because utilities in many industrialized countries outside of the Domestic market are only now beginning to automate their meter reading function, the Company believes that international markets represent a growth opportunity for sales of its EMR systems.

The Company has established itself as the world's largest supplier of meter modules for the expanding AMR market as a result of having shipped over 13.5 million meter modules as of December 31, 1998. During the year ended December 31, 1998, the Company shipped 2.4 million AMR meter modules and added 76 utilities to its list of AMR customers, bringing the total number of the Company's AMR customers to over 400 utilities,

including approximately 50 utilities located outside of the United States.

The Company has installed the world's largest AMR system for New Century Energies (formerly Public Service Company of Colorado) comprised of over 1.5 million meter modules. This system is being read with Mobile AMR technology. The Company also is in the process of installing what it believes is currently the world's largest radio-based water AMR system with the City of Philadelphia Water Department. As of December 31, 1998 the Company had installed approximately 353,000 meter modules to this customer and when complete, this system will automate the meter reading of approximately 433,000 water meters in Philadelphia.

In addition, the Company has two large scale Network deployments and several Network AMR pilot installations in North America. The Company has installed a Network AMR system for Duquesne that is currently reading just under one half million meters daily. See "Duquesne Network AMR Contract." In addition, the Company is nearing completion of the installation of a Network AMR system at Virginia Power that will cover approximately 430,000 meters. The Network AMR system at Virginia Power was reading approximately 280,000 meters on a daily basis at December 31, 1998.

SALES, DISTRIBUTION AND MARKETING

Itron utilizes a direct sales and technical support team to serve large utilities, with sales and technical support offices located in a number of cities throughout the United States. For smaller utilities and municipalities in the Domestic market, Itron conducts sales and support activities through numerous business associates and manufacturer representatives, including several major meter manufacturers.

As of January 31, 1999, the Company's Domestic market direct sales force was comprised of 17 account executives and four vice presidents, all of whom are supported by five technical sales engineers. Support is provided to the direct sales team by a Solutions Marketing team, which consists of seven marketing professionals, and a Customers Solutions team, which consists of one vice president and eight analysts who are responsible for system configurations, business case development, pricing and proposal development.

The Company has approximately 22 business associates and manufacturer representatives that are managed by one vice president and eight support personnel who are assigned geographic areas and product lines in North America. Recently, the Company entered into master purchase agreements with Schlumberger and Badger Meter to resell Itron products in the small utility, municipal and co-operative markets in the Domestic market. Internationally, the Company maintains direct sales organizations within subsidiary operations in the United Kingdom, France and Australia. To reach the broader international market, the Company conducts sales through distributors in approximately 45 other countries. In 1998, the Company signed an agreement with Schlumberger for the distribution of the Company's products in Europe, in addition to the reseller agreement with Schlumberger for the Domestic market.

The Company also sells electric and water meter modules through original equipment manufacturer ("OEM") arrangements with several major meter manufacturers, in which the manufacturers incorporate the Company's meter modules at their own facilities into new meters and then offer them for sale. The Company intends to enter into additional OEM or other similar arrangements if it has attractive opportunities to do so. Further, the Company has licensed certain aspects of its meter module technology to Schlumberger and may enter into additional licensing agreements with other meter manufacturers or other industry participants in the future.

The Company also offers its products and services through long-term outsourcing arrangements, which may include providing AMR products, system project management and installation, on going meter reading services, meter shop services and other services for periods of typically 15 years or longer. Outsourcing arrangements can be structured in a variety of ways to address a utility's specific needs. These range from providing basic meter reading systems and services to providing systems and services with advanced functionality. The

Company offers these services to utilities directly and through joint ventures with utilities and other industry participants.

The Company's future customer base will likely be comprised of traditional utility companies as well as ESPs and other market participants and will also likely include sales of products or services to retail customers (particularly in the C&I market). The Company is developing new strategies, relationships and distribution approaches for selling to customers that are not utilities.

The Company's marketing efforts focus on product awareness principally through trade shows, symposiums, published papers and direct mail. These marketing efforts include brochures, newsletters, exhibits, conferences, an annual user's forum, industry standards committee representation and regulatory support. Several major industry conferences are keystones in the Company's marketing program, including the Distributech Conference held every winter, the Company's Annual Users Conference held in June in conjunction with the National Meter Reading Association meetings, and the Automatic Meter Reading Association conference usually held in September. The Company maintains communications with its customers through its Users Advisory Board and its Fixed Network Advisory Group and a program of regular mailings, newsletters and new customer announcements.

CUSTOMER SERVICE AND SUPPORT

The Company provides its utility and other customers with implementation services that include among other things, system design, installation, training and project management. Each of these services is tailored to meet a particular customer's needs. In addition, for Network AMR systems, the Company offers network design, propagation analysis, mapping support, centralized operation and system support. The Company offers system maintenance and support services to each of its customers. Service contract prices are based on a number of factors, including system size and complexity and the expected degree of service support required. The Company's system maintenance and support services include 24-hour, toll-free hot line support, customer service representatives, consulting services, regional training programs, equipment repair and preventative maintenance, software support and maintenance, system troubleshooting and network management services.

COMPETITION

Although the Company is the industry leader in sales of AMR meter modules and AMR systems and services to the utility industry, it faces competition from a variety of companies in each of the markets it serves. The emerging market for Network AMR systems for the utility industry, together with the potential market for other applications, once such Network systems are in place, have led communications, electronics and utility companies to begin developing various systems, some of which currently compete, and others of which may in the future compete, with the Company's Network AMR systems. These competitors can be expected to offer a variety of technologies and communications approaches, as well as meter reading, installation and other services to utilities and other industry participants.

In the radio-based Network AMR market, for example, companies such as CellNet Data Systems, Inc. ("CellNet") and Whisper Communications currently offer alternative solutions to the utility industry and compete aggressively with the Company. The Company believes that several large suppliers of equipment, services or technology to the utility industry have developed or are currently developing competitive products for the AMR market. For example, Schlumberger currently offers alternative solutions, as well as acts as a reseller and integrator of the Company's solutions, and could expand their current products and services.

The Company believes that it enjoys a number of competitive advantages. The Company believes the diversity of its AMR product line is broader than that of any other AMR provider. This diversity gives the Company the ability to provide comprehensive solutions to its customers. The Company's radio-based AMR solutions utilize

the same AMR radio meter modules and facilitate the migration from one level of systems automation to another. The Company believes that it is able to price its AMR meter modules competitively as a result of its highly automated manufacturing lines as well as high production volumes. The Company has a substantially larger installed base of handheld-based EMR systems and AMR meter modules than any of its competitors which gives it the advantage of a proven record of providing cost-efficient, quality products and services and the proven ability to interface meter data with a wide variety of utility host billing systems. In addition, the Company benefits from its nationwide license of 5 MHz of spectrum in the 1427-1432MHz band. See "FCC Regulation."

Many of the Company's present and potential competitors have substantially greater financial, marketing, technical and manufacturing resources, and in some cases, greater name recognition and experience than the Company. The Company's competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the development, promotion and sale of their products and services than the Company. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties that increase their ability to address the needs of the Company's prospective customers. Accordingly, it is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. There can be no assurance that the Company will be able to compete successfully against current and future competitors, and any failure to do so would have a material adverse effect on the Company's business, financial condition, results of operations and cash flow. See "Certain Risk Factors--Competition."

PRODUCT DEVELOPMENT

The Company's product development efforts are focused on further expanding and upgrading AMR product offerings, particularly for C&I customers, and developing new hardware and software platforms for handheld systems. The Company has product development facilities located in Spokane, Washington; Waseca, Minnesota; Raleigh, North Carolina; Boise, Idaho; and Saratoga, California. It also conducts some development activities in some of its foreign subsidiaries. The Company has maintained its leadership position in part because of its commitment to new products and continued enhancement of existing products. The Company spent approximately $33 million annually in each of the last three years on product development.

In the third quarter of 1998, the Company began the implementation of restructuring measures to reduce costs and improve operating efficiencies. These measures included the elimination or consolidation of approximately 150 positions, the majority of which were product development. As a result, product development expenses in the foreseeable future will be lower than those experienced in the recent past. The Company believes that its comparatively high development spending in the prior years has expanded the number of meter module products, enhanced module functionality and expanded network capabilities and products. The Company believes it has reduced spending in a manner that allows the Company to quickly respond to upturns in industry activity.

The Company's future success will depend in part on its ability to continue to design and manufacture new competitive products, as well as to continue to enhance its Network and other AMR products. There can be no assurance that the Company will not experience unforeseen problems or delays with respect to its product development efforts. Delays in the availability of new and enhanced products could have a material adverse effect on the Company's business, financial condition and results of operations. See "Certain Risk Factors--Dependence on New Product Development."

INTELLECTUAL PROPERTY

Itron owns or licenses numerous United States, Canadian and foreign patents and has filed various patent applications. These patents cover a range of technologies for meter reading, portable handheld computer and

AMR-related technologies. On October 3, 1996, the Company brought an action in the United States District Court for the District of Minnesota against CellNet claiming infringement of its radio-based network AMR systems patent. 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 related to this action. In its decision, the Court granted the Company's motion on the issue of validity of its patent and denied CellNet's motions on invalidity. The Court granted CellNet's motion on the issue of non-infringement and denied the Company's motion on infringement. The Company believes the non-infringement decision is incorrect and that is has substantial grounds for an appeal from any judgment that may be entered, should the Company decide to pursue that option. See "Legal Proceedings." The Company also relies on copyrights to protect its proprietary software and documentation. The Company has registered trademarks for most of its major product lines in the United States and many foreign countries.

While the Company believes that its patents, trademarks and other intellectual property have significant value, there can be no assurance that these patents or trademarks, or any patents or trademarks issued in the future, will provide meaningful competitive advantages. The Company believes that its continued success will be based on continued excellence and innovation, market knowledge, technical and marketing capabilities, existing product relationships with utilities and a fundamental commitment to customer service excellence. See "Certain Risk Factors--Intellectual Property."

FCC REGULATION

Certain of the Company's products made for use in the United States use radio frequencies, the access to and use of which are regulated by the FCC pursuant to the Communications Act of 1934, as amended. In general, a radio station license issued by the FCC is required in order to operate a radio transmitter. The FCC issues these licenses for a fixed term, and the licenses must be periodically renewed. Because of interference constraints, the FCC can generally issue only a limited number of radio station licenses for a particular frequency band in any one area.

Although radio licenses generally are required for radio stations, Part 15 of the FCC's rules permit certain low-power radio devices ("Part 15 devices") to operate on an unlicensed basis. Part 15 devices are designed to be used in frequencies licensed to and used by others. Such licensed users have preferential status within their respective frequencies. Part 15 devices are not permitted to cause harmful interference with such preferred uses and must be designed to accept interference from licensed radio devices. The Company's radio meter modules transmit information back to either the Company's handheld, mobile or fixed network AMR reading devices in the 910-920 MHz band pursuant to these rules.

Itron's products are designed to eliminate virtually all interference to other frequency users, while still enabling a complete and accurate read from its radio meter modules. However, if the Company were unable to eliminate harmful interference caused by its Part 15 devices through technical or other means, the Company or its customers could be required to cease operations in the band in the locations affected by the harmful interference. Further, in the event that the unlicensed frequencies used by the Company and its customers become unacceptably crowded or restrictive, and no additional frequencies are allocated, the Company's business could be materially adversely affected.

In late February 1997, the FCC adopted a Notice of Proposed Rule Making seeking comments concerning the rules for multiple address systems ("MAS"). The Company uses licensed MAS frequencies to interrogate or "wake up" its meter modules. The FCC is proposing to change the method for licensing some MAS frequencies from individual site licenses to wide area licenses and to conduct auctions for mutually exclusive applications in some MAS frequency bands. The FCC is confining the use of the MAS frequencies used by the Company to "private" use and has instituted a freeze on accepting applications proposing to use the frequencies for subscriber-based services. The freeze does not affect license applications for private operations.

Although the Company's customers generally hold the licenses for the MAS frequencies used in connection with the Company's products that the utility purchases, in limited instances the Company has applied to hold such licenses in its own name. For a time it appeared that the FCC's freeze might prevent the Company (but not the Company's customers) from applying for additional multiple address licenses while the FCC rule making is pending because the FCC might deem the Company to be providing subscriber-based services. Based on the Memorandum Opinion and Order, DA 98-163, adopted by the FCC on March 4, 1998, however, the company now believes it will be permitted to apply for additional multiple address licenses. Pursuant to the March 1998 decision, the FCC will not consider the Company to be providing subscriber-based services if it uses its system to collect utility consumption information that it furnishes to one of its customers. While the Company does not believe that the proposed changes to the method of MAS frequencies will prevent it or its customers from obtaining necessary licenses, there can be no assurance that the rule changes will be adopted as proposed or that they will not have a material adverse effect on the ability of the Company or its customers to receive necessary licenses.

The Company also has been issued a renewable nationwide FCC license to operate in the 1427-1432 MHz band. With the exception of meter modules that operate in the 910-920 MHz band as described above, the Company's Fixed Network products operate within this band. This frequency band currently is under the exclusive control of the federal government, which has consented to the FCC's issuance of a license for Itron's use of the band. Current government use of the band is limited to a discrete number of well-defined locations, and the Company believes the secondary nature of its license does not have a material impact on its business.

The 1427-1432 MHz band is scheduled to be transferred from exclusive federal government jurisdiction to the FCC in 1999. The continued government use of the frequency will extend through 2004, at which time the frequency will be subject to auction. The FCC has issued a report stating that rule makings in this band will not be initiated until the year 2006. To date the FCC's approach has been to "grandfather" incumbent users and permit their continued operation, or, alternatively, to provide a period for incumbents to make a transition to other frequencies, with the auction winners having to compensate the incumbent users for relocation expenses. However, there can be no assurance that the FCC will follow precedent in this respect. The Company believes that it may have a significant installed base of products operating in the 1427-1432 MHz band by the time the band becomes subject to auction. Consequently, the Company believes that it would be difficult for any potential bidder to overcome the public interest in the Company's continued use of the spectrum on behalf of the utility industry and that it likely would be cost-prohibitive for any potential bidder to provide compensation to the Company for relocation of the installed base. Further, the Company believes that commercial demand for the 1427-1432 MHz band is likely to be relatively low due to its proximity to a worldwide exclusion zone of radio astronomy frequencies that may not be used for any commercial purposes.

The regulatory environment the Company operates in is subject to change. There can be no assurance that the FCC or Congress will not take regulatory actions in the future that would have a material adverse effect on the Company. See "Certain Risk Factors--Availability and Regulation of Radio Spectrum." The Company is also subject to regulatory requirements in international markets. These regulations, which vary by country, require modifications to the Company's products, including operating on different frequencies with different power specifications.

MANUFACTURING

The Company manufactures meter modules, Network components and other AMR products, as well as certain handheld computers and peripheral equipment. The Company's primary manufacturing objective is to design and produce cost-effective, high-quality meter modules and other Network components utilizing high-volume automation equipment. The Company's primary manufacturing facilities are located in Spokane, Washington and Waseca, Minnesota. The Company currently has the capacity to produce over 4.6 million meter modules

annually on a two-shift basis. With the addition of a third shift and certain ancillary equipment, the Company has the capacity to produce approximately 7.0 million meter modules annually. In the first half of 1996, the Company expanded its manufacturing capacity in Spokane through the installation of high-speed automation and test equipment in order to support the anticipated growth in meter module and CCU production. Because this anticipated growth did not materialize, the Company currently has excess manufacturing capacity, which has resulted in an increase in cost of sales per unit.

The Company's Waseca manufacturing facility produces all of the Company's gas and water meter modules, data collection units used in Mobile AMR and handheld devices used for AMR meter module installation and programming. The Company's Waseca operations are highly automated and are designed for high-volume manufacturing. The key manufacturing processes for AMR meter modules produced in Waseca include a ceramic board processing facility, automated surface mount placement equipment and both passive and active laser tuning equipment.

The Company's Spokane manufacturing facility, designed for manufacturing flexibility and automation, is responsible for electric meter module, CCU and NCN production. The key processes include automated surface mount placement equipment, laser- tuning equipment and automated test capabilities. The Spokane facility is also responsible for manufacturing certain handheld systems and peripheral equipment, as well as other lower-volume AMR products, and is the primary repair facility for the Company's handheld systems products.

The Company has installed extensive automated testing equipment in both its manufacturing facilities to ensure quality control and process repeatability. The Company's testing includes both visual inspection and automated testing of technical parameters established for each of its products. The Company's quality control equipment also includes a sophisticated information system that collects data from its testing equipment and provides extensive reports and analyses of such data. This information system permits the Company to promptly identify potential problems or weaknesses in its manufacturing processes. The Company has been ISO 9000 certified since 1993 and received ISO 9002 re-certification of its Spokane facility in April 1996 and received ISO 9002 certification of its Waseca facility during 1998.

Certain of the Company's handheld systems products, telephone modules and international meter module products are manufactured for the Company by third parties.

FOREIGN AND DOMESTIC OPERATIONS

The Company's foreign operations consist of three consolidated subsidiaries as well as international distributors. Subsidiary operations are located in Reading, England; Vienne, France; and Sydney, Australia. These offices are responsible for all utility sales and customer support within their respective countries. To reach the broader international market, the Company conducts sales through distributors appointed in approximately 45 other countries. For more information on the Company's international operations see Note 16 of Notes to Consolidated Financial Statements.

BACKLOG OF ORDERS AND INVENTORY

The twelve month revenue backlog of unshipped factory orders at the end of 1998 and 1997 was approximately $85 million and $145 million, respectively. The Company expects that substantially all of the orders in backlog at the end of 1998 will be shipped during 1999. In addition, the Company has multi-year contracts to supply radio meter modules and multi-year outsourcing arrangements with several customers. Total backlog, including multi-year contracts and other booked revenues beyond the next twelve months, was $337 million and $407 million at December 31, 1998 and 1997, respectively. Inventories at December 31, 19987 and 1997 were $20.7 million and $32.0 million, respectively. While backlog is one indicator of future revenues for the Company, the Company's backlog fluctuates from quarter-end to quarter-end primarily as a result of the timing of large

contracts. Recently, the Company expanded its distribution channels for smaller utilities and municipalities. To the extent that future revenues are derived from this segment of the market, which typically has a smaller order size that may book and ship within the same quarter, or from service offerings verses product sales, backlog may not be as reliable an indicator of near-term revenues.

ENVIRONMENTAL REGULATIONS

In the ordinary course of its business, the Company uses metals, solvents, and similar materials which are stored on site. The waste created by use of these materials is transported off site on a regular basis by a state-registered waste hauler. Although the Company is not aware of any material claim or investigation with respect to these activities, there can be no assurance that such a claim may not arise in the future or that the cost of complying with governmental regulations in the future will not have a material adverse effect on the Company.

EMPLOYEES

As of December 31, 1998, the Company employed 1,127 full-time persons: 379 in manufacturing, 280 in product development, 222 in sales and marketing, 102 in customer service and support and 144 in finance and administration. Of these employees, 76 were located in Europe, 19 in Australia and the remainder in the United States. The Company continues to recruit and seeks to maintain highly qualified management, marketing, technical and administrative personnel. None of the Company's employees is represented by a labor union. The Company has not experienced any work stoppages and considers its employee relations to be good.

OTHER

Itron does not have any contracts with the federal government. The Company's business is not significantly seasonal.

CERTAIN RISK FACTORS

DEPENDENCE ON UTILITY INDUSTRY; UNCERTAINTY RESULTING FROM MERGERS AND ACQUISITIONS AND REGULATORY REFORM: The Company derives substantially all of its revenues from sales of its products and services to the utility industry. The Company has experienced variability of operating results, on both an annual and a quarterly basis, due primarily to utility purchasing patterns and delays of purchasing decisions as a result of mergers and acquisitions in the utility industry and changes or potential changes in the state and federal regulatory frameworks within which the electric utility industry operates.

The utility industry, both domestic and foreign, is generally characterized by long budgeting, purchasing and regulatory process cycles that can take up to several years to complete. The Company's utility customers typically issue requests for quotes and proposals, establish evaluation committees, review different technical options with vendors, analyze performance and cost/benefit justifications and perform a regulatory review, in addition to applying the normal budget approval process within a utility. Purchases of the Company's products are, to a substantial extent, deferrable in the event that utilities reduce capital expenditures as a result of mergers and acquisitions, pending or unfavorable regulatory decisions, poor revenues due to weather conditions, rising interest rates or general economic downturns, among other factors.

The domestic electric utility industry is currently the focus of regulatory reform initiatives in virtually every state, which initiatives have resulted in significant uncertainty for industry participants and raised concerns regarding assets that would not be considered for recovery through ratepayer charges. Consequently, many utilities have delayed purchasing decisions that involve significant capital commitments. While the Company expects some states will act on these regulatory reform initiatives in the near term, and some states have, there can be no assurance that the current regulatory uncertainty will be resolved in the near future or that the advent

of new regulatory frameworks will not have a material adverse effect on the Company's business, financial condition and results of operations. Moreover, in part as a result of the competitive pressures in the utility industry arising from the regulatory reform process, many utility companies are pursuing merger and acquisition strategies. The Company has experienced considerable delays in purchase decisions by utilities that have become parties to merger or acquisition transactions. Typically, such purchase decisions are put on hold indefinitely when merger negotiations begin. The pattern of merger and acquisition activity among utilities may continue for the foreseeable future. If such merger and acquisition activity continues at its current rate or intensifies, the Company's revenues may continue to be materially adversely affected.

Certain state regulatory agencies are considering the "unbundling" of metering and certain other services from the basic transport aspects of electricity distribution. Unbundling includes the identification of the separate costs of metering and other services and may extend to subjecting metering and other services to competition. For example, in California, the CPUC issued a decision that subjects metering, billing and related services to competitive supply. Other states, including Arizona, Nevada and Pennsylvania, are adopting similar measures. The discontinuance of a utility's metering monopoly could have a significant impact upon the manner in which the Company markets and sells its products and services. As the customer for the Company's products and services could change from utilities alone to utilities and their competitive suppliers of metering services, the Company could also be required to modify its products and services (or develop new products and services) to meet the needs of the participants in a competitive meter services market.

RECENT OPERATING LOSSES: The Company experienced operating losses in certain quarters of each of the past three years and may experience quarterly losses in 1999. There can be no assurance that the Company will maintain consistent profitability on a quarterly or annual basis. The Company has experienced variability of quarterly results and believes its quarterly results will continue to fluctuate as a result of factors such as size and timing of significant customer orders, delays in customer purchasing decisions, timing and levels of operating expenses, shifts in product or sales channel mix, and increased competition. The Company's operating margins have been and are currently being adversely affected by excess manufacturing capacity. The Company expects competition in the AMR market to increase as current competitors and new market entrants introduce competitive products. Operating margins also may be affected by other factors. For example, the Company has entered into large Network Contracts with Duquesne and Virginia Power with margins significantly below the Company's historical margins due to the early stage of the Company's Network products at the time those systems were shipped and installed, and due to competitive pressures.

CUSTOMER CONCENTRATION: In some years, the Company's revenues are concentrated with a limited number of customers, the identity of which changes over time. The Company is from time to time dependent on large, multiyear contracts that are subject to cancellation or rescheduling by customers. Cancellation or postponement of one or more of these contracts would have a material adverse effect on the Company.

DEPENDENCE ON NEW PRODUCT DEVELOPMENT: The Company has made, and expects to continue to make, substantial investments in technology development. The Company's future success will depend, in part, on its ability to continue to design and manufacture new competitive products and to enhance its existing products. This product development will require continued investment in order to maintain the Company's market position. There can be no assurance that unforeseen problems will not occur with respect to the development, performance or market acceptance of the Company's technologies or products. Development schedules for technology products are subject to uncertainty, and there can be no assurance that the Company will meet its product development schedules. The Company has previously experienced significant delays and cost overruns in the development of new products, and there can be no assurance that delays or cost overruns will not be experienced in the future. Delays in new product development, including software, can result from a number of causes, including changes in product definition during the development stage, changes in customer requirements, initial failures of products or unexpected behavior of products under certain conditions, failure of third-party-supplied components to meet specifications or lack of availability of such components, unplanned

interruptions caused by problems with existing products that can result in reassignment of product development resources, and other factors. Delays in the availability of new products, or the inability to successfully develop products that meet customer needs, could result in the loss of revenue or increased service and warranty costs, any of which would have a material adverse effect on the Company's business, financial condition and results of operations.

DEPENDENCE ON THE INSTALLATION, OPERATIONS AND MAINTENANCE OF AMR SYSTEMS PURSUANT TO OUTSOURCING CONTRACTS: A portion of the Company's business consists of outsourcing, wherein the Company installs, operates and maintains AMR systems that it may continue to own in order to provide meter reading and other related services to utilities and their customers. The Company currently has three outsourcing contracts. The largest of the contracts, which is with Duquesne Light Company, involves Network AMR. The other two contracts involve Mobile AMR solutions and, in one case, the AMR system has been sold on a turnkey basis. These long-term outsourcing contracts are subject to cancellation or termination in certain circumstances in the event of a material and continuing failure on the Company's part to meet contractual performance standards on a consistent basis over agreed time periods.

INCREASING COMPETITION: The Company faces competitive pressures from a variety of companies in each of the markets it serves. In the radio-based fixed network AMR market, companies such as CellNet, Whisper and Schlumberger currently offer alternative solutions to the utility industry and compete aggressively with the Company. The emerging market for network AMR systems for the utility industry, together with the potential market for other applications once such network systems are in place, have led communications, electronics and utility companies to begin developing various systems, some of which currently compete, and others of which may in the future compete, with the Company's Network AMR system. These competitors can be expected to offer a variety of technologies and communications approaches, as well as meter reading, installation and other services, to utilities and other industry participants.

The Company believes that several large suppliers of equipment, services or technology to the utility industry may be developing competitive products for the AMR market. In addition, large meter manufacturers could expand their current product and services offerings so as to compete directly with the Company. To stimulate demand, and due to increasing competition in the AMR market, the Company has from time to time lowered prices on its AMR products and may continue to do so in the future. The Company also anticipates increasing competition with respect to the features and functions of such products. In the handheld systems market, the Company has encountered competition from a number of companies, resulting in margin pressures in the maturing domestic handheld systems business.

Many of the Company's present and potential future competitors have, or may have, substantially greater financial, marketing, technical and manufacturing resources, and in some cases, greater name recognition and experience than the Company. The Company's competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the development, promotion and sale of their products and services than the Company. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties that increase their ability to address the needs of the Company's prospective customers. Accordingly, it is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. There can be no assurance that the Company will be able to compete successfully against current and future competitors, and any failure to do so would have a material adverse effect on the Company's business, financial condition, results of operations and cash flow.

UNCERTAINTY OF MARKET ACCEPTANCE OF NEW TECHNOLOGY: The AMR market is evolving, and it is difficult to predict the future growth rate and size of this market with any assurance. The AMR market has not grown as quickly in recent years as the Company expected. Further market acceptance of the Company's new AMR products and systems, such as its Fixed Network products, will depend in part on the Company's ability to

demonstrate cost effectiveness, and strategic and other benefits, of the Company's products and systems, the utilities' ability to justify such expenditures and the direction and pace of federal and state regulatory reform actions. In the event that the utility industry does not adopt the Company's technology or does not adopt it as quickly as the Company expects, the Company's future results will be materially and adversely affected. International market demand for AMR systems varies by country based on such factors as the regulatory and business environment, labor costs and other economic conditions.

RAPID TECHNOLOGICAL CHANGE: The telecommunications industry, including the data transmission segment thereof, currently is experiencing rapid and dramatic technology advances. The advent of computer-linked electronic networks, fiber optic transmission, advanced data digitization technology, cellular and satellite communications capabilities, and private communications networks have greatly expanded communications capabilities and market opportunities. Many companies from diverse industries are actively seeking solutions for the transmission of data over traditional communications mediums, including radio-based and cellular telephone networks. Competitors may be capable of offering significant cost savings or other benefits to the Company's customers. There can be no assurance that technological advances will not cause the Company's technology, and potentially its inventory, to become obsolete or uneconomical.

AVAILABILITY AND REGULATION OF RADIO SPECTRUM:. A significant portion of the Company's products use radio spectrum and in the United States are subject to regulation by the U.S. Federal Communications Commission (the "FCC"). In the past, the FCC has adopted changes to the requirements for equipment using radio spectrum, and there can be no assurance that the FCC or Congress will not adopt additional changes in the future. Licenses for radio frequencies must be renewed, and there can be no assurance that any license granted to the Company or its customers will be renewed on acceptable terms, if at all. The Company has committed, and will continue to commit, significant resources to the development of products that use particular radio frequencies. Action by the FCC could require modifications to the Company's products, and there can be no assurance that the Company would be able to modify its products to meet such requirements, that it would not experience delays in completing such modifications or that the cost of such modifications would not have a material adverse effect on the Company's future financial condition and results of operations.

The Company's radio-based products currently employ both licensed and unlicensed radio frequencies. There must be sufficient radio spectrum allocated by the FCC for the use the Company intends. As to the licensed frequencies, there is some risk that there may be insufficient available frequencies in some markets to sustain the Company's planned operations. The unlicensed frequencies are available for a wide variety of uses and are not entitled to protection from interference by other users. In the event that the unlicensed frequencies become unacceptably crowded or restrictive, and no additional frequencies are allocated, the Company's business will be materially adversely affected.

The Company is also subject to regulatory requirements in international markets that vary by country. To the extent the Company wishes to introduce products designed for use in the United States or another country into a new market, such products may require significant modification or redesign in order to meet frequency requirements and power specifications. Further, in some countries, limitations on frequency availability or the cost of making necessary modifications may preclude the Company from selling its products.

DEPENDENCE ON KEY PERSONNEL: The Company's success depends in large part upon its ability to retain highly qualified technical and management personnel, the loss of one or more of whom could have a material adverse effect on the Company's business. The Company has retained executive search firms to assist in finding a new CEO and President, a position currently held by Johnny Humphreys, who is also Chairman. While Mr. Humphreys intends to retain his current responsibilities until a successor is selected, and will be actively involved in the affairs of the Company for an indefinite period, the Company's success will be dependent on the selection of a qualified eventual successor to Mr. Humphreys. The Company's success also depends upon its ability to continue to attract and retain highly qualified personnel in all disciplines. There can be no assurance

that the Company will be successful in hiring or retaining the requisite personnel.

INTELLECTUAL PROPERTY: While the Company believes that its patents, trademarks and other intellectual property have significant value, there can be no assurance that these patents and trademarks, or any patents or trademarks issued in the future, will provide meaningful competitive advantages. There can be no assurance that the Company's patents or pending applications will not be challenged, invalidated or circumvented by competitors or that rights granted thereunder will provide meaningful proprietary protection. Despite the Company's efforts to safeguard and maintain its proprietary rights, there can also be no assurance that such rights will remain protected or that the Company's competitors will not independently develop patentable technologies that are substantially equivalent or superior to the Company's technologies.

DEPENDENCE ON KEY VENDORS AND INTERNAL MANUFACTURING CAPABILITIES: Certain of the Company's products, subassemblies and components are procured from a single source, and others are procured only from limited sources. In particular, the Company currently obtains the majority of its handheld devices from one vendor located in the United Kingdom. The Company's reliance on such components or on sole- or limited-source vendors or subcontractors involves certain risks, including the possibility of shortages and reduced control over delivery schedules, manufacturing capability, quality and costs. In addition, the Company may be affected by worldwide shortages of certain components, such as memory chips. A significant price increase in certain of such components or subassemblies could have a material adverse effect on the Company's results of operations. Although the Company believes alternative suppliers of these products, subassemblies and components are available, in the event of supply problems from the Company's sole- or limited-source vendors or subcontractors, the Company's inability to develop alternative sources of supply quickly or cost-effectively could materially impair the Company's ability to manufacture its products and, therefore, could have a material adverse effect on the Company's business, financial condition and results of operations. In the event of a significant interruption in production at the Company's manufacturing facilities, considerable time and effort could be required to establish an alternative production line. Depending on which production lines were affected, such a break in production would have a material adverse effect on the Company's business, financial condition and results of operations.

DEPENDENCE ON OUTSOURCING FINANCING: The Company intends to utilize limited recourse, long-term, fixed-rate project financing for its future outsourcing contracts. It has established Itron Finance, Inc. as a wholly owned Delaware subsidiary and plans to establish bankruptcy-remote, single and special purpose subsidiaries of Itron Finance, Inc. for this purpose. Although the Company completed a project financing facility for an AMR project in 1997, there can be no assurance that it will be able to effect other project financing facilities. If the Company is unable to utilize limited recourse, long-term, fixed-rate project financing for its outsourcing contracts, its borrowing capacity will be reduced, and it may be subject to the negative effects of floating interest rates if it cannot hedge this exposure.

INTERNATIONAL OPERATIONS: International sales and operations may be subject to risks such as the imposition of government controls, political instability, export license requirements, restrictions on the export of critical technology, currency exchange rate fluctuations, generally longer receivables collection periods, trade restrictions, changes in tariffs, difficulties in staffing and managing international operations, potential insolvency of international dealers and difficulty in collecting accounts receivable. In addition, the laws of certain countries do not protect the Company's products to the same extent as do the laws of the United States. There can be no assurance that these factors will not have a material adverse effect on the Company's future international sales and, consequently, on the Company's business, financial condition and results of operations.

ANTI-TAKEOVER CONSIDERATIONS: The Company has the authority to issue 10 million shares of preferred stock in one or more series and to fix the powers, designations, preferences, and relative, participating, optional or other rights thereof without any further vote or action by the Company's shareholders. The issuance of preferred stock could dilute the voting power of holders of Common Stock and could have the effect of delaying or preventing a

change in control of the Company. Certain provisions of the Company's Restated Articles of Incorporation, Restated Bylaws, shareholder rights plan and employee benefit plans, as well as Washington law, may operate in a manner that could discourage or render more difficult a takeover of the Company or the removal of management or may limit the price certain investors may be willing to pay in the future for shares of Common Stock.

YEAR 2000 COMPLIANCE: The Company instituted a Year 2000 program in 1997 to address Year 2000 issues (e.g. issues resulting from the inability of certain computer and non-information technology systems to properly recognize date-sensitive information when the year changes from 1999 to 2000). The Company has identified potential risks related to the Year 2000 problem in three areas: (1) the Company's suppliers, (2) the internally developed software and hardware that the Company sells, and (3) the Company's internal software and hardware systems. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the steps that the Company has taken to mitigate the Year 2000 problem.

The Company believes that the reasonably most likely worst-case scenario it might confront with respect to Year 2000 issues has to do with the possible failure of third party systems over which the Company has no control. These systems may include, but are not limited to, power and telecommunications services. The Company is in the process of developing contingency plans for any unforeseen critical business systems issues arising from the year 2000 problem. Some problems, however, may remain uncorrected, and could materially adversely affect the Company's business, financial condition and operating results. The Company may also experience reduced sales of its products as potential current customers reduce their budgets for meter-reading and data management solutions because of increased expenditures on their own Year 2000 compliance efforts. The Company does not anticipate that it will incur further significant operating expenses or be required to invest heavily in computer systems improvements to be year 2000 compliant. Total costs for the year 2000 issue are estimated to be $1 million to $1.5 million, of which approximately $1 million has been spent to date. However, as the compliance process is not yet complete, uncertainty exists concerning total costs associated with year 2000 compliance. Any year 2000 compliance problem of either the Company or its collaborative partners could have a material adverse effect on the Company's business, financial condition and results of operations.

REGULATORY COMPLIANCE: The Company is subject to various federal and state governmental regulations related to occupational safety and health, labor, and wage practices as well as federal, state, and local governmental regulations relating to the storage, discharge, handling, emission, generation, manufacture, and disposal of toxic or other hazardous substances used to produce the Company's products. The Company believes that it is currently in material compliance with such regulations. Failure to comply with current or future environmental regulations could result in the imposition of substantial fines on the Company, suspension of production, alteration of its production processes, cessation of operations, or other actions which could materially and adversely affect the Company's business, financial condition, and results of operations. In the ordinary course of its business, the Company uses metals, solvents, and similar materials, which are stored on site. The waste created by use of these materials is transported off site on a regular basis by a state-registered waste hauler. Although the Company is not aware of any material claim or investigation with respect to these activities, there can be no assurance that such a claim will not arise in the future, or that the cost of complying with governmental regulations in the future, will not have a material adverse effect on the Company.

ITEM 1A: EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below are the names, ages, titles with the Company, and principal occupations and employment for the last five years of the persons serving as executive officers of the Company as of March 1, 1999.

NAME	AGE	POSITION
Johnny M. Humphreys	61	Chairman, President, and Chief Executive Officer
Klaus O. Huschke	65	Vice President, International Operations
Robert D. Neilson	42	Vice President, Strategy and Business Development
LeRoy D. Nosbaum	52	Vice President, Residential Systems
Michael J. O'Callaghan	59	Vice President, Corporate Relationships
Larry A. Panattoni	60	Vice President, Corporate Services
David G. Remington	57	Vice President and Chief Financial Officer
Dennis A. Shepherd	50	Vice President, C&I Systems
Russell E. Vanos	42	Vice President, Utility and Energy Services Solutions
S. Edward White	48	Executive Vice President and Director

Johnny M. Humphreys has been Chairman of the Board since May 6, 1998. He has been President, Chief Executive Officer and a director of Itron since 1987. From 1975 to 1986, Mr. Humphreys was employed by Datachecker Systems, Inc. ("Datachecker"), a subsidiary of National Semiconductor Corporation ("NSC"), in various executive positions, including President from 1980 to 1986. In 1986, Mr. Humphreys was appointed Senior Vice President of NSC's Information Systems Group and was responsible for strategic planning for three operating divisions, National Advanced Systems, Microcomputer Products Group and Datachecker.

Klaus O. Huschke has been Vice President, International Operations of Itron since 1987. From 1982 to 1987, Mr. Huschke was Vice President, International Operations at Datachecker. Prior to joining Datachecker he spent 21 years in a variety of sales and management positions with Anker Data Systems Corporation, a German point-of-sale manufacturer, in its German, Italian and American headquarters.

Robert D. Neilson has been Vice President, Strategy and Business Development of Itron since October 1997. Previously, Mr. Neilson had been Vice President, Marketing since 1993. Mr. Neilson joined Itron in 1983 as manager of market development and planning, and served as Director of Marketing from 1987 to 1993. As Director of Marketing, Mr. Neilson's responsibilities included marketing for AMRplus Partners.

LeRoy D. Nosbaum joined the Company as a Vice President in March 1996 and was named Vice President, Residential Systems in July, 1998. Before joining Itron, Mr. Nosbaum was Executive Vice President and General Manager of Metricom, Inc.'s UtiliNet Division, and held a variety of positions with Metricom from 1989 to 1996. Prior to joining Metricom, Mr. Nosbaum was employed by Schlumberger, Ltd. and Sangamo Electric for 20 years, most recently as General Manager of the Integrated Metering Systems Division of Electricity Management--North America, an operating group of Schlumberger.

Michael J. O'Callaghan was named Vice President, Corporate Relationships in July 1998. Mr. O'Callaghan joined Itron in 1987 as Vice President, Utility Systems. Before joining Itron, Mr. O'Callaghan was with NSC for nine years in various sales and marketing management positions most recently as Vice President, Sales of NSC's microcomputer division. Prior to NSC, he was Vice President, Sales of Byvideo, Inc., a manufacturer of computer-based video kiosks for remote purchases. Prior to joining Byvideo, Inc., he was Vice President, Sales and Marketing for three years of Onyx Systems, Inc., a manufacturer of UNIX-based microcomputers..

Larry A. Panattoni was named Vice President, Corporate Services of Itron in October 1997. Mr. Panattoni joined Itron in 1990 as Vice President, Manufacturing. He previously spent 21 years in financial and operation management positions of increasing responsibility with NSC, most recently as Vice President of Administration. He was also with Datachecker as Vice President of Manufacturing Operations and Administration, and Vice President of Finance and Administration..

David G. Remington joined Itron in early 1996 as Vice President and Chief Financial Officer. Before joining Itron, Mr. Remington was an investment banker and Managing Director at Dean Witter Reynolds Inc. or Dean Witter Realty Inc. from 1988 to 1996. Previously, he spent 15 years in the financial services industry and two years with a high technology firm. During this time, he was Vice President-Finance, and later President, of Steiner Financial Corporation and the founding President of one if its subsidiaries.

Dennis A. Shepherd was named Vice President, C & I Systems in July 1998. Mr. Shepherd joined Itron as Vice President of Marketing and Sales of Utility Translation Systems, Inc. in March 1996, when Itron acquired UTS. Mr. Shepherd has worked for UTS for 10 years. Prior to joining UTS, Mr. Shepherd worked as an industrial engineer and marketing representative for Westinghouse Electric Corporation.

Russell E. Vanos has been Vice President, Utility and Energy Services Solutions of Itron since October 1997. Previously, Mr. Vanos had been the Western area sales director for Itron since 1988. Mr. Vanos joined Itron in 1980 as a field service representative installing the first generation of Itron EMR systems, and has served in numerous management positions with implementation, customer service and sales responsibilities.

S. Edward White is currently Executive Vice President of the Company. Mr. White joined Itron as President of Utility Translation Systems, Inc. in March 1996, when Itron acquired UTS. Mr. White has been a director of the Company since 1996. Mr. White has been President of UTS since its inception in 1980. Prior to founding UTS, Mr. White held numerous engineering and marketing management positions with Westinghouse Electric Corporation, Meter Division, for 13 years.

ITEM 2: PROPERTIES

The Company's headquarters are located in approximately 137,000 square feet of owned space in Spokane, Washington, including 50,000 square feet of manufacturing space. The Company also owns a building adjacent to its Spokane facility with approximately 28,000 square feet of manufacturing and office space. In Raleigh, North Carolina, the Company owns approximately 24,000 square feet used for all activities related to its UTS subsidiary. In Waseca, Minnesota, the Company leases 86,000 square feet of manufacturing and engineering space. The Company also has facilities in Saratoga, California; and Boise, Idaho with approximately 44,000 square feet of total leased space which are primarily used for product development. In late 1998, the Company began relocating activities from its facility in Lakeville, Minnesota to the Waseca facility and is currently looking to sub-lease it's Lakeville facility space, which is approximately 32,000 square feet. The Company also has approximately 54,000 square feet of leased space in various cities in North America for sales and service including 14,000 square feet of leased space in Pittsburgh, Pennsylvania which is used for the Company's operations and maintenance for its outsourcing activities at Duquesne. Additionally, the Company leases sales offices in the United Kingdom, France and Australia and in various cities throughout the United States. The

Company's 1998 aggregate domestic and international base monthly lease obligation was approximately $175,000. All the above facilities are in good condition and the Company believes its current manufacturing and other properties will be sufficient to support its operations for the foreseeable future.

ITEM 3: LEGAL PROCEEDINGS

On October 3, 1996, Itron filed a patent infringement suit against CellNet Data Systems ("CellNet") in the United States District Court for the District of Minnesota, alleging that CellNet is infringing the Company's 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 granted the Company's motion on the issue of validity of its Patent and denied CellNet's motions on invalidity. The Court granted CellNet's motion on the issue of non-infringement and denied the Company's motion on infringement. The Company believes the non-infringement decision is incorrect and that is has substantial grounds for an appeal from any judgment that may be entered, should the Company decide to pursue that option. There can be no assurance that the Company will prevail on an appeal in this action or, even if it does prevail, that legal costs incurred by the Company in connection therewith will not have a material adverse effect on the Company's financial condition.

On April 29, 1997, Itron was served by CellNet with a complaint alleging patent infringement. CellNet sought injunctive relief and damages. On November 2, 1998, the Court granted Itron's motion for summary judgement ruling that none of the accused Itron products infringed any of the asserted claims in CellNet's patent. The final judgement has not yet been entered for this action and CellNet may decide to appeal the decision. The Company would vigorously defend against any such appeal.

On May 29, 1997, Itron and its President and Chief Executive Officer, Johnny M. Humphreys, were served with a complaint alleging securities fraud filed by Mark G. Epstein (EPSTEIN V ITRON, ET AL.) on his own behalf and alleged to be on behalf of a class of all others similarly situated, in the U.S. District Court for the Eastern District of Washington (Civil Action No. CS-97-214 RHW). The complaint alleges, among other matters, that Itron and Mr. Humphreys violated Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 thereunder by making allegedly false statements regarding the development status, performance and technological capabilities of Itron's Fixed Network AMR system and regarding the suitability of Itron's encoder receiver transmitter devices for use with an advanced Fixed Network AMR system. The complaint seeks monetary damages, costs and attorneys' fees and unspecified equitable or injunctive relief. The discovery phase of this lawsuit is continuing. The Company believes it has good defenses to the claims alleged and intends to defend itself vigorously against this action.

The Company and certain of its officers, directors and shareholders were defendants in a proposed class action filed by a shareholder in the Superior Court of the State of Washington for Spokane County. On July 31, 1998, the Court issued a Memorandum Decision ruling that the Complaint failed to state a cause of action. On September 2, 1998 the lawsuit was dismissed with prejudice.

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

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

No matters were submitted to a vote of shareholders of Itron during the fourth quarter of 1998.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION FOR COMMON STOCK

Itron's common stock is traded on the NASDAQ National Market. The following table reflects the range of high and low closing sales prices for all four quarters of 1998 and 1997 as reported by the NASDAQ National Market.

	1998		1997	
	HIGH	LOW	HIGH	LOW
First Quarter	$21.69	$15.69	$24.75	$16.75
Second Quarter	20.63	12.75	27.44	19.25
Third Quarter	13.50	6.38	27.00	22.13
Fourth Quarter	9.50	4.63	26.63	15.25

HOLDERS

At February 26, 1999, there were approximately 600 holders of record of the Company's Common Stock.

DIVIDENDS

The Company has never declared or paid cash dividends. The Company intends to retain future earnings, if any, for the development of its business and does not anticipate paying cash dividends in the foreseeable future. Prior to the merger with the Company, UTS paid dividends of $200,000 for the year ended December 31, 1996.

ITEM 6: SELECTED CONSOLIDATED FINANCIAL INFORMATION

(in thousands, except per share data)	YEAR ENDED DECEMBER 31, 1998	1997	1996	1995	1994
STATEMENT OF OPERATIONS DATA					
Revenues					
AMR systems	$163,613	$143,472	$129,576	$ 98,724	$ 65,009
Handheld systems	53,957	49,409	45,084	60,952	60,905
Outsourcing	23,832	23,236	2,924	1,659	--
Total revenues	241,402	216,117	177,584	161,335	125,914
Cost of revenues	164,599	135,359	104,708	89,596	69,481
Gross profit	76,803	80,758	72,876	71,739	56,433
Operating expenses					
Sales and marketing	26,668	29,613	28,847	20,054	17,159
Product development	33,493	32,220	33,285	27,080	18,071
General and administrative	12,834	12,064	10,970	7,589	5,727
Amortization of intangibles	2,261	2,190	1,542	2,336	2,266
Restructuring charge	3,930	--	--	--	--
Total operating expenses	79,186	76,087	74,644	57,059	43,223
Operating income (loss)	(2,383)	4,671	(1,768)	14,680	13,210
Other income (expense)					
Equity in affiliates	(1,154)	(1,120)	(50)	--	--
Gain on sale of business interests	--	2,000	--	--	--
Interest, net	(6,508)	(3,916)	(316)	1,721	983
Total other income (expense)	(7,662)	(3,036)	(366)	1,721	983
Income (loss) before taxes	(10,045)	1,635	(2,134)	16,401	14,193
Income tax (provision) benefit	3,820	(625)	670	(5,250)	(3,930)
Net income (loss)	$ (6,225)	$1,010	$ (1,464)	$ 11,151	$ 10,263
PER SHARE DATA					
Basic net income (loss) per share	$ (.42)	$.07	$ (.11)	$ .85	$ .86
Diluted net income (loss) per share	(.42)	.07	(.11)	.81	.80
Weighted average shares outstanding	14,668	14,118	13,297	13,095	11,959
Diluted shares outstanding	14,668	14,562	13,297	13,775	12,851
BALANCE SHEET DATA					
Working capital	$ 54,230	$ 68,307	$ 26,239	$ 64,536	$ 63,357
Total assets	247,755	240,211	186,671	149,718	122,333
Total debt	92,197	73,814	39,502	5,668	391
Shareholders' equity	115,022	120,427	114,222	111,273	97,477

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

The following discussion and analysis should be read in conjunction with "Selected Consolidated Financial Information" and the Company's Consolidated Financial Statements and Notes thereto.

OVERVIEW

Itron is a leading global provider of integrated systems solutions for collecting, communicating, analyzing, and managing information about electric, gas and water usage. The Company designs, develops, manufactures, markets, installs and services hardware, software and integrated systems that enable customers to obtain, analyze and use meter data. The Company's major product lines include Automatic Meter Reading ("AMR") systems and Electronic Meter Reading ("EMR") or Handheld systems. The Company both sells its products and provides outsourcing services.

The Company's AMR solutions primarily utilize radio and telephone technology to collect meter data and include Off-Site AMR, Mobile AMR and Network AMR technology reading options. Off-Site AMR utilizes a radio device attached to an Itron handheld computer that collects data from meters equipped with the Company's radio meter modules. Mobile AMR uses a transceiver in a vehicle to collect data from meters equipped with the Company's radio meter modules as the vehicle passes by. The Company offers a number of Network AMR solutions that utilize radio, telephone, cellular or a combination of these technologies to collect and transmit meter information from a variety of fixed locations. The Company's EMR systems product line includes the sale and service of ruggedized handheld computers and supporting products that record visually obtained meter data. Outsourcing services typically involve the installation, operation and/or maintenance of meter reading systems to provide meter information for billing and management purposes. Outsourcing contracts usually cover long timeframes and typically involve contracts in which either a customer owns the equipment and the Company provides meter information for a specified fee, or the Company both owns and operates the system.

The Company currently derives substantially all of its revenues from sales of its products and services to utilities, however, the Company's business may increasingly consist of sales to other utility industry participants such as energy service providers, end user customers and others. The Company has 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 the federal and state regulatory frameworks within which the electric utility industry operates and mergers and acquisitions in the utility industry.

RESULTS OF OPERATIONS

REVENUES

Total revenues for the Company increased $25.3 million, or 12%, to $241.4 million in 1998, compared with $216.1 million and $177.6 million in 1997 and 1996, respectively. The following table shows the Company's revenue and percent increase from prior year by product line.

	YEAR ENDED DECEMBER 31,				
(in millions)	1998	INCREASE	1997	INCREASE	1996
AMR systems	$163.6	14%	$143.5	11%	$129.6
Handheld systems	54.0	9%	49.4	10%	45.1
Outsourcing	23.8	3%	23.2	695%	2.9
Total revenues	$241.4	12%	$216.1	22%	$177.6

AMR systems revenues increased $20.1 million, or 14%, in 1998 over the prior year. The increased revenues were primarily the result of shipments to, and installation of a large Network AMR system for, Virginia Power Company ("Virginia Power"). The Company signed a contract with Virginia Power in 1997 and began to roll out the system in early 1998. Substantially all shipments under this contract were completed by the end of 1998. AMR systems revenues increased $13.9 million, or 11%, in 1997 over 1996. The increased revenues were derived from a large software contract with the Independent System Operator ("ISO") in California and sales of telephone-based systems from the Company's DCI operations, which were acquired in April 1997. Sales of new AMR hardware and software products introduced in late 1996 and 1997 also contributed to the increase. Average selling prices for the Company's meter modules remained relatively level in all three years and shipments of meter modules related to product sales, not including shipments in support of outsourcing contracts, were approximately 2.1 million, 2.3 million and 2.1 million in 1998, 1997 and 1996, respectively. Revenue in the near term is expected to be driven by recently released products for the water market, which will help offset potential decreased sales in the electric market. The Company believes that AMR systems revenues will grow over the longer term. However, this growth continues to depend upon the timing and resolution of electric utility industry regulatory reform issues in the United States, mergers and acquisitions in the utility industry, acceptance of new products, development of international markets, and other factors.

Handheld systems revenues increased $4.5 million, or 9%, in 1998 over 1997. Handheld systems revenues were higher in 1998 than the prior year primarily due to sales of the Company's new portable network ("PN") card for handheld computers, a credit card sized radio device, which was released in the last half of the year. 1998 also had a higher proportion of software and service revenue than 1997. Handheld systems revenues for 1997 increased $4.3 million, or 10%, from 1996 primarily as a result of a large international EMR sale to Korean Electric Power Company ("KEPCo"). Handheld systems revenues have declined from 25% of total Company revenues in 1996 to 22% in 1998. The Company believes that revenues for handheld systems will continue to decline as a percentage of total revenues as more utilities adopt and expand AMR system deployments. Future handheld systems revenues are expected to be derived primarily from domestic upgrade and replacement business and further penetration into international markets.

The Company currently has three outsourcing contracts under which it is recognizing revenue. Two of the contracts involve systems owned and operated by the Company. The third contract entails only operations and maintenance services for a system owned by a utility. For outsourcing contracts in which the Company owns the equipment, the results of operations, applicable assets and related debt are aggregated in the Company's Finance operations. These contracts are classified under Finance operations because the required amount of capital and debt is substantially different from the Company's normal Manufacturing and Sales operations. The results of operations and related assets and liabilities for these contracts are disclosed in more detail in the Company's segment reporting in Note 16 of the accompanying financial statements. Revenues for outsourcing contracts are recognized using the cost-to-cost, percentage-of-completion method of long-term contract accounting. Under this method the revenue recognized in any given period is measured by the percentage of costs incurred to date to estimated total costs for each contract times the total amount of revenue for each contract. For more information on revenue recognition for outsourcing contracts, see Note 1 to the accompanying financial statements.

Outsourcing revenues in 1998 of $23.8 million remained fairly level with the $23.2 million in 1997. The majority of outsourcing revenues for 1998 were related to the Company's contract with the Duquesne Light Company ("Duquesne"). The Company had a substantial increase in outsourcing revenues in 1997 over 1996, primarily due to initial revenue recognition under the Duquesne contract and a Mobile AMR outsourcing agreement. Additionally, outsourcing revenues in 1997 included revenue from a customer exercising its option to convert its outsourcing contract to a sale. Effective December 31, 1998, the Company moved from the installation phase to the operations phase of its contract with Duquesne, which allows for increased billings, according to the terms of the contract. While such increased billings will not affect the Company's reported revenues, increased cash payments from Duquesne will improve the Company's cash flow. Outsourcing

revenues are expected to decrease somewhat in 1999 from the level experienced in 1998, both in terms of absolute dollars and as a percentage of total revenues, unless the Company signs additional outsourcing contracts in 1999.

GROSS MARGIN

Total Company gross margin was 32% in 1998 compared to 37% in 1997 and 41% in 1996. The percentages in the table below reflect gross margin as a percentage of corresponding revenue and the percentage change from the prior year.

	YEAR ENDED DECEMBER 31,				
	1998	INCREASE (DECREASE)	1997	INCREASE (DECREASE)	1996
AMR systems	28%	(13%)	41%	0%	41%
Handheld systems	49%	16%	33%	(9%)	42%
Outsourcing	16%	(6%)	22%	(8%)	30%
Total gross margin	32%	(5%)	37%	(4%)	41%

AMR systems margins were 28% of AMR systems revenues in 1998 compared to 41% in 1997 and 1996. This margin decline is primarily the result of the Company's contract with Virginia Power and a higher level of installation activities, which tend to have lower margins, in the current year compared to previous years. The lower margin contract with Virginia Power is driven by the early life cycle status of the Company's network products and related installation activities. The Company expects AMR systems margins to increase in 1999 because the Company's contract with Virginia Power was substantially complete by the end of 1998.

Handheld systems margins of 49% in 1998 were significantly better than the 33% experienced in 1997. The increased margins in 1998 were due to a higher component of total revenues derived from software and services, which tend to have higher margins, and a new higher margin hardware product. Additionally, handheld systems margins were down in 1997 because of the lower than average margin sale to KEPCo. The Company expects that handheld margins as a percentage of revenues may decrease somewhat in 1999 from the level experienced in 1998 as a result of lower service margins caused by new warranty periods (during which the Company does not receive service revenue) that the Company provides for customer upgrades. Handheld systems upgrades are expected to be higher than normal in 1999 as a result of Year 2000 system upgrade requirements.

Outsourcing margins dropped to 16% in 1998 from 22% in 1997. The decreased margins were due to a larger portion of outsourcing revenues from the Company's contract with Duquesne. Outsourcing revenues in 1997 were also largely derived from Duquesne revenues; however, overall outsourcing margins in 1997 were better than in 1998 because one customer converted its outsourcing contract to a purchase that resulted in a one-time gain. The gross margin on the Duquesne contract is low because it was the Company's first large scale Network AMR system. The Company expects outsourcing costs as a percentage of revenues in 1999 to be comparable to those in 1998, unless the Company signs additional outsourcing agreements.

OPERATING EXPENSES

Total 1998 operating expenses of $79.2 million increased $3.1 million, or 4%, over 1997; however 1998 expenses included restructuring charges of $3.9 million. Without the restructuring charge, operating expenses in 1998 were $832,000, or 1%, lower than 1997. Despite the dollar increase, operating expenses decreased as a percentage of revenues to 33% in 1998 from 35% in 1997. Without the restructuring charges, operating expenses would have been 31% of revenues in 1998. Operating expenses increased $1.5 million in 1997 over 1996 but decreased substantially as a percentage of revenues to 35% from 42%.

(in millions)	1998	INCREASE (DECREASE)	1997	INCREASE (DECREASE)	1996
	YEAR ENDED DECEMBER 31,				
Sales and marketing	$26.7	(10%)	$29.6	3%	$28.8
Product development	33.5	4%	32.2	(3%)	33.3
General and administrative	12.8	6%	12.1	10%	11.0
Amortization of intangibles	2.3	3%	2.2	42%	1.5
Restructuring charge	3.9	--	--	--	--
Total operating expenses	$79.2	4%	$76.1	2%	$74.6

Sales and marketing expenses in 1998 decreased by $2.9 million from 1997 levels and decreased as a percentage of revenues from 14% to 11%. Sales and marketing expenses were lower in 1998 because of: 1) a corporate reorganization in 1997 that redefined certain jobs previously classified as sales and marketing to general and administrative; and 2) a greater utilization of personnel for revenue-producing activities, resulting in a classification of related expenses as cost of sales. Total sales and marketing expenses in 1997 increased slightly over 1996, but decreased as a percentage of revenues from 16% to 14%. The Company expects sales and marketing expenses in 1999 to remain fairly level as a percentage of total revenues compared with 1998.

Product development expenses in 1998 increased by $1.3 million, or 4%, over 1997 but decreased as a percentage of revenues from 15% to 14%. Product development expenses were lower in 1998 than 1997 as a percentage of revenues because the Company commenced a restructuring of operations in the third quarter of 1998 and product development operations were most heavily affected by the restructuring. The Company's restructuring is discussed in more detail below following the general and administrative expenses discussion. Product development expenses in 1997 decreased slightly from 1996, but decreased significantly as a percentage of revenues from 19% to 15%. The decrease was primarily caused by the absence of a one-time materials charge of $2.1 million incurred in 1996 related to the redesign of the Company's cell control unit and a new handheld computer. The Company expects that product development expenses will decrease somewhat as a percentage of total revenues in 1999.

Total general and administrative expenses in 1998 increased approximately $770,000, or 3%, over 1997, but decreased as a percentage of revenues to 5% from 6%. The increased expenses in 1998 were primarily due to a corporate reorganization in 1997 which redefined certain jobs to general and administrative that were previously classified as sales and marketing. Total general and administrative expenses increased by $1.1 million, or 10%, in 1997 over 1996, but remained at 6% of revenues. The higher expenses in 1997 were due to incentive compensation awards which the Company did not pay in 1996, as well as expenses from the Company's DCI operations, which were acquired in April 1997. General and administrative expenses are expected to remain at 5% to 6% of total revenues in 1999.

In the third quarter of 1998 the Company announced, and began the implementation of, restructuring measures to reduce costs and improve operating efficiencies. These measures resulted in a $4.1 million restructuring charge, $216,000 of which is reflected in equity in affiliates. (See Note 2 to the Company's consolidated financial statements.) Restructuring measures involved the elimination or consolidation of approximately 150 positions, primarily product development, the write-off of certain intangible assets due to a reduction in the scope of planned technology development, consolidation of some of the Company's facilities and discontinuation of a jointly owned entity. The Company believes that its comparatively high product development spending in the prior years has expanded the number of meter modules produced, enhanced module functionality, and expanded network capabilities and products. However, because of lower bookings than had been anticipated, the Company scaled back its product development spending to lower levels. The Company expects that operating expenses will be reduced in 1999 because of the restructuring measures.

OTHER INCOME (EXPENSE)

(in millions)	1998	1997	1996
	YEAR ENDED DECEMBER 31,		
Equity in affiliates	$(1.2)	$(1.1)	$(0.1)
Gain on sale of business interest	--	2.0	--
Interest, net	(6.5)	(3.9)	(0.3)
Total other income (expense)	$(7.7)	$(3.0)	$(0.4)

The Company incurred a loss relating to its investments in several joint ventures in 1998 of $1.2 million. As part of the restructuring measures discussed above, the Company discontinued the remaining business activities of a jointly owned entity in 1998, incurring a charge of $216,000 related to the decision that is included in the equity in affiliates loss. The $1.1 million equity in affiliates loss during 1997 was primarily for expenses of a joint venture with a utility partner that performed installation, meter shop and meter reading services. The loss in 1997 was partially offset by a gain, received from the utility partner, which resulted from a reduction in scope of some of the business activities performed by the joint venture.

The Company had net interest expense of $6.5 million in 1998, compared to net interest expense of $3.9 million in 1997. Interest expense was higher in 1998 due to inclusion of a full year of interest on the Company's $63.4 million 63/4% Convertible Subordinated Notes that the Company issued in March and April of 1997, higher average borrowings under the Company's revolving line of credit and higher project finance borrowings. Net interest expense in 1996 of $316,000 was the result of borrowings under the Company's revolving line of credit in the last half of the year, which was partially offset by interest earned on short-term investments in the first half of the year. The Company capitalized interest expense of $260,000 in 1998, $994,000 in 1997 and $533,000 in 1996 primarily related to the construction of AMR systems that are currently owned by the Company and used to provide outsourcing services.

INCOME TAXES

The Company had an income tax benefit in 1998 equal to 38% of its pre-tax loss. The Company's 1997 effective income tax rate was approximately 38% of pre-tax income. This compares to a 1996 income tax benefit equal to 31% of its pre-tax loss. The lower 1996 effective rate was a result of foreign operating losses for which no tax benefit was recorded and a cash-to-accrual accounting adjustment related to the merger with UTS in March of 1996. The Company's effective income tax rate may vary from year to year because of fluctuations in foreign operating results, changes in tax jurisdictions in which the Company operates, and changes in tax legislation.

FINANCIAL CONDITION

Cash flow information (in millions)	1998	INCREASE (DECREASE)	1997	INCREASE (DECREASE)	1996
	YEAR ENDED DECEMBER 31,				
Operating activities	$ (1.9)	72%	$ (3.2)	81%	$(16.9)
Investing activities	(17.1)	47%	(34.1)	(38%)	(24.8)
Financing activities	18.7	(51%)	38.1	2%	37.5
Net increase (decrease) in cash	$ (.3)	(136%)	$ 0.8	119%	$ (4.2)

Net operating activities used $1.9 million in 1998 compared to $3.2 million in 1997. Operating activities used less cash in 1998 than 1997 because of much better inventory management and improved accounts receivables collections, which substantially offset the Company's net loss. Net operating activities used $16.9 million in 1996 largely due to growth in inventories, which were built in anticipation of AMR customer orders in excess of

what was received. The Company expects to generate cash from operating activities in 1999 unless the Company enters into additional outsourcing agreements.

Net investing activities used $17.1 million in cash in 1998 compared to $34.1 million in 1997. Lower investments in 1998 were due to decreased capital asset purchases for both internal use and for equipment used in outsourcing. The Company spent $27.5 million in 1997 for equipment used in its two outsourcing contracts in which it owns the equipment compared to $10.7 million in 1998. The decreased spending was due to each project nearing completion of the installation phase and moving into the operations phase. Itron expects to spend less in 1999 on equipment used in outsourcing unless the Company enters into additional outsourcing agreements. The Company spent less on assets for internal use in 1998 than 1997, mostly because of cost containment measures. Net investing activities used $24.8 million in 1996. Capital asset additions in 1996 were $27.5 million and were primarily for significant additions to production capacity and facilities expansion at the Company's headquarters in Spokane. Additionally, the Company spent $17.3 million for the purchase of equipment used in outsourcing and $4.7 million for business acquisitions and patent defense costs in 1996. Investing activities in 1996 were partially funded by liquidating $25.1 million of short-term investments. Capital acquisitions for internal use in 1999 are expected to be slightly higher than the 1998 level.

Net financing activities generated $18.7 million in cash in 1998, substantially less than the $38.5 million generated in 1997. Financing activities in 1998 included borrowings under the Company's line of credit of $12.4 million and $5.3 million of cash received from the project financing of one of the Company's outsourcing contracts. The Company generated $2.4 million of cash from the exercise of employee stock options and employee stock purchases in 1998 and used approximately $1.6 million for the repurchase of common stock. In 1997 the Company generated net cash of $61.0 million from the issuance of convertible subordinated notes in March and April of 1997, $31.5 million of which was used to pay down borrowings under the Company's line of credit. Other financing activities in 1997 consisted of project finance borrowings of $2.4 million and $6.2 million of cash received from the exercise of options, warrants and employee stock purchases. Financing activities in 1996 of $37.5 million consisted principally of borrowings under the Company's bank line of credit agreement, as well as funds received from the exercise of employee stock options and the related tax benefit.

The Company believes its cash position at the end of 1998 and expected cash generation from operations in 1999, together with the renewal or replacement of its $35 million credit facility will be more than adequate to fund its operations, exclusive of any new outsourcing contracts, throughout 1999. The Company expects to finance any future outsourcing contract investments principally with project financing. While the Company expects its credit facility to be renewed or replaced on or before September 30, 1999 in the ordinary course of business, there can be no assurance that it will be.

EXCHANGE OFFER

In March 1999 the Company completed its offer ("Exchange Offer") to exchange up to $15,840,000 principal amount of its 6 3/4% Convertible Subordinated Notes due 2004 ("Exchange Notes"), for up to $22,000,000 principal amount of its 6 3/4% Convertible Subordinated Notes due 2004 ("Original Notes"). The exchange was made on the basis of $720 principal amount of Exchange Notes for $1,000 principal amount of Original Notes. A total of $15,840,000 aggregate principal amount of Exchange Notes was issued as of March 12, 1999, with $6,000 in cash paid in lieu of fractional interests to tendering noteholders pursuant to the terms of the Exchange Offer. The Exchange Notes have the same terms and conditions as the Original Notes except for a reduction in the conversion price for converting the Exchange Notes into Common Stock to $9.65, an extension of the date before which the Company may not call the Exchange Notes to March 12, 2002, and the removal of the redemption premium. The principal purpose of the exchange was to reduce the Company's long-term debt and debt service obligations. The Company expects to report a pre-tax gain on extinguishment of debt of approximately $5.5 million in the first quarter of 1999. The Company anticipates a reduction in 1999 interest expense of approximately $300,000 pre-tax as a result of the Exchange Offer.

YEAR 2000 COMPLIANCE

In general, the "Year 2000 problem" concerns software programs that contain only a two-digit year value (99 to 00) rather than a four-digit year value (1999 to 2000) to indicate a change from 1999 to 2000. The issue is whether computer systems and non-information technology systems, such as embedded micro-controllers, will properly recognize date sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail. The Company instituted a Year 2000 program in 1997 to identify potential risks that the Company had and to develop solutions to mitigate those risks. The Company believes that it will be successful in implementing the identified solutions in a timely manner in order to mitigate potential Year 2000 problems.

The Company has potential risks related to the Year 2000 problem in three areas: 1) suppliers, 2) internally developed software and hardware the Company sells, and 3) internal software and hardware systems. The following discussion addresses each of these potential risk areas.

SUPPLIERS: The Company identified its key suppliers from which it purchases the majority of its materials and has received confirmation that approximately 90% of such suppliers expect to be Year 2000 compliant by April 1999. The Company is pursuing the issue with suppliers who have not yet responded.

INTERNALLY DEVELOPED SOFTWARE AND HARDWARE FOR SALE TO CUSTOMERS: The Company has completed the process of identifying which of its products available for sale to customers were not Year 2000 compliant. The Company began the process of upgrading software and hardware in late 1997 and completed all major standard applications updates by December 1998. A small number of hardware and software platforms will not be upgraded and all customers affected have been notified. Alternatives, including upgrading systems, have been developed for them. As of December 31, 1998, substantially all of the customers with maintenance contracts with the Company had their systems upgraded.

INTERNAL SOFTWARE AND HARDWARE SYSTEMS: The Company upgraded its financial software including general ledger, manufacturing and sales order processing to be Year 2000 compliant during the second quarter of 1998 for domestic and Australian operations. Subsidiaries in the United Kingdom and France are expected to be upgraded by mid-1999. The Company also has a variety of other software and hardware, including personal computer software and software used in engineering functions, whose Year 2000 compliance is in the process of being ensured. All internal software is expected to be compliant by mid-1999.

The Company believes that the most likely worst-case scenario it might confront with respect to Year 2000 issues has to do with the possible failure of third party systems over which the Company has no control. These systems may include, but are not limited to, power and telecommunications services. The Company is currently developing a Year 2000 contingency plan. Some problems, however, may remain uncorrected, and could materially adversely affect the Company's business, financial condition and operating results. The Company may also experience reduced sales of its products as potential current customers reduce their budgets for meter-reading and data management solutions because of increased expenditures on their own Year 2000 compliance efforts. The Company is in the process of developing contingency plans for any unforeseen critical business systems issues arising from the Year 2000 problem. The Company does not anticipate that it will incur further significant operating expenses or be required to invest heavily in computer systems improvements to be Year 2000 compliant. Total costs for the Year 2000 issue are estimated to be $1 million to $1.5 million, of which approximately $1 million has been spent to date. However, as the compliance process is not yet complete, uncertainty exists concerning total costs associated with Year 2000 compliance. Any Year 2000 compliance problem of either the Company or its collaborative partners could have a material adverse effect on the Company's business, financial condition and results of operations.

CERTAIN FORWARD-LOOKING STATEMENTS

WHEN INCLUDED IN THIS DISCUSSION, THE WORDS "EXPECTS," "INTENDS," "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 THE UTILITY REGULATORY ENVIRONMENT,

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 "CERTAIN RISK FACTORS". 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.

ITEM 7A: QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has exposure to interest rate risk from its short-term and long-term debt. The Company's long-term debt is fixed rate and the short-term debt is variable rate. The Company had $76.7 million and $71.4 million of long-term debt at December 31, 1998 and 1997, respectively. (See Note 5 of the Notes to the Company's Financial Statements for additional information on its short-term and long-term borrowings.) Market risk for fixed-rate long-term debt is estimated as the potential decrease in fair value resulting from a hypothetical 100 basis points increase in interest rates and amounts to $3.3 million as of December 31, 1998. The Company does not use derivative financial instruments to manage interest rate risk.

The Company from time to time enters into forward contracts on known purchase commitments in foreign currencies and for inter-company settlements. The Company does not enter into derivatives for trading purposes. As of December 31, 1998 the Company did not have any outstanding foreign exchange contracts.

The Company's earnings are affected by fluctuations in the value of the U.S. dollar, as compared to foreign currencies, as a result of transactions in foreign markets. The Company has performed a sensitivity analysis assuming a hypothetical 10% strengthening in the value of the dollar relative to the currencies in which the Company's transactions are denominated. As of December 31, 1998, the analysis indicated that such market movements would not have had a material effect on the Company's consolidated results of operations or on the fair value of its risk-sensitive financial instruments. The model assumes a parallel shift in the foreign currency exchange rates. Exchange rates rarely move in the same direction. The assumption that exchange rates change in a parallel fashion may overstate the impact of changing exchange rates on assets and liabilities denominated in a foreign currency, consequently, actual effects on operations in the future may differ materially from that analysis.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT

To the Board of Directors and Shareholders of Itron, Inc.

Management is responsible for the preparation of the Company's consolidated financial statements and related information appearing in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the Company's financial position and results of operations in conformity with generally accepted accounting principles. Management has included in the Company's financial statements amounts based on estimates and judgments that it believes are reasonable under the circumstances.

Management's explanation and interpretation of the Company's overall operating results and financial position, with the basic financial statements presented, should be read in conjunction with the entire report. The Notes to Consolidated Financial Statements, an integral part of the basic financial statements, provide additional detailed financial information. The Board of Directors of the Company has an Audit Committee composed of non-management Directors. The Committee meets with financial management and Deloitte & Touche LLP to review accounting control, auditing and financial reporting matters.

Johnny M. Humphreys	David G. Remington
Chairman, President	Vice President and
and Chief Executive Officer	Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of Itron, Inc.

We have audited the accompanying consolidated balance sheets of Itron, Inc. and its subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedule listed in the index at Item 14. These financial statements and financial statement schedule are the responsibility of the management of Itron, Inc. and subsidiaries. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Itron, Inc. and its subsidiaries at December 31, 1998 and 1997 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP
Seattle, Washington
February 17, 1999

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)	YEAR ENDED DECEMBER 31, 1998	1997	1996
Revenues			
AMR systems	$163,613	$143,472	$129,576
Handheld systems	53,957	49,409	45,084
Outsourcing	23,832	23,236	2,924
Total revenues	241,402	216,117	177,584
Cost of revenues			
AMR systems	117,130	84,069	76,286
Handheld systems	27,416	33,108	26,370
Outsourcing	20,053	18,182	2,052
Total cost of revenues	164,599	135,359	104,708
Gross profit	76,803	80,758	72,876
Operating expenses			
Sales and marketing	26,668	29,613	28,847
Product development	33,493	32,220	33,285
General and administrative	12,834	12,064	10,970
Amortization of intangibles	2,261	2,190	1,542
Restructuring charge	3,930	--	--
Total operating expenses	79,186	76,087	74,644
Operating income (loss)	(2,383)	4,671	(1,768)
Other income (expense)			
Equity in affiliates	(1,154)	(1,120)	(50)
Gain on sale of business interest	--	2,000	--
Interest, net	(6,508)	(3,916)	(316)
Total other income (expense)	(7,662)	(3,036)	(366)
Income (loss) before income taxes	(10,045)	1,635	(2,134)
Income tax (provision) benefit	3,820	(625)	670
Net income (loss)	$ (6,225)	$ 1,010	$ (1,464)
Basic net income (loss) per share	$ (.42)	$ .07	$ (.11)
Diluted net income (loss) per share	(.42)	.07	(.11)
Weighted average shares outstanding	14,668	14,118	13,297
Diluted average shares outstanding	14,668	14,562	13,297

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

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	AT DECEMBER 31, 1998	1997
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,743	$ 3,023
Accounts receivable, net	62,253	61,442
Current portion of long-term contracts receivable	13,498	8,445
Inventories	20,654	31,985
Deferred income tax asset	6,938	5,668
Other	2,306	1,888
Total current assets	108,392	112,451
Property, plant and equipment, net	42,390	49,067
Equipment used in outsourcing, net	50,746	42,848
Intangible assets, net	18,142	21,472
Long-term contracts receivable	23,712	11,119
Deferred income tax asset	1,906	1,125
Other	2,467	2,129
Total assets	$247,755	$240,211
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	$ 14,000	$1,560
Accounts payable and accrued expenses	25,263	26,644
Wages and benefits payable	6,246	9,181
Deferred revenue	8,653	6,759
Total current liabilities	54,162	44,144
Mortgage notes payable	6,242	6,440
Convertible subordinated debt	63,400	63,400
Project financing	7,722	2,414
Deferred income tax liability	-	2,499
Warranty and other obligations	1,207	887
Total liabilities	132,733	119,784
Commitments and contingencies (Note 8)	--	--
Shareholders' equity		
Common stock, no par value, 75 million shares authorized, 14,698,121 and 14,602,312 shares Issued and outstanding	106,039	105,136
Warrants	--	57
Accumulated other comprehensive income	(1,107)	(1,081)
Retained earnings	10,090	16,315
Total shareholders' equity	115,022	120,427
Total liabilities and shareholders' equity	$247,755	$240,211

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands)	SHARES	AMOUNT	WARRANTS	ACCUMULATED OTHER COMPREHEN-SIVE INCOME	RETAINED EARNINGS	TOTAL
Balances at December 31, 1995	13,157	$ 94,108	$ 338	$ (142)	$16,969	$111,273
Net loss					(1,464)	(1,464)
Currency translation adjustment				35		35
Total comprehensive income						(1,429)
Stock issues:						
Options exercised and related tax benefits	199	3,480				3,480
Employee savings plan	23	670				670
Employee stock purchase plan	8	428				428
Dividends paid					(200)	(200)
Balances at December 31, 1996	13,387	98,686	338	(107)	15,305	114,222
Net income					1,010	1,010
Currency translation adjustment				(974)		(974)
Total comprehensive income						36
Stock issues:						
Options exercised and related tax benefits	57	827				827
Employee savings plan	44	935				935
Employee stock purchase plan	43	451				451
Warrants exercised	312	3,915	(281)			3,634
DCI acquisition	759	322				322
Balances at December 31, 1997	14,602	105,136	57	(1,081)	16,315	120,427
Net loss					(6,225)	(6,225)
Currency translation adjustment				(26)		(26)
Total comprehensive income						(6,251)
Stock issues:						
Options exercised and related tax benefits	37	452				452
Stock repurchased by Company	(109)	(1,554)				(1,554)
Employee savings plan	87	1,161				1,161
Employee stock purchase plan	81	787				787
Warrants expired		57	(57)			--
Balances at December 31, 1998	14,698	$106,039	$ --	$(1,107)	$10,090	$115,022

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	YEAR ENDED DECEMBER 31, 1998	1997	1996
Operating Activities			
Net income (loss)	$ (6,225)	$ 1,010	$ (1,464)
Non cash charges (credits) to income:			
Depreciation and amortization	19,865	16,781	10,522
Deferred income tax provision (benefit)	(4,550)	107	(1,545)
Equity in affiliates, net	1,154	(880)	(50)
Changes in operating accounts, net of acquisitions:			
Accounts receivable	(1,811)	(19,158)	(4,151)
Inventories	11,331	3,194	(17,114)
Accounts payable and accrued expenses	(2,663)	7,107	3,631
Wages and benefits payable	(2,935)	5,177	(510)
Deferred revenue	1,894	(8)	(1,439)
Long-term contracts receivable	(17,646)	(18,377)	(1,305)
Other, net	(312)	1,829	(3,437)
Cash used by operating activities	(1,898)	(3,218)	(16,862)
Investing Activities			
Change in short-term investments	--	--	25,074
Acquisition of property, plant and equipment	(6,364)	(9,329)	(27,500)
Equipment used in outsourcing	(10,746)	(27,478)	(17,254)
Proceeds from sale of equipment used in outsourcing	--	3,035	--
Proceeds from sale of business interest	1,000	1,000	--
Acquisitions of intangibles and patent defense costs	(1,002)	(1,703)	(4,728)
Other, net	8	410	(441)
Cash used by investing activities	(17,104)	(34,065)	(24,849)
Financing Activities			
Change in short-term borrowings, net	12,440	(31,502)	33,062
Project financing	5,308	2,414	--
Issuance of common stock	2,400	6,169	4,578
Purchase and retirement of common stock	(1,554)	--	--
Issuance of convertible subordinated debt	--	63,400	--
Debt issuance costs	--	(2,355)	--
Dividends paid	--	--	(200)
Other, net	128	(63)	41
Cash provided by financing activities	18,722	38,063	37,481
Increase (decrease) in cash and cash equivalents	(280)	780	(4,230)
Cash and cash equivalents at beginning of period	3,023	2,243	6,473
Cash and cash equivalents at end of period	$ 2,743	$ 3,023	$ 2,243

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

Itron, Inc. (the "Company") is a leading global provider to the utility industry of solutions for collecting, communicating, analyzing and managing information from electric, gas and water usage data. The Company designs, develops, manufactures, markets, sells, installs and services hardware, software and integrated systems for automatic meter reading ("AMR") and electronic meter reading ("EMR") or Handheld systems. The Company both sells its products and provides outsourcing services

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Itron, Inc. and its wholly owned subsidiaries. All significant intercompany transactions and balances are eliminated. Investments in affiliates of which the Company has a non-controlling interest are accounted for using the equity method.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. Cash equivalents are recorded at cost, which approximates fair value.

SHORT-TERM INVESTMENTS

The Company's short-term investments are classified as available-for-sale and are recorded at market value. Investments are accounted for on a trade date basis and market value is based upon quoted market prices for each security. Realized gains and losses are determined on a security by security basis (the specific identification method). Unrealized holding gains and losses, net of any tax effect, are recorded as a component of shareholders' equity. No short-term investments were outstanding at December 31, 1998 and 1997.

INVENTORIES

Inventories are stated at the lower of cost or market using the first-in, first-out method. Cost includes raw materials and labor, plus applied direct and indirect costs. Service inventories consist primarily of sub-assemblies and components necessary to support post-sale maintenance.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Depreciation, which includes the amortization of assets recorded under capital leases, is computed using the straight-line method over the assets estimated useful lives of three to seven years, or over the term of the applicable capital lease, if shorter. Equipment used in outsourcing contracts is depreciated using the straight-line method over the shorter of the useful life or the term of the contract, which is generally 15 years. Plant is depreciated over 30 years using the straight-line method. Management reviews the carrying value of property, plant and equipment on a regular basis for impairment. The Company capitalizes interest as a component of the cost of property, plant and equipment constructed for its own use. In 1998, 1997 and 1996 total interest expense was $6.6 million, $5.2 million and $1.4 million, respectively, of which $260,000, $994,000 and $533,000, respectively, was capitalized.

INTANGIBLE ASSETS

Goodwill represents the excess cost of acquired businesses over the fair value of their net assets and is amortized using the straight-line method over periods ranging from three to 20 years. Patents, patent defense costs, distribution and product rights are amortized using the straight-line method over their remaining lives of three to 17 years. Capitalized software includes costs incurred subsequent to the establishment of technological feasibility of the related product and is amortized using the straight-line method for a period not to exceed five

years. Management regularly reviews the carrying value of intangible assets for impairment.

WARRANTY

The Company offers standard warranty terms on its product sales. Provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience. The noncurrent warranty reserve covers future expected costs of testing and replacement of radio meter module batteries. Warranty expense was $4.2 million in 1998, $3.8 million in 1997 and $3.1 million in 1996.

INCOME TAXES

The Company accounts for income taxes using the asset and liability method. Under this method, deferred income taxes are recorded for the temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities. These deferred taxes are measured by the provisions of currently enacted tax laws. Management believes that it is more likely than not that the Company will generate sufficient taxable income to allow the realization of its deferred net tax asset.

FOREIGN EXCHANGE

The consolidated financial statements are prepared in United States dollars. Assets and liabilities of foreign subsidiaries are denominated in foreign currencies and are translated to United States dollars at the exchange rates in effect on the balance sheet date. Revenues, costs of revenues and expenses for these subsidiaries are translated using an average rate for the relevant reporting period. Translation adjustments resulting from this process are a component of shareholders' equity.

REVENUE RECOGNITION

SYSTEM SALES: Revenues from sales of hardware and software licenses are generally recognized upon shipment. Service revenues are recognized ratably over the periods covered by the service contracts, or as the services are performed. Revenues for shipments or post-sale maintenance not yet billed are included in accounts receivable or other noncurrent assets depending on the expected period of collection. Deferred revenue is recorded for products or services that have been paid for by a customer but have not yet been provided.

LARGE CUSTOM SYSTEMS AND OUTSOURCING CONTRACTS: Large custom systems include those in which there is a substantial amount of custom software development. Outsourcing services may encompass the installation, operation and/or maintenance of meter reading systems to provide meter information to a customer for billing and management purposes. Revenues for both large custom systems and outsourcing contracts are recognized using the cost-to-cost, percentage-of-completion method of long-term contract accounting. Under this method, revenue reported during a period is based on the percentage of estimated total revenues to be received under the contract measured by the percentage of costs incurred to date to estimated total costs for each contract. This method is used because management believes costs incurred are the best available measure of progress on these contracts. Contract costs include all direct material and labor costs and other indirect costs related to contract performance such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for estimated losses on uncompleted contracts are recognized in the period in which such losses are determined. Changes in estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Revenues from large custom systems and outsourcing contracts that are recognized in excess of amounts billed are included in long-term contracts receivable or the current portion of long-term contracts receivable depending on the expected period of collection. Amounts billed related to the Company's outsourcing contracts were $5.6 million and $2.6 million in 1998 and 1997, respectively. The Company did not have any billings related to its outsourcing contracts in 1996.

NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per share is computed on the basis of the weighted average number of common shares

outstanding during the period. Diluted net income (loss) per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of "in the money" outstanding stock options and warrants using the "treasury stock" method and convertible subordinated notes using the "if converted" method, to the extent the use of these methods are not anti-dilutive.

DERIVATIVES

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company plans to adopt SFAS 133 on January 1, 2000, as required. Adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements. The Company limits its use of derivative financial instruments to the management of foreign currency risks. The Company is currently evaluating the impact of SFAS 133 on its financial statements.

NEW ACCOUNTING STANDARDS

COMPREHENSIVE INCOME: Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, (SFAS 130), "Reporting Comprehensive Income." The Statement establishes standards for reporting and presentation of comprehensive income and its components in the financial statements. Comprehensive income includes net income and "other comprehensive income" which includes changes in equity arising during the period from foreign currency translation adjustments. Adoption of SFAS 130 requires unrealized gains or losses on foreign currency translation adjustments to be included in other comprehensive income below net income in the Company's statement of changes in shareholder's equity and as a separate component of shareholders' equity in the balance sheet. Prior to adoption, the accumulated translation adjustment was reported separately in shareholders' equity.

SEGMENT REPORTING: Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 131, (SFAS 131), "Segment Reporting." SFAS 131 establishes standards for reporting information about operating segments based on information used by management. Disclosures regarding the Company's segments are disclosed in Note 16 in the accompanying financial statements.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company uses the cost-to-cost, percentage of completion method of long-term contract accounting, which requires the Company to estimate the total cost of providing outsourcing and other services over long periods of time, typically 15 years. Because of various factors affecting future costs and operations, actual results could differ from estimates.

RECLASSIFICATIONS

Certain amounts in the 1997 and 1996 financial statements have been reclassified to conform with 1998 presentation.

NOTE 2: RESTRUCTURING

In 1998, in connection with management's measures to reduce costs and improve operating efficiencies, the Company recorded a restructuring charge of $3.9 million. The restructuring measures primarily involved the elimination or consolidation of approximately 150 positions, the write-off of certain of the Company's intangible assets and the consolidation of facilities as follows:

(in thousands)	Cash/ Non-Cash	Restructuring Charge	Activity	Reserve Balance 12/31/98
Severance and related charges	Cash	$1,920	$1,775	$145
Write-down of intangible assets	Non-Cash	1,104	1,104	--
Consolidation of facilities	Cash	665	--	665
Other	Non-Cash	241	241	--
Total restructuring charge		$3,930	$3,120	$810

Additionally, as part of the restructuring measures, the Company discontinued business activities in one of its jointly owned entities resulting in a non-cash charge of $216,000. This expense is reflected in equity in affiliates in the accompanying financial statements.

NOTE 3: STATEMENT OF CASH FLOWS DATA

Supplemental disclosure of cash flow information:

	YEAR ENDED DECEMBER 31,		
(in thousands)	1998	1997	1996
Income taxes paid	$ 156	$ 569	$1,418
Interest paid	6,037	3,580	1,172

NOTE 4: BALANCE SHEET COMPONENTS

	AT DECEMBER 31,	
(in thousands):	1998	1997
ACCOUNTS RECEIVABLE		
Trade (net of allowance for doubtful accounts of $1,500 and $752)	$ 41,702	$ 40,023
Unbilled revenue	20,551	21,419
Total accounts receivable	$ 62,253	$ 61,442
INVENTORIES		
Material	$ 9,041	$ 14,418
Work in process	1,599	3,138
Finished goods	6,947	7,304
Field inventories awaiting installation	--	5,178
Total manufacturing inventories	17,587	30,038
Service inventories	3,067	1,947
Total inventories	$ 20,654	$ 31,985
PROPERTY, PLANT AND EQUIPMENT		
Machinery and equipment	$ 44,140	$ 42,124
Equipment used in outsourcing	54,766	44,093
Computers and purchased software	25,909	23,240
Buildings, furniture and improvements	21,412	21,775
Land	2,195	2,052
Total cost	148,422	133,284
Accumulated depreciation	(55,286)	(41,369)
Property, plant and equipment, net	$ 93,136	$ 91,915

INTANGIBLE ASSETS

Goodwill	$ 16,991	$ 16,991
Capitalized software	6,370	6,370
Distribution and product rights	2,475	3,308
Patents	6,737	5,706
Total cost	32,573	32,375
Accumulated amortization	(14,431)	(10,903)
Intangible assets, net	$ 18,142	$ 21,472

NOTE 5: SHORT-TERM BORROWINGS AND LONG-TERM DEBT

SHORT-TERM BORROWINGS

In September 1998 the Company signed an agreement to extend its revolving line of credit with two banks. The agreement is for a revolving facility up to a maximum of $35 million. Borrowings available under the facility are based on and secured by accounts receivable and inventory. The pricing of borrowings is based on a financial ratio of total debt to earnings before interest, taxes, depreciation and amortization (EBITDA). At December 31, 1998, the weighted average interest rate was approximately 7.93%. Additionally, an annual commitment fee of .50% is required on the unused amount of the line of credit. Any borrowings mature on September 30, 1999. The agreement contains covenants that require the Company to maintain certain minimum liquidity amounts and ratios, tangible net worth limits and coverage ratios, all of which the Company was in compliance with at year end.

MORTGAGE NOTES PAYABLE

	AT DECEMBER 31,	
(in thousands):	1998	1997
Secured mortgage note payable to a shareholder with principal and interest payments of 9% until maturity on August 1, 2015.	$5,555	$5,600
Secured mortgage note payable to a shareholder with interest only payments of 7 1/2% until June 1, 1999 and then principal and interest payments equal to 8 1/2% until maturity on June 1, 2019.	$ 840	$ 840

The Company incurred the above notes in conjunction with the purchase of the Company's headquarters and related manufacturing space in Spokane, Washington. Principal payments due under these notes are $47,000 in 1999, $61,000 in 2000, $66,000 in 2001, $72,000 in 2002, $79,000 in 2003 and $6.1 million thereafter.

PROJECT FINANCING

	AT DECEMBER 31,	
(in thousands):	1998	1997
Secured note payable with principal and interest payments of 7.6% until maturity on May 31, 2009.	$7,722	$2,414

The Company incurred the above note in conjunction with project financing for one of its outsourcing contracts. The note is secured by the assets of the project. Principal payments due under the note are $506,000 in 1999, $546,000 in 2000, $589,000 in 2001, $635,000 in 2002, $685,000 in 2003 and $4.8 million thereafter.

CONVERTIBLE SUBORDINATED DEBT

(in thousands):	AT DECEMBER 31, 1998	1997
Unsecured, convertible subordinated notes.	$63,400	$63,400

The Company completed a $63.4 million convertible subordinated note offering in March and April 1997. Interest of 6 3/4% on the notes is payable semi-annually on March 31 and September 30 of each year until maturity on March 31, 2004. The notes are convertible, in whole or in part, at the option of the holder at any time prior to maturity at a price of $23.70 per common share. In February 1999 the Company offered to exchange $720 principal amount of Exchange Notes for $1,000 principal amount of Original Notes. The Exchange Notes will have the same maturity date, interest payment dates and rate of interest as the Original Notes, but will have a lower conversion price. Both the Original Notes and the Exchange Notes have no sinking fund requirements and are redeemable, in whole or in part, at the option of the Company at any time on or after April 4, 2000, at specified redemption prices.

NOTE 6: FAIR VALUES OF FINANCIAL INSTRUMENTS

Under SFAS No. 107, "FAIR VALUE DISCLOSURES ABOUT FINANCIAL INSTRUMENTS," the Company is required to disclose the fair value of financial instruments when fair value can reasonably be estimated. The values provided are representative of fair values only as of December 31, 1998 and 1997 and do not reflect subsequent changes in the economy, interest and tax rates, and other variables that may impact determination of fair value. The following methods and assumptions were used in estimating fair values.

CASH, CASH EQUIVALENTS AND ACCOUNTS RECEIVABLE: The carrying value approximates fair value due to the short maturity of these instruments.

LONG-TERM CONTRACTS RECEIVABLE: The fair value of the non-current portion of long-term contracts receivable is based on the discounted value of expected cash flows.

MORTGAGE NOTES PAYABLE: The fair value is estimated based on current borrowing rates available for similar issues.

CONVERTIBLE SUBORDINATED DEBT: The fair value is estimated based on the current trading activity of the notes.

	AT DECEMBER 31,			
	1998		1997	
(in thousands)	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Cash, cash equivalents and accounts receivable	$ 64,996	$64,996	$64,465	$64,465
Long-term contracts receivable	23,712	20,662	11,119	9,736
Mortgage notes payable	6,242	5,825	6,440	6,897
Convertible subordinated debt	63,400	41,210	63,400	61,181

NOTE 7: INVESTMENTS IN AFFILIATES

At December 31, 1998, the Company's investments in affiliates consisted of a 50% interest in Star Data Services, formed in late 1997, and Ensite, formed in 1996. Prior to December 31, 1998 the Company also had a 50% interest in SI3. The partners of the SI3 joint venture adopted a plan of dissolution in 1998 that resulted in a loss. The tables below contain the summarized financial information for the Company's unconsolidated affiliates.

CONDENSED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,	
(in thousands):	1998	1997
Revenues	$2,224	$4,692
Gross Profit	(364)	(1,405)
Net income	(2,308)	(2,242)

CONDENSED BALANCE SHEETS

	AT DECEMBER 31,	
(in thousands):	1998	1997
Current assets	$1,483	$ 701
Non-current assets	2,647	121
Current liabilities	1,189	1,305
Non-current liabilities	1,133	--
Total liabilities and shareholders' equity	1,808	483

NOTE 8: COMMITMENTS AND CONTINGENCIES

COMMITMENTS

The Company has noncancelable capital leases for computer equipment and software, and operating leases for office, production and storage space expiring at various dates through June 2008. Rents under the Company's operating leases were $2.0 million in 1998, $1.6 million in 1997 and $1.5 million in 1996. Assets under capital leases are included in the consolidated balance sheets as follows:

	AT DECEMBER 31,	
(in thousands):	1998	1997
Computers and software	$ 905	$--
Accumulated amortization	(172)	--
Net capital leases	$ 733	$--

Future minimum payments, by year and in the aggregate, under the aforementioned leases and other non-cancelable operating leases with initial or remaining terms in excess of one year are as follows:

	AT DECEMBER 31,	
(in thousands)	Capital Leases	Operating Leases
1999	$320	$2,574
2000	320	2,359
2001	--	1,447
2002	--	1,197
2003	--	775
Thereafter	--	1,143
Total minimum lease payments	640	9,495
Less amount representing interest	(30)	
Present value of net minimum lease payment	610	
Less current portion	(299)	
Long-term portion	$311	

In order to maintain certain distribution rights, the Company has agreed to purchase minimum quantities of components from various suppliers. Minimum purchase requirements under these agreements are approximately $4.9 million in 1999, $1.0 million in 2000, $1.0 million in 2001 and $1.0 million in 2002. The Company believes these commitments are not in excess of anticipated requirements.

CONTINGENCIES

The Company, together with certain directors and officers, is a defendant in a shareholder-initiated proposed class action in federal court alleging securities and other statutory and common law violations arising out of alleged misleading disclosures or omissions made by the Company regarding its business and technology. The Company believes this action is without merit and intends to vigorously defend against it. At this time, it is not possible to predict the ultimate outcome of this proceeding.

The Company maintains performance bonds for certain customers. The performance bonds usually cover the installation phase of a contract and may on occasion cover the operations and maintenance phase of outsourcing contracts. The Company believes that no amounts under the performance bonds will be due as the risk of default under the contracts is minimal.

NOTE 9: SHAREHOLDER RIGHTS PLAN

The Company adopted a Shareholder Rights Plan and in November 1993 declared a dividend of one common share purchase right (a "Right") for each outstanding share of the Company's Common Stock. Under certain conditions, each Right may be exercised to purchase one share of Common Stock at a purchase price of $135 per share, subject to adjustment. The Rights will be exercisable only if a person or group has acquired 15% or more of the outstanding shares of the Company's Common Stock (excluding certain persons who owned more than 15% of the Common Stock when the Shareholder Rights Plan was adopted). If a person or group acquires 15% or more of the then outstanding shares of Common Stock, each Right will entitle its holder to receive, upon exercise, Common Stock having a market value equal to two times the exercise price of the Right. In addition, if the Company is acquired in a merger or other business combination transaction, each Right will entitle its holder to purchase that number of the acquiring company's common shares having a market value of twice the Right's exercise price. The Company is entitled to redeem the Rights at $.001 per Right at any time prior to the earlier of the expiration of the Rights in July 2002 or the time that a person has acquired a 15% position. The Rights do not have voting or distribution rights, and until they become exercisable they have no effect on the Company's earnings.

NOTE 10: BUSINESS COMBINATIONS

DESIGN CONCEPTS INC. (DCI)

On May 2, 1997, the Company acquired Design Concepts, Inc. ("DCI"), an Idaho based company that supplies outage detection, power quality monitoring and AMR systems, which communicate collected data over telephone lines for electric meters. Pursuant to the Agreement and Plan of Merger dated April 30, 1997, the Company issued 759,297 shares of unregistered Itron Common Stock to the shareholders of DCI in exchange for all outstanding shares of DCI. Certificates representing 75,930 shares issued in the acquisition were placed in escrow. As of December 31, 1998, all but 1,517 of the shares were released to DCI shareholders. The remaining shares were cancelled and not issued because of expenses the Company incurred in relation to former DCI obligations. The transaction was accounted for as a pooling-of-interests.

UTILITY TRANSLATION SYSTEMS (UTS)

On March 25, 1996 the Company acquired UTS, a provider of software and support services of systems for translating, communicating and analyzing energy consumption data for commercial and industrial meters. The

Company issued 971,427 shares of its unregistered Common Stock to the shareholders of UTS in exchange for all of the outstanding shares of UTS. The transaction was accounted for as a pooling-of-interests.

NOTE 11: EARNINGS PER SHARE AND CAPITAL STRUCTURE

	YEAR ENDED DECEMBER 31,		
(in thousands)	1998	1997	1996
Weighted average shares outstanding	14,668	14,118	13,297
Effect of dilutive securities:			
Warrants	--	107	--
Stock options	--	337	--
Weighted average shares outstanding assuming conversion	14,668	14,562	13,297

The Company has granted options to purchase Common Stock to directors, employees and other key personnel at fair market value on the date of grant. Additionally, the Company issued warrants in conjunction with a private placement in 1989 and 1990 for the formation of AMRplus Partners. As of December 31, 1998 there were no further warrants outstanding. The dilutive effect of these options and warrants is included for purposes of calculating dilutive earnings per share ("EPS") using the "treasury stock" method. The treasury stock method requires that EPS be computed as if the options were exercised at the beginning of the period, or date of issuance if later, and that the funds obtained from the exercise were used to purchase Common Stock at the average market price for the period. The Company also has 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. The "if converted" method computes income available to common shareholders after adding applicable tax effected interest expense related to the convertible subordinated notes. This amount is divided by total shares outstanding as if the notes were converted. If the effect of this calculation is anti-dilutive, the EPS is not disclosed.

There is no dilutive effect of securities in 1998 and 1996 as the Company incurred a loss for each year and including the securities would have been anti-dilutive.

NOTE 12: EMPLOYEE BENEFITS

The Company has an employee incentive savings plan in which substantially all employees are eligible to participate. Employees may contribute, on a tax-deferred basis, up to 15% of their salary, 50% of which, subject to certain limitations, is matched by the Company by issuance of Common Stock. The expense for the Company's matching contribution was $1.2 million in 1998, $1.1 million in 1997 and, $798,000 in 1996. The Company does not offer post employment or post retirement benefits.

NOTE 13: STOCK-BASED COMPENSATION PLANS

At December 31, 1998, the Company had two stock-based compensation plans, which are described below. The Company applies APB Opinion 25 and related interpretations in accounting for its plans. Because all stock options were issued at fair value, no compensation cost has been recognized for its stock option plans. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method prescribed in SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(in thousands except per share data)		YEAR ENDED DECEMBER 31, 1998	1997	1996
Net income (loss)	As reported	$(6,225)	$ 1,010	$(1,464)
	Pro forma	(9,012)	(3,679)	(7,763)
Diluted earnings per share	As reported	(.42)	.07	(.11)
	Pro forma	(.61)	(.25)	(.58)

The weighted average fair value of options granted was $7.82, $12.86 and $18.64 during 1998, 1997 and 1996 respectively. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model using the following assumptions:

	1998	1997	1996
Dividend yield	0%	0%	0%
Expected volatility	64%	57%	55%
Risk-free interest rate	4.7%	6.5%	6.2%
Expected life (years)	5.3	6.0	6.0

The following table summarizes information about stock options outstanding at December 31, 1998:

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Shares (in 000's)	Life (years)	Price	Shares (in 000's)	Price
$ .17 - $ 2.91	43	1.16	$ 2.41	41	$ 2.48
$ 4.88 - $ 5.16	1,473	9.82	4.96	-	-
$ 6.20 - $ 8.66	83	4.14	7.57	59	7.16
$12.60 - $19.88	699	7.27	15.99	383	16.00
$20.75 - $24.50	356	7.74	22.10	156	23.01
$58.75	12	7.33	58.75	12	58.75
$ .17 - $58.75	2,666	8.57	$10.43	651	$16.81

1989 RESTATED STOCK OPTION PLAN

Under the Company's 1989 Restated Stock Option Plan, options to purchase shares of Common Stock have been granted to employees at prices no less than the fair market value on the date of grant. Options outstanding under the plan become fully exercisable within three or four years from the date granted and terminate ten years from the date granted. Qualified and nonqualified options are exercisable at prices ranging from $.17 to $24.25 per share. The price range of options exercised was $.86 to $17.88 in 1998, $.86 to $24.25 in 1997 and $2.91 to $24.50 in 1996. At December 31, 1998, there were 3,141,871 shares of unissued Common Stock reserved for issuance under the plan, of which options for the purchase of 584,466 shares were available for future grants. Share amounts (in thousands) and weighted average exercise prices are as follows:

	YEAR ENDED DECEMBER 31, 1998		1997		1996	
	Shares	Price	Shares	Price	Shares	Price
Outstanding at beginning of year	1,995	$18.78	1,267	$17.24	1,038	$17.36
Granted	2,283	8.55	843	21.29	1,016	31.34
Exercised	(36)	12.45	(57)	10.98	(152)	11.56
Canceled	(1,685)	18.72	(58)	23.27	(635)	41.38
Outstanding at end of year	2,557	9.76	1,995	$18.78	1,267	$17.24
Options exercisable at year end	542	$14.96	690	$15.69	483	$13.44

1992 STOCK OPTION PLAN FOR NONEMPLOYEE DIRECTORS

The Company's 1992 Stock Option Plan for Nonemployee Directors provides for the annual grant of nonqualified options to purchase 2,000 shares of Common Stock to nonemployee directors of the Company at an exercise price that is not less than the fair market value per share at the date of grant. Outstanding options granted under the plan are exercisable at prices ranging from $13.50 to $58.75 per share. The options granted are fully vested and immediately exercisable. At December 31, 1998, there were 153,000 shares of unissued Common Stock reserved for issuance under the plan, of which options for the purchase of 44,000 shares were available for future grant. Share amounts (in thousands) and weighted average exercise prices are as follows:

	YEAR ENDED DECEMBER 31,					
	1998		1997		1996	
	Shares	Price	Shares	Price	Shares	Price
Outstanding at beginning of year	97	$27.11	85	$28.14	87	$22.92
Granted	12	16.63	12	19.88	12	58.75
Exercised	-	-	-		(14)	21.96
Outstanding at end of year	109	$25.96	97	$27.11	85	$28.14
Options exercisable at year end	109	$25.96	97	$27.11	85	$28.14

EMPLOYEE STOCK PURCHASE PLAN

Under the Company's Employee Stock Purchase Plan, the Company is authorized to issue up to 180,000 shares of Common Stock to its eligible employees who have completed three months of service, work more than 20 hours each week and are employed more than 5 months in any calendar year. Employees who own 5% or more of the Company's Common Stock are not eligible to participate in the Plan. Under the terms of the Plan, eligible employees can choose payroll deductions each year of up to 10% of their regular cash compensation. Such deductions are applied toward the discounted purchase price of the Company's Common Stock. The purchase price of the Common Stock is 85% of the fair market value of the stock as defined in the Plan. Approximately 21% of eligible employees have participated in the Plan since its inception on July 1, 1996. Under the Plan the Company sold 80,741, 43,057 and 8,331 shares to employees in 1998, 1997 and 1996, respectively.

NOTE 14: INCOME TAXES

A reconciliation of income taxes at the U.S. federal statutory rate of 35% to the consolidated effective tax for continuing operations is as follows:

	YEAR ENDED DECEMBER 31,		
(in thousands)	1998	1997	1996
Expected federal income tax provision (benefit)	$(3,515)	$ 572	$(747)
State income taxes	(397)	89	(19)
Goodwill amortization	309	302	309
Exempt interest	-	-	(152)
Foreign sales corporation	(158)	(107)	(68)
Tax credits	(285)	(348)	(762)
Foreign operations	107	(174)	59
UTS acquisition	-	152	376
Meals and entertainment	212	134	243
Other, net	(93)	5	91
Provision (benefit) for income taxes	$(3,820)	$ 625	$(670)

The domestic and foreign components of income before taxes were:

(in thousands)	1998	1997	1996
	YEAR ENDED DECEMBER 31,		
Domestic	$ (8,296)	$ 2,965	$ 1,525
Foreign	(1,749)	(1,330)	(3,659)
Income (loss) before income taxes	$(10,045)	$ 1,635	$(2,134)

The provision for income taxes consists of the following:

(in thousands)	1998	1997	1996
	YEAR ENDED DECEMBER 31,		
Current:			
Federal	$ 344	$ 331	$ 678
State and local	324	133	197
Foreign	60	54	-
Total current	$728	$ 518	$ 875
Deferred:			
Federal	(3,332)	762	(844)
State and local	(651)	38	130
Foreign	(565)	(693)	(831)
Total deferred	(4,548)	107	(1,545)
Total provision (benefit) for income taxes	$(3,820)	$ 625	$ (670)

Deferred income taxes consisted of the following:

(in thousands)	1998	1997
	AT DECEMBER 31,	
Deferred tax assets		
Tax credits	$ 5,925	$ 4,999
Loss carry forwards	13,245	4,589
Accrued expenses	5,367	4,033
Inventory valuation	1,889	2,175
Other, net	228	97
Total deferred tax assets	26,654	15,893
Deferred tax liabilities		
Acquisitions	(292)	(391)
Depreciation and amortization	(2,789)	(4,469)
Long term contracts	(14,729)	(6,739)
Total deferred tax liabilities	(17,810)	(11,599)
Net deferred tax assets	$ 8,844	$ 4,294

Valuation allowances of $70,000 and $1.4 million in 1998, $70,000 and $1.6 million in 1997 and $129,000 and $802,000 in 1996, were provided for capital loss carryforwards and foreign net operating loss carryforwards, respectively, for which the Company may not receive future benefits.

The Company has research and development tax credits and net operating loss carryforwards available to offset future income tax liabilities. The tax credits of $5.1 million expire from 2004-2013 and the loss carryforwards of $13.2 million expire from 2001-2019.

The Company also has alternative minimum tax credits, totaling $832,000, that are available to offset future tax liabilities indefinitely.

NOTE 15: OTHER RELATED PARTY TRANSACTIONS

Certain of the Company's customers are also shareholders with more than 10% ownership interest and/or hold positions on Itron's Board of Directors. Revenue from such customers was $4.5 million in 1998, $4.8 million in 1997 and $4.3 million in 1996. Accounts receivable from these customers were $303,000 and $1.1 million at December 31, 1998 and 1997, respectively. Interest expense related to notes payable to a shareholder was $475,000 in 1998, $483,000 in 1997 and $456,000 in 1996.

NOTE 16: SEGMENT INFORMATION

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information," effective January 1, 1998. The statement requires companies to disclose various information about their operating segments, which are reviewed on a regular basis by the chief decision maker of the enterprise.

The Company reviews its operations using a variety of matrices, however, the chief executive officer primarily reviews the Company's manufacturing and sales operations on a domestic vs. international basis and revenues and cost of sales are reviewed based on the Company's major product lines of AMR systems, handheld systems and outsourcing. The Company has outsourcing agreements in which it both owns and operates the system. These agreements require a large amount of capital investment and related project and other debt, and are included in the Company's finance operations. Outsourcing contracts in which the Company operates, but does not own, the equipment are included in the Company's normal manufacturing and sales operations. The chief executive officer reviews financing operations separately from manufacturing and sales operations because they are essentially different businesses with significantly different operating and leverage characteristics.

Segment debt and interest expense related to the Company's finance and international operations includes both direct and allocated debt and interest expense. Segment debt and related interest expense are allocated based on each segment's funding requirements for capital or operations. Intersegment revenues include shipments to various Company-owned subsidiaries and are eliminated in consolidation. EBITDA includes earnings for each segment before interest, taxes, depreciation and amortization and is used to allow a comparison of each segment's operating results. Segment Debt/EBITDA is a ratio that is used to compare segment leverage ratios to comparable industry ratios. The Company does not allocate income taxes to its operating segments.

YEAR ENDED DECEMBER 31, 1998

(in thousands)	MANUFACTURING AND SALES					
	DOMESTIC	INTERNATIONAL	TOTAL	FINANCE	ELIMINATIONS	CONSOLIDATED
Revenues from external customers:						
AMR systems	$154,976	$ 8,637	$163,613	$ -	$ -	$163,613
Handheld systems	42,774	11,183	53,957	-	-	53,957
Outsourcing	535	-	535	23,297	-	23,832
Intersegment revenues	3,680	211	3,891	-	(3,891)	-
Total revenues	$201,965	$20,031	$221,996	$ 23,297	$ (3,891)	$241,402
Interest income	408	46	454	21	-	475
Interest expense	(972)	(1,715)	(2,687)	(4,296)	-	(6,983)
Depreciation and amortization	15,585	1,554	17,139	2,726	-	19,865
Segment loss	(3,009)	(4,915)	(7,924)	(664)	(1,457)	(10,045)
Segment assets	172,700	12,533	185,233	88,623	(26,101)	247,755
Segment debt	7,010	19,787	26,797	74,083	(8,683)	92,197
Cash flows:						
Operating activities	$ 13,153	$(3,416)	$ 9,737	$(11,635)	$ -	$ (1,898)
Investing activities (1)	(5,716)	(537)	(6,253)	(10,851)	-	(17,104)
Net operating and investing	$ 7,437	$(3,953)	$ 3,484	$(22,486)	$ -	$(19,002)
EBITDA (2)	$ 11,554	$(1,584)	$ 9,970	$ 6,358	$ -	$ 16,328
Segment debt/EBITDA	.61	*	3.10	11.65	-	5.65

YEAR ENDED DECEMBER 31, 1997

(in thousands)	MANUFACTURING AND SALES					
	DOMESTIC	INTERNATIONAL	TOTAL	FINANCE	ELIMINATIONS	CONSOLIDATED
Revenues from external customers:						
AMR systems	$138,109	$ 5,363	$143,472	$ -	$ -	$143,472
Handheld systems	31,907	17,502	49,409	-	-	49,409
Outsourcing	-	-	-	23,236	-	23,236
Intersegment revenues	817	658	1,475	-	(1,475)	-
Total revenues	$170,833	$23,523	$194,356	$ 23,236	$ (1,475)	$216,117
Interest income	529	15	544	-	(71)	473
Interest (expense)	(206)	(1,477)	(1,683)	(2,777)	71	(4,389)
Depreciation and amortization	14,316	1,289	15,605	1,176	-	16,781
Segment income (loss)	3,783	(3,634)	149	2,206	(720)	1,635
Segment assets	178,465	11,763	190,228	62,805	(12,822)	240,211
Segment debt	6,440	16,140	22,580	51,425	(191)	73,814
Cash flows:						
Operating activities	$ 3,405	$ 946	$ 4,351	$ (7,569)	$ -	$ (3,218)
Investing activities (1)	(9,029)	(662)	(9,691)	(24,374)	-	(34,065)
Net operating and investing	$ (5,624)	$ 284	$ (5,340)	$(31,943)	$ -	$(37,283)
EBITDA (2)	$ 17,478	$(1,305)	$ 16,173	$ 6,159	$ -	$ 22,332
Segment debt/EBITDA	.37	*	1.40	8.35	-	3.31

YEAR ENDED DECEMBER 31, 1996

(in thousands)	MANUFACTURING AND SALES DOMESTIC	INTERNATIONAL	TOTAL	FINANCE	ELIMINATIONS	CONSOLIDATED
Revenues from external customers:						
AMR systems	$127,268	$ 2,308	$129,576	$ -	$ -	$129,576
Handheld systems	33,349	11,735	45,084	-	-	45,084
Outsourcing	-	-	-	2,924	-	2,924
Intersegment revenues	-	1,029	1,029	-	(1,029)	-
Total revenues	$160,617	$15,072	$175,689	$ 2,924	$ (1,029)	$177,584
Interest income	1,037	30	1,067	-	(460)	607
Interest expense	-	(613)	(613)	(770)	460	(923)
Depreciation and amortization	9,759	744	10,503	19	-	10,522
Segment income (loss)	5,940	(6,380)	(440)	(1,405)	(289)	(2,134)
Segment assets	165,042	11,465	176,507	24,132	(13,968)	186,671
Segment debt	6,440	20,561	27,001	19,261	(6,760)	39,502
Cash flows:						
Operating activities	$ (9,681)	$(3,750)	$(13,431)	$ (3,431)	$ -	$(16,862)
Investing activities (1)	(7,072)	(1,947)	(9,019)	(15,830)	-	(24,849)
Net operating and investing	$(16,753)	$(5,697)	$(22,450)	$(19,261)	$ -	$(41,711)
EBITDA (2)	$ 14,632	$(5,312)	$ 9,320	$ (616)	$ -	$ 8,704
Segment debt/EBITDA	.44	*	2.90	*	-	4.54

Domestic information includes the United States and Canada. International information includes the results of wholly owned subsidiaries located in the United Kingdom, France and Australia as well as sales to international distributors, which were $3.0 million in 1998, $9.7 million in 1997 and $5.9 million in 1996. International revenue includes sales to customers located in Asia, Europe, Australia, Japan, Latin America, and the Middle East. Approximately 16% of 1998 and 22% of 1996 consolidated revenue related to a contract with a significant customer in each year. At December 31, 1998 and 1997, approximately 34% and 21%, respectively, of total accounts and contracts receivable were due from one customer.

1 INVESTING ACTIVITIES PRIMARILY CONSIST OF CAPITAL EXPENDITURES FOR EACH SEGMENT.

2 EBITDA IS CALCULATED BY ADDING NET INTEREST, DEPRECIATION, AND AMORTIZATION EXPENSE TO PRE-TAX INCOME OR LOSS AND IS PRESENTED BECAUSE THE COMPANY BELIEVES THAT IT ALLOWS FOR A MORE COMPLETE ANALYSIS OF THE COMPANY'S RESULTS OF OPERATIONS. THIS INFORMATION SHOULD NOT BE CONSIDERED AS AN INDICATOR OF THE COMPANY'S OVERALL FINANCIAL PERFORMANCE. ADDITIONALLY, EBITDA AS REPORTED HEREIN MAY NOT BE COMPARABLE TO SIMILARLY TITLED MEASURES REPORTED BY OTHER COMPANIES.

* NOT MEANINGFUL.

NOTE 17: DEVELOPMENT AGREEMENTS

The Company receives funding to develop certain products under joint development agreements with several companies. Intellectual property rights to such developed products remain with the Company. Funding received under these agreements is credited against product development expenses. The agreements provide for royalty payments by the Company if successful products are developed and sold. Additionally the Company is required to pay royalties on future sales of products incorporating certain AMR technologies. Funding received and royalty expense under these arrangements is as follows:

	YEAR ENDED DECEMBER 31,		
(in thousands)	1998	1997	1996
Funding received	$ 485	$ 731	$ 143
Royalties paid	1,130	1,524	1,614

NOTE 18: QUARTERLY RESULTS (UNAUDITED)

Quarterly results are as follows:

(in thousands, except per share data)	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL YEAR
1998					
Statement of operations data:					
Total revenues	$63,708	$60,769	$54,839	$62,086	$241,402
Gross profit	20,795	19,968	15,031	21,009	76,803
Net income (loss)	153	(1,076)	(5,929)	627	(6,225)
Basic net income (loss) per share	$ .01	$ (.07)	$ (.40)	$ .04	$ (.42)
Diluted net income (loss) per share	$ .01	$ (.07)	$ (.40)	$ .04	$ (.42)
1997					
Statement of operations data:					
Total revenues	$40,583	$52,732	$58,427	$64,375	$216,117
Gross profit	13,619	19,291	22,100	25,748	80,758
Net income (loss)	(3,259)	(675)	1,643	3,301	1,010
Basic net income (loss) per share	$ (.24)	$ (.05)	$ .11	$ .23	$ .07
Diluted net income (loss) per share	$ (.24)	$ (.05)	$ .11	$ .22	$ .07

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The section entitled "Election of Directors" appearing in the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on May 5, 1999 (the "1999 Proxy Statement") sets forth certain information with regard to the directors of the Registrant and is incorporated herein by reference. Certain information with respect to persons who are or may be deemed to be executive officers of the Registrant is set forth under the caption "Executive Officers of the Registrant" in Part I of this Annual Report on Form 10-K.

ITEM 11: EXECUTIVE COMPENSATION

The section entitled "Executive Compensation" appearing in the 1999 Proxy Statement sets forth certain information (except for those sections captioned "Compensation Committee Report on Executive Compensation" and "Performance Graph", which are not incorporated by reference herein) with respect to the compensation of management of the Registrant and is incorporated herein by reference.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The section entitled "Security Ownership of Certain Beneficial Owners and Management" appearing in the 1998 Proxy Statement sets forth certain information with respect to the ownership of the Registrant's Common Stock and is incorporated herein by reference.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The section entitled "Certain Relationships and Related Transactions" appearing in the 1999 Proxy Statement sets forth certain information with respect to the certain business relationships and transactions between the Registrant and its directors and officers and is incorporated herein by reference.

PART IV

ITEM 14: EXHIBITS, FINANCIAL STATEMENTS SCHEDULES AND REPORTS ON FORM 8-K

2) LIST OF FINANCIAL STATEMENT SCHEDULES:

_ Schedule II - Valuation and Qualifying Accounts

3) EXHIBITS:

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
3.1	Restated Articles of Incorporation of the Registrant. (A) (Exhibit 3.1)
3.2	Restated Bylaws of the Registrant. (A) (Exhibit 3.2)
4.1	Rights Agreement between the Registrant and Chemical Trust Company of California dated as of July 15, 1992. (A) (Exhibit 4.1)
4.2	Indenture dated as of March 12, 1997 between the Registrant and Chemical Trust Company of California, as trustee. *(G) (Exhibit 4.1)
10.1	Form of Change of Control Agreement between Registrant and certain of its executive officers, together with schedule executive officers who are parties thereto. *
10.2	Schedule of certain executive officers who are parties to Change of Control Agreements (see Exhibit 10.1 hereto) with the Registrant.
10.3	Employment Agreement between the Registrant and Johnny M. Humphreys dated February 9, 1987, First Addendum dated November 22, 1988 and Second Addendum dated July 21, 1992. *(A) (Exhibit 10.2)
10.4	Form of Confidentiality Agreement normally entered into with employees. (A) (Exhibit 10.7)
10.5	Amended and Restated Registration Rights Agreement among the Registrant and certain holders of its securities dated March 25, 1996. (D) (Exhibit 10.4)
10.6	1989 Restated Stock Option Plan. (D) (Exhibit 10.5)
10.7	1992 Restated Stock Option Plan for Nonemployee Directors. (E)
10.8	Executive Deferred Compensation Plan. *(A) (Exhibit 10.12)
10.9	Form of Indemnification Agreements between the Registrant and certain directors and officers. (C) (Exhibit 10.14)
10.10	Schedule of directors and executive officers who are parties to Indemnification Agreements (see Exhibit 10.09 hereto) with the Registrant.
10.11	Employment Agreement between the Registrant and David G. Remington dated February 29, 1996. * (C) (Exhibit 10.16)
10.12	Office Lease between the Registrant and Woodville Leasing Inc. dated October 4, 1993. (B) (Exhibit 10.24).
10.13	Contract between the Registrant and Duquesne Light Company dated January 15, 1996. (DELTA) (C) (Exhibit 10.18)

10.14 Amendment No. 1 to Amended and Restated Utility Automated Meter Data Acquisition Lease and Services Agreement between the Registrant and Duquesne Light Company dated September 11, 1997. (DELTA) (F) (Exhibit 10)

10.15 Purchase Agreement between the Registrant and Pentzer Development Corporation dated July 11, 1995. (C) (Exhibit 10.19)

10.16 Loan Agreement between Itron, Inc. and Bank of America and USBank signed September 30, 1998.

12 Statement of Computation of Ratios

21 Subsidiaries of the Registrant

23 Independent Auditors' Consent

27 Financial Data Schedule.

- ---

(A) Incorporated by reference to designated exhibit included in the Company's Registration Statement on Form S-1 (Registration #33-49832), as amended, filed on July 22, 1992.

(B) Incorporated by reference to designated exhibit included in the Company's 1993 Annual Report on Form 10-K filed on March 30, 1994.

(C) Incorporated by reference to designated exhibit included in the Company's 1995 Annual Report on Form 10-K filed on March 30, 1996.

(D) Incorporated by reference to designated exhibit included in the Company's 1996 Annual Report on Form 10-K filed on March 5, 1997.

(E) Incorporated by reference to Appendix A to the Company's designated Proxy Statement dated April 4, 1997 for its annual meeting of shareholders held on April 29, 1997.

(F) Incorporated by reference to designated exhibit included in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.

(G) Incorporated by reference to designated exhibit included in the Company's Current Report on Form 8-K dated March 18, 1997.

(H) Incorporated by reference to designated exhibit included in the Company's 1997 Annual Report on Form 10-K dated March 30, 1998.

* Management contract or compensatory plan or arrangement.

(DELTA) Confidential treatment requested for a portion of this agreement.

4) REPORTS ON FORM 8-K:

There were no Current Reports on Form 8-K filed during the fourth quarter of 1998.

SCHEDULE II: VALUATION AND QUALIFYING ACCOUNTS

(In thousands of dollars) Description	Balance at beginning of period	Additions: Charged to costs and expenses	Deductions	Balance at end of period: Current	Balance at end of period: Non current
YEAR ENDED DECEMBER 31, 1996:					
Inventory obsolescence	1,863	5,722	3,454	4,131	
Warranty	2,985	2,664	2,280	1,212	2,157
Allowance for doubtful accts.	509	550	307	752	
YEAR ENDED DECEMBER 31, 1997:					
Inventory obsolescence	4,131	7,831	8,138	3,824	
Warranty	3,369	7,600	7,451	2,666	852
Allowance for doubtful accts.	752	745	745	752	
YEAR ENDED DECEMBER 31, 1998:					
Inventory obsolescence	3,824	8,316	7,374	4,766	
Warranty	3,518	7,381	4,953	5,100	846
Allowance for doubtful accts.	752	967	219	1,500	

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Spokane, State of Washington, on the 26th day of March 1999.

ITRON, INC.

By /s/ DAVID G. REMINGTON
David G. Remington
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities indicated below on the 26th day of March, 1999.

SIGNATURE	TITLE
/S/JOHNNY M. HUMPHREYS Johnny M. Humphreys	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
/S/DAVID G. REMINGTON David G. Remington	Chief Financial Officer (Principal Financial and Accounting Officer)
/S/MICHAEL B. BRACY Michael B. Bracy	Director
/S/TED C. DEMERRITT Ted C. DeMerritt	Director
/S/JON E. ELIASSEN Jon E. Eliassen	Director
/S/MARY ANN PETERS Mary Ann Peters	Director
/S/PAUL A. REDMOND Paul A. Redmond	Director
/S/GRAHAM M. WILSON Graham M. Wilson	Director
/S/STUART E. WHITE Stuart E. White	Director

EXHIBIT 10.1

CHANGE OF CONTROL AGREEMENT

This Change of Control Agreement (this "Agreement"), dated as of ______________, 199__, is between Itron, Inc., a Washington corporation (the "Company"), and NAME (the "Executive").

The Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its stockholders to ensure that the Company will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined in Appendix A to this Agreement, which is incorporated herein by this reference) of the Company. The Board believes it is imperative to diminish the inevitable distraction of the Executive arising from the personal uncertainties and risks created by a pending or threatened Change of Control, to encourage the Executive's full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control, to encourage the Executive's willingness to serve a successor in an equivalent capacity, and to provide the Executive with reasonable compensation and benefits arrangements in the event that a Change of Control results in the Executive's loss of equivalent employment.

In order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

1. EMPLOYMENT

1.1 CERTAIN DEFINITIONS

(a) "EFFECTIVE DATE" shall mean the first date during the Change of Control Period (as defined in Section 1.1(b)) on which a Change of Control occurs.

(b) "CHANGE OF CONTROL PERIOD" shall mean the period commencing on the date of this Agreement and ending on the [first][second] anniversary of the date the Company gives notice to the Executive that the Change of Control Period shall be terminated.

1.2 EMPLOYMENT PERIOD

The Company hereby agrees to continue the Executive in its employ or in the employ of its affiliated companies, and the Executive hereby agrees to remain in the employ of the Company or its affiliated companies, in accordance with the terms and provisions of this Agreement, for the period commencing on the Effective Date and ending on the [first][second][third] anniversary of such date (the "Employment Period").

1.3 POSITION AND DUTIES

During the Employment Period, the Executive's position, authority, duties and responsibilities shall be at least reasonably commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 90-day period immediately preceding the Effective Date.

1.4 LOCATION

During the Employment Period, the Executive's services shall be performed at the [Company's headquarters][headquarters of the Company's UTS subsidiary] on the Effective Date or any office which is subsequently designated as the headquarters of [the Company][the Company's UTS subsidiary] and is less than 50 miles from such location.

1.5 EMPLOYMENT AT WILL

The Executive and the Company acknowledge that, except as may otherwise be expressly provided under any other written employment agreement between the Executive and the Company, the employment of the Executive by the Company or its affiliated companies is "at will" and may be terminated by either the Executive or the Company or its affiliated companies at any time. Moreover, if prior to the Effective Date the Executive's employment with the Company or its affiliated companies terminates, then the Executive shall have no further rights under this Agreement.

1.6 BOARD OF DIRECTORS

The Executive is either currently or at some future time may become a member of the Board. His continuation as such shall be subject to the will of the Company's stockholders and the Board, as provided in the Company's by-laws and certificate of incorporation. Removal of the Executive from, or nonelection of the Executive to, the Board by the Company's stockholders or the Board, as provided in the Company's by-laws and articles of incorporation, shall in no event be deemed a breach of this Agreement by the Company.

2. ATTENTION AND EFFORT

During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive will devote all of his professional productive time, ability, attention and effort to the business and affairs of the Company and the discharge of the responsibilities assigned to him hereunder, and will use his best efforts to perform faithfully and efficiently such responsibilities. It shall not be a violation of this Agreement for the Executive to (a) serve on corporate, civic or charitable boards or committees, (b) deliver lectures, fulfill speaking engagements or teach at educational institutions, and (c) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities in accordance with this Agreement. It is expressly understood and agreed that to the extent any such activities have been conducted by the Executive prior to the Employment Period, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) during the Employment Period shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

3. COMPENSATION

During the Employment Period, the Company agrees to pay or cause to be paid to the Executive, and the Executive agrees to accept in exchange for the services rendered hereunder by him, the following compensation:

3.1 SALARY

The Executive shall receive an annual base salary (the "Annual Base Salary"), at least equal to the annual salary established by the Board or the Compensation Committee of the Board (the "Compensation Committee") prior to the Effective Date for the fiscal year in which the Effective Date occurs or, if the Executive's annual salary has not been established for the fiscal year in which the Effective Date occurs prior to the Effective Date, then the Annual Base Salary shall be the Executive's annual salary for the preceding fiscal year. The Annual Base Salary shall be paid in substantially equal installments and at the same intervals as the salaries of other officers of the Company are paid.

3.2 BONUS

In addition to Annual Base Salary, the Executive shall be awarded an annual bonus (the "Annual Bonus") in cash at least equal to the average annualized (for any fiscal year consisting of less than 12 full months) bonus paid or payable, including by reason of any deferral, to the Executive by the Company and its affiliated companies in respect of the three fiscal years immediately preceding the fiscal year in which the Effective Date occurs; provided, however, that payment of the Annual Bonus may be tied to either personal or Company performance goals reasonably consistent with those in the Company's bonus plan during the immediately preceding three fiscal years. Each such Annual Bonus shall be paid no later than 90 days after the end of the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect to defer the receipt of such Annual Bonus.

4. BENEFITS

4.1 BENEFIT PLANS; VACATION

During the Employment Period, the Executive shall be entitled to participate, subject to and in accordance with applicable eligibility requirements, in such fringe benefit programs as shall be provided to other executives of the Company and its affiliated companies from time to time during the Employment Period by action of the Board (or any person or committee appointed by the Board to determine fringe benefit programs and other emoluments), including, without limitation, paid vacations; any incentive, savings and retirement plan, practice, policy or program; and all welfare benefit plans, practices, policies and programs (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs).

4.2 EXPENSES

During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable employment expenses incurred by him in accordance with the policies, practices and procedures of the Company and its affiliated companies in effect for the executives of the Company and its affiliated companies during the Employment Period.

5. TERMINATION

Employment of the Executive during the Employment Period may be terminated as follows but, in any case, the nondisclosure and noncompetition provisions set forth in Section 8 hereof shall survive the termination of this Agreement and the termination of the Executive's employment with the Company:

5.1 BY THE COMPANY OR THE EXECUTIVE

Upon giving Notice of Termination (as defined below), the Company may terminate the employment of the Executive with or without Cause (as defined below), and the Executive may terminate his employment for Good Reason (as defined below) or for any reason, at any time during the Employment Period.

5.2 AUTOMATIC TERMINATION

This Agreement and the Executive's employment during the Employment Period shall terminate automatically upon the death or Total Disability of the Executive. The term "Total Disability" as used herein shall mean the Executive's inability, as determined by a physician selected by the Company and acceptable to the Executive, to perform the duties set forth in Section 1.3 hereof for a period or periods aggregating 120 calendar days in any 12-month period as a result of physical or mental illness, loss of legal capacity or any other cause beyond the Executive's control, unless the Executive is granted a leave of absence by the Board; provided, however, that the Executive shall not be deemed to have a "Total Disability" if the Executive is capable of performing the essential functions of his position after being provided with such accommodation as may be necessary so long as such accommodation does not place undue burden on the Company. The Executive and the Company hereby acknowledge that the Executive's presence and ability to perform the duties specified in Section 1.3 hereof is of the essence of this Agreement.

5.3 NOTICE OF TERMINATION

Any termination by the Company or by the Executive during the Employment Period shall be communicated by Notice of Termination to the other party given in accordance with Section 10 hereof. The term "Notice of Termination" shall mean a written notice which (a) indicates the specific termination provision in this Agreement relied upon and (b) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

5.4 DATE OF TERMINATION

During the Employment Period, "Date of Termination" means (a) if the Executive's employment is terminated by reason of death, at the end of the calendar month in which the Executive's death occurs, (b) if the Executive's employment is terminated by reason of Total Disability, immediately upon a determination by the Company of the Executive's Total Disability, and (c) in all other cases, five days after the date of personal delivery of or mailing of, as applicable, the Notice of Termination. The Executive's employment and performance of services will continue during such five-day period; PROVIDED, HOWEVER, that the Company may, upon notice to the Executive and without reducing the Executive's compensation during such period, excuse the Executive from any or all of his duties during such period.

6. TERMINATION PAYMENTS

In the event of termination of the Executive's employment during the Employment Period, all compensation and benefits set forth in this Agreement shall terminate except as specifically provided in this Section 6.

6.1 TERMINATION BY THE COMPANY FOR OTHER THAN CAUSE OR BY THE EXECUTIVE FOR GOOD REASON

If the Company terminates the Executive's employment other than for Cause or the Executive terminates his employment for Good Reason prior to the end of the Employment Period, the Executive shall be entitled to:

(a) receive payment of the following accrued obligations (the "Accrued Obligations"):

(i) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid;

(ii) the product of (x) the Annual Bonus payable with respect to the fiscal year in which the Date of Termination occurs and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365; and

(iii) any compensation previously deferred by the Executive (together with accrued interest or earnings thereon, if any) as such deferred compensation becomes payable under the deferral plan, and any accrued vacation pay, in each case to the extent not theretofore paid;

(b) for [one][two] year[s] after the Date of Termination, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under group health insurance plans and other group insurance programs (such as life, disability, etc.) such that the Executive and/or the Executive's family is provided with benefits that are, in the aggregate, substantially equivalent to those which would have been provided to them in accordance with the Company plans that would have been available to Executive if the Executive's employment had not been terminated; PROVIDED, HOWEVER, that if the Executive becomes reemployed with another employer and is eligible to receive health or other group insurance benefits under another employer-provided plan, the health and other group insurance benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility (such continuation of such benefits for the period herein set forth shall be hereinafter referred to as the "Welfare Benefit Continuation"); and

(c) subject to adjustment as provided in Section 6.2, an amount as severance pay equal to the product of (i) [three][two][one] and (ii) the sum of the Executive's (x) Annual Base Salary and (y) Annual Bonus payable for the fiscal year in which the Date of Termination occurs.

6.2 OPTION ACCELERATION VALUE ADJUSTMENT TO SEVERANCE PAY

If the multiplicand in clause 6.1(c)(i) above is "three" or "two," the amount otherwise payable to Executive under Section 6.1(c) is subject to reduction as provided in this Section 6.2 in the event that the Executive receives value from acceleration of vesting of stock options in connection with the

Change of Control which triggered the Effective Date of this Agreement (as further defined below, the "Option Acceleration Value"). In such case, any amounts payable to Executive under Section 6.1(c) shall be reduced by the LESSER of (a) the amount calculated pursuant to clause 6.1(c)(ii) above or (b) the Option Acceleration Value.

The "Option Acceleration Value," if any, shall be calculated by multiplying (y) the amount by which the per share consideration received by the Company's shareholders in connection with the Change of Control exceeds the per share exercise price of options held by the Executive, by (z) the number of options accelerated in connection with the Change of Control which would not have subsequently vested prior to the termination of Executive's employment. If Executive holds more than one option at varying exercise prices, the foregoing calculation shall be done with respect to each option and the results of such calculations shall be aggregated to determine the Option Acceleration Value.

The following example is intended to illustrate the foregoing calculation of Option Acceleration Value. Facts assumed for purposes of example only: (a) Executive is granted an option on November 1, 1998 to purchase 1,000 shares of the Company's common stock at an exercise price of $10 per share, with vesting 25% annually over a four-year period; (b) a Change of Control occurs on March 31, 2000, in which the Company's shareholders exchange each of their shares of the Company's common stock for $25 worth of common stock of the acquiring company; (c) vesting of the unvested portion (750 shares) of Executive's option is accelerated in connection with the Change of Control; and (d) Executive's employment is terminated by the Company without Cause on November 30, 2000. Although vesting of options to purchase 750 shares was accelerated in connection with the Change of Control, because Executive would have vested (on November 1, 2000) an additional 250 shares prior to his termination, the benefit Executive realized from the acceleration was acceleration of vesting of 500 shares. Executive's Option Acceleration Value is therefore ($25 - $10) x 500, which equals $7,500.

6.3 TERMINATION FOR CAUSE OR OTHER THAN FOR GOOD REASON

If the Executive's employment shall be terminated by the Company for Cause or by the Executive for other than Good Reason during the Employment Period, this Agreement shall terminate without further obligation to the Executive other than the obligation to pay to the Executive his Annual Base Salary through the Date of Termination plus the amount of any compensation previously deferred by the Executive (as such deferred compensation becomes payable under the deferral plan), in each case to the extent theretofore unpaid.

6.4 STAY BONUS

If the Executive's employment is not terminated prior to the first anniversary of the Effective Date, upon the first anniversary of the Effective Date the Executive shall be entitled to receive a bonus equal to the sum of the Executive's then current Annual Base Salary and Annual Bonus paid or payable with respect to the Company's most recently completed fiscal year, whether or not Executive's employment with the Company continues beyond the first anniversary of the Effective Date. The bonus payable under this Section 6.4 shall be in addition to all other compensation to which the Executive is entitled.

6.5 TERMINATION BECAUSE OF DEATH OR TOTAL DISABILITY

If the Executive's employment is terminated by reason of the Executive's death or Total Disability during the Employment Period, this Agreement shall terminate automatically without further obligations to the Executive or his legal representatives under this Agreement, other than for payment of Accrued Obligations (which shall be paid to the Executive's estate or beneficiary, as applicable in the case of the Executive's death), and the timely payment or provision of the Welfare Benefit Continuation.

6.6 PAYMENT SCHEDULE

All payments under Section 6.1(a) and (c) shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

6.7 EXCISE TAXES

(a) In the event that the Executive becomes entitled to the payments or other benefits described in Section 6.1 hereof and the Executive becomes subject to the tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any successor provision (the "Excise Tax") as a result of such payments and benefits and any other payments or benefits from the Company required to be taken into account under Code Section 280G(b)(2) (collectively, "Parachute Payments"), the Company shall pay to Executive an additional amount (the "Make-Whole Payment") equal to the sum of (i) the Excise Tax payable to the Executive prior to the Make-Whole Payment and (ii) the Federal, state and local income tax and Excise Tax (including any interest or penalties thereon) payable upon all payments made under subparagraphs (i) and (ii) of this Section 6.7(a).

(b) All determinations required to be made under this Section 6.7, including whether the Executive has received a Parachute Payment, shall be made by the Company's accounting firm (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that the Executive has received a payment under Section 6.1, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. As promptly as practicable following such determination, the Company shall pay to or distribute for the benefit of the Executive such payments as are then due to the Executive under this Agreement. Any determination by the Accounting Firm shall be binding upon the Company and Executive.

6.8 CAUSE

For purposes of this Agreement, "Cause" means cause given by the Executive to the Company and shall include, without limitation, the occurrence of one or more of the following events:

(a) Failure or refusal to carry out any lawful duties of the Executive described in Section 1.3 hereof or any directions of the Board reasonably consistent with the duties herein set forth to be performed by the Executive;

(b) Violation by the Executive of a state or federal criminal law involving the commission of a crime against the Company or any other criminal act involving moral turpitude;

(c) Current abuse by the Executive of alcohol or controlled substances; deception, fraud, misrepresentation or dishonesty by the Executive; any incident materially compromising the Executive's reputation or ability to represent the Company with the public; any act or omission by the Executive which substantially impairs the Company's business, goodwill or reputation; or any other misconduct; or

(d) Any other material violation of any provision of this Agreement.

6.9 GOOD REASON

For purposes of this Agreement, "Good Reason" means

(a) The assignment to the Executive of any duties inconsistent in any material respect with the Executive's position, authority, duties or responsibilities as contemplated by Section 1.3 hereof or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive, and further excluding reasonable changes in particular duties and reporting responsibilities which may result from the Company becoming part of a larger business organization at some future time provided that such changes in the aggregate do not result in a material alteration in the Executive's position, authority, duties or responsibilities;

(b) Any failure by the Company to comply with any of the provisions of Section 3 hereof, other than an isolated and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(c) The Company's requiring the Executive to be based at any office or location other than that described in Section 1.4 hereof; or

(d) Any failure by the Company to comply with and satisfy Section 11 hereof, provided that the Company's successor has received at least ten days' prior written notice from the Company or the Executive of the requirements of Section 11 hereof.

7. REPRESENTATIONS, WARRANTIES AND OTHER CONDITIONS

In order to induce the Company to enter into this Agreement, the Executive represents and warrants to the Company as follows:

7.1 HEALTH

The Executive is in good health and knows of no physical or mental disability which, with or without any accommodation which may be required by law and which places no undue burden on the

Company, would prevent him from fulfilling his obligations hereunder. The Executive agrees, if the Company requests, to submit to periodic medical examinations by a physician or physicians designated by, paid for and arranged by the Company. The Executive agrees that the examination's medical report shall be provided to the Company.

7.2 NO VIOLATION OF OTHER AGREEMENTS

The Executive represents that neither the execution nor the performance of this Agreement by the Executive will violate or conflict in any way with any other agreement by which the Executive may be bound.

8. NONDISCLOSURE; NONCOMPETITION; RETURN OF MATERIALS

The Company and the Executive hereby reaffirm the Employee Invention and Nondisclosure Agreement previously executed by the Executive (attached as Exhibit A to this Agreement), and expressly incorporated herein as part of this Agreement. Consistent with the Employee Invention and Nondisclosure Agreement, Employee agrees that at no time during the Employment Period or within one year thereafter will Employee become involved in any activity or with any business entity anywhere in the world which directly or indirectly competes with any material product or service of the Company or its affiliates.

All documents, records, notebooks, notes, memoranda, drawings or other documents pertaining to the Company and its business made or compiled by the Executive at any time, or in his possession, including any and all copies thereof, shall be the property of the Company and shall be held by the Executive in trust and solely for the benefit of the Company, and shall be delivered to the Company by the Executive upon termination of employment or at any other time upon request by the Company.

The Executive understands that the Company will be relying on this Agreement in continuing the Executive's employment, paying him compensation, granting him any promotions or raises, or entrusting him with any information which helps the Company compete with others.

9. NOTICE AND CURE OF BREACH

Whenever a breach of this Agreement by either party is relied upon as justification for any action taken by the other party pursuant to any provision of this Agreement, other than clause (b), (c) or (d) of Section 6.8 hereof, before such action is taken, the party asserting the breach of this Agreement shall give the other party at least ten days' prior written notice of the existence and the nature of such breach before taking further action hereunder and shall give the party purportedly in breach of this Agreement the opportunity to correct such breach during the ten-day period.

10. FORM OF NOTICE

Every notice required by the terms of this Agreement shall be given in writing by serving the same upon the party to whom it was addressed personally or by registered or certified mail, return receipt requested, at the address set forth below or at such other address as may hereafter be designated by notice given in compliance with the terms hereof:

If to the Executive:

If to the Company: Itron, Inc.
2818 N. Sullivan Rd.
Spokane, WA 99215
Attention: President

or such other address as shall be provided in accordance with the terms hereof. Except as set forth in Section 5.4 hereof, if notice is mailed, such notice shall be effective upon mailing.

11. ASSIGNMENT

This Agreement is personal to the Executive and shall not be assignable by the Executive. The Company may assign its rights hereunder to (a) any corporation resulting from any merger, consolidation or other reorganization to which the Company is a party or (b) any corporation, partnership, association or other person to which the Company may transfer all or substantially all of the assets and business of the Company existing at such time. All the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns.

The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean Itron, Inc. and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

12. FULL SETTLEMENT

The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement, and, except as provided in Section 6.1(b), such amounts shall not be reduced whether or not the Executive obtains other employment. The Company agrees to pay promptly upon invoice, to the full extent permitted by law, all legal fees and expenses that the Executive may incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement).

13. WAIVERS

No delay or failure by any party hereto in exercising, protecting or enforcing any of its rights, titles, interests or remedies hereunder, and no course of dealing or performance with respect thereto, shall constitute a waiver thereof. The express waiver by a party hereto of any right, title, interest or remedy in a particular instance or circumstance shall not constitute a waiver thereof in any other instance or circumstance. All rights and remedies shall be cumulative and not exclusive of any other rights or remedies.

14. TERMINATION; AMENDMENTS IN WRITING

The Company may unilaterally terminate the Change of Control Period by notice given to the Executive in accordance with Section 1.1(b) and Section 9 hereof. No other amendment, modification, waiver, termination or discharge of any provision of this Agreement, nor consent to any departure therefrom by either party hereto, shall in any event be effective unless the same shall be in writing, specifically identifying this Agreement and the provision intended to be amended, modified, waived, terminated or discharged and signed by the Company and the Executive, and each such amendment, modification, waiver, termination or discharge shall be effective only in the specific instance and for the specific purpose for which given. No provision of this Agreement shall be varied, contradicted or explained by any oral agreement, course of dealing or performance or any other matter not set forth in an agreement in writing and signed by the Company and the Executive.

15. APPLICABLE LAW

This Agreement shall in all respects, including all matters of construction, validity and performance, be governed by, and construed and enforced in accordance with, the laws of the State of Washington, without regard to any rules governing conflicts of laws.

16. SEVERABILITY

If any provision of this Agreement shall be held invalid, illegal or unenforceable in any jurisdiction, for any reason, including, without limitation, the duration of such provision, its geographical scope or the extent of the activities prohibited or required by it, then, to the full extent permitted by law, (a) all other provisions hereof shall remain in full force and effect in such jurisdiction and shall be liberally construed in order to carry out the intent of the parties hereto as nearly as may be possible, (b) such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of any other provision hereof, and (c) any court or arbitrator having jurisdiction thereover shall have the power to reform such provision to the extent necessary for such provision to be enforceable under applicable law.

17. ENTIRE AGREEMENT

This Agreement on and as of the date hereof constitutes the entire agreement between the Company and the Executive with respect to the subject matter hereof and all prior or contemporaneous oral or written communications, understandings or agreements between the Company and the Executive with respect to such subject matter are hereby superseded and nullified in their entireties, with the exception of the Employee Invention and Nondisclosure Agreement referenced in Section 8.

18. WITHHOLDING

The Company may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

19. COUNTERPARTS

This Agreement may be executed in counterparts, each of which counterpart shall be deemed

an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed and entered into this Agreement on the date set forth above.

EXECUTIVE

[Executive]

ITRON, INC.

By

Its Chairman of the Board,
President & CEO

APPENDIX A TO

CHANGE OF CONTROL AGREEMENT

For purposes of this Agreement, a "Change of Control" shall mean:

(a) A "Board Change" which, for purposes of this Agreement, shall have occurred if a majority (excluding vacant seats) of the seats on the Company's Board are occupied by individuals who were neither (i) nominated by a majority of the Incumbent Directors nor (ii) appointed by directors so nominated. An "Incumbent Director" is a member of the Board who has been either (i) nominated by a majority of the directors of the Company then in office or (ii) appointed by directors so nominated, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person (as hereinafter defined) other than the Board; or

(b) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of (i) 20% or more of either (A) the then outstanding shares of Common Stock of the Company (the "Outstanding Company Common Stock") or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"), in the case of either (A) or (B) of this clause (i), which acquisition is not approved in advance by a majority of the Incumbent Directors, or (ii) 33% or more of either (A) the Outstanding Company Common Stock or (B) the Outstanding Company Voting Securities, in the case of either (A) or (B) of this clause (ii), which acquisition is approved in advance by a majority of the Incumbent Directors; PROVIDED, HOWEVER, that the following acquisitions shall not constitute a Change of Control: (w) any acquisition directly from the Company, (x) any acquisition by the Company, (y) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (z) any acquisition by any corporation pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (i), (ii) and (iii) of subsection (c) of this Appendix A are satisfied; or

(c) Approval by the stockholders of the Company of a reorganization, merger or consolidation, in each case, unless, immediately following such reorganization, merger or consolidation, (i) more than 60% of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such reorganization, merger or consolidation in substantially the same proportion as their ownership immediately prior to such reorganization, merger or consolidation of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (ii) no Person

(excluding the Company, any employee benefit plan (or related trust) of the Company or such corporation resulting from such reorganization, merger or consolidation and any Person beneficially owning, immediately prior to such reorganization, merger or consolidation, directly or indirectly, 33% or more of the Outstanding Company Common Stock or the Outstanding Voting Securities, as the case may be) beneficially owns, directly or indirectly, 33% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation or the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such reorganization, merger or consolidation were the Incumbent Directors at the time of the execution of the initial agreement providing for such reorganization, merger or consolidation; or

(d) Approval by the stockholders of the Company of (i) a complete liquidation or dissolution of the Company or (ii) the sale or other disposition of all or substantially all the assets of the Company, other than to a corporation with respect to which immediately following such sale or other disposition, (A) more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding the Company, any employee benefit plan (or related trust) of the Company or such corporation and any Person beneficially owning, immediately prior to such sale or other disposition, directly or indirectly, 33% or more of the Outstanding Company Common Stock or the Outstanding Company Voting Securities, as the case may be) beneficially owns, directly or indirectly, 33% or more of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (C) at least a majority of the members of the board of directors of such corporation were approved by a majority of the Incumbent Directors at the time of the execution of the initial agreement or action of the Board providing for such sale or other disposition of assets of the Company.

Notwithstanding the foregoing, there shall not be a Change of Control if, in advance of such event, the Executive agrees in writing that such event shall not constitute a Change of Control.

ITRON, INC. Exhibit 10.2

Change of Control Agreements

(a) Humphreys, Johnny
(b) Remington, Dave
(c) White, Ed
(d) Huschke, Klaus
(e) Neilson, Rob
(f) Nosbaum, LeRoy
(g) O'Callaghan, Mike
(h) Panattoni, Larry
(i) Shepherd, Dennis
(j) Vanos, Russ
(k) Geiger, Rick
(l) Moore, Gary
(m) Scarpelli, Mima
(n) Smith, John
(o) Godwin, Dave

ITRON, INC. Exhibit 10.10

Indemnification Agreements:

(a) Michael B. Bracy
(b) Jon E. Eliassen
(c) Johnny M. Humphreys
(d) Klaus O. Huschke
(e) Michael J. O'Callaghan
(f) Larry A. Panattoni
(g) Paul A. Redmond
(h) Graham M. Wilson
(i) Robert D. Neilson
(j) Ted C. DeMerritt
(k) Mary Ann Peters
(l) Russell E. Vanos
(m) David G. Remington
(n) Stuart Edward White
(o) LeRoy D. Nosbaum
(p) Dennis A. Shepherd

Exhibit 10.15

LOAN AGREEMENT

between

ITRON, INC.,

as Borrower,

and

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

and

U.S. BANK NATIONAL ASSOCIATION,

as Lenders,

and

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION,

as Agent.

Dated as of the 30th day of September, 1998

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LOAN AGREEMENT

THIS LOAN AGREEMENT (this "Agreement") is dated as of September 30, 1998, between BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, a national banking association, and U.S. BANK NATIONAL ASSOCIATION, a national banking association, as Lenders, BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION as agent for Lenders ("Agent"), and ITRON, INC., as Borrower, and renews, restates, and replaces the Loan Agreement between the parties (Bank of America National Trust and Savings Association being the successor by merger to Bank of America NW, N.A., and U.S. Bank National Association having substituted as a Lender for Washington Trust Bank) dated July 1, 1996 (as subsequently amended, the "Prior Loan Agreement"). For mutual consideration, Lenders, Borrower, and Agent enter into this Agreement.

ARTICLE 1
DEFINITIONS

1.1 CERTAIN DEFINED TERMS

As used in this Agreement, the following terms have the following meanings, which apply to both the singular and plural forms of the terms defined:

"ACCOUNT" means all accounts, as such term is defined in the Uniform Commercial Code of Washington, of Borrower or a Subsidiary of Borrower.

"ACCOUNT DEBTOR" means any person or entity who is or who may become obligated under, or on account of, an Account.

"AGENT" means Bank of America National Trust and Savings Association in its capacity as agent for Lenders.

"AGENT-RELATED PERSONS" means Bank of America and any successor agent arising under Section 8.6, together with their respective affiliates, and the officers, directors, employees, agents and attorneys-in-fact of such persons, entities and affiliates.

"APPLICABLE INTEREST PERIOD" means, with respect to any Loan, the period commencing on the date such Loan was made pursuant to Section 2.2 or converted or continued pursuant to Section 2.5 and ending:

(a) At the end of the Commitment Period in the case of a Base Rate Loan;

(b) one, two, three or six months thereafter in the case of a LIBOR Loan as specified in the Notice of Borrowing or Notice of Refinancing given by Borrower in respect of such Loan;

PROVIDED, HOWEVER, that no Applicable Interest Period may end later than the expiration of the Commitment Period.

"APPLICABLE INTEREST RATE" means, for each Loan (or portion of a Loan), the Base Rate or the LIBOR Rate as designated by Borrower and specified in the Notice of Borrowing or the Notice of Refinancing given with respect to that Loan (or portion of a Loan) or as otherwise determined pursuant to Section 2.5.

"ATTORNEY COSTS" means and includes all reasonable fees and disbursements of any law firm or other external counsel, the allocated cost of internal legal services and all disbursements of internal counsel.

"AVAILABLE COMMITMENT" as to each Lender shall mean (A) the lesser of its Pro Rata Share of the Commitment or its Pro Rata Share of the Borrowing Base, minus (B) its Pro Rata Share of all outstanding Loans (including as Loans the outstanding principal amount of all Letters of Credit).

"BASE RATE" means an interest rate per annum equal to the sum of (1) the Base Rate Spread, plus (2) the higher of:

(A) the rate of interest publicly announced from time to time by Bank of America National Trust and Savings Association ("BofA") in San Francisco, California, as its "Reference Rate." The Reference Rate is set based on various factors, including BofA's costs and desired return, general economic conditions, and other factors, and is used as a reference point for pricing some loans. BofA may price loans to its customers at, above, or below the Reference Rate. Any change in the Reference Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Reference Rate; or

(B) the sum of 0.50% plus the "Federal Funds" rate, as quoted by Garvin Guybutler on page 5 of Telerate on such day (or if said broker or Telerate shall cease to quote or report the "Federal Funds" rate, the "Federal Funds" rate shall be as quoted by another broker and as reported on any other electronic or printed medium selected by Agent), changing as such "Federal Funds" rate changes.

For purposes hereof, the term "Base Rate Spread" shall be as set forth below depending upon the ratio of Total Debt to EBITDA, which ratio shall be determined on a trailing four-quarter basis as shown on the most recent Compliance Certificate delivered by Borrower (subject to verification of calculations on such Compliance Certificate by Agent). Any change in the ratio, as reflected in a newly-delivered Compliance Certificate, causing the Base Rate Spread to increase or decrease, shall become effective on the date the Compliance Certificate is received by Agent, and shall change the Base Rate Spread on each Base Rate Loan outstanding, in addition to each Base Rate Loan subsequently created. If the Compliance Certificate is not delivered to Agent by the date required under Section 5.9(c), the Base Rate Spread shall immediately increase to 2.00% above the Base Rate Spread otherwise in effect until delivery of a new Compliance Certificate occurs:

TOTAL DEBT TO EBITDA	BASE RATE SPREAD
> 5.95	2.25%
> 5.00 but < = 5.95	2.0%
> 4.25 but < = 5.00	1.5%
> 3.75 but < = 4.25	1.00%
> 3.25 but < = 3.75	0.50%
> 2.25 but < = 3.25	0.25%
< = 2.25	0.00%

"BASE RATE LOAN" means a Loan bearing interest at the Base Rate.

"BORROWER" means Itron, Inc., a Washington corporation, and any Successor.

"BORROWING BASE" means the sum of (a) 75% of the value of all Eligible Accounts, plus (b) 30% of the value of all Unbilled Accounts, plus (c) the lesser of $12,000,000 or 40% of the value of all Eligible Inventory, valued at the lower of cost or market.

"BORROWING BASE CERTIFICATE" means a certificate duly executed by the chief financial officer or treasurer of Borrower, substantially in the form of Exhibit H attached.

"BUSINESS DAY" means a day, other than Saturday or Sunday, on which banks are open for business in Seattle, Washington, and San Francisco, California.

"CHANGE OF CONTROL" means the acquisition by any person or entity, or any two or more persons or entities acting in concert, of beneficial ownership (within the meaning of Rule 13d3 of the Securities and Exchange Commission) of outstanding shares of voting stock of Borrower representing more than 50% of voting control of Borrower, which person(s) or entity(ies) currently have beneficial ownership of 50% or less of the outstanding voting shares of voting stock of Borrower.

"CODE" means the Internal Revenue Code of 1986, as amended from time to time.

"COLLATERAL" has the meaning defined in Section 2.12.

"COMMITMENT" shall mean, as to each Lender, the sum set forth next to such Lender's name on Exhibit F attached and, as to Lenders together, the amount set forth as "Total Commitment" on Exhibit F attached. Borrower may reduce the Commitment, in minimum increments of $1,000,000, upon five Business Days' notice to Agent, so long as the combined outstanding balance of all Loans (including Letters of Credit, and unreimbursed draws under Letters of Credit) does not exceed the reduced Available Commitment amount.

"COMMITMENT PERIOD" has the meaning defined in Section 2.

"COMPLIANCE CERTIFICATE" shall mean a certificate substantially in the form of Exhibit G attached, signed by the chief executive officer, chief financial officer, or other principal financial officer of Borrower.

"CONTROLLED GROUP" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with Borrower, are treated as a single employer under Section 414(b) or 41 4(c) of the Code.

"EBITDA" has the meaning defined in Section 5.13.

"EFFECTIVE DATE" means September 30, 1998.

"ELIGIBLE ACCOUNTS" means, at the time of any determination thereof, any Account of Borrower or a Subsidiary of Borrower as to which each of the following requirements has been met to the satisfaction of the Agent:

(a) Borrower or such Subsidiary has lawful and absolute title to such Account and such Account is, in Borrower's reasonable judgment, collectible in the ordinary course of business;

(b) Such Account is not subject to a bona fide dispute, setoff, counterclaim or other claim or defense on the part of any person or entity (including the Account Debtor of the Account) denying liability under such Account;

(c) Such Account is not subject to any Lien in favor of any person or entity, except Liens permitted by Section 6.3;

(d) Such Account is a bona fide Account (which with respect to an Account arising FROM a sale of goods, was created as a result of a sale on an absolute basis and not on consignment, approval, or sale-and-return basis) of Borrower or a Subsidiary of Borrower arising in the ordinary course of such entity's business and which:

(i) if an Account arising from the sale of goods covers goods which have been shipped or delivered and on which have been taken all other actions necessary to create a binding obligation on the part of the Account Debtor on such Account;

(ii) if an Account relating to the furnishing of services, covers services which have been performed and completed and on which have been taken all other actions necessary to create a binding obligation on the part of the Account Debtor on such Account;

(e) The Account Debtor on such Account is not:

(i) Borrower or a Subsidiary of Borrower;

(ii) located outside the United States or its territories; or

(iii) to the best of Borrower's knowledge the subject of any reorganization, bankruptcy, receivership, custodianship, insolvency. or other proceeding analogous to those described in Section 7.1 (f), (g), or (h); original due date; and

(f) Such Account is not outstanding more than 120 days past its

(g) Such Account is the subject of a first priority perfected security interest in favor of Agent as agent for Lenders, securing the obligations of Borrower under the Loan Documents.

ELIGIBLE INVENTORY" means, at the time of any determination thereof, each item of Inventory (for purposes of this definition, an "Item") of Borrower or a Subsidiary of Borrower acquired in the ordinary course of business and as to which each of the following requirements has been fulfilled to the satisfaction of Agent:

(a) The Item is located in the continental United States;

(b) The Item does not consist of:

(i) An Item in the custody of third parties for processing or manufacture, including any Item the sale or delivery of which has constituted an "Unbilled Account" as set forth in any Borrowing Base Certificate;

(ii) An Item in Borrower's or such Subsidiary's possession but intended by Borrower or such Subsidiary for return to the supplier thereof;

(iii) An Item belonging to third parties that has been consigned to Borrower or such Subsidiary, or to another Person for the account of Borrower or such Subsidiary, or is otherwise in the custody or possession of Borrower or such Subsidiary, or such other Person for account of Borrower or such Subsidiary; or

(iv) An Item in Borrower's or such Subsidiary's custody or possession on a sale-on approval or sale-or-return basis or subject to any other repurchase or return agreement; or

(v) An Item consisting of work in process, or consisting of raw materials or finished goods which have not met Borrower's material review board standards, or have been set aside as potentially defective pending or pursuant to Borrower's material review board inspection;

(c) The Item is not unsalable, obsolete, damaged, or otherwise unfit for sale or consumption in the normal course of business of Borrower or such Subsidiary;

(d) The Item is not subject to any Lien in favor of any person or entity, except for Liens permitted under Section 6.3; and

(e) The Item is subject to a first priority perfected security interest in favor of Agent as agent for Lenders, securing the obligations of Borrower under the Loan Documents.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended

"EVENT OF DEFAULT" has the meaning defined in Section 7.1.

"GOVERNMENT APPROVAL" means an approval, permit, license, authorization, certificate, or consent of any Governmental Authority.

"GOVERNMENTAL AUTHORITY" means the government of the United States or any State or any foreign country or any political subdivision of any thereof or any branch, department, agency, instrumentality, court, tribunal or regulatory authority which constitutes a part or exercises any sovereign power of any of the foregoing.

"INDEBTEDNESS" means for any person (i) all items of indebtedness or liability (except capital, surplus, deferred credits and reserves, as such) which would be included in determining total liabilities as shown on the liability side of a balance sheet as of the date as of which indebtedness is determined, (ii) indebtedness secured by any Lien, whether or not such indebtedness shall have been assumed, (iii) any other indebtedness or liability, including but not limited to indebtedness or liability for borrowed money or for the deferred purchase price of property or services, for which such person is directly or contingently liable as obligor, guarantor, or otherwise, including but not limited to performance guaranties and surety bond obligations, or in respect of which such person otherwise assures a creditor against loss, and (iv) any other obligations of such person under leases which shall have been or should be recorded as capital leases.

"INVENTORY" means all inventory, as such term is defined in the Uniform Commercial Code of Washington, of Borrower or a Subsidiary of Borrower.

"LENDERS" mean Bank of America National Trust and Savings Association (in its separate capacity, "Bank of America") and U.S. National Association, and any Successors.

"LETTER(S) OF CREDIT" shall have the meaning given in Section 2.11 of the Agreement.

"LIBOR LOAN" means any portion of a Loan bearing interest at the LIBOR Rate.

"LIBOR RATE" shall mean, with respect to any LIBOR Loan for any Applicable Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the sum of (a) the LIBOR Spread and (b) the product of (i) the Euro-dollar Rate in effect for such Applicable Interest Period and (ii) Euro-dollar Reserves in effect on the first day of such Applicable Interest Period.

For purposes hereof, the term "LIBOR Spread" shall be as set forth below depending upon the ratio of Total Debt to EBITDA, which ratio shall be determined on a trailing four-quarter basis as shown on the most recent Compliance Certificate delivered by Borrower (subject to verification of calculations on such Compliance Certificate by Agent). Any change in the ratio, as reflected in a newly-delivered Compliance Certificate, causing the LIBOR Spread to increase or decrease, shall become effective on the date the Compliance Certificate is received by Agent, and shall change the LIBOR Spread on each LIBOR Loan outstanding, in addition to each LIBOR Loan subsequently created. If the Compliance Certificate is not delivered to Agent by the date required under Section 5.9(c), the LIBOR Spread shall immediately increase to 2.00% above the LIBOR Rate Spread otherwise in effect until delivery of a new Compliance Certificate occurs:

TOTAL DEBT TO EBITDA	BASE RATE SPREAD
> 5.95	3.50%
> 5.00 but < = 5.95	3.25%
> 4.25 but < = 5.00	2.75%
> 3.75 but < = 4.25	2.25%
> 3.25 but < = 3.75	1.75%
> 2.25 but < = 3.25	1.50%
< = 2.25	1.00%

For purposes hereof, the term "Euro-dollar Rate" shall be determined on the basis of the lower of (a) the offered rate for deposits in U.S. Dollars for the Applicable Interest Period commencing on the first day of such Applicable Interest Period (the "Reset Date") which appears on the display designated as the "LIBO" page on the Reuter Monitor Money Rates Service (or such other page as may replace the LIBO page on that service for the purpose of displaying London interbank offered rates of major banks) as of

11:00 a.m., London time, on the day that is two Business Days preceding the Reset Date, or (b) the British Bankers' Association interest settlement rate at 11:00 a.m., London time, on the day that is two Business Days preceding the Reset Date, as reported on page 3750 of Telerate Systems, Inc. under the U.S. dollar column. If at least two such offered rates appear on either service's screen LIBO page, the Euro-dollar Rate in respect of that Reset Date will be based on the arithmetic means of such offered rates. If no such rate is available, the Euro-dollar Rate will be determined on the basis of the rates at which deposits in U.S. Dollars are offered by four major banks (selected by Agent) in the London interbank market at approximately 11:00 a.m., London time, on the day that is two Business Days preceding the Reset Date to prime banks in the London interbank market for the Applicable Interest Period. Agent will request the principal London office of each of the four banks to provide a quotation of its rate. The Euro-dollar Rate will be the arithmetic means of the quotations.

For purposes hereof, the term "Euro-dollar Reserves" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including, without limitation, any special, supplemental, marginal or emergency reserves) expressed as a decimal established by the Board of Governors of the Federal Reserve System and any other banking authority to which Agent is subject, for Eurocurrency Liability (as defined in Regulation D of such Board of Governors). Euro-dollar Reserves shall be adjusted automatically on and as of the effective date of any char reserve percentage.

"LIEN" means, for any person, any security interest, pledge, mortgage, charge, assignment, hypothecation, encumbrance, attachment, garnishment, execution or other voluntary or involuntary lien upon or affecting the revenues of such person or any real or personal property in which such person has or hereafter acquires any interest, EXCEPT (i) liens for Taxes which are not delinquent or which remain payable without penalty or the validity or amount of which is being contested in good faith by appropriate proceedings upon stay of execution of the enforcement thereof; 60 liens imposed by law (such as mechanics' liens) incurred in good faith in the ordinary course of business which are not delinquent or which remain payable without penalty or-the validity or amount of which is being contested in good faith by appropriate proceedings upon stay of execution of the enforcement thereof; and (iii) deposits or pledges under workmen's compensation, unemployment insurance, social security or other similar laws or made to secure the performance of bids, tenders, contracts (except for repayment of borrowed money), or leases, or to secure statutory obligations or surety or appeal bonds or to secure indemnity, performance or other similar bonds given in the ordinary course of business.

"LOAN" means a loan by Lenders to Borrower pursuant to Article 2. Each Lender's Pro Rata Share of the Letters of Credit shall be deemed an outstanding "Loan" by such Lender for purposes of calculating fees under Section 2.9 of the Agreement, for purposes of calculating availability under Section 2.1 of the Agreement, and for all other purposes under the Agreement other than the calculation of interest. Any amount drawn under the Letters of Credit, and not reimbursed to Agent on the same Business Day, shall be deemed a Base Rate Loan under the Agreement.

"LOAN DOCUMENTS" means this Agreement, the Notes, all security agreements and other documents, agreements and instruments entered into with regard to this Agreement, and all amendments, modifications and renewals to those documents.

"MATERIAL SUBSIDIARY" means any Subsidiary which, because of its size or the nature of its business, is material to the business, operations or financial condition of the enterprise comprised of Borrower and its Subsidiaries taken as a whole. The Subsidiaries that are Material Subsidiaries as of the Effective Date are described on Exhibit D.

"NOTE" AND "NOTES" have the meaning defined in Section 2.6.

"NOTICE OF BORROWING" has the meaning defined in Section 2.2 and shall be in the form attached hereto as Exhibit A.

"NOTICE OF REFINANCING" has the meaning defined in Section 2.5 and shall be in the form attached hereto as Exhibit B.

"OUTSOURCING CONTRACTS" means contracts or arrangements in which Borrower, either directly or through Subsidiaries, performs meter reading and other services for a utility in return for a scheduled amount over a period of time, either directly or through joint ventures with utilities and other industry participants.

"PAYMENT ADDRESS" means "GPO - Agency Administrative Services #5596, 1850 Gateway Boulevard, Concord, California 94520, Reference: ltron;" or such other location as Agent shall notify Borrower and Lenders by a notice given in compliance with Section 9.4.

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"PENSION PLAN" OR "PLAN" shall mean, at any time, an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and is either (a) maintained by Borrower or any member of a Controlled Group for employees of Borrower or any member of such Controlled Group, or (b) maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which Borrower or any member of a Controlled Group is then making or accruing an obligation to make contributions or has within the preceding 5 plan years made contributions.

"POTENTIAL EVENT OF DEFAULT" means an act, action or event set forth in Article 7 which would constitute an Event of Default except that the notice required by Article 7 has not been given or the cure period set forth in Article 7 has not expired.

"PRO RATA SHARE" means 65% as to Bank of America, and 35% as to U.S. Bank

"SUBORDINATED DEBT" means Indebtedness for borrowed money of Borrower which shall have been subordinated to the Loans and other obligations of Borrower under the Loan Documents, on terms and conditions which provide, in form satisfactory to Agent, that no payments may be made by Borrower in respect of such Indebtedness at any time when an Event of Default or Potential Event of Default shall have occurred and be continuing.

"SUBSIDIARY" means any corporation of which a majority (by number of shares or by number of votes) of any class of outstanding capital stock normally entitled to vote for the election of one or more directors (regardless of any contingency which does or may suspend or dilute the voting rights of such class) is at such time owned directly or indirectly by Borrower or one or more subsidiaries.

"SUCCESSOR" means, for any corporation or banking association, any successor by merger or consolidation, or by acquisition of substantially all of the assets of the predecessor.

"TANGIBLE CAPITAL" has the meaning defined in Section 5.13.

"TOTAL DEBT" has the meaning defined in Section 5.13.

"TURNKEY CONTRACTS" means contracts between Borrower or a Subsidiary and third parties for the purchase of meter reading systems, where such Borrower or Subsidiary remains responsible for installation of the system, and the customer's obligation to pay and responsibility to operate the system occurs upon installation and/or acceptance of the system.

"UNBILLED ACCOUNTS" means Accounts which otherwise meet all requirements of Eligible Accounts, except that they represent Accounts not yet due because goods that have been shipped to generate such Account, while having been shipped to a purchaser's location, are awaiting installation or acceptance, and job completion.

"UNFUNDED VESTED LIABILITIES" means, with respect to any Plan, at any time, the amount (if any) by which (a) the present value of all vested nonforfeitable benefits under such Plan exceeds (b) the fair market value of all Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of Borrower or any member of the Controlled Group to the PBGC or the Plan under Title IV of ERISA.

1.2 ACCOUNTING TERMS

Except as otherwise provided herein, accounting terms no specifically defined shall be construed, and all accounting procedures shall be performed, in accordance with generally accepted United States accounting principles consistently applied.

ARTICLE 2
THE CREDIT

2.1 THE REVOLVING CREDIT

Each Lender severally agrees on the terms and conditions of this Agreement to make revolving loans to Borrower (the "Loans") from time to time on Business Days during the period beginning on the Effective Date and ending on September 30, 1999, or such earlier date as the Commitment may be terminated pursuant to Section 7.2 (the "Commitment Period"), PROVIDED that after giving effect to any such Loan or the issuance of any Letter of Credit pursuant to Section 2.11, the aggregate unpaid principal amount of all such Loans made by such Lender shall not exceed at any time such Lender's Pro Rata Share of the Available Commitment. The Loans described in this Section 2.1 constitute a revolving credit and, subject to the terms and conditions hereof, within the amount and time specified, Borrower may pay, prepay and reborrow. Each Loan requested by Borrower under this Section 2.1 shall be in an amount (for both Lenders combined) of not less than $250,000 if such Loan or advance is a Base Rate Loan and not less than $500,000 if such Loan is a LIBOR Loan.

2.2 MANNER OF BORROWING

Borrower shall give Agent at least same Business Day's written notice (by telecopy or otherwise) of each intended borrowing of a Base Rate Loan, and at least three (3) Business Day's written notice (by telecopy or otherwise) of each intended borrowing of a LIBOR Loan. Each such notice (herein a "Notice of Borrowing") shall be in the form of Exhibit A and shall specify the date of the intended borrowing, and the initial Applicable Interest Rate and Applicable Interest Period selected by Borrower in respect of the anticipated Loan. Each Notice of Borrowing shall be effective upon receipt, except that notices received by Agent after 10:30 a.m., Seattle time, on a Business Day shall be deemed to be received on the immediately succeeding Business Day. All such notices shall be irrevocable and shall constitute a representation and warranty by Borrower that as of the date of the notice the statements set forth in Article 4 hereof are true and correct and that no Event of Default or Potential Event of Default shall have occurred and be continuing. On receipt of such Notice of Borrowing, Agent shall promptly (on the same day, if possible) notify each Lender by telephone (confirmed promptly by telex or telecopy), telex or telecopy of the information set forth in the Notice of Borrowing. Each Lender shall before 12:00 p.m. Seattle time on the specified date of borrowing pay such Lender's Pro Rata Share of the requested borrowing in immediately available funds to Agent at its Payment Address. Upon fulfillment to Agent's satisfaction of the applicable conditions set forth in Article 3, and after receipt by Agent of such funds, Agent will make such funds available to Borrower. All Loans outstanding under the Prior Loan Agreement shall immediately upon the Effective Date be deemed Loans under this Agreement, with the same payment terms and Interest Period as then in effect, but with the LIBOR Spread increased to that applicable under this Agreement.

Each Lender may, at its option, fund its own Commitment hereunder notwithstanding any default by the other Lender in advancing its Commitment. In such event, Agent shall thereafter take such disproportionate funding into account in allocating principal and interest repayments to Lenders. The foregoing right of a Lender to advance funds in spite of the other Lender's default shall not prejudice or limit in any respect the rights of such Lender or Borrower against the defaulting Lender.

2.3 REPAYMENT OF PRINCIPAL

Borrower shall repay to Lender the principal amount of the Loans on or before the last day of the Commitment Period. On each date when the aggregate outstanding principal amount of the

Loans (including outstanding Letters of Credit) exceeds the Borrowing Base, Borrower shall make a prepayment of the Loans in an amount equal to such excess.

2.4 INTEREST

(a) Borrower agrees to pay interest on the unpaid principal amount of each Loan from the date of the Loan until the end of the Commitment Period at the Applicable Interest Rate and thereafter at a rate which is two (2) percentage points per annum above the Applicable Interest Rate (changing as the Applicable Interest Rate changes). Accrued but unpaid interest on each Loan shall be paid (i) as to Base Rate Loans, on the first day of each calendar month for the period ending on the last day of the preceding calendar month, and 00 as to LIBOR Loans, on the last day of the Applicable Interest Period and, for Applicable Interest Periods longer than three months, also on the day three months after the first day of the ' Applicable Interest Period. Notwithstanding the foregoing, accrued interest on any Loan shall be payable on demand after the occurrence and during continuation of an Event of Default.

(b) In the event, and on each occasion, that Agent shall have determined (which determination shall be conclusive and binding) that the LIBOR Rate cannot be ascertained for any reason (including, without limitation, the inability or failure of Agent to obtain sufficient bids in accordance with the terms of the definition of the LIBOR Rate) or Agent shall determine that due to a change in the financial markets not specifically related to the unique funding capabilities of either Lender the LIBOR Rate will not adequately and fairly reflect the cost to Lenders of making or maintaining the principal amount of a LIBOR Loan during the Applicable Interest Period for such LIBOR Loan, Lender shall, as soon as practicable thereafter, give notice of such determination to Borrower and any request for a LIBOR Loan pursuant to Section 2.2 or for conversion to or continuation of a LIBOR Loan pursuant to Section 2.5 shall be deemed to be a request for a Base Rate Loan.

2.5 CONVERSION/CONTINUATION

(a) Subject to the limitations as to amount and time set forth in the definitions of "Applicable Interest Rate" and "Applicable Interest Period," Borrower shall have the option (i) to convert all or a portion of any LIBOR Loan or Base Rate Loan to a Loan bearing interest at a different permissible reference rate, with availability of such alternative rate at the sole discretion of Lenders, or 00 at the expiration of the Applicable Interest Period for a LIBOR Loan, to continue such Loan as a LIBOR Loan for a new Applicable Interest Period; PROVIDED, however, (x) no outstanding Loan may be continued as, or be converted into, a LIBOR Loan when any Potential Event of Default or Event of Default has occurred and is continuing and (y) a LIBOR Loan may only be converted at the conclusion of an Applicable Interest Period.

(b) At any time Borrower wishes to cause a conversion or continuation of a Loan pursuant to Paragraph (a) above, Borrower shall deliver (by telecopy or otherwise) a written notice of refinancing (herein a "Notice of Refinancing") in the form of Exhibit B hereto to Agent no later than 10:30 a.m., Seattle time, on a Business Day at least as far in advance of such desired conversion or continuation as would be required if the Loan as converted or continued were being originally made pursuant to Section 2.2. The Notice of Refinancing shall specify: (i) the proposed conversion/continuation date (which shall be a Business Day), (ii) the amount of the Loan to be converted/continued, (iii) the nature of the proposed conversion or continuation, and (iv) in the case of a conversion to, or continuation of, a LIBOR Loan, the new Applicable Interest Period. A Notice of Refinancing shall be irrevocable and Borrower shall be bound to convert or continue in accordance therewith.

(c) In the event that at the conclusion of an Applicable Interest Period for a LIBOR Loan, Borrower has not furnished a Notice of Refinancing complying with the terms of this Agreement or, if at such time, Borrower is not entitled to convert a Loan to, or continue it as, a LIBOR Loan, such Loan shall as of the last day of the expiring Applicable Interest Period be deemed to have been converted to a Base Rate Loan.

2.6 PROMISSORY NOTES

Borrower shall execute and deliver to each Lender on or prior to the Effective Date, a promissory note (for each Lender, the "Note", and, collectively, the "Notes") in the principal amount of such Lender's commitment and otherwise substantially in the form of Exhibit C hereto.

2.7 PREPAYMENT

(a) Any portion of the principal of a Loan may be paid prior to its maturity (herein a "prepayment"). Any prepayment of principal shall be accompanied by all accrued but unpaid interest on the principal amount prepaid. Absent a designation by Borrower and in any event during the continuance of an Event of Default, prepayments shall be applied to such Loans as shall be designated by Agent, in its sole discretion.

(b) No fee shall be assessed in connection with the prepayment of a Base Rate Loan. If a LIBOR Loan is paid prior to the end of the Applicable Interest Period, Borrower shall pay a premium on the date of such payment in an amount determined pursuant to Exhibit 1 hereto. Such premiums shall apply in all circumstances where principal on a LIBOR Loan is paid prior to the end of the Applicable Interest Period, regardless of whether such payment is voluntary or mandatory (including but not limited to prepayments required in connection with a voluntary reduction of the Commitment by Borrower) or the result of Agent's collection efforts.

2.8 MANNER OF PAYMENTS; COMPUTATIONS.

(a) Borrower shall have on deposit on the day of any scheduled payments hereunder sufficient funds in Borrower's Bank of America checking account no. 67130-500 to make such scheduled payments of principal, interest and/or fees on the Loans and Commitments as those amounts become due for payment hereunder and under the related documents. Agent shall give Borrower written notice of the expected amount of interest on LIBOR Loans at least five Business Days prior to the date of each scheduled payment thereof, but will give same-day fax notice of the expected amount of interest payments on Base Rate Loans. All scheduled payments of principal, interest and/or fees due hereunder by Borrower to Lender shall be made by charging such amounts against Borrower's aforesaid checking account after 10:30 a.m., Seattle time, on the day on which such payments shall become due. All other amounts payable hereunder by Borrower to Agent or Lenders shall be made by paying the same in United States Dollars and in immediately available funds to Agent at its Payment Address not later than 12:00 p.m., Seattle time, on the date on which such payment shall become due.

(b) In addition to the scheduled payment withdrawal authorization set out in paragraph (a) above, Borrower hereby authorizes Agent and each Lender, if and to the extent any payment is not promptly made pursuant to this Agreement or any Note and an Event of Default exists, to charge from time to time against any or all of the accounts of Borrower with Agent or Lenders any amount due hereunder or under any Note.

(c) All computations of fees and of Base Rate Loan interest shall be made on the basis of a year of 365 or 366 days and all computations of interest on LIBOR Loans shall be made on the basis of a year of 360 days, in either case, for the actual number of days (including the first day but excluding the last dav) occurring in the period for which such interest or fees are payable.

(d) Whenever any payment hereunder or under any Note shall be stated to be due or whenever the last day of any Applicable Interest Period would otherwise occur on a day other than a Business Day, such payment shall be made and the last day of such Applicable Interest Period shall occur on the next succeeding Business Day and such extension of time shall in such case be included in the computation of payment of interest or commitment fees, as the case may be; PROVIDED, HOWEVER, in the case of an interest payment due at the end of an Applicable Interest Period on a LIBOR Loan, if such next succeeding Business Day is the first Business Day of a calendar month, such interest payment shall be made on the next preceding Business Day.

2.9 FEES

(a) Borrower agrees to pay to Agent for the account of Lenders a commitment fee computed quarterly in arrears, as follows, to be paid fifteen days after the end of each quarter (and upon the expiration of the Commitment Period, if such expiration should occur on a day other than the end of a quarter): 0.50% per annum on the actual daily unused amount of such Lender's Pro Rata Share of the Commitment during the preceding quarter. "Unused amount" shall mean the daily difference between (i)

the Commitment, and (ii) the sum of all Loans outstanding plus all Letters of Credit outstanding;

(b) to pay to Agent for the account of Lenders an amendment fee of $70,000.00; and

(c) to pay to Agent for Agent's own account the fees set forth in the fee letter dated August 26, 1998, from Susan C. Hayes to David G. Remington.

2.10 SHARING OF PAYMENTS, ETC.

If any Lender shall obtain any payment from Borrower (whether voluntary or involuntary through the exercise of any right of setoff or otherwise) in excess of its Pro Rata Share of all payments due Lenders hereunder, such Lender shall hold such excess payment in trust for Agent and shall forthwith remit the same to Agent for distribution to Lenders in accordance with their Pro Rata Shares.

2.11 LETTERS OF CREDIT

Upon Borrower's execution of Agent's standard form Application and Agreement for Standby Letter of Credit, and upon at least four Business Days' written notice to Agent, Agent shall issue irrevocable standby letters of credit (the "Letters of Credit") in an aggregate amount of up to $10,000,000 (provided that (a) each Letter of Credit shall be in a minimum amount of $1,000,000, and (b) no Letter of Credit shall be issued if it would cause the aggregate amount of all Letters of Credit outstanding, plus all Loans outstanding, to exceed the Available Commitment), to beneficiaries to be specified by Borrower, with tenors not to extend beyond September 30, 1999. The rights and obligations of Borrower as account party and Agent as issuer of each Letter of Credit shall be governed by, and construed in accordance with, the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500 ("UCP"), and with the Uniform Commercial Code as enacted in Washington (RCW 62A.5-1 01, ET SEQ.) to the extent not inconsistent with the UCP. Borrower shall pay a fee to Agent, for the account of Lenders, equal to a percentage of the face amount of the Letter of Credit equal to the LIBOR Spread then in effect, calculated on a per annum basis, for issuance of the Letter of Credit, payable quarterly in arrears on the last Business Day of each June, September, December, and March.

2.12 COLLATERAL

Borrower and each of its Subsidiaries have granted or shall grant to Agent, as agent for Lenders, a first-lien security interest in each such entity's Accounts, Inventory, and related collateral described in security agreements satisfactory to Lenders (the "Collateral"), to secure all obligations of Borrower under this Agreement, the Notes and the other Loan Documents.

ARTICLE 3
THE EFFECTIVE DATE; CONDITIONS PRECEDENT TO LENDING

3.1 Conditions Precedent to Effective Date

In addition to the conditions set forth in Section 3.2, the obligation of Lenders to make the initial Loan is subject to fulfillment of the following conditions on or prior to the Effective Date:

(a) LOAN DOCUMENTS. Agent shall have received all of the following Loan Documents, each duly executed and delivered by the respective parties thereto, and satisfactory to Agent and each Lender in form and substance:

(i) this Agreement;

(ii) the Notes; and

(iii) Certificate signed by the chief executive officer, chief financial officer or other principal financial officer of Borrower, certifying compliance as of the Effective Date with Sections 3.2(b) and (c) hereof.

(b) CORPORATE CERTIFICATES. Agent shall have received all of the following, each satisfactory to Agent and the Lenders in form and substance:

(i) Certified copies of the articles of incorporation and bylaws of Borrower;

(ii) Certificate of good standing issued by the Secretary of the State of Washington with respect to Borrower;

(iii) Certified copy of resolution adopted by the board of directors of Borrower authorizing the execution, delivery and performance by Borrower of this Agreement and the Notes;

(iv) Incumbency certificates describing the office and identifying the specimen signatures of the individuals signing the Loan Documents on behalf of Borrower.

(c) OTHER INFORMATION. Agent shall have received such other statements, opinions, certificates, documents and information with respect to the matters contemplated by this Agreement as it or any Lender may reasonably request.

3.2 CONDITIONS TO ALL LOANS AND TO REFINANCING

The obligation of Lenders to fund any Loans hereunder, or to permit any refinancing pursuant to Section 2.5, is subject to fulfillment of the following conditions:

(a) NOTICE OF BORROWING OR REFINANCING. Agent shall have received the Notice of Borrowing or Notice of Refinancing, as the case may be, in respect of such Loan.

(b) NO DEFAULT. At the date of the Loan or the refinancing, no Potential Event of Default or Event of Default shall have occurred and be continuing or will occur as a result of the making of the Loans; and the representations of' Borrower in Article 4 shall be true on and as of such date with the same force and effect as if made on and as of such date. .

(c) COMPLIANCE WITH QUARTERLY FINANCIAL COVENANTS. At the end of the last calendar quarter preceding such Loan or refinancing, Borrower and its consolidated Subsidiaries were in compliance with Sections 5.12 and 5.13 (applying such covenants as if the Loans being requested were outstanding as of the end of such calendar quarter) and, since the end of such calendar quarter, neither Borrower nor any consolidated Subsidiary has redeemed any equity or repaid any Subordinated Debt which, if they had occurred immediately prior to the end of the calendar quarter, would have resulted in a violation of Sections 5.12 or 5.13.

(d) CONDITIONS TO THE EFFECTIVE DATE. All conditions to the Effective Date shall have been satisfied, as evidenced in writing by the Agent.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF BORROWER

Borrower represents and warrants to each Lender as follows:

4.1 CORPORATE EXISTENCE AND POWER

Borrower and each Subsidiary are corporations duly incorporated, validly existing and in good standing under the laws of their respective jurisdictions of incorporation. Borrower and each Subsidiary are duly qualified to do business in each other jurisdiction where the nature of their respective activities or the ownership of their respective properties requires such qualification, except to the extent that failure to be so qualified does not have a material adverse effect on the business, operations or financial condition of the enterprise comprised of Borrower and its Subsidiaries taken as a whole. Borrower and each Subsidiary have full corporate power, authority and legal right to carry on their business as presently conducted, and to own and operate their properties and assets. Borrower has full corporate power, authority and legal right to execute, deliver and perform all Loan Documents to which it is a party.

4.2 CORPORATE AUTHORIZATION

The execution, delivery and performance by Borrower of the Loan Documents and any borrowing hereunder and thereunder (i) have been duly authorized by all necessary corporate action of Borrower, 00 do not require any shareholder approval or the approval or consent of any trustee or the holders of any Indebtedness of Borrower or any subsidiary except such as have been obtained (certified copies thereof having been delivered to Agent), (iii) do not contravene any law, regulation, rule or order binding on Borrower or any subsidiary or its Articles of Incorporation or Bylaws, and (iv) do not contravene the provisions of or constitute a default under any indenture, mortgage, contract or other agreement or instrument to which Borrower or any Subsidiary is a party or by which Borrower or any Subsidiary or any of their properties may be bound or affected, except for a contravention or default by a Subsidiary that would not have a material adverse effect on the business, operations or financial condition of the enterprise comprised of Borrower and its Subsidiaries taken as a whole.

4.3 GOVERNMENT APPROVALS, ETC.

No Government Approval or filing or registration with any Governmental Authority is required for the making and performance by Borrower of any Loan Document to which it is a party or in connection with any of the transactions contemplated hereby, except such as have been heretofore obtained and are in full force and effect (certified copies thereof having been delivered to Agent).

4.4 BINDING OBLIGATIONS, ETC.

The Loan Documents have been duly executed and delivered by Borrower, and constitute the legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

4.5 LITIGATION

There are no actions, proceedings, investigations, or claims against or affecting Borrower or any Subsidiary now pending before any court, arbitrator or Governmental Authority (nor to the knowledge of Borrower has any thereof been threatened nor does any basis exist therefor) which has a reasonable likelihood of being determined adversely to Borrower or any Subsidiary and which, if so determined, would be likely to have a material adverse effect on the business, operations or financial condition of the enterprise comprised of Borrower and its Subsidiaries taken as a whole, or to result in a judgment or order against Borrower or any Subsidiary (in excess of insurance coverage) for more than $250,000 in any one case or $500,000 in the aggregate, except as reflected in the financial statements referred to in Section 4.6.

4.6 FINANCIAL CONDITION

The consolidated balance sheet of Borrower and its consolidated Subsidiaries as at December 31, 1997, and the related consolidated statements of income and cash flows of Borrower ' and its consolidated Subsidiaries for the fiscal year then ended, copies of which have been furnished to each Lender, fairly present the consolidated financial condition of Borrower and its consolidated Subsidiaries as at such date and the results of operations of Borrower and its consolidated Subsidiaries for the period then ended, all in accordance with generally accepted accounting principles consistently applied. Borrower and its consolidated Subsidiaries did not have on such date any contingent liabilities for Taxes, unusual forward or long-term commitments or unrealized or anticipated losses from any unfavorable commitments, except as referred to or reflected or provided for in that balance sheet and in the notes to those financial statements. Since that date, there has been no material adverse change in the business, operations or financial condition of the enterprise comprised of Borrower and its Subsidiaries taken as a whole.

4.7 TITLE AND LIENS

Borrower and its Material Subsidiaries have good and marketable title to each of the properties and assets reflected in the balance sheet referred to in Section 4.6 (except such as are held under leases or have been since sold or otherwise disposed of in the ordinary course of business). No assets or revenues of Borrower or its Material Subsidiaries are subject to any Lien except as permitted under Section 6.3. All properties. of Borrower and its Subsidiaries and their use thereof comply with applicable zoning and use restrictions and with applicable laws and regulations relating to the environment, except for violations that do not have a material adverse effect upon the business, operations or financial condition of the enterprise comprised of Borrower and its Subsidiaries taken as a whole.

4.8 TAXES

Borrower and its Material Subsidiaries have filed all tax returns and reports required of them, have paid all taxes which are due and payable or as to which there is no good faith contest or dispute as to the amount or validity of the assessment against Borrower and its Material Subsidiaries, and have provided adequate reserves for payment of any tax whose payment is being contested. All Subsidiaries that are not Material Subsidiaries have filed all tax returns and reports required of them, have paid all taxes which are due and payable or as to which there is no good faith contest or dispute as to the amount or validity of the assessment, and have provided adequate reserves for payment of any tax where payment is being contested, except in respect of taxes in an aggregate amount equal to or less than Ten Thousand Dollars ($10,000). The charges, accruals and reserves on the books of Borrower and its Subsidiaries in respect of taxes for all fiscal periods to date are accurate. There are no questions or disputes between Borrower or any Subsidiary and any Governmental Authority with respect to any taxes except as disclosed in the balance sheet referred to in Section 4.6 or otherwise previously disclosed to both Lenders in writing.

4.9 OTHER AGREEMENTS

Neither Borrower nor any subsidiary is in breach of or default under any material agreement to which it is a party or which is binding on it or any of its assets, the breach of which agreement would have a material adverse effect upon the business, operations or financial condition of the enterprise comprised of Borrower and its Subsidiaries taken as a whole.

4.10 FEDERAL RESERVE REGULATIONS

Neither Borrower nor any Subsidiary is engaged principally or as one of its important activities in the business of extending credit for the purpose of purchasing or carrying any margin stock (within the meaning of Federal Reserve Regulation U), and no part of the proceeds of any Loan will be used to purchase or carry any such margin stock or to extend credit to others for the purpose of purchasing or carrying any such margin stock or for any other purpose that violates the applicable provisions of any Federal Reserve Regulation. Borrower will furnish on request to Agent a statement conforming with the requirements of Regulation U.

4.11 ERISA

(a) The present value of all benefits vested under all Pension Plans did not, as of the most recent valuation date of such Pension Plans, exceed the value of the assets of the Pension Plans allocable to such vested benefits by an amount which would represent a potential material liability of Borrower and its Material Subsidiaries or affect materially the ability of Borrower to perform its obligations under the Loan Documents.

(b) No Plan or trust created thereunder, or any trustee or administrator thereof, has engaged in a "prohibited transaction" (as such term is defined in Section 406 or Section 2003(a) of ERISA) which could subject such Plan or any other Plan, any trust created thereunder, or any trustee or administrator thereof, or any party dealing with any Plan or any such trust to the tax or penalty on prohibited transactions imposed by Section 502 or Section 2003(a) of ERISA.

(c) No Pension Plan or trust created thereunder has been terminated, and there have been no "reportable events" (as that term is defined in Section 4043 of ERISA) since the effective date of ERISA.

(d) No Pension Plan or trust created thereunder has incurred any "accumulated funding deficiency" (as such term is defined in Section 302 of ERISA) whether or not waived, since the effective date of ERISA.

(e) Neither Borrower nor any Material Subsidiary is now, nor has it been, a party to or had any employees who are covered by any multi-employer pension or benefit plan.

(f) The required allocations and contributions to Pension Plans will not violate Section 415 of the Internal Revenue Code.

4.12 SUBSIDIARIES

In respect of Subsidiaries, Exhibit D to this Agreement sets forth as of the date of this Agreement the authorized capitalization of each Material Subsidiary, the number of shares of each class of capital stock issued and outstanding of each Material Subsidiary, and the number and percentage of outstanding shares of each such class of capital stock owned by Borrower or by any Material Subsidiary, and describes the Material Subsidiaries as of the Effective Date. Exhibit D sets forth the name and address of each Subsidiary and the percentage of outstanding shares owned by Borrower. Borrower will promptly notify Lender in writing of any change in the identity of the Material Subsidiaries, which will be subject to Lenders' approval. The outstanding shares of each Subsidiary have been duly authorized and validly issued and are fully paid and nonassessable. Borrower and each Subsidiary owns beneficially and of record and has good title to all the shares it is listed as owning on Exhibit D, free and clear of any Lien.

4.13 REPRESENTATIONS AS A WHOLE

This Agreement, the financial statements referred to in Section. 4.6, and all other instruments, documents, certificates and statements furnished to the Lender by Borrower, taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements contained herein or therein not misleading.

4.14 YEAR 2000 COMPLIANCE

Borrower has developed and budgeted for a comprehensive program to address the "Year 2000 problem" (that is, the inability of computers, as well as embedded microchips in non-computing devices, to perform properly date-sensitive functions with respect to certain dates prior to and after December 31, 1999). Borrower has implemented that program substantially in accordance with its timetable and budget and reasonably anticipates that it will substantially avoid the Year 2000 problem as to all computers, as well as embedded microchips in non-computing devices, that are material to Borrower's business, properties, or operations. Borrower has developed feasible contingency plans adequately to ensure uninterrupted and unimpaired business operation in the event of failure of its own or a third party's systems or equipment due to the Year 2000 problem, including those of vendors, customers, and suppliers, as well as a general failure of or interruption in its communications and delivery infrastructure.

ARTICLE 5
AFFIRMATIVE COVENANTS OF BORROWER

So long as Lenders shall have any Commitment hereunder and until payment in full of each Loan and Note and performance of all other obligations of Borrower under the Loan Documents, Borrower agrees that all of the following shall be done unless each Lender shall otherwise consent in writing:

5.1 USE OF PROCEEDS

Borrower will use the proceeds of the Loan exclusively for general corporate purposes subject to the provisions of this Agreement.

5.2 PRESERVATION OF CORPORATE EXISTENCE, ETC.

Borrower will cause to be done all things necessary to preserve and maintain the corporate existence, franchises and privileges of Borrower in Washington, and all other Material Subsidiaries in their respective jurisdictions of incorporation. Borrower will qualify, and thereafter remain qualified, and will cause each Material Subsidiary to qualify and remain qualified as a foreign corporation in each jurisdiction where such qualification is necessary or advisable in view of Borrower's or such Material Subsidiary's business and operations or the ownership of its properties.

5.3 VISITATION RIGHTS

At any reasonable time, and from time to time, upon reasonable notice, Borrower will permit Lenders to examine and make copies of and abstracts from the records and books of account of and to visit the properties of Borrower and its Material Subsidiaries and to discuss the affairs, finances and accounts of Borrower and its Material Subsidiaries with its chief executive officer, chief financial officer or other principal financial officer, if any.

5.4 KEEPING OF BOOKS AND RECORDS

Borrower will keep and will cause its Subsidiaries to keep adequate records and books of account in which complete entries will be made, in accordance with generally accepted accounting principles consistently applied, reflecting all financial transactions of Borrower and its Subsidiaries.

5.5 MAINTENANCE OF PROPERTY, ETC.

Borrower will maintain and preserve and will cause its Subsidiaries to maintain and preserve all of their properties in good working order and condition, ordinary wear and tear excepted, and Borrower will, and will cause its Su ' bsidiaries to from time to time make all needed repairs, renewals or replacements so that the efficiency of such properties shall be fully maintained and preserved; and Borrower and its Subsidiaries will also maintain its rights and interests in all patents, copyrights, and other intellectual property owned or licensed by Borrower or any such Subsidiary, provided that Borrower shall not be required to comply with this Section 5.5 if failure to comply would not be likely to have a material adverse effect on the business, operations or financial condition of the enterprise comprised of Borrower and its Subsidiaries taken as a whole.

5.6 COMPLIANCE WITH LAWS, ETC

Borrower will comply and will cause each Subsidiary to comply in all material respects with all laws, regulations, rules, and orders of Governmental Authorities applicable to Borrower and its subsidiaries or to their operations or property, except any thereof whose validity is being contested in good faith by appropriate proceedings upon stay of execution of the enforcement thereof.

5.7 OTHER OBLIGATIONS

Borrower will and will cause each Subsidiary to pay and discharge before the same shall become delinquent all Indebtedness, all taxes and all other obligations for which Borrower or its Subsidiaries are liable or to which their income or property is subject (except to the extent that failure to pay such other obligations would not be likely to have a material adverse effect upon the business, operations or financial condition of the enterprise comprised of Borrower and its Subsidiaries taken as a whole), and all claims for labor and materials or supplies which, if unpaid, might become by law a lien upon assets of Borrower or its Subsidiaries, except any thereof whose validity or amount is being contested in good faith by Borrower or its Subsidiaries in appropriate proceedings with provision having been made to the reasonable satisfaction of Agent for the payment thereof in the event the contest is determined adversely to Borrower or its Subsidiaries.

5.8 INSURANCE

Borrower will keep and will cause its Material Subsidiaries to keep in force upon all of their properties and operations policies of insurance carried with responsible companies in such amounts and covering all such risks as shall be customary in the industry and reasonably satisfactory to Agent and Lenders, with all policies covering tangible Collateral to name Agent as loss payee, as its interest may appear. Borrower will on request furnish to Agent certificates of insurance or duplicate policies evidencing such coverage.

5.9 FINANCIAL INFORMATION

Borrower will deliver to Agent and to each Lender:

(a) As soon as available and in any event within 100 days after the end of each fiscal year of Borrower, the consolidated balance sheet of Borrower and its consolidated Subsidiaries as of the end of such fiscal year, the related consolidated statements of income, the related consolidated statements of cash flows, and the related consolidated statements of shareholders' equity of Borrower and its consolidated Subsidiaries for such year, setting forth in comparative form the corresponding consolidated figures for the appropriate periods in the preceding fiscal year, accompanied by an audit report of the consolidated balance sheet, statements of income and cash flows and statement of shareholders' equity of Borrower and its consolidated Subsidiaries for such year by independent certified public accountants of recognized standing selected by Borrower (which reports shall be prepared in accordance with generally accepted accounting principles consistently applied and shall not be qualified by reason of restricted or limited examination of any material portion of Borrower's and the Subsidiaries' records and shall contain no disclaimer of opinion or adverse opinion except such as Lenders in their sole discretion determine to be immaterial);

(b) As soon as available and in any event within 50 days after the end of each of the first three fiscal quarters of Borrower each fiscal year, the internally prepared unaudited consolidated balance sheet and the related consolidated statements of income and cash flows of Borrower and its consolidated Subsidiaries as of the end of such fiscal quarter (and for the period from the beginning of the fiscal year to the end of such fiscal quarter), setting forth in comparative form the corresponding consolidated figures for the appropriate periods in the preceding fiscal year, accompanied by a certificate of the chief executive officer, chief financial officer or other principal financial officer of Borrower that such unaudited consolidated balance sheet and statement of income and cash flows have been prepared in accordance with generally accepted accounting principles consistently applied and present fairly the financial position and the results of operations of Borrower and its consolidated Subsidiaries as of the end of and for such fiscal quarter and that since the fiscal year-end report referred to in clause (a) there has been no material adverse change in the financial condition or operations of Borrower and its consolidated Subsidiaries as shown on the consolidated balance sheet as of said date;

(c) Concurrently with the financial statements delivered pursuant to Sections 5.9(a) and 5.9(b), a Compliance Certificate;

(d) as soon as available and in any event within 15 days after the e month, W the internally-prepared unaudited consolidated balance sheets and consolidated statements of income and cash flows of Borrower as of the end of such month; and (ii) Borrowing Base Certificate as at the end of such month.

(e) All other statements, reports and other information as either Lender may reasonably request concerning the financial condition and business affairs of Borrower and its subsidiaries; and

(f) As soon as required to be filed, all 10Ks, 10Qs, 8Ks, annual reports, quarterly reports, and other filings or submittals made to shareholders or to the Securities and Exchange Commission.

5.10 NOTIFICATION

Promptly after learning thereof, Borrower will notify Agent of (a) the details of any action, proceeding, investigation or claim against or affecting Borrower or any Subsidiary instituted before any court, arbitrator or Governmental Authority or, to Borrower's knowledge threatened to be instituted, which, if determined adversely to Borrower or any Subsidiary would be likely to have a material adverse effect on the business, operations or financial condition of the enterprise comprised of Borrower and its Subsidiaries taken as a whole or to result in a judgment or order against Borrower or any Subsidiary (in excess of insurance coverage) for more than $250,000 or, when combined with all other pending or threatened claims, more than $500,000; (b) any substantial dispute between Borrower or any Subsidiary and any Governmental Authority which, if determined adversely to Borrower or any Subsidiary would be likely to have a material adverse effect on the business, operations or financial condition of the enterprise comprised of Borrower and its Subsidiaries taken as a whole; (c) any labor controversy which has resulted in or, to Borrower's knowledge, threatens to result in a strike which would materially affect the business operations of Borrower; (d) if Borrower or any member of the Controlled Group gives or is required to give notice to the PBGC of any "reportable event" (as defined in subsections (b (1), (2), (5) or (6) of Section 4043 of ERISA) with respect to any Plan (or the Internal Revenue Service gives notice to the PBGC of any "reportable event" as defined in subsection (c) (2) of Section 4043 of ERISA and Borrower obtains knowledge thereof) which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; and (e) the occurrence of any Potential Event of Default or Event of Default.

5.11 ADDITIONAL PAYMENTS; ADDITIONAL ACTS

From time to time, Borrower will (a) pay or reimburse Agent and Lenders on request for all reasonable expenses, including but not limited to legal fees (including the allocated cost of in-house counsel), actually incurred by Agent or Lenders in connection with the preparation of the Loan Documents and all amendments thereto and waivers of provisions thereof, or the making of any Loan or the administration of the transactions described in the Loan Documents (including the reasonable costs of periodic collateral evaluation reviews) or the enforcement by judicial proceedings or otherwise of any of the rights of Lenders under the Loan Documents; M obtain and promptly furnish to Agent evidence of all such Government Approvals as may be required to enable Borrower to comply with its obligations under the Loan Documents; and (c) execute and deliver all such instruments and perform all such other acts as Agent may reasonably request to carry out the transactions contemplated by this Agreement.

5.12 WORKING CAPITAL

Borrower and its consolidated Subsidiaries shall have, at the end of each fiscal quarter, a ratio of current assets to current liabilities of at least 1.50 to 1, and a difference between current assets and current liabilities of at least $45,000,000. For purposes of this section, (a) current assets shall not include (i) any deferred assets other than prepaid items such as insurance, taxes, or other similar items or those deferred against a current contract, or (ii) any accounts receivable, loans or other amounts due from corporations, joint ventures, partnerships and other entities which are Subsidiaries or otherwise affiliated with Borrower, other than accounts receivable generated from the sale of Borrower's products in arm's length transactions with such corporations, joint ventures, partnerships and other entities and occurring in the ordinary course of Borrower's business, and (b) current liabilities shall include all outstanding Loans (excluding Letters of Credit), together with accrued but unpaid interest thereon but shall not include any portion of Subordinated Debt.

5.13 TOTAL DEBT TO TANGIBLE CAPITAL RATIO

Borrower and its consolidated Subsidiaries shall have, at the end of each fiscal quarter:

(a) a ratio of Total Debt to EBITDA, determined on a trailing four-quarter basis, of no more than 5.20 to 1 for quarter ending September 30, 1998, 5.95 to 1 for quarter ending December 31, 1998, 5.40 to 1 for quarter ending March 30, 1999, 4.80 to 1 for quarter ending June 30, 1999, and 3.75 to 1 for quarter ending September 30, 1999; and

(b) a Tangible Capital of not less than $150,000,000, increasing at the end of each fiscal quarter, beginning quarter ending September 30, 1998, by 50% of net income earned during (without reduction for net losses), plus 75% of new equity contributed during, the quarter then ending.

"Total Debt" means total debt of Borrower and its Subsidiaries, on a consolidated basis, for borrowed money or funded debt including, but not limited to, short-term borrowings, mortgage notes payable, convertible subordinated debt, and project financing, being categories of debt shown on Borrower's December 31, 1997 balance sheet. "Tangible Capital" means the difference between (a) the sum of (i) shareholders' equity in Borrower and its consolidated subsidiaries as of such date of determination (such figure to reflect a deduction for all loans and advances to Borrower's and its Subsidiaries' officers and employees for purchase of Borrower's and its Subsidiaries' stock, as applicable), plus (ii) to the extent not included in such shareholders' equity, Subordinated Debt and (b) the sum of W all assets which should be classified as intangible assets, such as goodwill, patents, trademarks, copyrights, franchises, unamortized debt discount, research and development costs and deferred charges (unless deferred against a current contract), (ii) capitalized software costs, and (iii) "other assets" as presently reported on Borrower's balance sheet as non-current assets, other than (i.e., excluding) long-term accounts receivable from utility customers under Outsourcing Contracts. "EBITDA" means earnings before interest expense, taxes, depreciation, and amortization, on a consolidated basis, for Borrower and its Subsidiaries, with the lesser of (A) $4,084,000, or (B) all restructuring charges (as such term is defined in accordance with GAAP), to be excluded from the calculation of earnings.

ARTICLE 6
NEGATIVE COVENANTS OV BORROWER

So long as Lenders shall have any Commitment hereunder and until payment in full of each Loan and Note and performance of all other obligations of Borrower under the Loan Documents, Borrower agrees that none of the following shall be done, unless each Lender shall otherwise consent in writing.

6.1 LIQUIDATION, MERGER, SALE OF ASSETS

Borrower shall not, and shall cause its Material Subsidiaries not to (a) liquidate or dissolve, (b) enter into any material merger or consolidation except that any Material subsidiary may merge or consolidate into any other Subsidiary or into Borrower, nor (c) sell, lease, or dispose of such portion of their business or assets (excepting sales of goods in the ordinary course of business) as constitutes in the reasonable opinion of Agent a substantial portion thereof; provided, that, notwithstanding this provision, Borrower shall be permitted to sell its accounts receivable generated from Outsourcing Contracts.

6.2 INDEBTEDNESS, GUARANTIES, ETC.

Borrower shall not, and shall cause its Subsidiaries not to, create, incur, assume, permit to exist, or otherwise become committed for any Indebtedness, nor assume, guaranty, endorse or otherwise become directly or contingently liable for, nor obligated to purchase, pay or provide funds for payment of, any obligation or Indebtedness of any other person, except by endorsement of negotiable instruments for deposit or collection or by similar transactions in the ordinary course of business. Notwithstanding the

foregoing, Borrower and its Subsidiaries may incur Subordinated Debt and nonrecourse indebtedness without limit; may obtain performance bonds in an unlimited amount to support its obligations and those of its Subsidiaries with regard to outsourcing Contracts and Turnkey Contracts; may maintain Indebtedness existing as of the Effective Date, or any refinance of such Indebtedness without an increase in the unpaid principal amount thereof; and shall in addition be permitted to incur and guaranty outstanding Indebtedness not exceeding $7,500,000 in the aggregate (excluding performance bond obligations), provided that the proceeds of all such new Indebtedness (other than performance bonds and the proceeds of foreign currency loans made by a Lender or commercial or standby letters of credit issued by a Lender) are used to pay down the Loans; and Borrower and any Subsidiary may guaranty the Indebtedness of one another.

6.3 LIENS

Borrower shall not, and shall cause its Material Subsidiaries not to, create, assume or suffer to exist any Lien except (i) Liens in favor of Agent, 00 a Lien to Pentzer Development Company in the original principal amount of $6,440,000 to finance acquisition of Borrower's corporate headquarters and manufacturing facility in Spokane, Washington or any lien to secure a refinance of such indebtedness on substantially the same or better terms, (iii) Liens on fixed assets used in carrying out Outsourcing Contracts, (iv) Liens on long-term contract receivables generated from Outsourcing Contracts, (v) Liens to secure Indebtedness for the deferred price of property, but only if they are limited to such property and its proceeds and do not exceed 80% of the fair market value thereof (or, in the case of purchase money financing for personal property, do not exceed 100% of the fair market value thereof), and (vi) other Liens securing obligations owing to either one or both Lenders.

6.4 OPERATIONS

Borrower shall not, and shall cause its Material Subsidiaries not, to engage in any activity which is substantially different from or unrelated to their present business activities nor discontinue any portion of their present business activities which constitutes a substantial portion thereof.

6.5 PERMISSIBLE LOANS

Borrower shall not make any loan or advance to any Person other than (a) advances made in the ordinary course of business; (b) loans to Subsidiaries, and to joint ventures of which Borrower is a partner, not exceeding $ 10,000,000 in the aggregate; and (c) loans to Subsidiaries in any amount if such Subsidiary provides to Lender prior to the disbursement of such loan a limited guaranty of the Obligations, in the form of Exhibit E hereto, limited in principal amount to the principal amount of such loan. Upon repayment to Borrower of any such Subsidiary loan, Lender shall, upon request by Borrower, release such guaranty.

6.6 CONTRACTS

Borrower shall not, and shall cause its Material Subsidiaries not to, enter into any significant contracts or other agreements except in the usual course of its business.

6.7 SECURITIES

Borrower shall not, and shall cause its Material Subsidiaries not to, issue, sell, or otherwise distribute any stock, bond, note, or debenture or other security of Borrower and its Subsidiaries EXCEPT (i) common or preferred stock (or warrants or options therefor), 00 notes or other debt instruments evidencing Indebtedness Permitted by this Agreement, and (iii) securities of any Subsidiary that are issued to Borrower.

6.8 ERISA COMPLIANCE

Neither Borrower nor any Plan will:

(a) engage in any "prohibited transaction" (as such term is defined in Section 406 or Section 2003(a) of ERISA);

(b) incur any "accumulated funding deficiency" (as such tern Section 302 of ERISA) whether or not waived;

(c) terminate any Pension Plan in a manner which could result in the imposition of a Lien on any property of Borrower or any member of the Controlled Group pursuant to Section 4068 of ERISA; or

(d) violate state or federal securities laws applicable to any Plan which may result in material liability to Borrower or any member of the Controlled Group.

6.9 PAYMENTS ON SUBORDINATED DEBT; PREPAYMENTS OF INDEBTEDNESS

Except in the case of Borrower's 6 3/4% Convertible Subordinated Notes Due 2004, Borrower will not make any payments on Subordinated Debt or prepayments of principal of any Indebtedness during any period when a Potential Event of Default or an Event of Default has occurred and is continuing or would be caused by such act. In the case of Borrower's 6 3/4% Convertible Subordinated Notes Due 2004, Borrower will not make any payment of principal or interest during any period when an Event of Default pursuant to Section 7.1 (a) has occurred and is continuing. Additionally, Borrower shall not repay any Subordinated Debt which, at the end of the preceding calendar quarter, was necessary to Borrower's compliance with Section 5.13.

ARTICLE 7
EVENTS OF DEFAULT

7.1 EVENTS OF DEFAULT

The occurrence of any of the following events shall constitute an "Event of Default" hereunder:

(a) PAYMENT DEFAULT. Borrower shall fail to pay, within five (5) calendar days of when due, any amount of principal of or interest on any Loan or Note or any commitment fees due hereunder or, within 30 days after notice from Agent, any other amount payable to Agent or Lenders hereunder; or

(b) BREACH OF WARRANTY. Any representation or warranty made by Borrower in any Loan Document shall prove to have been incorrect in any material respect when made and shall prove to be material in any respect when discovered, or any of Borrower's representations regarding the "year 2000 problem" cease to be true, whether or not true when made, and as a result Lenders reasonably believe that Borrower's financial condition or its ability to pay its debts as they come due will thereby be materially impaired; or

(c) BREACH OF CERTAIN COVENANTS. Any provision of Sections 5.2 or 6.1 shall not have been complied with; or

(d) BREACH OF OTHER COVENANTS. Any other covenant or obligation of Borrower in any Loan Document, except Section 5.7 of this Agreement to the extent Section 5.7 relates to delinquent Indebtedness, shall not have been complied with and such failure shall remain unremedied for 30 days after written notice thereof shall have been given to Borrower by Agent; VOVIDED that Lenders shall not unreasonably or arbitrarily withhold consent to an extension of such period if corrective action is initiated within such period and is being diligently pursued by Borrower; or

(e) CROSS-DEFAULT. Borrower or any Subsidiary shall fail in respect of Indebtedness having an aggregate outstanding balance of $500,000 (i) to pay when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) any such Indebtedness (except any Loan) or any interest or premium thereon and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Indebtedness, or (ii) to perform any term or covenant on its part to be performed under any agreement or instrument relating to any such Indebtedness and required to be performed and such failure shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such failure to perform is to accelerate or to permit the acceleration of the maturity of such Indebtedness, or (iii) any such Indebtedness shall be declared to be due and payable or required to be prepaid (other than by regularly scheduled required prepayment) prior to the stated maturitv thereof; or

(f) VOLUNTARY BANKRUPTCY, ETC. Borrower or any Subsidiary shall: (1) file a petition seeking relief for itself under Title 11 of t he United States Code, as now constituted or hereafter amended, or file an answer consenting to, admitting the material allegations of or otherwise not controverting, or fail timely to controvert a petition filed against it seeking relief under Title 11 of the United State Code, as now constituted or hereafter amended; or (2) file such petition or answer with respect to relief under the provisions of any other now existing or future applicable bankruptcy, insolvency, or other similar law of the United States of America or any State thereof or of any other country or jurisdiction providing for the reorganization, winding-up or liquidation of corporations or an arrangement, composition, extension or adjustment with creditors; or

(g) INVOLUNTARY BANKRUPTCY, ETC. An order for relief shall be entered against Borrower or any Subsidiary under Title 11 of the United States Code, as now constituted or hereafter amended, which order is not stayed within 90 days; or upon the entry of an order, judgment or decree by operation of law or by a court having jurisdiction in the premises which is not stayed adjudging it a bankrupt or insolvent under, or ordering relief against it under, or approving as properly filed a petition seeking relief against it under the provisions of any other now existing or future applicable bankruptcy, insolvency or other similar law of the United States of America or any State thereof or of any other country or jurisdiction providing for the reorganization, winding-up or liquidation of corporations or any arrangement, composition, extension or adjustment with creditors, or appointing a receiver, liquidator, assignee, sequestrator, trustee or custodian of Borrower or any Subsidiary or of any substantial part of its property, or ordering the reorganization, winding-up or liquidation of its affairs, or upon the expiration of 120 days after the filing of any involuntary petition against it seeking any of the relief specified in Section 7.1 (f) or this Section 7.1 (g) without the petition being dismissed prior to that time; or

(h) INSOLVENCY, ETC. Borrower or any Subsidiary shall (i) make a general assignment for the benefit of its creditors or (ii) consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, or custodian of all or a substantial part of the property of Borrower or any Subsidiary, or (iii)'admit its insolvency or inability to pay its debts generally as they become due, or (iv) fail generally to pay its debts as they become due, or (v) take any action (or suffer any action to be taken by its directors or shareholders) looking to the dissolution or liquidation of Borrower or any Subsidiary; or

(i) JUDGMENT. A final judgment or order for the payment of money in (excess of insurance coverage) for more than $250,000 in any one case or $500,000 in the aggregate shall be rendered against Borrower or any Subsidiary and such judgment or order shall continue unsatisfied and in effect for a period of 90 consecutive days without having been appealed and stayed; or

(j) CONDEMNATION. Such portion of the property of Borrower or any Subsidiary as in the opinion of Agent constitutes a substantial portion shall be condemned, seized or appropriated, and such condemnation, seizure or appropriation shall be likely to have a material adverse effect on the business, operations or financial condition of the enterprise comprised of Borrower and its Subsidiaries taken as a whole; or

(k) OTHER GOVERNMENT ACTION. Any act of any Governmental Authority shall (in the opinion of Agent) deprive Borrower or any Subsidiary of any right, privilege or franchise, or restrict the exercise thereof, the deprivation or restriction of which shall have a material adverse effect on the business, operations or financial condition of the enterprise comprised of Borrower and its Subsidiaries taken as a whole, and such act shall not be revoked or rescinded within sixty (60) days after it shall have become effective or within thirty (30) days after notice from Agent, whichever first occurs; or

(1) ERISA. Borrower or any member of the Controlled Group shall fail to pay when due an amount or amounts aggregating in excess of $500,000 which it shall have become liable to pay to the PBGC or to a Plan under Section 515 of ERISA or Title IV of ERISA; or notice of intent to terminate a Plan or Plans (other than a multi-employer plan, as defined in Section 4001(3) of ERISA), having aggregate unfunded vested liabilities in excess of $500,000 shall be filed under Title IV of ERISA by Borrower, any member of the Controlled Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate any such Plan or Plans; or

(m) CHANGE OF CONTROL. There occurs a Change of Control.

7.2 CONSEQUENCES OF DEFAULT. If any Event of Default shall occur and be continuing, then in any such case and at any time thereafter so long as any such Event of Default shall be continuing, Agent will at the request of both Lenders immediately terminate the Commitments and, if any Loan shall have been made, Agent will at the request of both Lenders declare the principal of and the interest on any Loan and any Note and all other sums payable by Borrower hereunder or thereunder to be immediately due and payable, whereupon the same shall become immediately due and payable without protest, presentment, notice or demand, all of which Borrower expressly waives. In such event, Agent may proceed to exercise all of its legal and equitable remedies on behalf of Lenders, including but not limited to commencing to realize on any or all Collateral by any available means.

ARTICLE 8
AGENT

8.1 AUTHORIZATION AND ACTION

Each Lender hereby appoints and authorizes Agent to take such action as agent on its behalf and to exercise such powers under this Agreement and the other Loan Documents as are delegated to Agent by the terms hereof, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for in this Agreement, including enforcement or collection of the Notes, Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining) upon the instructions of both Lenders, except that Agent shall not be required to take any action which exposes Agent to personal liability or which is contrary to this Agreement or applicable law. Each Lender and holder of a Note shall execute and deliver such additional instruments, including powers of attorney in favor of Agent, as may be required by applicable law to enable Agent to exercise its powers hereunder.

8.2 DUTIES AND OBLIGATIONS

(a) Neither Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or any of them under or in connection with this Agreement except for its or their own gross negligence or willful misconduct. Without limiting the generality of the foregoing, Agent (i) may treat the payee of any Note as the holder thereof until Agent receives written notice of the assignment thereof signed by such payee and a written agreement of the assignee that it is bound hereby as it would have been had it been an original party hereto, in each case in form satisfactory to Agent; (ii) may consult with legal counsel (including counsel for Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such experts; (iii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations made in or in connection with this Agreement or in any instrument or document furnished pursuant hereto; (iv) shall not have any duty to ascertain or to inquire as to the performance of any of the terms, covenants, or conditions of this Agreement on the part of Borrower or as to the use of the proceeds of any Loan or, unless the officers of Agent active in their capacity as officers of Agent on Borrower's account have actual knowledge thereof or have been notified in writing thereof by a Lender, the existence or possible existence of any Potential Event of Default or any Event of Default; M shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, effectiveness, or value of this Agreement or of any instrument or document furnished pursuant hereto; and (vi) shall incur no liability under or in respect to this Agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be by telegram, telecopy, cable or telex) believed by it to be genuine and signed or sent by the proper party or parties or by acting upon any representation or warranty of Borrower deemed to be made hereunder;

(b) Agent will account to each Lender for its Pro Rata Share of payments of principal, interest and commitment fees received by Agent from Borrower and will remit to Lenders entitled thereto all of the payments received hereunder from Borrower for the account of Lenders. Agent will transmit to each Lender copies of documents received from Borrower or others pursuant to the requirements of this Agreement.

8.3 DEALINGS BETWEEN AGENT AND BORROWER

With respect to its Commitment, the Loan made by it, and the Note issued to it, Agent shall have the same rights and powers under this Agreement as any other Lender and may exercise the

same as though it were not Agent, and the term "Lender" shall unless otherwise expressly indicated include Agent in its individual capacity. Agent may accept deposits from, lend money to, act and generally engage in any kind of business with Borrower and any person which may do business with Borrower, all as if Agent were not Agent hereunder and without any duty to account therefor to Lenders.

8.4 LENDER CREDIT DECISION

Each Lender acknowledges that it has, independently and without reliance upon Agent or any other Lender and based upon such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon Agent or any other Lender and based upon such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

8.5 INDEMNIFICATION

Lenders agree to indemnify Agent (to the extent not reimbursed by Borrower) ratably according to their respective Commitments from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against Agent in any way relating to or arising out of this Agreement or any action taken or omitted by Agent under this Agreement, except any such as result from Agent's gross negligence or willful misconduct. Without limiting the foregoing, each Lender agrees to reimburse Agent promptly on demand for its ratable share of any out-of-pocket expenses, including Attorney Costs, incurred by Agent in connection with the administration or enforcement of or the preservation of any rights under this Agreement (to the extent that Agent is not reimbursed for such expenses by Borrower).

8.6 SUCCESSOR AGENT

Agent may resign at any time by giving written notice thereof to Lenders and Borrower and may be removed at any time with or without cause by both Lenders. Upon any such resignation or removal, Lenders shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by Lenders and shall have accepted such appointment within thirty (30) days after the retiring Agents' giving of notice of resignation or Lenders' removal of the retiring Agent, then the retiring Agent may on behalf of Lenders, appoint a successor Agent, which shall be a bank organized under the laws of the United States or of any state thereof, or any affiliate of such bank, and having a combined capital and surplus of at least $25,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article 8 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement. If no successor agent is appointed within 30 days, the resigning agent's resignation shall nevertheless become effective and the Lenders shall perform the activities of the Agent.

8.7 RISK PARTICIPATION

Each Lender agrees for the benefit of Agent that it hereby purchases a risk participation in each Letter of Credit and any unreimbursed Letter of Credit draws equal to its respective Pro Rata Share of the outstanding balance of such Letters of Credit plus the aggregate unreimbursed Letter of

Credit draws. Upon the occurrence of a draw under a Letter of Credit which is not reimbursed by Borrower to Agent on the same Business Day, each Lender shall fund to Agent, pursuant to this risk participation, such Lender's Pro Rata Share of the aggregate unreimbursed Letter of Credit draws. Prior to its funding under this Section, Lenders shall have no interest in any transaction fees, principal, interest, fees, or expenses due to Agent with regard to the Letters of Credit, except (a) those accruing after the date such participation is funded, and (b) such Lender's Pro Rata Share of the issuance fees for the Letters of Credit.

ARTICLE 9
MISCELLANEOUS

9.1 NO WAIVER; REMEDIES CUMULATIVE

No failure by Agent or any Lender to exercise, and no delay in exercising, any right, power or remedy under this Agreement or any Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or remedy under any Loan Document preclude any other or further exercise thereof or the exercise of any other right, power, or remedy. The exercise of any right, power, or remedy shall in no event constitute a cure or waiver of any Event of Default nor prejudice the right of Agent or any Lender in the exercise of any right hereunder or thereunder, unless in the exercise of such right, all obligations of Borrower under the Loan Documents are paid in full. The rights and remedies provided herein and therein are cumulative and not exclusive of any right or remedy provided by law.

9.2 GOVERNING LAW

This Agreement and any Note shall be governed by and construed in accordance with the laws of the State of Washington, U.S.A.

9.3 CONSENT TO JURISDICTION; WAIVER OF IMMUNITIES

Borrower hereby irrevocably submits to the jurisdiction of any state or federal court sitting in Spokane, Spokane County, Washington, in any action or proceeding brought to enforce or otherwise arising out of or relating any to Loan Document. Nothing herein shall impair the right of Agent or any Lender to bring any action or proceeding against Borrower or its property in the courts of any other jurisdiction.

9.4 NOTICES

All notices and other communications provided for in this Agreement shall be in writing or (unless otherwise specified) by telex, telecopy or telegram and shall be mailed or sent or delivered to each party at the address set forth under its name on the signature page hereof or on the signature page of any amendment hereto, or at such other address as shall be designated by such party in a written notice to each other party. Except as otherwise specified, all such notices and communications if duly given or made shall be effective upon receipt.

9.5 ASSIGNMENT

This Agreement shall be binding upon and inure to the benefit of the parties and their respective Successors and assigns, except that Borrower may not assign or otherwise transfer all or any part of its rights or obligations hereunder without the prior written consent of Lenders, and any such assignment or transfer purported to be made without such consent shall be ineffective.

9.6 SEVERABILITY

Any provision of this Agreement or any Note which is prohibited or unenforceable in any jurisdiction shall as to such jurisdiction be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction. To the extent permitted by applicable law, the parties waive any provision of law which renders any provision hereof prohibited or unenforceable in any respect.

9.7 INDEMNIFICATION

Whether or not the transactions contemplated hereby are consummated, Borrower shall indemnify, defend and hold the Agent-Related Persons, and each Lender and each of its respective officers, directors, employees, counsel, agents and attorneys-in-fact (each, an "Indemnified Person") harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, charges, expenses and disbursements (including Attorney Costs) of any kind or nature whatsoever which may at any time (including at any time following repayment of the Loans and the termination, resignation or replacement of the Agent or replacement of any Lender) be imposed on, incurred by or asserted against any such person or entity in any way relating to or arising out of this Agreement or any document contemplated by or referred to herein, or the transactions contemplated hereby, or any action taken or omitted by any such Person under or in connection with any of the foregoing, including with respect to any investigation, litigation or proceeding (including any bankruptcy or insolvency proceeding or appellate proceeding) related to or arising out of this Agreement or the Loans or the use of the proceeds thereof, whether or not any Indemnified Person is a party thereto (all the foregoing, collectively, the "Indemnified Liabilities"); PROVIDED, that Borrower shall have no obligation hereunder to any Indemnified Person with respect to Indemnified Liabilities resulting solely from the gross negligence or willful misconduct of such Indemnified Person. The agreements in this Section shall survive payment of all Loans.

9.8 CONDITIONS NOT FULFILLED

If the Commitment or any portion thereof is not borrowed owing to nonfulfillment of any condition precedent specified in Article 3, neither Borrower nor either Lender shall be responsible to the others for any damage or loss by reason thereof, except that Borrower shall in any event be liable to pay the fees, taxes, and expenses for which it is obligated hereunder.

9.9 ENTIRE AGREEMENT AMENDMENT

This Agreement comprises the entire agreement of the parties and may not be amended or modified except by written agreement of Borrower, Agent and both Lenders. No provision of this Agreement may be waived except in writing and then only in the specific instance and for the specific purpose for which given.

9.10 CONFLICTING AGREEMENTS

In the event of any conflict between the terms of this Agreement and the terms of any Note, the terms of this Agreement shall govern. .

9.11 ORAL AGREEMENTS

Borrower is hereby given the following notice:

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

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers or agents thereunto duly authorized to be effective as of the Effective Date.

BORROWER: ITRON, INC.

By
Title

Address:
2818 N. SULLIVAN RD.
SPOKANE, WA 99216
ATTN: TREASURER

LENDERS: BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

By
Title

Address:
U.S. CORPORATE GROUP - SEATTLE
701 FIFTH AVE., 12TH FLOOR
SEATTLE, WA 98104
ATTN:

LENDERS: U.S. BANK NATIONAL ASSOCIATION

By
Title

Address:
1420 FIFTH AVE., FLOOR 11
SEATTLE, WA 98101
ATTN:

EXHIBITS:

Exhibit A - Form of Notice of Borrowing
Exhibit B - Form of Notice of Refinancing
Exhibit C - Form of Revolving Note
Exhibit D - List of Subsidiaries
Exhibit E - Form of Subsidiary Guaranty
Exhibit F - Commitment Amounts
Exhibit G - Form of Compliance Certificate
Exhibit H - Form of Borrowing Base Certificate
Exhibit I - Prepayment Fee Calculation

Exhibit 12

ITRON, INC.
STATEMENT OF COMPUTATION OF RATIOS

	YEAR ENDED DECEMBER 31,				
	1994	1995	1996	1997	1998
	(in thousands, except ratios)				
EARNINGS:					
Pre-tax income (loss)	14,193	16,401	(2,134)	1,635	(10,045)
FIXED CHARGES:					
Converible debt amort.				357	426
interest capitalized			533	994	260
Interest expense, Gross	138	252	923	3,834	6,557
A) FIXED CHARGES	138	252	1,456	5,185	7,243
B) EARNINGS FOR RATIO	14,331	16,653	(678)	6,820	(2,802)
RATIOS:					
Ratio of Earnings to Fixed chargres (b/a)	103.8478	66.0833	n/a	1.3153	n/a

EXHIBIT 21

ITRON SUBSIDIARIES AND AFFILIATED COMPANIES

DOMESTIC SUBSIDIARIES:

Itron, Inc.
Corporate Headquarters
2818 N. Sullivan Rd.
Spokane, WA. 99216-1897
P.O. Box 15288 Spokane, WA. 99215-5288

Utility Translation Systems, Inc.
200 UTS Centre
5909 Falls of the Neuse Road
Raleigh, North Carolina, 27609

Design Concepts, Inc. (Idaho)
679 North Five Mile Road
Boise, ID 83713

Itron Manufacturing, Inc.
2818 N. Sullivan Rd.
Spokane, WA. 99216-1897
P.O. Box 15288 Spokane, WA. 99215-5288

Itron Minnesota, Inc.
2401 North State Street
Waseca, MN 56093

Itron/Metscan Corporation
N 2818 Sullivan Rd
Spokane, WA 99216

Genesis Services Pittsburgh, Inc
N 2818 Sullivan Rd
Spokane, WA 99216

Genesis Services Portland, Inc
N 2818 Sullivan Rd
Spokane, WA 99216

Itron International, Inc
N 2818 Sullivan Rd
Spokane, WA 99216

Itron Finance, Inc.
N 2818 Sullivan Rd
Spokane, WA 99216

Itron Connecticut Finance, Inc
N 2818 Sullivan Rd
Spokane, WA 99216

INTERNATIONAL SUBSIDIARIES:

Itron Canada, Ltd. (Canada)
160 Wilkinson Rd., #22
Brampton, ON. L6T 4Z4

Itron S.A. (France)
Immeuble Merblanc
1, rue du Port au Prince
38200 Vienne, France

Itron Ltd. (England)
Kilnbrook House
Rose Kiln Lane
Reading, Berkshire RG2 0BY
United Kingdom

Itron Australisia Pty Ltd. (Australia)
BHP Building
Level 6, 55 Sussex Street

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 333-41573 and 333-28451, of Itron, Inc. and subsidiaries on Form S-3 and Registration Statement Nos. 333-28933, 333-63147 and 333-04685, of Itron, Inc. and subsidiaries on Form S-8 of our report dated February 17, 1999, appearing in this Annual Report on Form 10-K of Itron, Inc. for the year ended December 31, 1998.

Our audit of the financial statements referred to in our aforementioned report also included the financial statement schedule of Itron, Inc. and subsidiaries, listed in Item 14. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audit. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Seattle, Washington
March 26, 1999

12-MOS
DEC-31-1998
DEC-31-1998
2,743
0
63,738
(1,485)
20,654
108,392
148,422
(55,286)
247,755
54,162
0
0
0
106,039
8,943
247,755
241,402
241,402
164,599
164,599
80,340
(3,537)
(6,508)
(10,045)
3,820
(6,225)
0
0
0
(6,225)
(0.42)
(0.42)