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

FORM 10-Q

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

For the quarterly period ended June 30, 1999

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
For the transition period from to

Commission file number 0-22418

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

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

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

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

As of July 31, 1999, there were outstanding 14,887,138 shares of the registrant's common stock, no par value, which is the only class of common or voting stock of the registrant.

Part 1: Financial Information

Item 1: Financial Statements

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

	Three months ended June 30,		Six months ended June 30,	
	1999	1998	1999	1998
Revenues				
AMR systems	$29,054	$44,235	$ 59,973	$ 94,591
Handheld systems	16,391	11,530	32,738	21,210
Outsourcing	5,776	5,004	10,455	8,676
Total revenues	51,221	60,769	103,166	124,477
Cost of revenues				
AMR systems	18,997	30,656	38,668	65,424
Handheld systems	10,000	5,991	19,140	11,116
Outsourcing	5,023	4,154	8,856	7,174
Total costs of revenues	34,020	40,801	66,664	83,714
Gross profit	17,201	19,968	36,502	40,763
Operating expenses				
Sales and marketing	7,061	6,976	13,495	13,570
Product development	6,953	8,997	13,555	17,920
General and administrative	3,362	3,287	6,387	6,304
Amortization of intangibles	490	588	980	1,179
Restructuring charges	-	-	1,121	-
Total operating expenses	17,866	19,848	35,538	38,973

Operating income (loss)	(665)	120	964	1,790
Other income (expense)				
Equity in affiliates	(146)	(230)	(311)	(350)
Interest, net	(1,443)	(1,636)	(3,298)	(2,933)
Total other income (expense)	(1,589)	(1,866)	(3,609)	(3,283)
Income (loss) before extraordinary item and Income taxes	(2,254)	(1,746)	(2,645)	(1,493)
Income tax (provision) benefit	670	670	830	570
Net income (loss) before extraordinary item	(1,584)	(1,076)	(1,815)	(923)
Extraordinary gain on extinguishment of debt, net of income taxes of $1,970	-	-	3,660	-
Net income (loss)	$(1,584)	$ (1,076)	$ 1,845	$ (923)
Basic net income (loss) per share:				
Before extraordinary item	$ (0.11)	$ (0.07)	$ (0.12)	$(0.06)
Extraordinary item	-	-	0.25	-
Basic net income (loss) per share	$ (0.11)	$ (0.07)	$ 0.12	$(0.06)
Diluted net income (loss) per share:				
Before extraordinary item	$ (0.11)	$ (0.07)	$ (0.12)	$(0.06)
Extraordinary item	-	-	0.24	-
Diluted net income (loss) per share	$ (0.11)	$ (0.07)	$ 0.12	$(0.06)

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

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

	June 30, 1999	December 31, 1998
Assets		
Current assets		
Cash and cash equivalents	$ 2,888	$ 2,743
Accounts receivable, net	46,269	62,253
Current portion of long-term contracts receivable	14,552	13,498
Inventories	20,328	20,654
Deferred income taxes, net	5,803	6,938
Other	1,285	2,306
Total current assets	91,125	108,392
Property, plant and equipment, net	39,497	42,390
Equipment used in outsourcing, net	53,939	50,746
Intangible assets, net	16,627	18,142
Long-term contracts receivable	27,228	23,712
Other	4,135	4,373
Total assets	$ 232,551	$ 247,755
Liabilities and shareholders' equity		
Current liabilities		
Short-term borrowings	$ 8,824	$ 14,000
Accounts payable and accrued expenses	22,490	25,263
Wages and benefits payable	7,019	6,246
Deferred revenue	5,030	8,653
Total current liabilities	43,363	54,162
Convertible subordinated debt	57,234	63,400
Mortgage notes payable	6,162	6,242
Project financing	7,474	7,722
Warranty and other obligations	1,100	1,207
Total noncurrent liabilities	71,970	78,571
Shareholders' equity		
Common stock	106,783	106,039
Retained earnings	11,935	10,090
Other	(1,500)	(1,107)
Total shareholders' equity	117,218	115,022
Total liabilities and shareholders' equity	$ 232,551	$ 247,755

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

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

	Six months ended June 30,	
	1999	1998
OPERATING ACTIVITIES		
Net income (loss)	$ 1,845	$ (923)
Noncash charges (credits) to income:		
Depreciation and amortization	9,347	9,292
Deferred income tax provision (benefit)	(841)	(513)
Equity in affiliates, net	311	350
Extraordinary gain on extinguishment of debt	(3,660)	-
Changes in operating accounts:		
Accounts receivable	15,960	194
Inventories	326	7,132
Accounts payable and accrued expenses	(3,152)	(4,339)
Wages and benefits payable	773	(3,790)
Long-term contracts receivable	(4,570)	(5,810)
Deferred revenue	(3,623)	(792)
Other, net	251	(1,089)
Cash provided (used) by operating activities	12,967	(288)
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(3,331)	(3,960)
Equipment used in outsourcing	(4,751)	(6,419)
Other, net	153	(1,264)
Cash used by investing activities	(7,929)	(11,643)
FINANCING ACTIVITIES		
Change in short-term borrowings, net	(5,176)	8,382
Project financing	(248)	5,547
Issuance of common stock	744	1,495
Purchase and retirement of common stock	-	(1,203)
Other, net	(213)	445
Cash provided (used) by financing activities	(4,893)	14,666
Increase in cash and equivalents	145	2,735
Cash and cash equivalents at beginning of period	2,743	3,023
Cash and cash equivalents at end of period	$ 2,888	$ 5,758

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

ITRON, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1999

Note 1: Basis of Presentation

The consolidated financial statements presented in this Form 10-Q are unaudited and reflect, in the opinion of management, all normal recurring adjustments necessary for a fair presentation of operations for the three month and six month periods ended June 30, 1999. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Form 10-K for the year ended December 31, 1998, as filed with the Securities and Exchange Commission on March 30, 1999. The results of operations for the three and six-month periods ended June 30, 1999, are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period.

Note 2: Earnings Per Share and Capital Structure

(in thousands)	Three Months ended June 30, 1999	1998	Six Months ended June 30, 1999	1998
Weighted average shares outstanding	14,807	14,686	14,782	14,658
Effect of dilutive securities:				
Stock options	-	-	556	-
Convertible debt	-	-	-	-
Weighted average shares outstanding assuming conversion	14,807	14,686	15,338	14,658

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. The dilutive effect of these options is included for purposes of calculating dilutive earnings per share ("EPS") using the "treasury stock" method. 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.

Note 3: 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. During the first quarter of 1999 the Company recorded a further restructuring charge of $1.1 million as part of its ongoing efforts to improve operating efficiencies. The restructuring measures primarily involved a workforce reduction, the write-off of certain of the Company's intangible assets and the closure and consolidation of facilities. Cumulative restructuring charges of $5.1 million are as follows:

(in thousands)	Cash/ Non-Cash	Restructuring Charge	Activity	Reserve Balance 06/30/99
Severance and related charges	Cash	$ 2,658	$ 2,103	$ 555
Write-down of intangible assets	Non-Cash	1,104	1,104	-
Consolidation of facilities	Cash	1,048	-	1,048
Other	Non-Cash	241	241	-
Total restructuring charge		$ 5,051	$ 3,448	$1,603

Note 4: Balance Sheet Components

(Inventories, in thousands)	June 30, 1999	December 31, 1998
Material	$ 5,964	$12,498
Work in process	1,460	2,339
Finished goods	9,663	7,240
Field inventories awaiting installation	663	596
Total manufacturing inventories	17,750	22,673
Service inventories	2,578	2,180
Total inventories	$20,328	$ 24,853

Note 5: Segment Information

While the Company analyzes its operations in various ways, the chief executive officer primarily reviews the Company's manufacturing and sales operations on a domestic vs. international basis and reviews the Company's revenues and cost of sales by the major product lines of AMR systems, handheld systems and outsourcing. The Company has outsourcing agreements in which it both owns and operates AMR systems. These agreements require a large amount of capital investment, with related project and other debt, and long-term contract payments that are predominantly financing payments. Consequently outsourcing accounts are included in the Company's finance operations. Outsourcing contracts in which the Company operates, but does not own, AMR systems 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.

Six months ended June 30, 1999

	Manufacturing and Sales					
(in thousands, except ratios)	Domestic	International	Total	Finance	Eliminated	Consolidated
Revenues from external customers:						
AMR systems	$58,903	$ 1,070	$59,973	$ -	$ -	$ 59,973
Handheld systems	26,161	6,577	32,738	-	-	32,738
Outsourcing	656	-	656	9,799	-	10,455
Intersegment revenues	747	24	771	-	(771)	-
Total revenues	$86,467	$ 7,671	$94,138	$ 9,799	$ (771)	$103,166
Segment income (loss) (1)(2)	2,657	(3,933)	(1,276)	4,150	111	2,985
Segment assets	170,180	10,232	180,412	96,060	(43,921)	232,551
Segment debt	6,854	20,658	27,512	77,324	(24,427)	80,409
Cash flows:						
Operating activities	$18,723	$ (825)	$17,898	$ (4,931)	$ -	$ 12,967
Investing activities (3)	(3,190)	(73)	(3,263)	(4,666)	-	(7,929)
Net operating and investing	$15,533	$ (898)	$14,635	$ (9,597)	$ -	$ 5,038
EBITDA(4)	$ 9,346	$ (2,280)	$7,066	$ 8,564	$ -	$ 15,630
Segment debt/annual EBITDA(5)	0.37	*	1.95	4.51	*	2.57

Six months ended June 30, 1998

(in thousands, except ratios)	Manufacturing and Sales Domestic	International	Total	Finance	Eliminated	Consolidated
Revenues from external customers:						
AMR systems	$90,344	$ 4,247	$94,591	$ -	$ -	$ 94,591
Handheld systems	15,936	5,274	21,210	-	-	21,210
Outsourcing	139	-	139	8,537	-	8,676
Intersegment revenues	1,033	100	1,133	-	(1,133)	-
Total revenues	$107,452	$ 9,621	$117,073	$ 8,537	$ (1,133)	$124,477
Segment income (loss) (2)	1,755	(2,220)	(465)	(552)	(476)	(1,493)
Segment assets	170,458	12,000	182,458	73,968	(12,709)	243,717
Segment debt	7,373	17,580	24,953	63,623	-	88,576
Cash flows:						
Operating activities	$ 6,230	$ (1,570)	$ 4,660	$ (4,948)	$ -	$ (288)
Investing activities (3)	(5,015)	(226)	(5,241)	(6,402)	-	(11,643)
Net operating and investing	$ 1,215	$ (1,796)	$ (581)	$(11,350)	$ -	$ (11,931)
EBITDA (4)	$ 8,740	$ (808)	$ 7,932	$ 2,799	$ -	$ 10,731
Segment debt/annual EBITDA (5)	0.42	*	1.57	11.37	*	4.13

(1) Segment income (loss) for Finance includes $5.6 million pre-tax gain on debt extinguishment in 1999

(2) Itron does not allocate income taxes to its segments.

(3) Investing activities primarily consist of capital expenditures for each segment.

(4) EBITDA is calculated by adding net interest, depreciation and amortization expense to pre-tax income or loss after extraordinary item 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.

(5) Total debt to annualized EBITDA is calculated by dividing total segment debt by the product of EBITDA multiplied by 2.

* Not meaningful.

Note 6: Contingencies

The Company, together with its Chairman Johnny M. Humphreys, , is a defendant in a class action filed by certain former shareholders in federal court, alleging violations of the federal securities laws arising out of alleged misleading disclosures or omissions made by the Company regarding its business and technology. On June 3, 1999 the Company announced that it reached an agreement to settle this lawsuit by payment of $12 million to the plaintiff class, all of which will be covered by insurance proceeds. The settlement is subject to certain customary conditions, including notice to the potential class members and approval by the court. Neither the Company nor Mr. Humphreys have admitted any wrongdoings or liability and no wrongdoing or liability was found by the court.

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

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 fitted into 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, many of which are also driven by deregulation.

RESULTS OF OPERATIONS

Revenues

Total Company revenues for the quarter and six months ended June 30, 1999 decreased $9.6 million and $21.3 million from the same periods in 1998. Both the quarter and the six month decreases were primarily due to the substantial completion of one large AMR systems contract in late 1998, which are described in greater detail below.

(in millions)	Three months ended June 30,			Six months ended June 30,		
Revenues	1999	Increase (Decrease)	1998	1999	Increase (Decrease)	1998
AMR systems	$29.0	(34%)	$44.3	$ 60.0	(37%)	$ 94.6
Handheld systems	16.4	42%	11.5	32.7	54%	21.2
Outsourcing	5.8	15%	5.0	10.5	21%	8.7
Total revenues	$51.2	(16%)	$60.8	$103.2	(17%)	$124.5

AMR systems revenues decreased $15.2 million and $34.6 million in the three and six-month periods ended June 30, 1999 from the same periods in 1998. There were three primary reasons for the decreases. First, a large portion of the decreases was due to meter module shipments in the 1998 periods to Virginia Power ("Virginia"). The Company's contract with Virginia required the installation of a fixed network covering approximately 460,000 meter modules in three separate geographic regions. The majority of the shipments and installation activities for this contract occurred during 1998. This was the most condensed fixed network installation that the Company had ever achieved. Because of the accelerated installation schedule, revenue in 1998 was much higher than in the current periods. Approximately 30% of the quarter and year-to-date AMR revenues in 1998 were from the Virginia contract. Second, the 1999 periods reflect a negotiated $4.2 million price concession from a contract amendment with Virginia for outage detection functionality that Virginia eliminated from the system requirements. The impact of this price concession is reflected in the quarter and year to date 1999 periods as a $4.2 million reduction in revenues, gross profit and operating income. Third, lower installation revenues in 1999 also contributed to the lower AMR revenue in the year. Installation revenues were higher in 1998 because the Company had several contracts for "turn-key" systems in which it was responsible for meter module installation. Average selling prices for meter modules increased somewhat during the 1999 periods, primarily reflecting a shift in mix from electric meter modules to gas and water meter modules.

Handheld systems revenues for the three and six months ended June 30, 1999 were significantly higher than the same three and six month periods in 1998. The large increases in handheld systems revenues were primarily due to a large number of customers upgrading and replacing systems for their Year 2000 requirements, along with sales of the Company's new portable network ("PN") card for handheld computers. The PN card is a lower cost, lighter weight, credit card sized radio device, which was introduced in late 1998.

Outsourcing revenues increased $800,000 for the quarter and $1.8 million for the six-month period in over the same periods in 1998. Outsourcing revenues continue to be driven primarily by the Company's contract with the Duquesne Light Company ("Duquesne"). The Company is currently in the operations phase of its contract with Duquesne, which will continue through 2013. The Company expects that total revenues in the second half of 1999 will be flat or slightly lower than revenues in the first half of the year.

Gross Margin

Overall gross margins for the three and six-month periods ended June 30, 1999 were slightly higher than the same periods in 1998. The percentages for 1999 and 1998 in the table below reflect gross margins as a percentage of corresponding revenues and the percentage point change from the prior year.

	Three months ended June 30,			Six months ended June 30,		
Gross margin	1999	Increase (Decrease)	1998	1999	Increase (Decrease)	1998
AMR systems	35%	4%	31%	36%	5%	31%
Handheld systems	39%	(9%)	48%	42%	(6%)	48%
Outsourcing	13%	(4%)	17%	15%	(2%)	17%
Total gross margin	34%	1%	33%	35%	3%	33%

AMR systems gross margins for the three and six months ended June 30, 1999 increased four and five percentage points respectively, over the comparable periods in 1998, despite the $4.2 million impact of the Virginia contract amendment. Without the revenue reduction in the second quarter of 1999, the Company would have had a gross margin of 39% for the quarter and 38% for the year-to-date period. The margin improvement for both the quarter and the six months reflects the absence of the lower margin contract with Virginia. Additional improvements in the margin for the three and six month periods in 1999 result from a shift in mix from electric to gas meter modules and a smaller proportion of installation activities, which tend to have lower margins, in 1999 than in 1998. The Company expects gross margins to continue to be higher in 1999 than in 1998, because of the absence of the low margin impact from the Virginia contract and a lower proportion of installation activities in 1999 compared to 1998. However, the Company expects more of an impact from manufacturing over-capacity in the second half of 1999 than it experienced in the first six months, due primarily to planned increases in manufacturing and finished goods inventory in the first half of 1999 related to meter module changes.

Handheld systems margins decreased by nine percentage points and six percentage points in the three and six months of 1999, respectively, from the 48% level in 1998. The lower margins in the current year were primarily due to lower service margins caused by new warranty periods associated with the new system upgrade sales (during which the Company does not receive service revenues) that the Company provides for customer upgrades.

Outsourcing margins of 13% and 15% of revenues in the quarter and year-to-date periods of 1999 are somewhat lower than the 17% margins in the comparable 1998 periods. The lower margin in both periods is a result of a greater proportion of total outsourcing revenues in the 1999 periods derived from the Company's contract with Duquesne. The gross margin on the Duquesne contract is low because it was the Company's first large sale Network AMR system.

Operating Expenses

Total operating expenses for the three months ended June 30, 1999 were approximately $2 million lower than the second quarter of 1998. Operating expenses for the six months ended June 30, 1999 were $3.5 million lower than the comparable six-month period in 1998, despite a $1.1 million restructuring charge in the first quarter of 1999. The restructuring charge was primarily for severance and other expenses related to the closure of the Company's Saratoga, California product development office. The development activities from this office are being consolidated into the Company's other product development locations. Without this restructuring charge, total year-to-date operating expenses were $4.6 million, or 12%, lower than the same period in 1998.

(in millions)	Three months ended June 30,			Six months ended June 30,		
Operating expenses	1999	Increase (Decrease)	1998	1999	Increase (Decrease)	1998
Sales and marketing	$ 7.1	1%	$ 6.9	13.5	(1%)	$ 13.6
Product development	6.9	(23%)	9.0	13.5	(24%)	17.9
General and administrative	3.4	2%	3.3	6.4	1%	6.3
Amortization of intangibles	0.5	(17%)	0.6	1.0	(17%)	1.2
Restructuring Charge	-	100%	-	1.1	100%	-
Total operating expenses	$17.9	(10%)	$19.8	$ 35.5	(9%)	$ 39.0

Sales and marketing expenses for the three and six months ended June 30, 1999 were approximately level with the comparable periods in 1998. Product development expenses were significantly lower in the 1999 quarter and year to date periods compared to last year. The lower expenses are primarily the result of restructuring measures the Company began to implement in the third quarter of 1998 (see restructuring charge discussed below). General and administrative expenses in 1999 were substantially level with the 1998 periods. Amortization of intangibles decreased slightly in both the three and six months ended June 30, 1999 compared to 1998, yet remained at 1% of total revenues. Amortization expenses are lower in the current period because the Company wrote off certain intangible assets in the third quarter of 1998. The Company expects that operating expenses will be lower in 1999 compared to 1998 because of the restructuring measures. Although the Company has expensed all known restructuring charges as of June 30, 1999, additional charges may be incurred in conjunction with certain strategic planning activities the Company is considering.

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 $3.9 million restructuring charge in 1998 and an additional restructuring charge of $1.1 million in the first quarter of 1999. The restructuring measures involved a workforce reduction - (primarily in product development), the write-off of certain intangible assets due to a reduction in the scope of planned technology development, closure of some of the Company's facilities and discontinuation of a jointly owned entity. (See Note 3 of the accompanying financial statements.) The Company's comparatively high product development spending in the prior years expanded the number of models of meter modules produced, enhanced module functionality, and expanded network capabilities and products. Because the Company now has a broad product line including commercial and industrial ("C&I") products, Mobile AMR, handheld systems, telephone modules and electric, gas and water meter modules, product development spending has been scaled back to lower levels.

Interest and Other, Net

(in millions) Other income (expense)	Three months ended June 30, 1999	Increase (Decrease)	1998	Six months ended June 30, 1999	Increase (Decrease)	1998
Equity in affiliates loss	$(0.2)	(37%)	$(0.2)	$ (0.3)	(11%)	$ (0.4)
Net interest income (expense)	(1.4)	(12%)	(1.7)	(3.3)	12%	(2.9)
Total other income (expense)	$(1.6)	(15%)	$(1.9)	$ (3.6)	10%	$ (3.3)

The Company had net interest expense of $ 1.4 million for the three months ended June 30, 1999, which is comparable to net interest expense in the same periods of 1998. Net interest expense of $3.3 million in the first half of 1999 was higher than the same period in 1998, primarily due to capitalized interest, which reduces net interest expense in 1998. The Company capitalized interest related to outsourcing installations of $260,000 in the first quarter of 1998. No interest was capitalized in the second quarter of 1998 or the 1999 periods.

Income Taxes

The Company had an income tax benefit of approximately 30% of pre-tax earnings from continuing operations for the six months ended June 30, 1999 compared to a benefit of 38% for the full year 1998. The lower comparative tax rate in 1999, is primarily caused by a concentration of state tax obligations and lower expected R&D tax credits. To the extent pre-tax earnings from continuing operations, or the components of those earnings, differ from the Company's current expectations, the effective tax rate for the year could change. When the Company has a lower level of consolidated earnings, it expects its tax rate will be significantly higher than the statutory rate, primarily due to the impact of the state and foreign taxes.

Extraordinary Item - Gain on Extinguishment of Debt

In March 1999 the Company completed its offer ("Exchange Offer") to exchange up to $15.8 million principal amount of its 6 3/4% Convertible Subordinated Notes due 2004 ("Exchange Notes"), for up to $22.0 million principal amount of its 6 3/4% Convertible Subordinated Notes due 2004 ("Original Notes"). The Exchange Offer was made on the basis of $720 principal amount of Exchange Notes for $1,000 principal amount of Original Notes. A total of $15.8 million aggregate principal amount of Exchange Notes was issued related to the transaction. The Company generated a pre-tax gain on extinguishment of debt, net of debt issuance expenses, of $5.6 million in the first quarter of 1999 related to the exchange. The after-tax effect of the gain on extinguishment was $3.7 million.

FINANCIAL CONDITION

(in millions) Cash flows information	Three months ended June 30, 1999	Increase (Decrease)	1998	Six months ended June 30, 1999	Increase (Decrease)	1998
Operating activities	$ 6.9	(2%)	$ 6.8	$ 12.9	*	$ (0.6)
Investing activities	(4.5)	(33%)	(3.4)	(7.9)	30%	(11.4)
Financing activities	(1.4)	(319%)	0.6	(4.9)	(133%)	14.7
Net inc. (dec.) in cash	$ 1.0	(76%)	$ 4.0	$ 0.1	(95%)	$ 2.7

o not meaningful

Operating activities generated approximately the same amount of cash in the second quarter of 1999 as they did in the second quarter of 1998. For the first six months of 1999 the Company generated $12.90 million in cash compared to a usage of $600,000 in cash in the first six months of 1998. The $13.6 million improvement in cash flow was primarily driven by increased collections of accounts receivable and a reduction in the Company's unbilled receivables. Unbilled receivables were higher in the 1998 period because of a high level of turnkey installations, which typically have deferred billing terms. The 1998 period also included cash used for payment of 1997 performance incentives of approximately $4 million.

Investments totaled $4.5 million during the second quarter of 1999, up somewhat from the $3.4 million in the prior year's quarter due primarily to the acquisition of C&I meters for Duquesne. Investments were 30% lower in the first six months of 1999 compared to the same six months of 1998 because of a reduction in the amount of equipment needed for outsourcing installations and lower capital acquisitions for internal use.

Financing activities used $1.4 million and $4.9 million in the three and six months ended June 30, 1999 compared to generating $649,000 and $14.7 million during the same periods in 1998. Financing activities in the 1999 quarter primarily consisted of paying down the Company's bank line of credit. During 1998 the Company primarily generated cash from financing activities by borrowing against the bank line of credit and obtaining project financing for an outsourcing contract.

Existing sources of liquidity at June 30, 1999 include approximately $2.9 million of existing cash and cash equivalents and $20 million of available borrowings under the revolving credit facility. The Company expects to spend less in 1999 on equipment used for outsourcing installations than it did in 1998 because outsourcing installations on current contracts have been completed or are nearing completion. However, investments in equipment for outsourcing may increase in late 1999 and 2000 as the Company begins installation of a new outsourcing system for Southern California Edison. The Company expects to spend somewhat more on capital assets for internal use during 1999 than it did in 1998. The Company believes that existing cash, together with available borrowings and cash generated from operating activities, will be more than sufficient to fund operations, exclusive of any new large outsourcing arrangements, for the remainder of 1999 and into 2000. The Company intends to fund future outsourcing contracts with project financing to the extent possible.

RECENT FCC ACTIONS

The Company uses licensed multiple address system ("MAS") frequencies in the 928 - - 959 MHz band to interrogate or "wake-up" some of its meter modules. (See "Description of Business - FCC Regulation" and "Certain Risk Factors - Availability and Regulation of Radio Spectrum" in the Company's Annual Report on Form 10-K for the year ended December 31, 1998.) On July 1, 1999 the Federal Communications Commission ("FCC") issued a Notice of Proposed Rule Making ("NPRM") that contains a clause stating that the FCC temporarily will not accept any new applications after July 3, 1999 for MAS frequencies in this band. The NPRM does not have an effect on existing licenses. Most utilities use MAS licenses for many purposes, including meter reading, mobile dispatch and supervisory control and distribution automation. In addition, other companies in the gas pipeline, railroad and petroleum industry use MAS licenses in the frequency band. Both utilities and these other businesses need to obtain new licenses to grow and broaden their business. The Company and many of these other companies are planning on filing an emergency petition with the FCC to seek relief from the moratorium on new license applications, and are aggressively lobbying the issue with appropriate Congressmen and Senators. One additional action the company is taking to minimize the impact of this moratorium on its business is to arrange for the sharing of existing licenses between customers. Although the Company believes that it will be successful in its efforts to seek relief from this NPRM, and that the matter will be favorably settled by year-end, there can be no assurance that it will be. As long as the NPRM is in effect the Company may experience delays in revenue from some customers, particularly smaller utilities and municipalities who do not currently hold or have availability to these licenses. Currently the Company estimates that approximately $5 million of revenue in the second half of 1999 could be impacted by this action.

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 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 has received confirmation from all critical suppliers indicating their Year 2000 readiness. The majority of the critical suppliers are already Year 2000 compliant. Of those not yet fully in compliance, the vast majority indicated that they would reach full compliance by the end of July and a smaller number indicated that they would in October. The Company will pursue the issue with those suppliers who are not yet compliant to insure compliance within the time frames indicated.

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 were notified. Alternatives, including upgrading systems, were developed for them. Substantially all of the customers with maintenance contracts with the Company have 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. The Company's United Kingdom operations and subsidiary in France were upgraded in the fourth quarter of 1998 and the second quarter of 1999, respectively. The Company also has a variety of other software and hardware, including personal computer software and software used in engineering functions, all of which are now Year 2000 compliant.

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 has purchased several generators for its headquarters in Spokane to temporarily run critical systems such as computer systems, lights and telephones if needed. 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 approximately $1.5 million, of which approximately $1.3 million has been spent to date. However, as the compliance process is not yet complete, some 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, pending FCC regulations, 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 "Recent FCC Actions" section in this document and "Certain Risk Factors" and "Description of Business - FCC Regulation" included in the Company's Annual Report on Form 10-K for the year ended December 31, 1998. These forward-looking statements speak only as of the date of this report. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change on the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Part 2: Other Information

Item 1: Legal Proceedings

On May 29, 1997, Itron and its Chairman, Johnny M. Humphreys, were served with a complaint alleging securities fraud filed by Mark G. Epstein (Epstein vs Itron, etal) on his own behalf and alleged to be on behalf of a class of all similarly situated, in the US District Court of Easter Washington (Civil Action) The complaint alleged, 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 sought monetary damages, costs and attorneys' fees and unspecified equitable or injunctive relief. On March 10, 1999, the Court certified this action as a class action on behalf of all purchasers of Itron Common Stock between September 11, 1995 and October 22, 1996 except for the Defendants and persons or entities having a relationship with the Defendants.

On June 3, 1999 Itron, Inc. reached an agreement to settle the lawsuit by a payment to the plaintiff class of $12 million, all of which will be funded by insurance proceeds. The settlement is subject to certain customary conditions, including notice to the potential class members and approval by the court. Neither the Company, nor Johnny Humphreys, Itron's Chairman who was also named in the lawsuit, have admitted any wrongdoing or any liability and none has been found by the court.

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

The Company held its annual meeting of shareholders on May 5, 1999. Three directors were elected for three year terms at the meeting, Ted C. DeMerritt, Jon E. Eliassen and Stuart Ed White. Johnny M. Humphreys, Mary Ann Peters, Michael B. Bracy, Graham M. Wilson and Paul A. Redmond continued their terms as Directors. The following summarizes all matters voted on at the meeting:

Matter 1. Election of Directors:

Nominee	In Favor	Withheld
Ted C. DeMerritt	12,421,301	145,380
Jon E. Eliassen	12,422,364	144,317
Stuart Edward White	12,416,773	149,908

Matter 2. Amendment of the Company's 1996 Employee Stock Purchase Plan:

For	Against	Abstain	Broker Non-Votes
11,555,746	943,312	67,623	-

Matter 3. Ratify Deloitte & Touche LLP as Independent Auditors:

For	Against	Abstain	Broker Non-Votes
12,506,568	40,907	19,206	-

Item 6: Exhibits and Reports on Form 8-K

a) Exhibits

Exhibit 10.17 - Employment Agreement between the Registrant and Michael J.Chesser dated May 17,1999

Exhibit 27 - Financial Data Schedule

b) Reports on Form 8-K

A report on Form 8-K, dated June 30, 1999 was filed on July 1, 1999, pursuant to Item 5 of that form. The report related to an amendment to a contract with Virginia Power that resulted in a $4.2 million reduction in the price paid by Virginia for an AMR system.

SIGNATURE

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

ITRON, INC.
(Registrant)

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

Date: August 13, 1999

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement"), dated as of May 17, 1999, is entered into between Itron, Inc., a Washington corporation ("Itron"), and Michael Chesser ("Executive").

1. Employment

Itron will employ Executive and Executive will accept employment by Itron as its chief executive officer, beginning June 7, 1999. Executive will have the authority, subject to Itron's Articles of Incorporation and Bylaws, as may be granted from time to time by the Board of Directors of Itron. Executive will perform the duties customarily performed by the chief executive officer of a corporation which is, in all respects, similar to Itron and such other duties as may be assigned from time to time by the Board of Directors of Itron, which relate to the business of Itron, its subsidiaries, its parent corporation (if any), or any business ventures in which Itron, its subsidiaries or its parent corporation may participate. Executive will be appointed to the Board of Directors of Itron promptly following the commencement of his employment hereunder, and Executive will serve as a member of Itron's Board of Directors, subject to shareholder approval, for so long as he continues to serve as Itron's chief executive officer.

2. Attention and Effort

Executive will devote all of his entire productive time, ability, attention and effort to Itron's business and will skillfully serve its interests during the term of this Agreement; provided, however, that Executive may devote reasonable periods of time to (a) engaging in personal investment activities, (b) serving on the Board of Directors of other corporations, if such service would not otherwise be prohibited by Section 8 hereof, and (c) engaging in charitable or community service activities, so long as none of the foregoing additional activities materially interfere with Executive's duties under this Agreement.

3. Term

Unless otherwise terminated pursuant to Section 6 of this Agreement, Executive's term of employment under this Agreement shall expire on June 6, 2002, after which time Executive's employment will be terminable at will, and the provisions of Section 6 of this Agreement will have no further force or effect.

4. Compensation, Stock Options and Relocation Allowance

During the term of this Agreement, Itron agrees to pay or cause to be paid to Executive, and Executive agrees to accept in exchange for the services rendered hereunder by him, the following compensation:

4.1 Base Salary

Executive's compensation shall consist, in part, of an annual base salary of $400,000 before all customary payroll deductions. Such annual base salary shall be paid in substantially equal installments and at the same intervals as other officers of Itron are paid. The Board of Directors of Itron or the Compensation Committee thereof shall determine any increases in the amount of the annual base salary in future years.

4.2 1999 Bonus

Executive will be eligible to receive, in addition to the annual base salary described above, an annual bonus under Itron's Executive Incentive Compensation Plan (the "EIC Plan") for 1999 (based on the objectives that have been established under the EIC Plan of Itron's executive officers, or such other objectives as may be agreed to by Executive and the Compensation Committee of Itron's Board of Directors). Upon achievement of EIC Plan targets at the 100% level, Executive will be entitled to receive 60% of his annual base salary for the period of 1999 during which he was employed by Itron (which is $138,500, assuming Executive's employment commences on June 7, 1999 and continues through at least the end of 1999). Depending on the extent to which established EIC Plan targets are met, Executive will be entitled to receive up to 150% of his targeted bonus award.

4.3 EVA Bonus Plan

Itron agrees that it will adopt and institute an Economic Value Added Bonus Plan (the "EVA Bonus Plan") for its officers, including Executive, effective at the beginning of calendar year 2000, subject to shareholder approval if necessary. The parameters of the EVA Bonus Plan are to be approved by Itron's Board of Directors.

4.4 Stock Options

Executive will be granted an award of options to purchase 200,000 shares of Itron common stock upon commencement of Executive's employment hereunder. The exercise price of the options will be the average of the high and low sales prices of Itron common stock at the date Executive's employment hereunder commences. Such options will be ISOs issued pursuant to Itron's 1989 Restated Stock Option Plan to the extent permitted by the tax code, and the balance will be nonqualified options. All of such options will vest in equal annual installments over a three-year period.

The option letter agreements evidencing these options will provide that in the event of a Change of Control (as defined in the Change of Control Agreement referenced in Section 7.4 hereof), the vesting of such options will accelerate so that they are exercisable as follows:

Duration of Employment	Exercisable Portion of Option
less than 6 months	33%
at least 6 months	66%
at least 12 months	100%

Notwithstanding anything in the Change of Control Agreement to the contrary, the acceleration of vesting of any portion of the 200,000 options contemplated by this Section 4.4 will not be taken into account in calculating the "Option Acceleration Value" under Section 6.2 of the Change of Control Agreement, and accordingly the amount otherwise payable to Executive in accordance with Section 6.1 of the Change of Control Agreement will not be reduced by virtue of the acceleration of vesting of any of these options.

4.5 Relocation and Moving Expenses

Itron shall pay or reimburse Executive for the following expenses incurred by Executive in connection with his relocation to the Spokane, Washington area:

(a) reasonable temporary living expenses, for a period of up to 180 days, incurred by Executive and his family for food, lodging and other incidentals, including a rental or leased car if necessary;

(b) reasonable costs incurred by Executive for trips between Lynnwood, New Jersey and Spokane, Washington during the temporary living period;

(c) reasonable expenses (including airfare, lodging and meals) incurred by Executive's spouse in connection with homefinding trips to Spokane, Washington;

(d) reasonable moving expenses incurred by Executive and his family in connection with the moving of their household goods, personal possessions and cars (mileage or moving expense) from Lynnwood, New Jersey to the Spokane, Washington area (moving company to be selected by Executive from three bids);

(e) if Executive sells his home in Lynnwood, New Jersey, reasonable expenses associated with that sale, including commissions; if Executive is unable with reasonable effort to sell his home in Lynnwood, New Jersey by September 1, 1999, the costs associated with purchase and resale of said home through an executive relocation home purchase firm; and

(f) a lump sum payment equal to two months of Executive's base salary to cover incidental expenses associated with the relocation of Executive and his family to Spokane, Washington.

5. Benefits

During the term of this Agreement, Executive will be entitled to participate, subject to and in accordance with applicable eligibility requirements, in fringe benefit programs, including, but not limited to, health, dental and vision insurance, group life insurance and such other programs as shall be provided from time to time by, to the extent required, action of Itron's Board of Directors (or any person or committee appointed by the Board of Directors to determine fringe benefit programs and other emoluments). Executive shall also be entitled to four weeks vacation per year.

6. Termination

Employment of Executive pursuant to this Agreement may be terminated as follows, but in any case, the provisions of Section 8 hereof shall survive the termination of this Agreement and the termination of Executive's employment hereunder:

6.1 By Itron

With or without Cause (as defined below), Itron may terminate the employment of Executive at any time during the term of employment upon giving Notice of Termination (as defined below).

6.2 By Executive

Executive may terminate his employment at any time, for any reason, upon giving Notice of Termination.

6.3 Automatic Termination

This Agreement and Executive's employment hereunder shall terminate automatically upon the death or total disability of Executive. The term "total disability" as used herein shall mean Executive's inability to perform the duties set forth in Section 1 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 Executive's control, unless Executive is granted a leave of absence by the Board of Directors of Itron. Executive and Itron hereby acknowledge that Executive's ability to perform the duties specified in Section 1 hereof is of the essence of this Agreement. Termination hereunder shall be deemed to be effective (a) at the end of the calendar month in which Executive's death occurs or (b) immediately upon a determination by the Board of Directors of Itron of Executive's total disability, as defined herein.

6.4 Notice

The term "Notice of Termination" shall mean at least 30 days' written notice of termination of Executive's employment, during which period Executive's employment and performance of services will continue; provided, however, that Itron may, upon notice to Executive and without reducing Executive's compensation during such period, excuse Executive from any or all of his or her duties during such period. The effective date of the termination of Executive's employment hereunder shall be the date on which such 30-day period expires.

7. Termination Payments

In the event of termination of the employment of Executive, all compensation and benefits set forth in this Agreement shall terminate except as specifically provided in this Section 7:

7.1 Termination by Itron

If Itron terminates Executive's employment without Cause prior to the end of the term of this Agreement, Executive shall be entitled to receive (a) termination payments equal to twenty-four (24) months' annual base salary and (b) any unpaid annual base salary which has accrued for services already performed as of the date termination of Executive's employment becomes effective. If Executive is terminated by Itron for Cause, Executive shall not be entitled to receive any of the foregoing benefits, other than those set forth in clause (b) above.

7.2 Termination by Executive

In the case of the termination of Executive's employment by Executive, Executive shall not be entitled to any payments hereunder, other than those set forth in clause (b) of Section 7.1 hereof.

7.3 Expiration of Term

In the case of a termination of Executive's employment as a result of the expiration of the term of this Agreement, Executive shall not be entitled to receive any payments hereunder, other than those set forth in clause (b) of Section 7.1 hereof.

7.4 Termination in Connection With a Change in Control

Concurrent with the commencement of Executive's employment hereunder, Executive and Itron shall enter into a Change of Control Agreement with Itron, a copy of which is attached hereto as Exhibit A. Notwithstanding Sections 7.1 and 7.2 of this Agreement and in full substitution therefor, if Executive's employment terminates under circumstances described in the Change of Control Agreement, Executive's rights upon termination will be governed by terms of the Change of Control Agreement and his right to termination payments under this Employment Agreement shall cease.

7.5 Payment Schedule

All payments under this Section 7 shall be made to Executive at the same interval as payments of salary were made to Executive immediately prior to termination.

7.6 Cause

Wherever reference is made in this Agreement to termination being with or without Cause, "Cause" shall include, without limitation, the occurrence of one or more of the following events:

(a) Failure or refusal to carry out the lawful duties of Executive described in Section 1 hereof or any directions of the Board of Directors of Itron, which directions are reasonably consistent with the duties herein set forth to be performed by Executive;

(b) Violation by Executive of a state or federal criminal law involving the commission of a crime against Itron or a felony;

(c) Current use by Executive of illegal substances; deception, fraud, misrepresentation or dishonesty by Executive; any incident materially compromising Executive's reputation or ability to represent Itron with the public; any act or omission by Executive which substantially impairs Itron's business, good will or reputation; or any other misconduct; or

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

8. Noncompetition and Nonsolicitation

8.1 Applicability

This Section 8 shall survive the termination of Executive's employment with Itron or the expiration of the term of this Agreement.

8.2 Scope of Competition

Executive agrees that he will not, directly or indirectly, during his employment and for a period of two years from the date on which his employment with Itron terminates for any reason, whether before or after the expiration of this Agreement, be employed by, consult with or otherwise perform services for, own, manage, operate, join, control or participate in the ownership, management, operation or control of or be connected with, in any manner, any Competitor. A "Competitor" shall include any entity which, directly or indirectly, competes with Itron or produces, markets, distributes or otherwise derives benefit from the production, marketing or distribution of products or services which compete with products then produced or services then being provided or marketed, by Itron or the feasibility for production of which Itron is then actually studying, or which is preparing to market or is developing products or services that will be in competition with the products or services then produced or being studied or developed by Itron, in each case within the global marketplace in which Itron does business, unless released from such obligation in writing by

Itron's Board of Directors. Executive shall be deemed to be related to or connected with a Competitor if such Competitor is (a) a partnership in which he is a general or limited partner or employee, (b) a corporation or association of which he is a shareholder, officer, employee or director, or (c) a partnership, corporation or association of which he is a member, consultant or agent; provided, however, that nothing herein shall prevent the purchase or ownership by Executive of shares which constitute less than five percent of the outstanding equity securities of a publicly or privately held corporation, if Executive had no other relationship with such corporation.

8.3 Scope of Nonsolicitation

Executive shall not directly or indirectly solicit, influence or entice, or attempt to solicit, influence or entice, any employee or consultant of Itron to cease his or her relationship with Itron or solicit, influence, entice or in any way divert any customer, distributor, partner, joint venturer or supplier of Itron to do business or in any way become associated with any Competitor. This Section 8.3 shall apply during the time period and geographical area described in Section 8.2 hereof.

8.4 Assignment of Intellectual Property

All concepts, designs, machines, devices, uses, processes, technology, trade secrets, works of authorship, customer lists, plans, embodiments, inventions, improvements or related work product (collectively "Intellectual Property") which Executive develops, conceives or first reduces to practice during the term of his employment hereunder or within one year after the termination of his employment hereunder or the expiration of this Agreement, whether working alone or with others, shall be the sole and exclusive property of Itron, together with any and all Intellectual Property rights, including, without limitation, patent or copyright rights, related thereto, and Executive hereby assigns to Itron all of such Intellectual Property. "Intellectual Property" shall include only such concepts, designs, machines, devices, uses, processes, technology, trade secrets, customer lists, plans, embodiments, inventions, improvements and work product which (a) relate to Executive's performance of services under this Agreement, to Itron's field of business or to Itron's actual or demonstrably anticipated research or development, whether or not developed, conceived or first reduced to practice during normal business hours or with the use of any equipment, supplies, facilities or trade secret information or other resource of Itron or (b) are developed in whole or in part on Itron's time or developed using Itron's equipment, supplies, facilities or trade secret information, or other resources of Itron, whether or not the work product relates to Itron's field of business or Itron's actual or demonstrably anticipated research.

8.5 Disclosure and Protection of Inventions

Executive shall disclose in writing all concepts, designs, processes, technology, plans, embodiments, inventions or improvements constituting Intellectual Property to Itron promptly after the development thereof. At Itron's request and at Itron's expense, Executive will assist Itron or its designee in efforts to protect all rights relating to such Intellectual Property. Such assistance may include, without limitation, the following: (a) making application in the United States and in foreign countries for a patent or copyright on any work products specified by Itron; (b) executing documents of assignment to Itron or its designee of all of Executive's right, title and interest in and to any work product and related intellectual property rights; and (c) taking such additional action (including, without limitation, the execution and delivery of documents) to perfect, evidence or vest in Itron or its designee all right, title and interest in and to any Intellectual Property and any rights related thereto.

8.6 Nondisclosure; Return of Materials

During the term of his employment by Itron and following termination of such employment, he will not disclose (except as required by his duties to Itron), any concept, design, process, technology, trade secret, customer list, plan, embodiment, or invention, any other Intellectual Property or any other confidential information, whether patentable or not, of Itron of which Executive becomes informed or aware during his employment, whether or not developed by Executive. In the event of the termination of his employment with Itron or the expiration of this Agreement, Executive will return all documents, data and other materials of whatever nature, including, without limitation, drawings, specifications, research, reports, embodiments, software and manuals to Itron which pertain to his employment with Itron or to any Intellectual Property and shall not retain or cause or allow any third party to retain photocopies or other reproductions of the foregoing.

8.7 Equitable Relief

Executive acknowledges that the provisions of this Section 8 are essential to Itron, that Itron would not enter into this Agreement if it did not include this Section 8 and that damages sustained by Itron as a result of a breach of this Section 8 cannot be adequately remedied by damages, and Executive agrees that Itron, notwithstanding any other provision of this Agreement, including, without limitation, Section 15 hereof, and in addition to any other remedy it may have under this Agreement or at law, shall be entitled to injunctive and other equitable relief to prevent or curtail any breach of any provision of this Agreement, including, without limitation, this Section 8.

8.8 Effect of Violation

Executive and Itron acknowledge and agree that additional consideration has been given for Executive entering into this Section 8, such additional consideration including, without limitation, relocation allowances, bonus eligibility and certain provisions for termination payments pursuant to Section 7 of this Agreement. Violation by Executive of this Section 8 shall relieve Itron of any obligation it may have to make any further such payments, but shall not relieve Executive of his obligations, as required hereunder, not to compete.

8.9 Definition of Itron

For purposes of Section 8.2 and Section 8.3 hereof, "Itron" shall include all subsidiaries of Itron, Itron's parent corporation, if any, and any business ventures in which Itron, its subsidiaries or its parent corporation may participate.

9. Representations and Warranties

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

9.1 No Violation of Other Agreements

Neither the execution nor the performance of this Agreement by Executive will violate or conflict in any way with any other agreement by which Executive may be bound, or with any other duties imposed upon Executive by corporate or other statutory or common law.

9.2 Patents, Etc.

Executive has prepared and attached hereto as Schedule 1 a list of all inventions, patent applications and patents made or conceived by Executive prior to the date hereof, which are subject to prior agreement or which Executive desires to exclude from this Agreement, or, if no such list is attached, Executive hereby represents and warrants to Itron that there are no such inventions, patent applications or patents.

10. Indemnification

Concurrent with the commencement of Executive's employment hereunder, Executive and Itron shall enter into an Indemnification Agreement in the form attached hereto as Exhibit B.

11. 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 pursuant to the definition of "Cause" set forth in Section 7.6 hereof, before such action is taken, the party asserting the breach of this Agreement shall give the other party at least twenty (20) 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 20-day period.

12. Form of Notice

All notices given hereunder shall be given in writing, shall specifically refer to this Agreement and shall be personally delivered or sent by telecopy or other electronic facsimile transmission 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 Executive:	Michael Chesser
If to Itron:	Itron, Inc. Attn: Chairman of the Board 2818 N. Sullivan Rd. Spokane, WA 99216
Copy to:	Linda A. Schoemaker Perkins Coie 1201 Third Avenue, 40th Floor Seattle, WA 98101-3099

If notice is mailed, such notice shall be effective upon mailing, or if notice is personally delivered or sent by telecopy or other electronic facsimile transmission, it shall be effective upon receipt.

13. Assignment

This Agreement is personal to Executive and shall not be assignable by Executive. Subject to the provisions of Section 7.4 hereof, Itron may assign its rights hereunder to (a) any corporation resulting from any merger, consolidation or other reorganization to which Itron is a party or (b) any corporation, partnership, association or other person to which Itron may transfer all or substantially all of the assets and business of Itron existing at such time. All of the terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns.

14. 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.

15. Arbitration

Subject to the provisions of Section 8.7 hereof, any controversies or claims arising out of or relating to this Agreement shall be fully and finally settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect (the "AAA Rules"), conducted by one arbitrator either mutually agreed upon by Itron and Executive or chosen in accordance with the AAA Rules, except that the parties thereto shall have any right to discovery as would be permitted by the Federal Rules of Civil Procedure for a period of 90 days following the commencement of such arbitration and the arbitrator thereof shall resolve any dispute which arises in connection with such discovery. The prevailing party shall be entitled to costs, expenses and reasonable attorneys' fees, and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

16. Amendments in Writing

No 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 Itron and 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 Itron and Executive.

17. 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.

18. 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.

19. Headings

All headings used herein are for convenience only and shall not in any way affect the construction of, or be taken into consideration in interpreting, this Agreement.

20. Counterparts

This Agreement, and any amendment or modification entered into pursuant to Section 16 hereof, may be executed in any number of counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute one and the same instrument.

21. Entire Agreement

This Agreement, including exhibits hereto incorporated by reference, on and as of the date hereof constitutes the entire agreement between Itron and Executive with respect to the subject matter hereof and all prior or contemporaneous oral or written communications, understandings or agreements between Itron and Executive with respect to such subject matter are hereby superseded and nullified in their entireties.

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

Michael Chesser:

/s/ Michael Chesser

Itron, Inc.:

/s/ Johnny Humphreys

By
Its: Chairman of the Board

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6-MOS
Dec-31-1999
Jun-30-1999
2,888
0
52,176
5,907
20,328
91,125
155,932
(62,496)
232,551
43,363
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0
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10,435
232,551
103,166
103,166
66,664
66,664
35,849
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(3,298)
(2,645)
830
(1,815)
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3,660
0
1,845
0.12
0.12