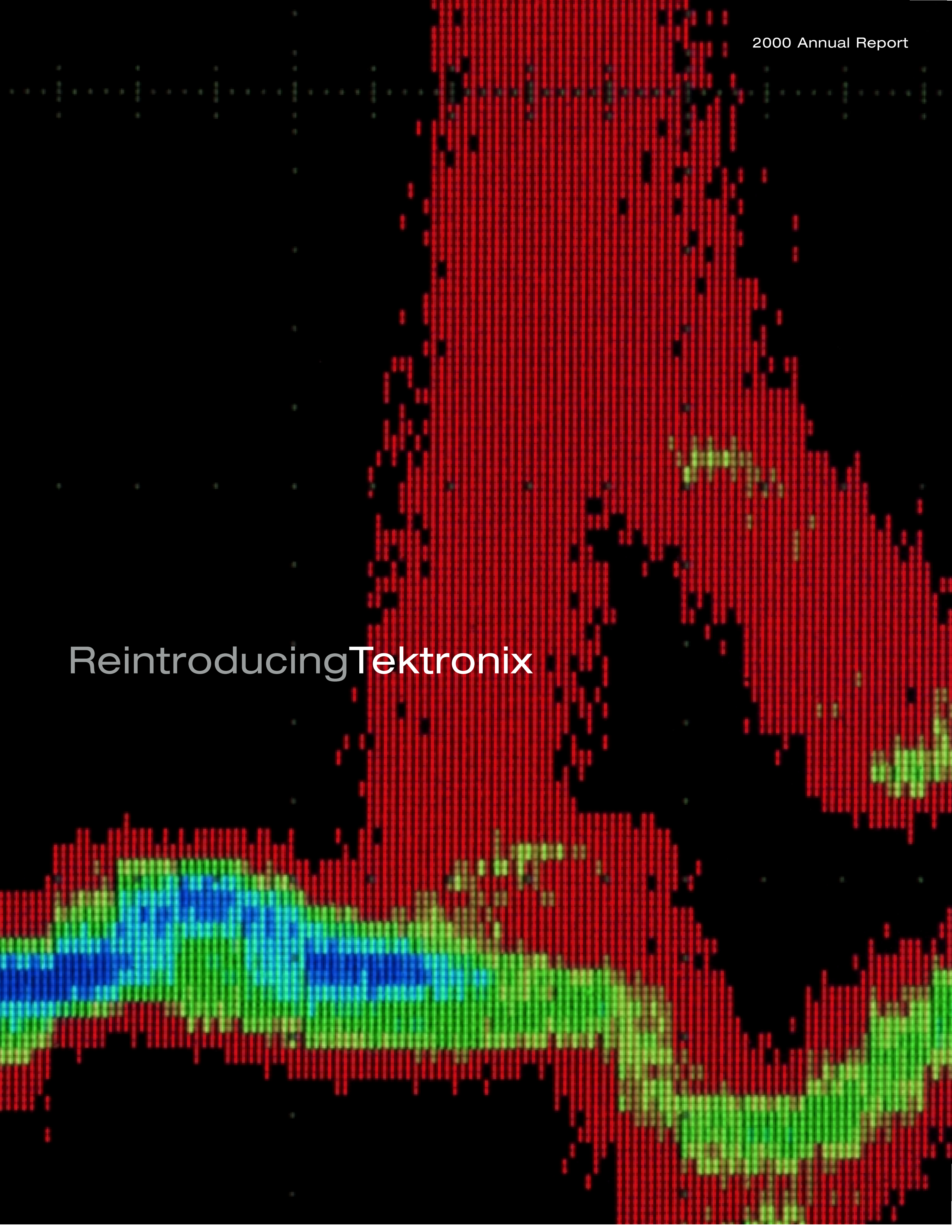


2000 Annual Report

Reintroducing Tektronix

Financial Highlights

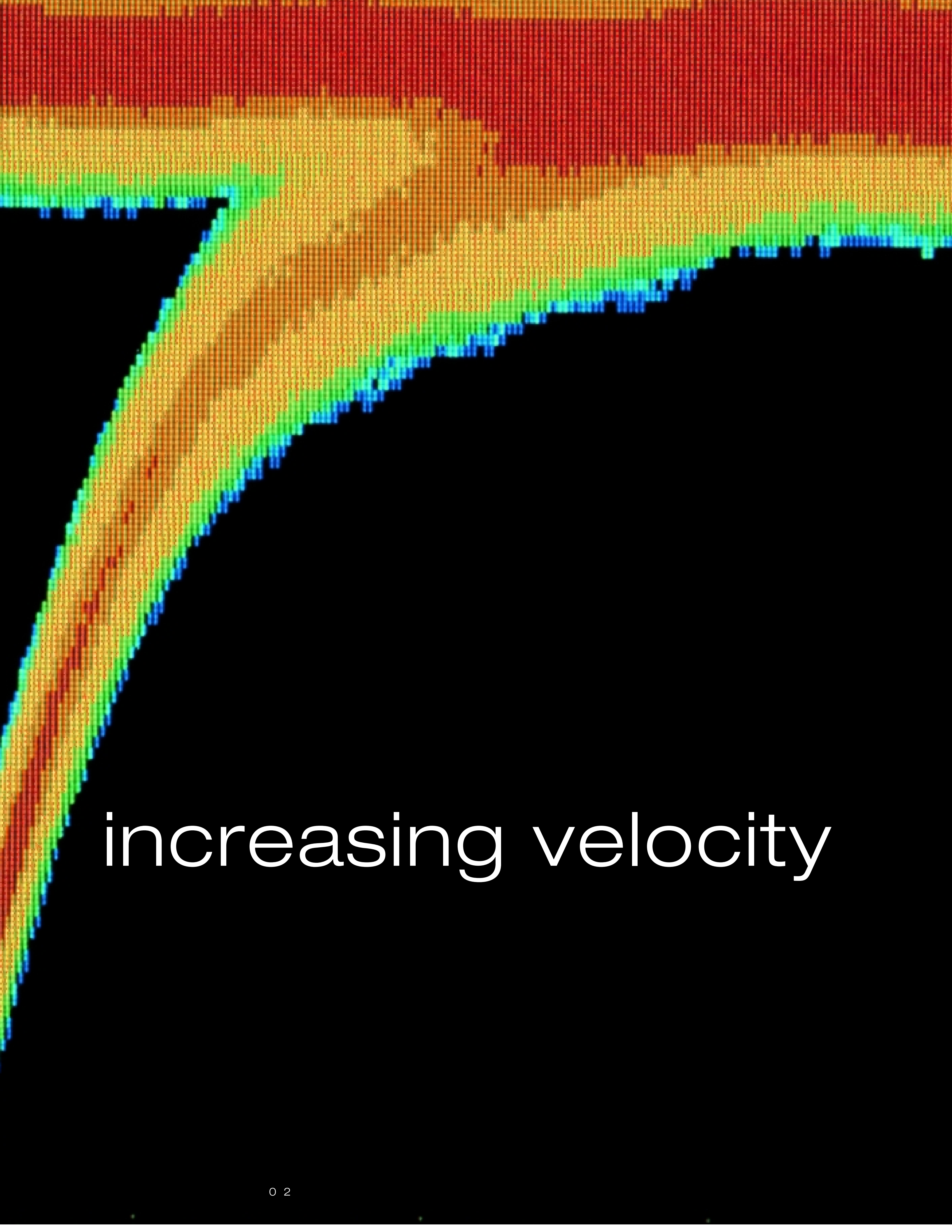
MEASUREMENT SEGMENT
DOLLARS IN THOUSANDS

FOR THE YEARS ENDED	May 27, 2000	May 29, 1999	May 30, 1998
Total Orders	$ 1,067,300	$ 817,900	$ 886,900
Net Sales	1,050,671	879,486	988,890
United States	547,434	437,353	512,432
Europe	230,663	227,612	217,424
Pacific	132,021	114,138	118,621
Japan	76,933	62,071	93,913
Americas	63,620	38,312	46,500
Gross Profit	529,843	432,564	481,362
Gross Margin	50.4%	49.2%	48.7%
Operating Margin	11.9%	8.7%	12.8%

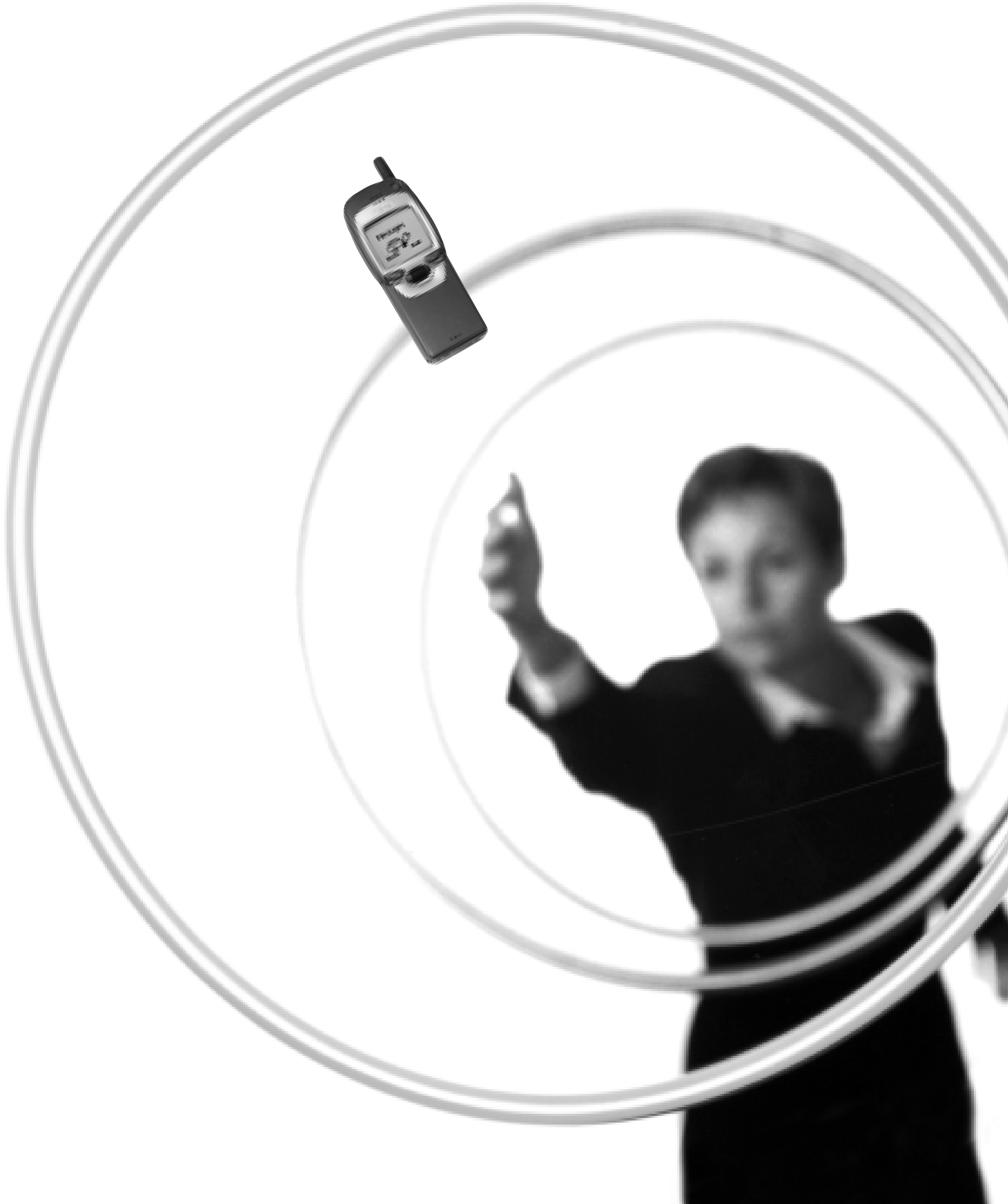
We’re not

the same Tektronix.

Our sole focus is on test, measurement, and monitoring equipment. Our target markets? Global telecommunications and Internet infrastructure. Here's what our strategy and vision are really all about.


increasing velocity

enabling wireless and the Internet

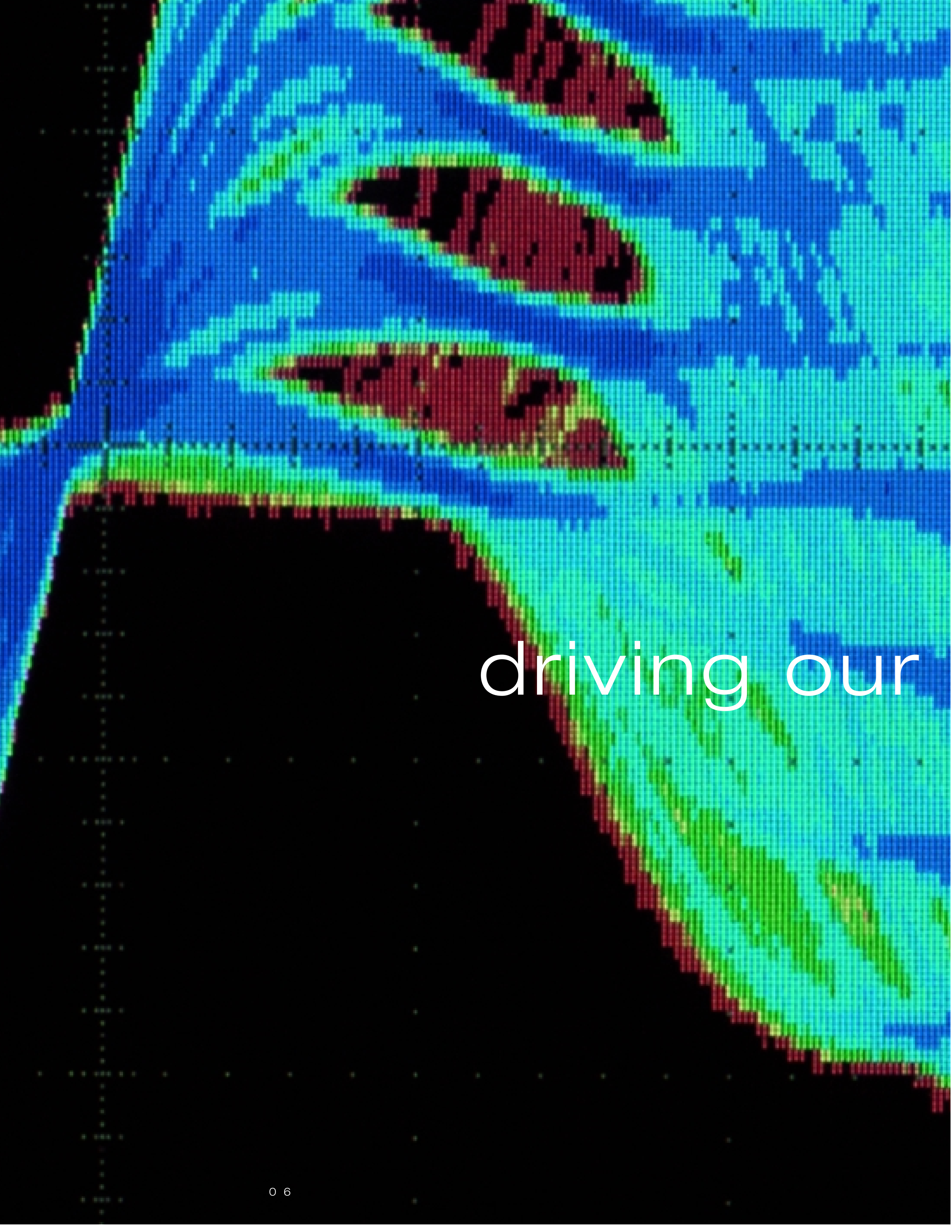


executing with

75% 100%

precision

staying connected



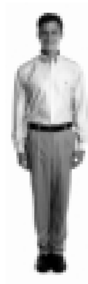
driving our

focusing on the next generation

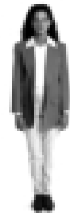
growth

building momentum

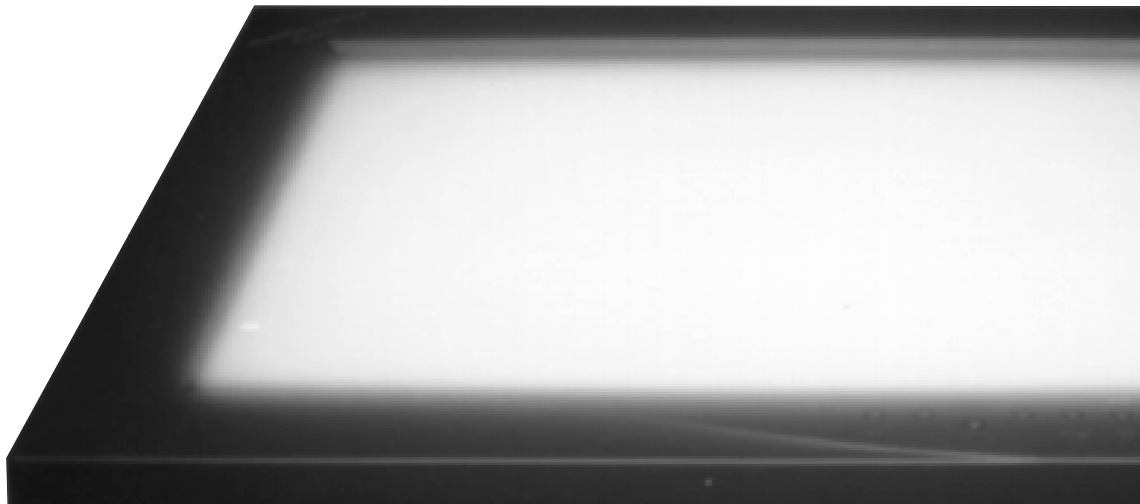
investing in people



on all fronts



We've got the right products aimed at fast-growing markets. An unparalleled technology heritage. A strong product pipeline. Experienced management. And, more than $1 billion in revenue.



We're primed

for Internet to wireless—wireless to the Internet.

Imagine a world with a billion connected computers. It is coming—very soon. Each and every day, every minute in fact, more people go online. And, within three years, there will also be one billion wireless phones in use worldwide. Now, these two fast growing technologies—wireless communications and the Internet—are about to converge. The added challenge: explosive data and Internet traffic are stretching the limits of bandwidth. Everyone is demanding more data—faster, faster, faster still.

This growth is pushing manufacturers to create more powerful, more innovative, function-laden products in ever-shorter design cycles. It's also placing huge demands on current and future generations of communications networks. That requires higher performance microprocessors, storage subsystems, communications interfaces and network elements. These large-scale integrated digital advancements, combined with the demand for multiple function devices such as wireless phones that carry voice, data, and eventually video, have created tremendous opportunities for test, measurement, and monitoring companies like Tektronix. And it's all global.

1 Billion

connected computers worldwide

We have the expertise to measure and test just about any electronic signal—from the simplest to the most complex. Founded in 1946, we set out to find a better way to develop an oscilloscope—a device that measures electronic signals. We then leveraged that measurement heritage to help the world move from black-and-white to color TV in the 1960s, and helped bring modern electronics and computers into being. We're still a technology innovator today. The focused Tektronix now empowers the design, creation, deployment, and management of networks and technologies in what we call the "Zone"—the fast-growth telecommunications, computing, and semiconductor markets, and the deployment of video within them. At Tektronix, our expertise in developing and marketing measurement products also benefits industries such as avionics, consumer electronics, government electronics, and automotive.

1 Billion

wireless phones in 3 years

To achieve success, we team with industry leaders to help envision that future. Voice, data, video—wireless access anywhere and everywhere, on every imaginable device. Cell phones. Notebooks. Portables. Internet appliances. PDAs. And the infrastructure to support it all. Whatever's next—our job is to help invent it.

We're connecting

with the leaders.

Close customer relationships. They have always been a hallmark of Tektronix, and they are more important than ever in today's competitive landscape: Design cycles have shrunk from years to months. Global competition has intensified. The Internet has changed everything. The wireless Web will do the same.

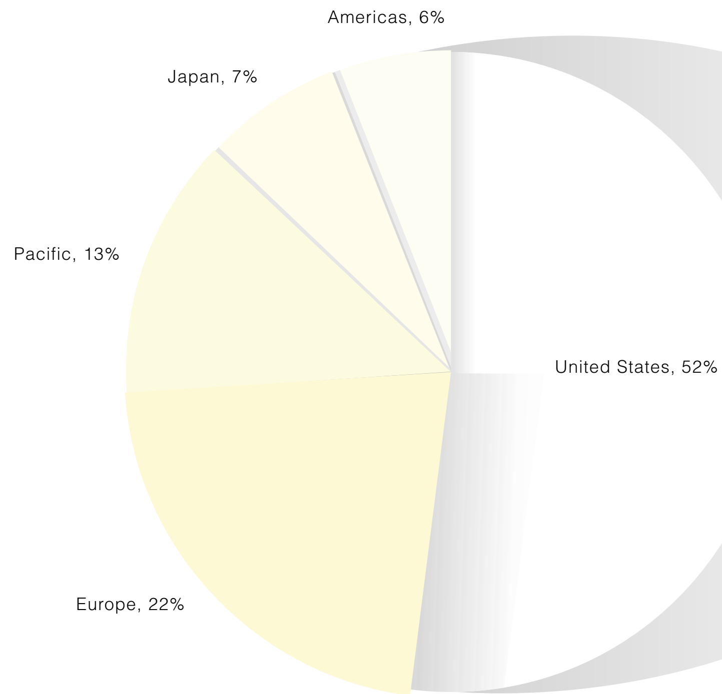
TDS3000 Digital Phosphor Oscilloscope (DPO),

Test Product of the Year,

Test and Measurement World magazine

Our strategy is to work with the industry leading companies of today and tomorrow, ensuring that we stay on the cutting edge of technology innovation and market trends—ready to provide world-class products and services. Across all of our product areas, we team with the leading semiconductor, computer, and telecommunications players. Whether we partner with these companies in their design labs, at the bench, or in the field, our goal is to enable them to shape and realize their vision of the future.

Recognizing the designers' need for speed and advanced applications, and committed to continuously sharing our knowledge of advanced measurement solutions, we set out to help educate our customers on the latest measurement technologies. During the year, we conducted an 18-city international "Focus on the Future" seminar series throughout Asia, Australia, Canada, and Latin



2000 Sales by Geography

America. Covering everything from photonics networks, protocol analysis, network monitoring, and "quality of service" in telecom networks to computer and embedded systems design, our goal was to educate engineers on advanced tools and applications, to help them characterize and debug the leading-edge designs of today and tomorrow.

756

Tektronix patents

We teamed with Actix to provide our telecommunications customers with a solution that will help them identify and resolve quality of service issues quickly and easily.

We partnered with IP provider ARM to provide high-performance, low-cost processors, peripherals, and system-chip designs to leading international electronics companies. And we teamed with Zenith to optimize the performance of digital video transmitters—helping to propel broadcasters past the challenges of the evolving digital medium.

To meet growing customer demand for flexible, PC-card-based instruments to test telecommunications and Internet technologies, we acquired test company Gage Applied Sciences in Canada.

Just after the year closed, through a co-development agreement with IBM, we announced that we were first to employ Silicon Germanium in test instrumentation—providing record-breaking performance to our customers.

We're inventing

the next product generation.

Before any electronic device is manufactured or brought to market—whether it is the latest, fastest, most powerful semiconductor, the next networked computer, a new wireless phone or an Internet appliance—that device must be designed and tested. Then, once the product or network is connected, it must be monitored to ensure quality of service. Tektronix is right there every step of the way. Our job is to stay on the leading edge of technology developments and enable our customers to get to market with the most advanced products by providing the testing, measuring and monitoring equipment they require.

Our strategy is to enable companies such as Intel, Motorola, Nokia, and Lucent—all customers of ours—to create future generations of products that will enable the industry's latest developments. That means we have to focus on key enabling applications—from third-generation mobile networks, to wireless connectivity standards, to computer systems design and MPEG video transport.

During the year, we introduced many new products aimed at these markets and received numerous

More than 55 percent of revenue in fiscal 2000 came from products on the market less than 24 months—enabling us to deliver higher profits and profit margins, and quickly address emerging opportunities.

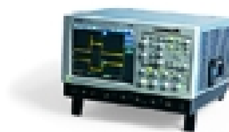
awards from leading industry publications. We introduced optical test products that will enable the sophisticated, advanced telecommunications networks of tomorrow. We unveiled the world's fastest real-time oscilloscope—again. We continue to focus on leveraging our test and measurement

We market more than

1,000

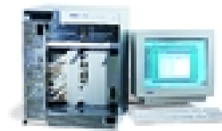
test, measurement, and monitoring products.

expertise into all areas of the product lifecycle from design, manufacturing, and deployment, to maintenance and monitoring.



See a new world. With its 4-gigahertz performance enabled by IBM's Silicon Germanium technology, the TDS7000 Series allows design engineers to see a world others don't. This new generation of digital phosphor oscilloscopes (DPOs) provides exceptional performance, operational simplicity, and unmatched connectivity, even to the Internet, through its Windows®-based platform.

Optimize quality. Video applications are fueling the growth of telecommunications and the Internet. The pioneering Picture Quality Monitor (PQM300) and the industry leading MPEG transport stream monitor (MTM300), which is based on our Emmy award-winning technology, represent our key Video Quality of Service (VQoS) solutions. These products enable companies that broadcast and transport video to meet the quality standards their customers demand.



Increase network capacity. Designed to enable high-speed optical networking and increase the capacity of telecommunications networks, the OTS9000 Optical Test Set is one of the first products specifically designed to test dense wavelength division multiplexing (DWDM) systems at 10 gigabits per second. The analyzer resides on a flexible platform designed to accept new capabilities as technology requirements change.

Adding logic to analysis. The TLA600 Series Logic Analyzer offers an affordable, entry-level testing solution, which is ideal for mainstream electronic design. It includes the patented, award-winning MagniVu™ acquisition technology, which helps prevent product development cycle delays by enabling engineers to quickly identify elusive hardware and software problems.

Test the network. The K1297 protocol testers are designed for a wide range of telecommunications applications, including protocol testing for development, operation, and maintenance of broadband and narrowband networks. This powerful, compact tool can be used for network monitoring, protocol simulation, emulation, and conformance testing.

Jerome J. Meyer

Rick Wills

To our shareholders

It was a great year for Tektronix. A year where we completed all of the actions that we committed to in last year's report and did even more to transition from a diversified company to one that is now a business solely focused on test, measurement and monitoring equipment.

A year ago, management committed to taking bold actions to deliver value to our shareholders. During the year, we exited the video and networking business, selling our video content production business to a private investment group. We sold our color printer business to Xerox Corporation for $925 million, and announced our plans to return the majority of the proceeds to shareholders through a share repurchase program. In addition, we established our VideoTele.com business as an independent company that now operates as a Tektronix subsidiary.

Necessitated by the above actions, we completed a significant consolidation of company operations to assure a competitive cost structure for the new Tektronix going forward. In direct response to changing market dynamics and business operations, we resized our international operations during the year and consolidated our service centers. Our restructuring, combined with the industry-wide recovery in the Asia/Pacific markets, and our continued solid execution of our product strategies enabled us to deliver increasing shareholder

value and strong financial results. More than anything else, we are pleased that the actions we took delivered the value we knew they would.

As a part of the transformation program, Carl Neun, who had been senior vice president and chief financial officer for a number of years retired. Jerry Meyer retired from the role of CEO, remaining as Chairman of the Board.

In January 2000, the company appointed Rick Wills as President and CEO of the new Tektronix and Colin Slade was appointed CFO.

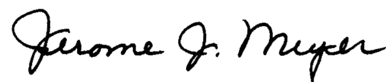
Exceeding the $1 billion revenue mark. With our measurement business now the sole concentration of the company, we are pleased to report record sales of more than $1 billion for fiscal year 2000. Net sales of $1.051 billion compared with $879.5 million last year for the measurement segment—a 19-percent gain that generated $1.66 earnings per share compared with $1.01 per share for the measurement segment in fiscal 1999.

For the year, consolidated earnings were $349.0 million, or $7.25 per share, compared with a loss of $51.2 million, or $1.07 per share, in fiscal 1999. Fiscal year results reflect the gain on the sale of the color printer division in January 2000 and the strong quarterly results of the measurement business. These developments, and our continued emphasis on improving operating margins and profitability, enabled us to end the year with a strong balance sheet, including improved working capital and a reduced debt position.

Getting ready for tomorrow. During the next year, the new Tektronix will continue to leverage its numerous core competencies and extend its leading market share position in key product areas with the goal of achieving double-digit growth.

By the time of the shareholder meeting in September 2000, board members William D. Walker and A.M. Gleason will have retired. Both served on the Tektronix Board for many years, and were influential board members during the dramatic transition from the 1980s to 1990s.

With strong revenue and earnings growth, solid orders and consistent backlog, and the transition now behind us, we believe we are well positioned to capitalize on the global telecommunications and computer industries, with an emphasis on the fast growing markets for Internet infrastructure and communications networks.



Jerome J. Meyer/Chairman

Rick Wills/President and Chief Executive Officer

Driven by the world of telecommunications and the Internet, the competitive landscape for the test and measurement business has changed dramatically. What follows is a discussion with President and CEO Rick Wills that will help further clarify Tektronix' strategy moving forward.

How will you compete in this new world?

Our strategic view of the future is in line with that of our customers. We see global communications and anything to do with the Internet as fundamentally changing the world. We're ready. We believe that Tektronix' role in this future is to enable our customers to design, build, deploy, and manage next-generation global communications networks and Internet technologies.

Tektronix now has the right products in place, is focusing on the right markets, and has the right team to ensure the continued success of our test measurement, and monitoring business. We have more than 1,000 test, measurement, and monitoring products, hold some 756 patents—securing nearly 60 more each year— and invest upwards of 12 percent of our revenue in research and development efforts. We are also a global company with operations in 26 countries.

What's your strategy for success in the marketplace?

There are five key strategies that we believe will ensure our success: First, we will continue to address "Zone" industries by focusing our resources in the areas where we provide the greatest value to our customers—and where we get the biggest return on that investment. Second, we'll focus on working shoulder-to-shoulder with industry leaders who will continually challenge us to provide

world-class products and services that push the technology envelope. Third, we aim to address "enabling applications." This strategy allows us to develop and leverage key competencies throughout Tektronix and ultimately to enable our customers' applications. Fourth, we will continue to build a strong product pipeline through a combination of internal product development, and through joint development and marketing with partners such as Rohde and Schwarz and Advantest. And fifth, we continue to leverage our expertise and technologies throughout the product lifecycle to meet a range of customer challenges—from design to manufacturing, deployment, maintenance and monitoring.

How will you ensure that this strategy stays in tune with ever-changing market dynamics?

We'll monitor and adjust our strategy on a quarterly basis. The strategy will evolve as we see new opportunities in the marketplace. We must be fluid, active, and readily adaptable to our ever-changing customer needs. The last thing we plan to do is sit still, even for a second.

What are your goals for growth and what's the strategy?

During 2001, we expect to build on our growth from last year and continually focus on our fundamentals of success: Strategy—follow it and keep it fresh. Execution—doing what we say we will do. Velocity—doing it now. We want all operational areas of the company to demonstrate a bias toward action. Most importantly, to achieve this growth we must remember that people are our most valuable asset. We have implemented procedures to attract and keep the very best.

What areas offer the most growth potential?

Without a doubt, we're excited about optical networking, third-generation wireless, and the next wave in semiconductor design. These technologies are enabling an explosion in capacity of the telecommunications infrastructure. New networks are needed to meet consumer demand for expanded services, such as better Internet access, increased data transmission, and streaming video. We've had many successes with products aimed at optical networking and wireless Internet testing applications, and are absolutely dedicated to providing designers and manufacturers of these systems and devices the solutions that help them get to market faster and reduce manufacturing costs. We are also dedicated to creating tools and systems to allow network operators to deploy these new services and insure the best balance between excellent service quality and competitive network costs.

Financial Performance

21 Management Review
29 Management's Letter
29 Independent Auditors' Report
30 Consolidated Statements of Operations
31 Consolidated Balance Sheets
32 Consolidated Statements of Cash Flows
33 Consolidated Statements of Shareholders' Equity
34 Notes to Consolidated Financial Statements
48 Selected Financial Data
49 Corporate Information

Management Review

Forward-Looking Statements

Statements and information included in this report that relate to future results and events (including new products) are based on the company's current expectations. Words such as "may," "could," "expects," "believes," "forecasts," "plans," "estimates," "intends" and "anticipates" constitute forward-looking statements subject to a number of risk factors, assumptions and uncertainties that could cause actual results to differ materially from those currently expected or desired. Some of these risk factors are discussed in the Risks and Outlook section of the Management Review.

General

Tektronix, Inc. (Tektronix or the company) historically operated in three major business divisions: Measurement, Color Printing and Imaging, and Video and Networking, as well as in five major geographies: the United States; Europe; the Americas, including Mexico, Canada and South America; the Pacific, excluding Japan; and Japan. During the year, the company sold the Color Printing and Imaging and Video and Networking divisions and now operates as a focused test, measurement and monitoring company, providing measurement solutions to customers in many industries, including computers, telecommunications and semiconductors.

As a focused Measurement company, Tektronix enables its customers to design, build, deploy and manage next-generation global communications networks and internet technologies. Revenue is derived principally through the development and marketing of a broad range of products in several key product categories: oscilloscopes; logic analyzers; communications test equipment, including products for network monitoring and protocol test, broadband transmission test and mobile production test; video test equipment; and accessories. Revenue is also derived through providing support services for products sold worldwide.

Sale of Color Printing and Imaging

On January 1, 2000, the company sold substantially all of the assets of the Color Printing and Imaging division to Xerox Corporation (Xerox). The purchase price was $925.0 million in cash, with certain liabilities of the division assumed by Xerox. During the third quarter of fiscal year 2000, Tektronix recorded a net gain of $340.3 million on this sale. The gain was calculated as the excess of the proceeds received over the net book value of the assets transferred, $198.5 million in income tax expense, a $60.0 million accrual for estimated liabilities related to the sale and $14.4 million in transaction and related costs.

On January 26, 2000, Tektronix announced a plan for the use of the net proceeds from the sale. The plan included a common stock repurchase program, the repayment of substantially all of the company's outstanding short-term debt and the retention of the remaining proceeds for other corporate purposes. On February 23, 2000, the company purchased 0.1 million shares of its common stock for $44 per share, totaling $4.7 million, through a Dutch Auction tender offer. On March 15, 2000, the Board of Directors approved a program to purchase up to $545.0 million of the company's common stock on the open market or through negotiated transactions. As of May 27, 2000, the company had repurchased 0.7 million shares for $35.1 million under this program.

The company accounted for the Color Printing and Imaging division as a discontinued operation in accordance with Accounting Principles Board (APB) Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." In accordance with this accounting guidance, operating results of the division through December 31, 1999, were excluded from each applicable line of the Consolidated Statements of Operations and included in Net earnings from discontinued operations for the periods reported. Net assets of the division were excluded from each applicable line of the Consolidated Balance Sheets for all periods reported and included in Net assets of discontinued operations on those statements. The cash flows of the division were also excluded from each applicable line of the Consolidated Statements of Cash Flows and included in Net cash provided by (used in) discontinued operations on those statements. During the year ended May 27, 2000, Color Printing and Imaging realized net sales of $369.5 million and a net loss from operations of $4.0 million. During the fiscal years ended May 29, 1999 and May 30, 1998 Color Printing and Imaging realized net sales of $725.4 million and $728.7 million and net earnings of $13.4 million and $45.2 million, respectively.

Sale of Video and Networking

On August 9, 1999, the company announced that it had reached an agreement to sell substantially all of the operating assets of its Video and Networking division to Grass Valley Group Inc. During the first quarter of 2000, Tektronix recorded pre-tax charges of $26.1 million for losses expected to be incurred in connection with the transaction. These charges were calculated based upon the excess of the estimated net book value of assets to be transferred over the proceeds, as well as asset impairments incurred as a result of the sale. On September 24, 1999, the companies closed the transaction. Tektronix received cash of $23.7 million, before transaction costs of $1.1 million, a note receivable of $22.5 million, and a 10% equity interest in Grass Valley Group Inc., which was recorded in Other long-term assets and accounted for under the cost method. The actual loss on the sale was $26.1 million.

Management concluded that the sale of the Video and Networking division did not meet the criteria to be recorded as a discontinued operation in accordance with APB Opinion No. 30, as the VideoTele.com business, a portion of the division, was retained by the company. Accordingly, Video and Networking operating results through September 24, 1999, were included in results from continuing operations for the periods reported. During the year ended May 27, 2000, Video and Networking realized net sales of $59.6 million and operating losses of $21.3 million. For the years ended May 29, 1999 and May 30, 1998, Video and Networking net sales were $256.7 million and $368.2 million while operating results were losses of $42.6 million and income of $0.1 million, respectively.

On February 25, 2000, Tektronix and Grass Valley Group Inc. entered into a subsequent agreement. Under this agreement, the company sold unbilled revenue on systems contracts in progress that were not a part of the original transaction. As consideration for the assets sold, the note receivable was amended to increase the principal balance and decrease the stated interest rate from 8% to 7%. The note is now carried at $27.9 million with $23.9 million classified as long-term and the remaining $4.0 million classified as short-term. In addition, a $4.6 million note receivable ($3.2 million short-term and $1.4 million long-term) was recorded for the sale of certain trade receivables that were also excluded from the original transaction. Charges of $5.5 million were incurred in conjunction with this subsequent agreement and were recorded in Charges related to the sale of Video and Networking on the Consolidated Statements of Operations. In addition, on May 25, 2000, Tektronix sold its 10% equity interest in Grass Valley Group Inc., to the majority shareholder of that company and received $6.5 million in cash, which approximated book value.

Strategic Acquisitions

During the year, the company completed the strategic acquisition of two companies for which the purchase prices and related goodwill were not material. On April 14, 2000, the company acquired Gage Applied Sciences, Inc. (Gage), a Montreal, Canada-based company focused on the high-performance, personal computer card-based instrumentation test market. In conjunction with that acquisition, the company expensed $1.1 million for the acquisition of in-process research and development (IPR&D), which was included in Non-recurring charges in the Consolidated Statements of Operations. On January 7, 2000, the company acquired Maxim Integrated Products Inc.'s (Maxim) 50% ownership interest in Maxtek Components Corporation (Maxtek), formerly a joint venture between Tektronix and Maxim, bringing the company's total ownership to 100%. Maxtek is focused on the design and manufacture of sophisticated multi-chip modules.

The transactions were accounted for by the purchase method of accounting, and accordingly, the results of operations of Gage and Maxtek have been consolidated in the company's financial statements and included in the Measurement segment since the dates of acquisition. Pro forma comparative results of operations are not presented because they are not materially different from the company's reported results of operations.

Formation of VideoTele.com as a Wholly-Owned Subsidiary

On February 26, 2000, the company formed a new subsidiary and transferred to it substantially all of the assets and liabilities relating to its VideoTele.com business. All of the outstanding stock of this subsidiary is owned by the company, and employees of the company working for the subsidiary have received options to purchase approximately 25% of the equity of the subsidiary. The company is considering alternatives which could reduce its ownership in the subsidiary. VideoTele.com recorded net sales of $24.5 million in 2000, which were included in net sales of the Measurement segment.

Sale of Merix Corporation Stock

In May 2000, the company sold 1.15 million shares of its investment in Merix Corporation (Merix) in conjunction with a public offering by Merix. This sale resulted in a net gain of approximately $11.4 million, which was included in Other income—net in the Consolidated Statements of Operations. The company's share of Merix' earnings through the date of sale of $1.9 million have been included in Equity in business ventures' earnings (loss) in the company's Consolidated Statements of Operations. As a result of this transaction, the company accounts for its remaining investment in Merix under the cost method and no longer records a portion of the earnings of Merix in its results of operations each period as it did under the equity method. The company intends to liquidate its remaining 0.5 million shares of Merix stock through open market sales over time.

Sale of Land and Buildings

During 2000, the company completed the sale of several significant buildings and parcels of land in conjunction with its plan to exit from and consolidate within facilities while transitioning to a focused Measurement business. These sales resulted in total pre-tax gains of approximately $22.6 million, which were included in Other income—net in the Consolidated Statements of Operations. Included were $12.2 million in gains on the sales of land and office, warehouse and manufacturing facilities in Oregon, an $8.7 million gain on the sale of an office facility in Marlow, England and a $1.7 million gain on the sale of a multi-function building in Australia.

Results of Operations

The company recognized consolidated net earnings of $349.0 million or $7.25 per diluted share for the year ended May 27, 2000, as compared to a net loss of $51.2 million or $1.07 per diluted share in 1999 and net earnings of $82.3 million or $1.60 per diluted share in 1998.

Net Earnings (Loss) from Continuing Operations

The company recognized net earnings from continuing operations of $12.7 million, or $0.26 per diluted share, for the year ended May 27, 2000, as compared to a net loss

from continuing operations of $64.5 million, or $1.35 per diluted share, during the same period in 1999. For the year ended May 30, 1998, the company realized net earnings from continuing operations of $37.0 million, or $0.72 per diluted share.

During 2000, the company recorded pre-tax net non-recurring charges of $83.8 million ($54.5 million after tax). These charges included $51.1 million in charges related to the 2000 restructuring plan, $31.6 million in charges related to the sale of Video and Networking and a $1.1 million IPR&D charge related to the acquisition of Gage. Excluding these charges, the company would have recognized net earnings from continuing operations of $67.2 million, or $1.40 per diluted share, for the year ended May 27, 2000.

Highlights of results of operations, excluding non-recurring charges and as reported, for the fiscal year ended May 27, 2000 were as follows:

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS	Excluding Non-Recurring Charges	Non-Recurring Charges	Results as Reported
Net sales	$1,120,555	$ –	$1,120,555
Cost of sales	581,433	14,758	596,191
Gross profit	539,122	(14,758)	524,364
Research and development expenses	136,494	–	136,494
Selling, general and administrative expenses	317,212	(238)	316,974
Non-recurring charges	–	37,716	37,716
Charges related to the sale of Video and Networking	–	31,613	31,613
Operating income	87,965	(83,849)	4,116
Net earnings from continuing operations	$ 67,243	$(54,517)	$ 12,726
Earnings per share from continuing operations—basic	$ 1.42	$ (1.15)	$ 0.27
Earnings per share from continuing operations—diluted	1.40	(1.13)	0.26
Average shares outstanding—basic	47,278	47,278	47,278
Average shares outstanding—diluted	48,135	48,135	48,135

Net earnings from continuing operations in 2000, included other income of $8.3 million, primarily comprised of approximately $22.6 million of gains on the sale of significant land and buildings, $7.1 million of losses on the disposition of other fixed assets, $11.6 million of gains resulting from the sale of marketable equity securities, a $3.7 million loss related to the impairment of stock warrants and $2.0 million of foreign currency losses. In addition, other income included $13.1 million of other expenses such as charitable contributions, bank fees, losses related to the impairment of other assets, losses on liabilities related to assets previously sold and other miscellaneous non-operating expenses.

For the year ended May 29, 1999, the company would have recognized $17.4 million, or $0.36 per diluted share, in net earnings from continuing operations, excluding $81.9 million in after-tax net non-recurring charges.

Highlights of results of operations, excluding non-recurring charges and as reported, for the fiscal year ended May 29, 1999 were as follows:

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS	Excluding Non-Recurring Charges	Non-Recurring Charges	Results as Reported
Net sales	$1,141,256	$ (5,120)	$1,136,136
Cost of sales	631,655	25,767	657,422
Gross profit	509,601	(30,887)	478,714
Research and development expenses	140,646	4,019	144,665
Selling, general and administrative expenses	328,799	803	329,602
Non-recurring charges	–	84,780	84,780
Operating income (loss)	30,926	(120,489)	(89,563)
Net earnings (loss) from continuing operations	$ 17,399	$ (81,932)	$ (64,533)
Earnings (loss) per share from continuing operations—basic	$ 0.36	$ (1.72)	$ (1.35)
Earnings (loss) per share from continuing operations—diluted	0.36	(1.71)	(1.35)
Average shares outstanding—basic	47,700	47,700	47,700
Average shares outstanding—diluted	48,032	48,032	47,700

Net earnings from continuing operations in 1999, included other income of $10.4 million, primarily comprised of approximately $14.3 million of gains on the sale of significant land and buildings, $2.2 million of losses on the disposition of other fixed assets, $6.4 million of gains resulting from the sale of marketable equity securities and $3.4 million of foreign currency losses. In addition, other income included $4.7 million of other expenses such as charitable contributions and bank fees.

Fiscal year 1998 net earnings from continuing operations, included pre-tax non-recurring charges of $79.0 million ($52.9 million after-tax). Excluding these non-recurring charges, 1998 net earnings from continuing operations, would have been $89.9 million or $1.75 per diluted share.

Net Earnings from Discontinued Operations

The company recognized net earnings from discontinued operations of $336.3 million, or $6.99 per diluted share, for the year ended May 27, 2000, as compared to net earnings of $13.4 million, or $0.28 per diluted share, for the same period in 1999. For the year ended May 30, 1998, the company recognized $45.2 million, or $0.88 per diluted share, in net earnings from discontinued operations. Net earnings from discontinued operations for 2000 included the $340.3 million net gain on the sale of the Color Printing and Imaging division.

Non-Recurring Charges

In the third quarter of 2000, the company announced and began to implement a series of actions (the 2000 plan) intended to further consolidate worldwide operations and transition the company from a portfolio of businesses to a smaller single business focused on test, measurement and monitoring. Major actions under the 2000 plan include the exit from and consolidation within underutilized facilities, including the write-off of assets that will be abandoned in

conjunction with this action, the write-off and disposal of certain excess service and other inventories and focused headcount reductions to streamline the company's cost structure to that of a smaller focused Measurement business and to eliminate duplicative functions within the company's infrastructure. The company recorded pre-tax non-recurring charges of $64.8 million to account for these actions, including $19.1 million for the impairment of assets, $16.8 million for lease cancellation fees and future payments on exited leased facilities and volume-based contracts, $15.5 million for the write-off and disposal of excess inventories and $13.4 million for severance worldwide.

The $19.1 million charge was taken to account for the write-off of assets that will be abandoned in conjunction with exited facilities, the impairment of certain assets that were appropriate to support a portfolio of businesses but are not required to support the focused Measurement business and the write-down of prepaid royalties that were impaired as a result of the decision to de-emphasize certain product lines that are not strategic to the company's business.

The company also recorded a charge of $16.8 million to account for lease cancellation fees and future payments on exited leased facilities and volume-based contracts. The facilities being exited include excess administrative space and sales facilities. Many of the remaining sales personnel will work out of home offices.

A charge of $15.5 million was taken to account for the write-off and disposal of certain service inventories impaired as a result of management's commitment to streamline Measurement's service business, and VideoTele.com inventory that was impaired due to the discontinuation of certain product lines.

Lastly, $13.4 million in accrued compensation was recorded to reflect focused headcount reductions of 339 employees, a net increase of seven employees over the 332 reversed under the 1999 plan, to streamline the company's cost structure to that of a smaller focused Measurement business and to eliminate excess and duplicative functions. The planned reductions are primarily in manufacturing with the remaining cuts in administrative and sales functions worldwide.

Total 2000 pre-tax net non-recurring charges of $83.8 million included $64.8 million in charges related to restructuring, $14.8 million in reversals of prior restructuring charges, $1.1 million in other restructuring-related adjustments, $31.6 million in charges related to the sale of Video and Networking and a $1.1 million IPR&D charge related to the Gage acquisition. For a discussion of the charges related to the sale of the Video and Networking division, see the Sale of Video and Networking section of this Management Review. The IPR&D charge is discussed in the Strategic Acquisitions section of this Management Review.

In the second quarter of 1999, the company announced and began to implement a series of actions (the 1999 plan) intended to align Tektronix' worldwide operations with market conditions and to improve the profitability of its operations. The company recorded pre-tax charges of $125.7 million to account for these actions. During the third quarter of 2000, the company evaluated the remaining reserves under the 1999 plan, to determine whether they were still required. As a result of the sale of the Color Printing and Imaging division, the company determined that the $14.8 million balance in accrued compensation was not required, as the remaining 332 employees to be terminated were transferred to Xerox in conjunction with the sale or voluntarily left the company without severance. Accordingly, the excess reserves were reversed to non-recurring charges in the third quarter of 2000. Total 1999 pre-tax net non-recurring charges of $120.5 million included $125.7 million in charges related to the 1999 plan and ($5.2) million in restructuring-related and other non-recurring adjustments.

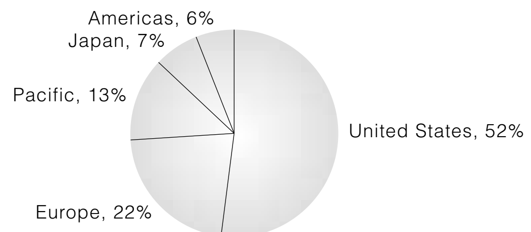
During 1998, the company recorded pre-tax non-recurring charges of $79.0 million, consisting of $60.0 million in restructuring charges, as well as $17.0 million for the expensing of acquired IPR&D and $2.0 million of severance costs associated with the acquisition of Siemens' Communications Test Equipment GmbH. The restructuring charges represented the cost of a plan designed to return the Video and Networking division to profitable growth, including severance of $14.9 million, inventory impairments of $38.5 million, lease buy-outs and abandonment of facilities of $4.2 million and $2.4 million in asset impairments. All actions under this plan were completed or the charges were reversed before May 27, 2000, as the division was sold to Grass Valley Group Inc. during the year.

Net Sales

Consolidated net sales of $1,120.6 million for 2000 were down slightly from 1999 net sales of $1,136.1 million. This decline was due to the sale of the Video and Networking division during the year, which resulted in a $197.0 million decrease in that division's sales, offset in part by an increase in Measurement sales of $171.2 million and the addition of other sales of $10.3 million in 2000. These other sales represented circuit board sales to Grass Valley Group Inc. under a specific sales agreement that did not exist in 1999 or 1998 and will not continue in fiscal 2001.

Net sales for Measurement were up 19% at $1,050.7 million, as compared to net sales of $879.5 million for 1999. Growth was driven by overall strength in the computer, telecommunications and semiconductor markets and sales of new products released late in fiscal year 1999 and during fiscal year 2000. Measurement experienced sales growth in all geographies. The United States and the Americas experienced the most significant sales growth, up $110.1 million or 25% and $25.3 million or 66% over 1999, respectively. Growth in these regions was realized across nearly all product lines, with particularly strong sales in oscilloscopes, logic analyzers and communications test products. Oscilloscope and logic analyzer sales increased due to favorable market conditions and strong demand for new products released late in fiscal year 1999 and during fiscal year 2000. Growth in the sale of communications products was driven by strong demand for mobile production test products, protocol analysis products and a new high speed optical transmission test product.

Measurement Sales by Geography



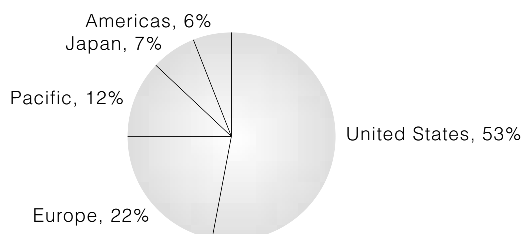
Consolidated net sales for 1999 were 16% lower than net sales of $1,357.1 million in 1998. Measurement net sales for 1999 were 11% lower than sales of $988.9 million for 1998. The decline in 1999 was attributed mainly to softness in the semiconductor industry in the first half of the year and the worldwide effects of the Asian economic crisis.

Orders

Consolidated orders for 2000 were $1,106.3 million, up $54.8 million or 5% over orders of $1,051.5 million in 1999, due to an increase of $249.4 million in Measurement orders, offset in part by a decrease of $194.6 million in Video and Networking orders.

Measurement orders for 2000 were $1,067.3 million, up $249.4 million or 30% over 1999 orders of $817.9 million. Orders were up across all geographies, with the United States and the Pacific experiencing the largest increases. Orders from the United States were $565.5 million, up $155.9 million or 38%, while orders from the Pacific were $133.0 million, up $29.4 million or 28%, impacted by the same favorable conditions that impacted net sales. While the company expects continued strong Measurement orders, management does not expect to realize similar year-over-year orders growth in the next fiscal year due to favorable comparisons of 2000 over 1999.

Measurement Orders by Geography



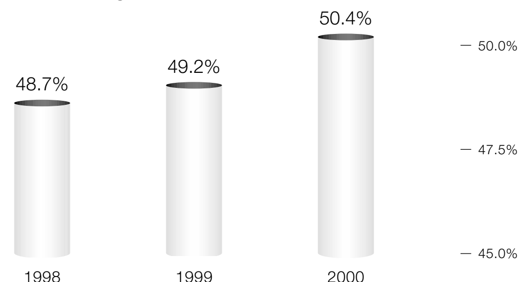
Consolidated 1998 orders were $1,244.8 million, while Measurement orders were $886.9 million. Orders for 1999 declined from those for 1998 due to the same negative conditions that impacted net sales.

Gross Profit

The company's gross profit from continuing operations was $524.4 million for the year ended May 27, 2000, an increase from gross profit of $478.7 million for 1999. Excluding net non-recurring charges to cost of sales of $14.8 million in 2000, gross profit was $539.1 million or 48.1% of net sales. This is compared to gross profit of $509.6 million or 44.7% of net sales, excluding non-recurring charges to sales and cost of sales of $5.1 million and $25.8 million, respectively, for 1999. The significant increase in gross margin in the current year was due mainly to the sale of the Video and Networking division and overall improvement in Measurement margins.

Measurement gross profit improved in each of the last three years. In 2000, Measurement gross profit grew to $529.8 million, or 50.4% of net sales, from $432.6 million or 49.2% of net sales for 1999. The increase resulted mainly from higher sales levels and improved margins. Gross margins improved due to higher margins on oscilloscopes introduced late in fiscal year 1999, higher margins on communications products introduced during 2000 and increased sales volume on a partially fixed cost base.

Measurement Gross Margin



Excluding non-recurring charges to cost of sales of $38.5 million, 1998 gross profit was $625.2 million or 46.1% of net sales. Overall margins decreased from 1998 to 1999 for the same reasons as net sales during that period. Measurement gross profit was $481.4 million or 48.7% of net sales in 1998. Despite the decrease in sales from 1998 to 1999, Measurement gross margins improved due to the favorable mix of products sold, higher returns on pension assets allocated to the division and lower incentive related costs incurred during 1999.

Operating Expenses

For the year ended May 27, 2000, operating expenses were $520.2 million, down from $568.3 million for 1999. Excluding non-recurring charges of $69.1 million, 2000 operating expenses were $451.2 million, down $27.5 million from 1999 operating expenses of $478.7 million, excluding non-recurring charges of $89.6 million. This decline was due mainly to a decrease in selling, general and administrative expenses and earnings from investments in business ventures in 2000 as compared to losses in 1999.

Excluding non-recurring charges of $(0.3) million, selling, general and administrative expenses were $317.2 million or 28% of net sales for 2000, a decrease of $11.6 million from $328.8 million or 29% of net sales, excluding $0.8 million of non-recurring charges, for 1999. This decline resulted primarily from only four months of Video and Networking results included in the current year, offset in part by an increase in commissions on higher sales and other performance-related incentives and bonuses.

Equity in business ventures' earnings (loss) increased from losses of $9.2 million in 1999 to income of $2.5 million in 2000. The significant losses in 1999 resulted mainly from $5.5 million of Merix' losses and $4.6 million of Sony/Tektronix' losses.

Operating expenses for 1998 were $539.6 million or $499.1 million, excluding $40.5 million in net non-recurring charges. The $20.4 million decline from 1998 to 1999 was due mainly to a decrease in selling, general and administrative expenses, offset in part by the losses from business ventures in 1999 discussed above. Selling, general and administrative expenses were $358.7 million in 1998 or 26% of net sales. The $29.9 million decrease from 1998 to 1999 was primarily due to the restructuring actions and cost reduction efforts during that period.

Non-Operating Income and Expense

Interest expense was $15.8 million, $17.8 million and $14.0 million in 2000, 1999 and 1998, respectively. Interest expense fluctuated in direct proportion to the amount of short-term debt held by the company in each year. Interest income was $23.0 million, $2.1 million and $4.0 million in 2000, 1999 and 1998 respectively. The significant increase in 2000 was mainly due to interest earned on the proceeds from the sale of the Color Printing and Imaging division.

Other income—net was $8.3 million in 2000, as compared to $10.4 million and $18.3 million in 1999 and 1998, respectively. Other income included $15.5 million, $12.1 million and ($2.4) million of net gains (losses) on the disposition of fixed assets in 2000, 1999 and 1998, respectively. Also included were $7.9 million, $6.4 million and $28.3 million of net gains on the sale of marketable equity securities in 2000, 1999 and 1998 respectively. Partially offsetting these gains were other losses and expenses of $13.1 million in 2000 and $4.7 million and $7.3 million in 1999 and 1998, respectively. These other losses and expenses included charitable contributions, bank fees, losses related to the impairment of other assets, losses on liabilities related to assets previously sold and other miscellaneous non-operating expenses.

Income Taxes

Income tax expense from continuing operations was $6.9 million in 2000, as compared to an income tax benefit of $30.4 million in 1999 and expense of $18.2 million in 1998. The increase in expense in 2000 is due mainly to increased earnings from continuing operations before taxes. The decrease from 1998 to 1999 is due mainly to losses from continuing operations before taxes in 1999 as compared to earnings from continuing operations before taxes in 1998.

Income tax expense related to discontinued operations was $196.4 million in 2000, including $198.5 million in expense related to the gain on the sale of the Color Printing and Imaging division, offset in part by a tax benefit of $2.1 million related to the 2000 net operating loss from the division. Tax expense related to earnings from discontinued operations was $6.3 million in 1999 and $22.3 million in 1998.

The company's effective tax rate for 2000 was 35% as compared to 32% in 1999 and 33% in 1998. The increase in the tax rate from 1999 to 2000 was attributed mainly to the significant gain on the sale of the Color Printing and Imaging division realized in 2000. The decrease from 1998 to 1999 was mainly due to the losses before taxes in 1999.

Financial Condition

Liquidity and Capital Resources

At May 27, 2000, the company held $783.7 million in cash and cash equivalents and short-term investments, as well as bank credit facilities totaling $272.3 million, of which $263.7 million was unused. Unused facilities included $113.7 million in miscellaneous lines of credit and $150.0 million under revolving credit agreements with United States and foreign banks.

At May 27, 2000, the company's working capital was $781.8 million, an increase of $393.8 million from the end of 1999. Current assets increased $325.6 million during 2000, with increases in cash and cash equivalents and short-term investments, offset in part by the sale of the net assets associated with the Color Printing and Imaging division, which were $339.0 million at year end, and decreases in inventories and other current assets.

Cash and cash equivalents increased $644.1 million during 2000. Significant sources of cash included: $906.1 million in net proceeds from the sale of the Color Printing and Imaging division; $53.1 million in net proceeds from sales of fixed assets; $22.6 million in net proceeds from the sale of Video and Networking and $21.4 million in net proceeds from the sale of marketable equity securities. Significant outflows of cash included: approximately $123.0 million in tax payments; $115.7 million in short-term debt; $99.9 million in short-term investments; a $42.5 million funding of the company's cash balance pension plan; $42.3 million in capital expenditures; $36.7 million in cash payments related to the 2000 restructuring plan; $16.9 million in dividends paid and approximately $13.0 million used in acquisitions of businesses. Cash flows from operating activities and borrowing capacity are expected to be sufficient to fund operations and capital expenditures through May 2002.

Short-term investments were funded with a portion of the proceeds from the sale of the Color Printing and Imaging division, which were invested in various types of current investments with maturities greater than 90 days and less than one year.

Inventory declined $44.3 million, due mainly to $43.6 million of Video and Networking inventory that was eliminated due to the sale of the division to Grass Valley Group Inc. Excluding the decline above, overall inventory was nearly flat. Measurement and other inventory increased $14.8 million on higher sales, offset by the $15.5 million 2000 non-recurring charge.

Other current assets decreased $37.4 million from 1999, primarily due to a net decrease of $31.3 million in current income tax benefits—net, mainly as a result of the sale of the Color Printing and Imaging division. In addition, there was a $5.9 million decrease in prepaid expenses from 1999 due mainly to the write-down of prepaid royalties that were impaired as a result of the decision to de-emphasize certain product lines that are not strategic to the company's business and an overall decrease in other prepaid expenses due to the decrease in the size of the company.

Short-term debt declined $115.2 million as the debt was repaid with cash received from the sale of the Color Printing and Imaging division. Accrued compensation declined $13.4 million, due mainly to a $49.5 million decrease in accrued payroll, including a $24.7 million decline in restructuring reserves and other declines related to reduced headcount, partially offset by a $36.1 million increase in unpaid incentives and benefits.

Accounts payable and accrued liabilities increased $50.5 million, due mainly to the recording of $60.0 million in accruals for estimated liabilities related to the sale of the Color Printing and Imaging division and the recording of $3.3 million of accruals related to assets previously sold, offset in part by the payment of Video and Networking payables not sold to Grass Valley Group Inc.

Deferred revenue increased $9.9 million due mainly to the sale of unbilled revenues on Video and Networking systems contracts to Grass Valley Group Inc.

Long-Term Financial Position

Net property, plant and equipment decreased $95.2 million due to the disposition of assets during the year with a net book value of $70.5 million, restructuring-related asset impairment charges of $22.8 million and depreciation expense of $44.3 million, offset in part by $42.4 million in capital expenditures (other than expenditures related to business acquisitions). Assets sold during the year included $23.4 million in Video and Networking assets.

Other long-term assets increased $81.4 million, due mainly to an increase of $60.5 million in prepaid pension cost and the recording of the $23.9 million long-term portion of a note receivable from Grass Valley Group Inc. Prepaid pension cost increased due to a $42.5 million required funding of the pension plan in the third quarter of 2000, as well as $10.3 million of income generated by plan assets and $7.7 million of net curtailment gains realized as a result of the sales of Video and Networking and Color Printing and Imaging in 2000.

The $356.0 million increase in shareholders' equity is due mainly to $349.0 million in net earnings, $58.8 million in stock issuances and $18.1 million in tax credits received as a result of options exercised, offset in part by $16.9 million in dividends paid and $65.4 million in common stock repurchases. Effective after the payment of the second quarter 2000 dividend on January 31, the company discontinued the payment of cash dividends to shareholders in order to reinvest future earnings in targeted growth opportunities.

Risks and Outlook

Many risk factors could materially impact the company's results of operations, financial condition and cash flows. These risks are related to, but are not limited to, timely delivery of competitive products, competition, supplier risks, worldwide economic and market conditions, the transition to a smaller company, comparability of results, intellectual property risks, environmental risks, financial market risk and other risk factors listed here and from time-to-time in the company's filings with the Securities and Exchange Commission and press releases.

Timely Delivery of Competitive Products

Tektronix sells its products to customers that participate in rapidly changing high technology markets, which are characterized by short product life cycles. The company's ability to deliver a timely flow of competitive new products and market acceptance of those products, as well as the ability to increase production or to develop and maintain effective sales channels, is essential to growing the business. Because Tektronix sells test and measurement products that enable its customers to develop new technologies, the company must accurately predict the ever-evolving needs of those customers and deliver appropriate products and technologies at competitive prices to meet customer demands. The company's ability to deliver such products could be affected by engineering or other development program slippage as well as the availability of parts and supplies from third party providers on a timely basis and at reasonable prices. Failure to deliver competitive products in a timely manner and at a reasonable price could have an adverse effect on the results of operations, financial condition or cash flows of the company.

Competition

Tektronix participates in the highly competitive test, measurement and monitoring industry, competing directly with Agilent Technologies, Inc., TTC/Wavetek, Wandel and Goltermann, Inc., LeCroy Corporation and others for customers. Competition in the company's business is based primarily on product performance, technology, customer service, product availability and price. Some of the company's competitors may have greater resources to apply to each of these factors and in some cases have built significant reputations with the customer base in each market in which Tektronix competes. The company faces pricing pressures that have had and may continue to have an adverse impact on the company's earnings. If the company is unable to compete effectively on these and other factors, it could have a material adverse effect on the company's results of operations, financial condition or cash flows.

In the current business environment, the company must also compete with these and other companies to attract and retain talented employees who will be key to the on-going success of the company. Risks relating to this competition could include higher than anticipated compensation expense, additional stock option issuances, new product delays and other related delays in the execution of the company's strategic plan.

Supplier Risks

The company's manufacturing operations are dependent on the ability of suppliers to deliver quality components, subassemblies and completed products in time to meet critical manufacturing and distribution schedules. The company periodically experiences constrained supply of certain component parts in some product lines as a result of strong demand in the industry for those parts. Such constraints, if persistent, may adversely affect operating results until alternate sourcing can be developed. Volatility in the prices of these component parts, an inability to secure enough components at reasonable prices to build new products in a timely manner in the quantities and configurations demanded or, conversely, a temporary oversupply of these parts, could adversely affect the company's future operating results.

Worldwide Economic and Market Conditions

Tektronix currently maintains operations in the U.S., Europe, the Pacific, the Americas and Japan. During the last fiscal year, nearly one-half of the company's revenues were from international sales. In addition, some of the company's manufacturing operations and key suppliers are located in foreign countries. As a result, the business is subject to the worldwide economic and market conditions risks generally associated with doing business abroad, such as fluctuating exchange rates, the stability of international monetary conditions, tariff and trade policies, domestic and foreign tax policies, foreign governmental regulations, political unrest, disruptions or delays in shipments and changes in other economic conditions. These factors, among others, could influence the company's ability to sell in international markets, as well as its ability to manufacture products or procure supplies. A significant downturn in the global economy could adversely affect the company's results of operations, financial position or cash flows.

Transition to a Smaller Company

Tektronix is in the process of transitioning from a portfolio of businesses to a company focused solely on the test, measurement and monitoring market. During fiscal year 2000, Tektronix divested itself of two of its three previously existing business divisions, Video and Networking and Color Printing and Imaging. Risks associated with these divestitures and the overall transition include the retention of some potential liabilities and other exposures related to a larger more diversified business, and the ability to successfully implement the strategic direction and restructuring actions announced in fiscal 1999 and 2000, including consolidating duplicative functions and re-sizing the existing cost structure to that of a smaller company. Failure to successfully resolve issues

related to this transition in a timely manner could adversely affect the company's future results of operations, financial condition or cash flows.

Comparability of Results

During 1999, the company was subject to the effects of the Asian economic crisis and its impact on the entire global economy, which resulted in lower-than-expected sales, orders, margins and growth for the company in that year. During 2000, the global economy has improved resulting in favorable comparisons to 1999. Although management expects continued strong growth through fiscal year 2001, it does not expect growth of the magnitude experienced in 2000 on an on-going basis. These and other factors inherent to the company's business, including the effects of estimates, assumptions and allocations used in the preparation of stand-alone Measurement financial statements on the comparability of reported figures and the reliability of ratios and trends calculated based upon these results make it difficult to predict operating results for future quarters.

Intellectual Property Risks

As a technology-based company, Tektronix' success depends on developing and protecting its intellectual property. Tektronix relies generally on patent, copyright, trademark and trade secret laws in the United States and abroad. Electronic equipment as complex as most of the company's products, however, is generally not patentable in its entirety. Tektronix also licenses intellectual property from third parties and relies on those parties to maintain and protect their technology. The company cannot be certain that actions the company takes to establish and protect proprietary rights will be adequate. If the company is unable to adequately protect its technology, or if the company is unable to continue to obtain or maintain licenses for protected technology from third parties, it could have a material adverse affect on the company's results of operations and financial condition. From time to time in the usual course of business, the company receives notices from third parties regarding intellectual property infringement or takes action against others with regard to intellectual property rights. Even where the company is successful in defending or pursuing such claims, the company may incur significant costs. In the event of a successful claim against the company, Tektronix could lose its rights to needed technology or be required to pay license fees for the infringed rights, either of which could have an adverse impact on the company's business.

Environmental Risks

Tektronix is subject to a variety of federal, state, local and foreign environmental regulations relating to the use, storage, discharge and disposal of its hazardous chemicals used during the company's manufacturing process. The company operates a licensed hazardous waste management facility at its Beaverton campus. If Tektronix fails to comply with any present and future regulations, the company could be subject to future liabilities or the suspension of production. In addition, such regulations could restrict the company's ability to expand its facilities or could require Tektronix to acquire costly equipment, or to incur other significant expenses to comply with environmental regulations.

Financial Market Risk

The company is exposed to financial market risks, including interest rate, equity price, and foreign currency exchange rate risks.

The company is exposed to interest rate risk primarily through its short-term investments and long-term borrowings, which are used to finance operations. The company does not hedge its interest rate exposure. The company invests primarily in short-term, investment grade securities of various issuers, types and maturities. These investments are held by high-quality financial institutions, government and government agencies and corporations, thereby reducing credit risk. As of May 27, 2000, and May 29, 1999, the weighted average maturity of the portfolio was less than two months. The company enters into debt obligations to support general corporate purposes, including acquisitions, working capital requirements and capital expenditures. At May 27, 2000 and May 29, 1999, the company's debt obligations had fixed interest rates. In management's opinion, a 10% change in interest rates would not be material to the company's results of operations, financial condition or cash flows.

The company is exposed to equity price risk primarily through its marketable equity securities portfolio, including investments in Merix and other companies. The company has not entered into any hedging programs to mitigate equity price risk. In management's opinion, an adverse change of 20% in the value of theses securities would not be material to the company's results of operations, financial condition or cash flows.

The company is exposed to foreign currency exchange rate risk primarily through transactions and commitments denominated in foreign currencies. The company utilizes natural hedges as well as derivative financial instruments, primarily forward foreign currency exchange contracts, to mitigate this risk. The company's policy is to only enter into derivative transactions when the company has an identifiable exposure to risk, thus not creating additional foreign currency exchange rate risk. In management's opinion, a hypothetical 10% adverse change in foreign currency exchange rates would not have a significant effect on the company's results of operations, financial position or cash flows.

Other Risk Factors

Other risk factors include but are not limited to changes in the mix of products sold, regulatory and tax legislation, changes in effective tax rates, inventory risks due to changes in market demand or the company's business strategies, potential litigation and claims arising in the normal course of business, credit risk of customers, the fact that a substantial portion of the company's sales are generated from orders received during each quarter and other risk factors.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement will require recognition of all derivatives as either assets or liabilities on the balance sheet at fair value. The statement is effective for the company's fiscal year 2002, as deferred by SFAS No. 137, but early adoption is permitted. Management has not yet completed an evaluation of the effects this standard will have on the company's consolidated financial statements.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." The effective date of the bulletin was delayed according to SAB No. 101A and SAB No. 101B and will be effective for the company's fourth quarter of fiscal year 2001. Management has not yet completed an evaluation of the effects this bulletin will have on the company's consolidated financial statements.

Management's Letter

The consolidated financial statements of Tektronix, Inc. and subsidiaries have been prepared by management and have been audited by Tektronix' independent auditors, Deloitte & Touche LLP, as stated in their independent auditors' report. Management is responsible for the consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's judgment.

Management is also responsible for maintaining internal control, including systems designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with established policies and procedures.

Tektronix' controls and systems were developed by Tektronix management and have the full support and endorsement of the Board of Directors. Compliance is mandatory.

The Board of Directors is responsible for the company's financial and accounting policies, practices and reports. Its Audit Committee, as prescribed by its charter, is composed entirely of outside directors and meets regularly with the independent auditors, representatives of management, and the internal auditors to review accounting, reporting, auditing and internal control matters. Both the independent auditors and the internal auditors have access to the Audit Committee, with and without management representatives in attendance.

Merrill A. McPeak
Chairman, Audit Committee

Colin L. Slade
Vice President and Chief Financial Officer

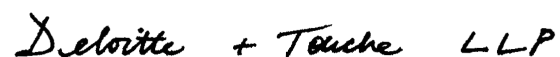
Independent Auditors' Report

To the Directors and Shareholders of Textronix, Inc.:

We have audited the accompanying consolidated balance sheets of Tektronix, Inc. and subsidiaries as of May 27, 2000 and May 29, 1999, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years ended May 27, 2000, May 29, 1999, and May 30, 1998. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Tektronix, Inc. and subsidiaries at May 27, 2000 and May 29, 1999, and the results of their operations and their cash flows for the years ended May 27, 2000, May 29, 1999, and May 30, 1998, in conformity with accounting principles generally accepted in the United States of America.



Portland, Oregon
June 23, 2000

Consolidated Statements of Operations

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

FOR THE YEARS ENDED	May 27, 2000	May 29, 1999	May 30, 1998
Net sales	$ 1,120,555	$ 1,136,136	$ 1,357,105
Cost of sales	596,191	657,422	770,416
Gross profit	524,364	478,714	586,689
Research and development expenses	136,494	144,665	142,960
Selling, general and administrative expenses	316,974	329,602	358,686
Equity in business ventures' earnings (loss)	2,549	(9,230)	2,513
Non-recurring charges	37,716	84,780	40,478
Charges related to the sale of Video and Networking	31,613	–	–
Operating income (loss)	4,116	(89,563)	47,078
Interest expense	15,798	17,838	14,039
Interest income	22,978	2,126	3,963
Other income—net	8,285	10,373	18,290
Earnings (loss) from continuing operations before taxes	19,581	(94,902)	55,292
Income tax expense (benefit)	6,855	(30,369)	18,247
Net earnings (loss) from continuing operations	12,726	(64,533)	37,045
Discontinued operations:			
Earnings (loss) from operations of Color Printing and Imaging (less applicable income tax expense (benefit) of $(2,063), 6,293 and 22,282, respectively)	(3,995)	13,372	45,240
Gain on sale of Color Printing and Imaging (less applicable income tax expense of $198,476)	340,307	–	–
Net earnings from discontinued operations	336,312	13,372	45,240
Net earnings (loss)	$ 349,038	$ (51,161)	$ 82,285
Earnings (loss) per share—basic	$ 7.38	$ (1.07)	$ 1.63
Earnings (loss) per share—diluted	7.25	(1.07)	1.60
Earnings (loss) per share from continuing operations—basic	0.27	(1.35)	0.73
Earnings (loss) per share from continuing operations—diluted	0.26	(1.35)	0.72
Earnings per share from discontinued operations—basic	7.11	0.28	0.90
Earnings per share from discontinued operations—diluted	6.99	0.28	0.88
Dividends per share	0.36	0.48	0.46
Average shares outstanding—basic	47,278	47,700	50,438
Average shares outstanding—diluted	48,135	47,700	51,320

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Balance Sheets

IN THOUSANDS

	May 27, 2000	May 29, 1999
Assets		
Current assets:		
Cash and cash equivalents	$ 683,808	$ 39,747
Short-term investments	99,897	–
Accounts and notes receivable—net	188,987	186,668
Inventories—net	114,001	158,305
Net assets of discontinued operations	–	338,990
Other current assets	25,364	62,728
Total current assets	1,112,057	786,438
Property, plant and equipment—net	188,544	283,769
Deferred tax assets	30,928	56,405
Other long-term assets	203,108	121,723
Total assets	$1,534,637	$1,248,335
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt	$ 505	$ 115,687
Accounts payable and accrued liabilities	221,767	171,306
Accrued compensation	95,623	108,982
Deferred revenue	12,329	2,438
Total current liabilities	330,224	398,413
Long-term debt	150,369	150,722
Other long-term liabilities	76,450	77,638
Commitments and contingencies	–	–
Shareholders' equity:		
Preferred stock, no par value (authorized 1,000 shares; none issued)	–	–
Common stock, no par value (authorized 200,000 shares; issued and outstanding 47,542 in 2000, and 46,909 in 1999)	198,868	143,263
Retained earnings	753,796	458,613
Accumulated other comprehensive income	24,930	19,686
Total shareholders' equity	977,594	621,562
Total liabilities and shareholders' equity	$1,534,637	$1,248,335

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statements of Cash Flows

IN THOUSANDS

FOR THE YEARS ENDED	May 27, 2000	May 29, 1999	May 30, 1998
Cash Flows from Operating Activities			
Net earnings (loss)	$ 349,038	$ (51,161)	$ 82,285
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:			
(Earnings) loss from discontinued operations	3,995	(13,372)	(45,240)
Pre-tax gain on sale of Color Printing and Imaging	(538,783)	–	–
Pre-tax net non-recurring charges	37,455	94,722	40,478
Charges related to the sale of Video and Networking	31,613	–	–
Depreciation and amortization expense	44,124	61,287	52,442
Payment to fund pension plan	(42,500)	–	–
Inventory write-down related to restructuring	14,758	25,767	38,482
Deferred income tax expense (benefit)	21,263	(24,196)	(6,336)
(Gain) loss on disposition of fixed assets	(15,550)	(12,104)	2,422
Gain on sale of marketable equity securities	(7,889)	(6,455)	(28,269)
Equity in business ventures' (earnings) loss	(2,549)	9,230	(2,513)
Changes in operating assets and liabilities:			
Accounts receivable	163	41,864	1,388
Inventories	(19,380)	(5,774)	(20,169)
Other current assets	33,623	(32,814)	6,363
Accounts payable	(19,363)	(25,725)	38,576
Accrued compensation	(10,037)	(63,520)	5,325
Deferred revenue	13,463	3,704	(9,093)
Other—net	19,816	809	(3,099)
Net cash provided by (used in) continuing operations	(86,740)	2,262	153,042
Net cash provided by (used in) discontinued operations	22,401	(46,587)	(60,356)
Net cash provided by (used in) operating activities	(64,339)	(44,325)	92,686
Cash Flows from Investing Activities			
Acquisition of property, plant and equipment	(42,253)	(71,556)	(80,123)
Acquisition of businesses	(12,975)	(4,300)	(46,600)
Short-term investments	(99,897)	–	–
Net proceeds from sale of Color Printing and Imaging	906,135	–	–
Net proceeds from sale of Video and Networking	22,600	–	–
Net proceeds from sale of fixed assets	53,124	24,187	3,601
Net proceeds from sale of marketable equity securities	21,383	8,929	36,114
Net cash provided by (used in) investing activities	848,117	(42,740)	(87,008)
Cash Flows from Financing Activities			
Net change in short-term debt	(115,737)	110,069	(713)
Issuance of long-term debt	–	–	125
Repayment of long-term debt	(502)	(629)	(1,023)
Issuance of common stock	58,826	5,260	35,358
Repurchase of common stock	(65,382)	(85,524)	(38,422)
Dividends paid	(16,922)	(22,905)	(23,188)
Net cash provided by (used in) financing activities	(139,717)	6,271	(27,863)
Net increase (decrease) in cash and cash equivalents	644,061	(80,794)	(22,185)
Cash and cash equivalents at beginning of year	39,747	120,541	142,726
Cash and cash equivalents at end of year	$ 683,808	$ 39,747	$120,541
Supplemental Disclosures of Cash Flows			
Income taxes paid	$ 123,000	$ 10,100	$ 19,981
Interest paid	16,595	16,662	12,571
Non-Cash Investing Activities			
Note receivable for sale of Video and Networking assets	27,920	–	–
Note receivable for sale of receivables to Grass Valley Group Inc.	4,556	–	–
Common stock of Grass Valley Group Inc. for sale of Video and Networking assets	6,300	–	–

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statements of Shareholders' Equity

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

	Common Stock			Accumulated Other	
	Shares	Amount	Retained Earnings	Comprehensive Income	Total
Balance May 31, 1997	50,104	$226,591	$473,582	$ 71,110	$771,283
Components of comprehensive income:					
Net earnings	–	–	82,285	–	82,285
Currency adjustment	–	–	–	(13,634)	(13,634)
Unrealized holding losses—net	–	–	–	(28,741)	(28,741)
Total comprehensive income					39,910
Shares issued to employees	1,151	35,358	–	–	35,358
Shares repurchased	(910)	(38,422)	–	–	(38,422)
Dividends—$0.46 per share	–	–	(23,188)	–	(23,188)
Balance May 30, 1998	50,345	223,527	532,679	28,735	784,941
Components of comprehensive loss:					
Net loss	–	–	(51,161)	–	(51,161)
Currency adjustment	–	–	–	281	281
Unrealized holding losses—net	–	–	–	(9,330)	(9,330)
Total comprehensive loss					(60,210)
Shares issued to employees	127	5,260	–	–	5,260
Shares repurchased	(3,563)	(85,524)	–	–	(85,524)
Dividends—$0.48 per share	–	–	(22,905)	–	(22,905)
Balance May 29, 1999	46,909	143,263	458,613	19,686	621,562
Components of comprehensive income:					
Net earnings	–	–	349,038	–	349,038
Currency adjustment	–	–	–	(1,138)	(1,138)
Unrealized holding gains—net	–	–	–	6,382	6,382
Total comprehensive income					354,282
Shares issued to employees	2,166	84,054	–	–	84,054
Shares repurchased	(1,533)	(28,449)	(36,933)	–	(65,382)
Dividends—$0.36 per share			(16,922)	–	(16,922)
Balance May 27, 2000	47,542	$198,868	$753,796	$ 24,930	$977,594

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

Notes to Consolidated Financial Statements

Accounting Policies

The Company

Tektronix, Inc. (Tektronix or the company), founded in 1946, historically operated in three major business divisions: Measurement, Color Printing and Imaging, and Video and Networking, as well as in five major geographies: the United States; Europe; the Americas, including Mexico, Canada and South America; the Pacific, excluding Japan; and Japan. During the year, the company sold the Color Printing and Imaging and Video and Networking divisions and now operates as a focused test, measurement and monitoring company, providing measurement solutions to customers in many industries, including computers, telecommunications and semiconductors.

As a focused Measurement company, Tektronix enables its customers to design, build, deploy and manage next-generation global communications networks and internet technologies. Revenue is derived principally through the development and marketing of a broad range of products in several key product categories: oscilloscopes; logic analyzers; communications test equipment, including products for network monitoring and protocol test, broadband transmission test and mobile production test; video test equipment; and accessories. Revenue is also derived through providing support services for products sold worldwide. Headquartered in Beaverton, Oregon, Tektronix employs more than 4,200 people and maintains operations in 25 countries outside the United States.

Financial Statement Presentation

The consolidated financial statements include the accounts of Tektronix and its majority-owned subsidiaries. Investments in joint ventures and minority-owned companies where the company exercises significant influence are accounted for under the equity method with the company's percentage of earnings included in Equity in business ventures' earnings (loss) on the Consolidated Statements of Operations. Significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform to the current year's presentation with no effect on previously reported earnings, including the net earnings, net assets and cash flows from discontinued operations of the Color Printing and Imaging Division. The company's fiscal year is the 52 or 53 weeks ending the last Saturday in May. Fiscal years 2000, 1999 and 1998 were 52 weeks.

Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions, including those used to prepare discontinued operations financial statements, affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the revenues and expenses reported during the period. Actual results may differ from those estimated.

Earnings Per Share

Basic earnings per share was calculated based on the weighted average number of common shares outstanding during each period. For the year in which the company reported a net loss, diluted earnings per share was calculated based on the same shares as basic earnings per share. For the years in which the company reported net earnings, diluted earnings per share was calculated based on these same shares plus the potential shares issuable upon assumed exercise of outstanding stock options based on the treasury stock method.

Foreign Currency Translation

For most non-U.S. subsidiaries, the local currency is the functional currency, and, therefore, assets and liabilities are translated into U.S. dollars at current exchange rates, and net earnings are translated at average exchange rates for the period upon consolidation. Gains and losses resulting from the translation of net assets are included in Accumulated other comprehensive income on the Consolidated Balance Sheets.

Derivatives

The company utilizes derivative financial instruments, primarily forward foreign currency exchange contracts, to reduce the impact of foreign currency exchange rate risks where natural hedging strategies cannot be effectively employed. The notional or contract amounts of the hedging instruments do not represent amounts exchanged by the parties and, thus, are not a measure of the company's exposure due to the use of derivatives. The company's forward exchange contracts have generally ranged from one to three months in original maturity, and no forward exchange contract has had an original maturity greater than one year.

The company does not hold or issue derivative financial instruments for trading purposes. The purpose of the company's hedging activities is to reduce the risk that the eventual cash flows of the underlying assets, liabilities and firm commitments will be adversely affected by changes in exchange rates. In general, the company's derivative activities do not create foreign currency exchange rate risk because fluctuations in the value of the instruments used for hedging purposes are offset by fluctuations in the value of the underlying exposures being hedged. Counterparties to derivative financial instruments expose the company to credit-related losses in the event of nonperformance. However, the company has entered into these instruments with creditworthy financial institutions and considers the risk of nonperformance to be remote.

Gains and losses on foreign exchange contracts that are identified as and are effective as hedges of existing assets and liabilities are recognized in Other income—net on the Consolidated Statements of Operations for the period in

which the exchange rate changes. Gains and losses related to hedges of firm commitments are deferred and included in the basis of the hedged transaction when it is completed. Deferred gains or losses attributable to foreign exchange contracts were not material as of May 27, 2000 or May 29, 1999.

Cash and Cash Equivalents

Cash and cash equivalents include cash deposits in banks and highly-liquid investments with maturities of three months or less from the time of purchase.

Short-Term Investments

Short-term investments include investments with maturities of greater than three months and less than one year from the date of purchase. As of May 29, 1999, the company held no investments of this type. Those held at May 27, 2000 included the following:

IN THOUSANDS	2000
Corporate notes and bonds	$52,977
Commercial paper	29,353
Certificates of deposit	10,081
Asset backed securities	7,486
Short-term investments	$99,897

Accounts and Notes Receivables

IN THOUSANDS	2000	1999
Trade accounts receivable	$167,677	$168,682
Notes receivable—current portion	13,865	6,237
Other receivables	12,354	14,452
Allowance for doubtful accounts	(4,909)	(2,703)
Accounts and notes receivable	$188,987	$186,668

Notes receivable—current portion at May 27, 2000, included $9.3 million due from Grass Valley Group Inc., received as consideration for the sale of Video and Networking assets. Other receivables was comprised of miscellaneous non-trade receivables. During 2000, 1999 and 1998, charges to the allowance for doubtful accounts were not material.

In September 1996, the company entered into a five-year revolving receivables purchase agreement with Citibank NA to sell, without recourse, an undivided interest of up to $50.0 million in a defined pool of trade accounts receivable. Receivables of $40.0 million were sold under this agreement as of May 29, 1999, and were therefore not reflected in the accounts receivable balance in the accompanying Consolidated Balance Sheet. Effective April 10, 2000, the company terminated this agreement, leaving zero receivables sold under this agreement as of May 27, 2000.

In February 1999, the company entered into a one-year receivables purchase agreement with NationsBanc Commercial Corporation to sell, without recourse, an undivided interest in a defined pool of trade accounts receivable. Receivables of $15.0 million were sold under this agreement as of May 29, 1999, and were therefore not reflected in the accounts receivable balance in the accompanying Consolidated Balance Sheet. This agreement was related to the receivables of the Color Printing and Imaging division and as such, it was also terminated during 2000.

Concentrations of Credit Risk

Financial instruments that potentially subject the company to concentrations of credit risk consist principally of trade accounts receivable. The risk is limited due to the large number of entities comprising the company's customer base and their dispersion across many different industries and geographies.

As a result of the sale of the Video and Networking division, the company held $34.6 million in notes receivable from Grass Valley Group Inc. as of May 27, 2000. In management's opinion, these notes are fully collectible and as such, no valuation reserve has been established. At May 27, 2000 and May 29, 1999, the company had no other significant concentrations of credit risk.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined based on a currently-adjusted standard basis, which approximates actual cost on a first-in, first-out basis. The company periodically reviews its inventory for obsolete or slow-moving items. Inventories and related reserves at fiscal year ends were as follows:

IN THOUSANDS	2000	1999
Materials and work in process	$ 63,580	$ 60,200
Finished goods	65,601	111,195
Inventory reserves	(15,180)	(13,090)
Inventories—net	$114,001	$158,305

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is based on the estimated useful lives of the assets, ranging from ten to forty years for buildings and three to seven years for machinery and equipment, and is generally provided using the straight-line method. Property, plant and equipment and related accumulated depreciation and amortization at fiscal year ends were as follows:

IN THOUSANDS	2000	1999
Land	$ 1,656	$ 4,642
Buildings	154,466	186,525
Machinery and equipment	274,251	409,347
Accumulated depreciation and amortization	(241,829)	(316,745)
Property, plant and equipment—net	$ 188,544	$ 283,769

Property, plant and equipment activity during the year included the disposition of assets with a net book value of $70.5 million, restructuring-related asset impairment charges of $22.8 million and depreciation expense of $44.3 million, offset in part by capital expenditures of $42.4 million in 2000. Assets sold during the year included $23.4 million in Video and Networking assets.

Deferred Income Taxes

Deferred income taxes, reflecting the impact of temporary differences between assets and liabilities recognized for financial reporting and tax purposes, are based on tax laws currently enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion of the deferred tax assets will not be realized.

Software Development Costs

Software development costs that are incurred after technological feasibility has been established are capitalized in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed" and then amortized over the lesser of five years or the economic life of the related product.

As of May 29, 1999 Tektronix had $7.0 million of unamortized capitalized software development costs, included in Other long-term assets on the Consolidated Balance Sheets. During fiscal year 2000, the company wrote off $3.7 million in costs determined to be non-recoverable, due mainly to the sale of the Video and Networking division. All other related balances and activity for the periods reported were insignificant.

Investments In Marketable Equity Securities

Investments in marketable equity securities are classified as available-for-sale and reported at fair market value in the Consolidated Balance Sheets as Other long-term assets. The related unrealized holding gains and losses are excluded from earnings and included, net of deferred income taxes, in Accumulated other comprehensive income on the Consolidated Balance Sheets.

IN THOUSANDS	2000	1999
Fair value of marketable equity securities	$14,988	$ 3,904
Gross unrealized holding gains	9,991	–
Gross unrealized holding losses	(1,707)	(2,328)
Unamortized cost basis of marketable equity securities	$ 6,704	$ 6,232

The company's investment in Merix was its only significant investment in marketable equity securities at May 27, 2000, comprising $14.2 million of the above noted fair value and the entire gross unrealized holding gain. The company intends to liquidate its remaining 0.5 million shares of Merix stock through open market sales over time.

Intangible Assets

Intangible assets, primarily goodwill, patents and trademarks, are included in Other long-term assets on the Consolidated Balance Sheets and are stated at cost. Amortization is provided on a straight-line basis over periods generally not exceeding fifteen years.

Impairment of Long-Lived Assets

Long-lived assets and intangibles are reviewed for impairment when events or circumstances indicate costs may not be recoverable. Impairment exists when the carrying value of the asset is greater than the pre-tax undiscounted future cash flows expected to be provided by the asset. If impairment exists, the asset is written down to its fair value. Fair value is determined through quoted market values or through the calculation of the pre-tax present value of future cash flows expected to be provided by the asset.

Revenue Recognition

Revenue from product sales is generally recognized at the time the products are shipped to the customer. In certain cases where the company has not transferred the risks and rewards of ownership, revenue recognition is deferred. Upon shipment, the company also provides for estimated costs that may be incurred for product warranties, post-sales support and sales returns. Service revenue is deferred and recognized over the contract period or as services are rendered.

Advertising

Advertising production costs are charged to operations when the advertising first takes place. Advertising placement costs are expensed when the advertisement is run. Advertising expenses were $22.3 million, $28.5 million and $30.6 million in 2000, 1999 and 1998, respectively.

Environmental Costs

Environmental costs are accrued, except to the extent costs can be capitalized, when environmental assessments are made or remedial efforts are probable, not later than the company's commitment to a plan of action, and when the related costs can be reasonably estimated. Environmental liability accruals are calculated as the best estimate of costs expected to be incurred. If this estimate can only be identified within a range and no specific amount within that range is determined more likely than any other amount within the range, the minimum of the range is accrued. Actual costs incurred may vary from these estimates due to the inherent uncertainties involved. Accrued environmental costs were recorded in Accounts payable and accrued liabilities on the Consolidated Balance Sheets and were not material as of May 27, 2000 or May 29, 1999.

Environmental costs are capitalized if the costs improve the company's property as compared with the condition of the property when originally constructed or acquired or if the costs prevent potential environmental contamination from future operations. Costs to operate and maintain the capitalized facilities are expensed as incurred. Capitalized environmental costs were recorded in Other long-term assets on the Consolidated Balance Sheets and were not material as of May 27, 2000 or May 29, 1999. In addition, costs to operate and maintain the capitalized facilities were recorded in Other income—net in the Consolidated Statements of Operations and were not material during 2000, 1999 or 1998.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement will require recognition of all derivatives as either assets or liabilities on the balance sheet at fair value. The statement is effective for the company's fiscal year 2002, as deferred by SFAS No. 137, but early adoption is permitted. Management has not yet completed an evaluation of the effects this standard will have on the company's consolidated financial statements.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." The effective date of the bulletin was delayed according to SAB No. 101A and SAB No. 101B and will be effective for the company's fourth quarter of fiscal year 2001.

Management has not yet completed an evaluation of the effects this bulletin will have on the company's consolidated financial statements.

Significant Transactions

Sale of Color Printing and Imaging

On January 1, 2000, the company sold substantially all of the assets of the Color Printing and Imaging division to Xerox Corporation (Xerox). The purchase price was $925.0 million in cash, with certain liabilities of the division assumed by Xerox. During the third quarter of fiscal year 2000, Tektronix recorded a net gain of $340.3 million on this sale. The gain was calculated as the excess of the proceeds received over the net book value of the assets transferred, $198.5 million in income tax expense, a $60.0 million accrual for estimated liabilities related to the sale and $14.4 million in transaction and related costs.

On January 26, 2000, Tektronix announced a plan for the use of the net proceeds from the sale. The plan included a common stock repurchase program, the repayment of substantially all of the company's outstanding short-term debt and the retention of the remaining proceeds for other corporate purposes.

The company accounted for the Color Printing and Imaging division as a discontinued operation in accordance with Accounting Principles Board (APB) Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." In accordance with this accounting guidance, operating results of the division through December 31, 1999, were excluded from each applicable line of the Consolidated Statements of Operations and included in Net earnings from discontinued operations for the periods reported. Net assets of the division were excluded from each applicable line of the Consolidated Balance Sheets for all periods reported and included in Net assets of discontinued operations on those statements. The cash flows of the division were also excluded from each applicable line of the Consolidated Statements of Cash Flows and were included in Net cash provided by (used in) discontinued operations on those statements. Summarized results of operations through December 31, 1999, and the gain on sale of the Color Printing and Imaging division were as follows:

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS	2000	1999	1998
Net sales	$369,459	$725,354	$728,697
Earnings (loss) before taxes	(6,058)	19,665	67,522
Income tax expense (benefit)	(2,063)	6,293	22,282
Earnings (loss) from operations	(3,995)	13,372	45,240
Gain on sale of Color Printing and Imaging (less applicable tax of $198,476)	340,307	–	–
Net earnings	$336,312	$ 13,372	$ 45,240
Net earnings per diluted share	$ 6.99	$ 0.28	$ 0.88

Summarized net assets for the Color Printing and Imaging division were as follows:

IN THOUSANDS	1999
Current assets	$ 272,210
Long-term assets	177,810
Current liabilities	(98,633)
Long-term liabilities	(12,397)
Net assets of discontinued operations	$ 338,990

Repurchase of Common Stock

The company's plan for the use of the net proceeds from the sale of the Color Printing and Imaging division included a $550.0 million share repurchase program. On February 23, 2000, the company purchased 0.1 million shares of its common stock for $44 per share, totaling $4.7 million, through a Dutch Auction tender offer. On March 15, 2000, the Board of Directors approved a program to purchase up to $545.0 million of the company's common stock on the open market or through negotiated transactions. As of May 27, 2000, the company had repurchased 0.7 million shares for $35.1 million under this program.

Sale of Video and Networking

On August 9, 1999, the company announced that it had reached an agreement to sell substantially all of the operating assets of its Video and Networking division to Grass Valley Group Inc. During the first quarter of 2000, Tektronix recorded pre-tax charges of $26.1 million for losses expected to be incurred in connection with the transaction. These charges were calculated based upon the excess of the estimated net book value of assets to be transferred over the proceeds, as well as asset impairments incurred as a result of the sale. On September 24, 1999, the companies closed the transaction. Tektronix received cash of $23.7 million, before transaction costs of $1.1 million, a note receivable of $22.5 million, and a 10% equity interest in Grass Valley Group Inc., which was recorded in Other long-term assets and accounted for under the cost method. The actual loss on the sale was $26.1 million. Management concluded that the sale of the Video and Networking division did not meet the criteria to be recorded as a discontinued operation in accordance with APB Opinion No. 30, as the VideoTele.com business, a portion of the division was retained by the company.

On February 25, 2000, Tektronix and Grass Valley Group Inc. entered into a subsequent agreement. Under this agreement, the company sold unbilled revenue on systems contracts in progress that were not a part of the original transaction. As consideration for the assets sold, the note receivable was amended to increase the principal balance and decrease the stated interest rate from 8% to 7%. The note is now carried at $27.9 million with $23.9 million classified as long-term and the remaining $4.0 million classified as short-term. In addition, a $4.6 million note receivable ($3.2 million short-term and $1.4 million long-term) was recorded for the sale of certain trade receivables that were also excluded from the original transaction. Charges of $5.5 million were incurred in conjunction with the subsequent agreement and were recorded in Charges related to the sale of Video and Networking on the Consolidated Statements of Operations. In addition, on May 25, 2000, Tektronix sold its

10% equity interest in Grass Valley Group Inc., to the majority shareholder of that company and received $6.5 million in cash, which approximated book value.

Strategic Acquisitions

During the year, the company completed the strategic acquisition of two companies for which, the purchase prices and related goodwill were not material. On April 14, 2000, the company acquired Gage Applied Sciences, Inc. (Gage), a Montreal, Canada-based company focused on the high-performance, personal computer card-based instrumentation test market. In conjunction with that acquisition, the company expensed $1.1 million for the acquisition of in-process research and development (IPR&D), which was included in Non-recurring charges in the Consolidated Statements of Operations. On January 7, 2000, the company acquired Maxim Integrated Products Inc.'s (Maxim) 50% ownership interest in Maxtek Components Corporation (Maxtek), formerly a joint venture between Tektronix and Maxim, bringing the company's total ownership to 100%. Maxtek is focused on the design and manufacture of sophisticated multi-chip modules.

The transactions were accounted for by the purchase method of accounting, and accordingly, the results of operations of Gage and Maxtek have been consolidated in the company's financial statements and included in the Measurement segment since the dates of acquisition. Pro forma comparative results of operations are not presented because they are not materially different from the company's reported results of operations.

Formation of Videotele.com as a Wholly-Owned Subsidiary

On February 26, 2000, the company formed a new subsidiary and transferred to it substantially all of the assets and liabilities relating to its VideoTele.com business. All of the outstanding stock of this subsidiary is owned by the company, and employees of the company working for the subsidiary have received options to purchase approximately 25% of the equity of the subsidiary. The company is considering alternatives which could reduce its ownership in the subsidiary. VideoTele.com recorded net sales of $24.5 million in 2000, which were included in net sales of the Measurement segment.

Sale of Land and Buildings

During 2000, the company completed the sale of several significant buildings and parcels of land in conjunction with its plan to exit from and consolidate within facilities while transitioning to a focused Measurement business. These sales resulted in total pre-tax gains of approximately $22.6 million, which were included in Other income—net in the Consolidated Statements of Operations. Included were $12.2 million in gains on the sales of land and office, warehouse and manufacturing facilities in Oregon, an $8.7 million gain on the sale of an office facility in Marlow, England and a $1.7 million gain on the sale of a multi-function building in Australia.

Non-Recurring Charges

In the third quarter of 2000, the company announced and began to implement a series of actions (the 2000 plan) intended to further consolidate worldwide operations and transition the company from a portfolio of businesses to a single smaller business focused on test, measurement and monitoring. Major actions under the 2000 plan include the exit from and consolidation within underutilized facilities, including the write-off of assets that will be abandoned in conjunction with this action, the write-off and disposal of certain excess service and other inventories and focused headcount reductions to streamline the cost structure to that of a smaller focused Measurement business and to eliminate duplicative functions within the company's infrastructure. The company recorded pre-tax non-recurring charges of $64.8 million to account for these actions, including $19.1 million for the impairment of assets, $16.8 million for lease cancellation fees and future payments on exited leased facilities and volume-based contracts, $15.5 million for the write-off and disposal of excess inventories and $13.4 million for severance worldwide.

In the second quarter of 1999, the company announced and began to implement a series of actions (the 1999 plan) intended to align Tektronix' worldwide operations with market conditions and to improve the profitability of its operations. These actions included a net reduction of approximately 15% of the company's worldwide workforce, the exit from certain facilities and the streamlining of product and service offerings. Under the 1999 plan, the company recorded pre-tax charges of $125.7 million, including restructuring charges of $115.8 million and other non-recurring charges of $9.9 million for related actions. The $115.8 million in restructuring charges included $56.9 million in severance expense, $27.1 million for the write-off and disposal of excess inventory, $17.0 million for the impairment of long-term assets and $14.8 million for lease cancellation fees. The $9.9 million for related actions included $5.1 million of expected sales returns, $0.8 million of bad debt expense and $4.0 million of costs to fulfill commitments to deliver software enhancements on previously sold product, all associated with exiting the non-linear digital editing business.

Pre-tax net non-recurring charges impacted the company's results of operations as follows:

IN THOUSANDS	Location of charge in the Consolidated Statements of Operations	Year ended May 27, 2000	Year ended May 29, 1999
Asset write-offs and impairments	Non-recurring charges	$22,989	$ 15,470
Lease buy-outs and abandonment of facilities	Non-recurring charges	15,547	17,735
Inventory write-offs	Cost of sales	14,758	25,767
Severance and benefits	Non-recurring charges	(1,965)	51,575
Bad debt expense related to discontinued products	Selling, general and administrative expenses	(238)	803
Sales returns and allowances	Net sales	–	5,120
Commitment for enhancements related to discontinued products	Research and development expenses	–	4,019
		$51,091	$120,489

Pre-tax net non-recurring restructuring charges for the year ended May 27, 2000, total $51.1 million, including $64.8 million in new charges under the 2000 plan and $13.7 million in net reversals and adjustments of prior non-recurring charges. Of the net $51.1 million, $14.8 million was recorded in cost of sales, while $36.6 million was recorded in non-recurring charges and $0.3 million was reversed to selling, general and administrative expenses, for a total net charge to operating expenses of $36.3 million. For a discussion of additional non-recurring charges, including the $31.6 million of charges related to the sale of the Video and Networking division and the $1.1 million IPR&D charge related to the Gage acquisition, see the Sale of Video and Networking and Strategic Acquisitions footnotes.

The pre-tax charges incurred and related actions taken under the 1999 and 2000 plans affected the company's financial position in the following manner:

IN THOUSANDS	Equipment and other assets	Payables and other liabilities	Inventories	Accrued compensation
Original charges (the 1999 plan)	$ 18,200	$ 19,894	$ 27,760	$ 54,680
Fiscal year 1999 activity:				
Cash paid out	–	(7,415)	–	(20,844)
Non-cash disposals or write-offs	(17,055)	–	(27,070)	–
Adjustments to plan (Q4 1999)	(455)	4,049	(690)	2,244
Balance May 29, 1999	$ 690	$ 16,528	$ –	$ 36,080
Fiscal year 2000 activity:				
New charges (the 2000 plan)	$ 19,142	$ 16,787	$ 15,460	$ 13,362
Adjustments to plan	361	–	–	(405)
Reversal of excess charges (the 1999 plan)	–	(600)	–	(14,799)
Cash paid out	–	(13,765)	–	(22,893)
Non-cash disposals or write-offs	(20,193)	–	(15,460)	–
Balance May 27, 2000	$ –	$ 18,950	$ –	$ 11,345

The original charge of $18.2 million for equipment and other assets included asset impairments of $17.4 million and $0.8 million in reserves for bad debt expense. The impaired assets were primarily related to discontinued product lines in Color Printing and Imaging and Video and Networking and included manufacturing assets of $6.2 million, goodwill and other intangibles of $6.5 million and leasehold improvements and other assets of $4.7 million.

Under the 2000 plan, a new charge of $19.1 million was taken to account for the write-off of assets that will be abandoned in conjunction with exited facilities, the impairment of certain assets that were appropriate to support a portfolio of businesses but are not required to support the focused Measurement business and the write-down of prepaid royalties that were impaired as a result of the decision to de-emphasize certain product lines that are not strategic to the company's business.

The original $19.9 million charge for payables and other liabilities included reserves for lease buy-outs and abandonment of facilities, sales returns and allowances and commitments for enhancements related to discontinued products. This reserve was increased by $4.0 million during 1999 to provide for additional costs to exit certain sales and service offices worldwide and to fulfill certain contractual commitments, partly offset by a decrease in original sales returns allowances.

Under the 2000 plan, the company recorded a new charge of $16.8 million to account for lease cancellation fees and future payments on exited leased facilities and volume-based contracts. The facilities being exited include excess administrative space and sales facilities. Many of the remaining sales personnel will work out of home offices.

The $27.8 million original charge to inventories under the 1999 plan included inventories impaired as a result of the consolidation of Measurement service offerings, the discontinuation of three Color Printing and Imaging product lines and the discontinuation of non-linear digital editing products sold under the Lightworks name.

Under the 2000 plan, the company recorded a charge of $15.5 million to account for the write-off and disposal of certain service inventories, impaired as a result of management's commitment to streamline Measurement's service business, and VideoTele.com inventory that was impaired due to the discontinuation of certain product lines.

The original charge of $54.7 million in accrued compensation reflects a planned headcount reduction of 1,371 employees worldwide. This charge was increased by a net $2.2 million during the fourth quarter of 1999. The $2.2 million consisted of an $8.6 million reserve for severance of an additional 282 employees worldwide across all responsibilities, offset in part by reversal of a $6.4 million reserve for pension settlement that was not needed. As a result of the sale of the Color Printing and Imaging division, the company evaluated the balance in the severance reserve and determined that the amounts remaining under the 1999 plan were not required, as the remaining employees to be terminated were transferred to Xerox in conjunction with the sale or voluntarily left the company without severance. As such, the excess reserves of $14.8 million for 332 employees were reversed to non-recurring charges during the third quarter of 2000. Headcount reduction under the 1999 plan of reorganization totaled 1,321 employees worldwide. Severance of $41.0 million has been paid to approximately 1,287 of these employees, while the other 34 employees will be paid severance of $1.1 million in fiscal year 2001.

Under the 2000 plan, $13.4 million in accrued compensation was recorded to reflect focused headcount reductions of 339 employees, a net increase of seven employees over the 332 reversed from the 1999 plan, to streamline the company's cost structure to that of a smaller focused Measurement business and to eliminate excess and duplicative functions. The planned reductions are primarily in manufacturing with the remaining cuts in administrative and sales functions. Severance of $2.7 million has been paid to approximately 50 of these employees, while the other 289 employees will be paid severance of $10.2 million during 2001.

During 1998, the company recorded pre-tax non-recurring charges of $79.0 million, consisting of $60.0 million in restructuring charges, as well as $17.0 million for the expensing of acquired IPR&D and $2.0 million of severance costs associated with the acquisition of Siemens' Communications Test Equipment GmbH. The restructuring charges represented the cost of a plan designed to return the Video and Networking division to profitable growth, including severance of $14.9 million, inventory impairments of $38.5 million, lease buy-outs and abandonment of facilities of $4.2 million and $2.4 million in asset impairments. All actions under this plan were completed or the charges were reversed before May 27, 2000, as the division was sold to Grass Valley Group Inc. during the year.

Business Segments

Historically, the company was organized based on the products and services that it offered. Under this organizational structure, the company operated in three main segments: Measurement, Color Printing and Imaging, and Video and Networking. The Color Printing and Imaging division was accounted for as a discontinued operation and as such the results of operations and the financial position of the division are not presented to management for decision-making purposes and are not included in the table below. The company now operates as a single segment—Measurement. Measurement revenue is derived principally through the development and marketing of a broad range of products in several key product categories: oscilloscopes; logic analyzers; communications test equipment including products for network monitoring and protocol test, broadband transmission test and mobile production test and video test equipment and accessories. Revenue is also derived from providing support services for products sold worldwide.

The information provided below was obtained from internal information that was provided to the company's Chief Financial Officer for the purpose of corporate management. Assets, liabilities and expenses attributable to corporate activity were not all allocated to the operating segments. Certain facility, information systems and other expenses were incurred by corporate and allocated to the divisions based on a percentage of sales, number of employees or payroll costs. Depreciation expense by division was not included in the internal information provided to the Chief Financial Officer and was therefore not presented below. Inter-segment sales were not material and were included in net sales to external customers below. Information presented for 1999 was restated to include results for the VideoTele.com business within Measurement and exclude them from Video and Networking for comparative purposes.

IN THOUSANDS	2000	1999	1998
Net sales to external customers (by division):			
Measurement	$1,050,671	$ 879,486	$ 988,890
Video and Networking	59,607	256,650	368,215
All other	10,277	–	–
Net sales	$1,120,555	$1,136,136	$1,357,105
Net sales to external customers (by region):			
United States	$ 591,291	$ 558,134	$ 688,053
Europe	248,063	319,255	323,203
Pacific	137,092	140,131	160,609
Japan	78,434	69,327	106,784
Americas	65,675	49,289	78,456
Net sales	$1,120,555	$1,136,136	$1,357,105
Operating income (loss):			
Measurement	$ 125,163	$ 76,406	$ 126,178
Video and Networking	(21,269)	(42,627)	112
Charges related to the sale of Video and Networking	(31,613)	–	–
Non-recurring charges	(51,137)	(120,489)	(78,960)
All other	(17,028)	(2,853)	(252)
Operating income (loss)	$ 4,116	$ (89,563)	$ 47,078

Other sales in 2000 represented circuit boards sales to Grass Valley Group Inc. under a specific sales agreement that did not exist in 1999 or 1998 and will not continue in 2001. Other operating income in 2000 included expenses incurred related to the transition of the company to a focused Measurement business which were not allocated to the divisions. In addition, for the purposes of segment reporting only, 2000 non-recurring charges excluded the $1.1 million IPR&D charge related to the Gage acquisition as it was included in the operating income from the Measurement segment.

IN THOUSANDS	2000	1999	1998
Segment assets:			
Measurement	$ 507,656	$ 479,546	$ 505,822
Video and Networking	3,908	218,124	259,448
All other	1,023,073	550,665	550,049
Segment assets	$1,534,637	$1,248,335	$1,315,319
Long-lived assets:			
United States	$ 343,600	$ 336,251	$ 334,910
International	48,052	69,241	72,070
Deferred tax assets	30,928	56,405	25,102
Long-lived assets	$ 422,580	$ 461,897	$ 432,082
Capital expenditures:			
Measurement	$ 17,129	$ 20,377	$ 24,159
Video and Networking	281	12,510	12,122
All other	26,776	38,398	58,674
Capital expenditures	$ 44,186	$ 71,285	$ 94,955

Other Long-Term Assets

IN THOUSANDS	2000	1999
Investment in business ventures	$ 62,315	$ 73,225
Prepaid pension cost	61,098	582
Goodwill and other—net	33,508	35,602
Notes, contracts and leases	31,199	8,410
Investment in marketable equity securities	14,988	3,904
Other long-term assets	$203,108	$121,723

Significant investments in business ventures, accounted for under the equity method, included a 50% investment in Sony/Tektronix Corporation, as well as an approximate 25% interest in Merix Corporation (Merix) through April 2000. In May 2000, the company sold 1.15 million shares of its investment in Merix in conjunction with a public offering by that company. As a result of this transaction, Tektronix accounts for its remaining investment in Merix under the cost method, with the fair value of the investment included in investments in marketable equity securities at May 27, 2000. See the Accounting Policies footnote for additional information.

Summarized financial information for Sony/Tektronix, as well as the company's sales to, purchases from, and accounts receivable from Sony/Tektronix consisted of:

IN THOUSANDS	2000	1999	1998
Current assets	$134,343	$110,072	$120,472
Non-current assets	89,110	50,921	50,228
Current liabilities	39,408	30,029	41,124
Non-current liabilities	59,453	20,314	18,323
Net sales	$231,782	$196,342	$271,407
Gross profit	73,126	51,255	68,872
Income (loss) from continuing operations	(83)	(9,250)	2,553
Sales to	$ 79,152	$ 77,332	$117,173
Purchases from	26,219	20,718	17,810
Accounts receivable from	3,383	7,506	12,354

Purchases from other related parties, Merix, Maxim, Maxtek Components Corporation and Grass Valley Group Inc. totaled $38.3 million, $37.3 million and $50.1 million for 2000, 1999 and 1998, respectively. All other transactions and resulting balances with related parties were insignificant.

As of May 27, 2000, the company had a prepaid pension cost of $61.1 million. The prepaid status resulted mainly from a $42.5 million required funding of the pension plan in the third quarter of 2000, as well as $10.3 million of income generated by plan assets and $7.7 million of net curtailment gains realized as a result of the sales of Video and Networking and Color Printing and Imaging in 2000.

Included in notes, contracts and leases at May 27, 2000, were $25.3 million in long-term notes receivable from Grass Valley Group Inc. In management's opinion, these notes are fully collectible and as such, no valuation reserve was established.

Goodwill and other—net was reduced by accumulated amortization of $14.6 million at fiscal year-end 2000 and $18.3 million at fiscal year-end 1999.

Accounts Payable and Accrued Liabilities

The company's accounts payable and accrued liabilities at year-ends consisted of:

IN THOUSANDS	2000	1999
Trade accounts payable	$ 56,333	$ 58,299
Other accounts payable	16,269	19,237
Accounts payable	72,602	77,536
Accrued expenses	93,591	18,122
Other current liabilities	28,071	48,837
Restructuring reserve	18,950	16,528
Warranty reserve	8,553	10,283
Accrued liabilities	149,165	93,770
Accounts payable and accrued liabilities	$221,767	$171,306

Other accounts payable included amounts due to business ventures, employee benefits accruals and other miscellaneous non-trade payables. Accrued expenses included the $60.0 million accrual for estimated liabilities related to the sale of the Color Printing and Imaging division. Other current liabilities included items such as miscellaneous taxes payable and accrued gains and losses on forward foreign exchange contracts. Charges to warranty reserves in 2000, 1999 and 1998 were not material. See the Non-recurring charges footnote for a discussion of charges to the restructuring reserves.

Accrued Compensation

The company's accrued compensation at year-ends consisted of:

IN THOUSANDS	2000	1999
Accrued payroll	$55,055	$104,522
Accrued performance incentives	28,195	488
Other accrued benefits and incentives	12,373	3,972
Accrued compensation	$95,623	$108,982

Accrued payroll included accrued severance related to the restructuring plans of $11.3 million and $36.1 million in 2000 and 1999, respectively. In addition, accrued payroll balances were based on 7,571 employees in 1999 and 4,276 employees in 2000.

Short-Term and Long-Term Debt

The company's short-term debt at year-ends consisted of:

IN THOUSANDS	2000	1999
Commercial paper	$ –	$ 69,526
Revolving credit	–	44,000
Lines of credit	–	1,655
Current maturities of long-term debt	505	506
Short-term debt	$ 505	$115,687

The company is a party to a $150.0 million unsecured revolving credit agreement with Bank of America, as agent, that matures in December 2004. In addition, the company is a party to an agreement with U.S. National Bank of Oregon to issue up to $100.0 million in commercial paper, backed by the revolving credit agreement. The interest rate applicable to the revolving credit agreement is the LIBOR rate. At May 27, 2000, the company maintained unsecured bank credit facilities of $272.3 million, of which $263.7 million was unused. Unused facilities included $113.7 million in lines of credit and $150.0 million under the revolving credit agreement. A $15.0 million unsecured line of credit expires in December 2000 with all remaining lines providing no specific expiration date.

The company's long-term debt at year-ends consisted of:

IN THOUSANDS	2000	1999
7.5% notes due August 1, 2003	$100,000	$100,000
7.625% notes due August 15, 2002	50,000	50,000
Other long-term agreements	369	722
Long-term debt	$150,369	$150,722

Certain of the company's debt agreements require compliance with debt covenants. Management believes that the company is in compliance with such requirements for the fiscal year ended May 27, 2000. The company had unrestricted retained earnings of $202.4 million after meeting those requirements. Aggregate long-term debt payments on currently outstanding long-term debt will be $0.4 million in 2002, $50.0 million in 2003, $100.0 million in 2004 and zero in 2005.

Fair Value of Financial Instruments

For short-term financial instruments, including cash and cash equivalents, accounts receivable, short-term debt, accounts payable and accrued compensation, the carrying amount approximates the fair value because of the immediate or short-term nature of those instruments. The fair value of marketable equity securities is based on quoted market prices at the reporting date. The fair value of long-term debt is estimated based on quoted market prices for similar instruments or by discounting expected cash flows at rates currently available to the company for instruments with similar risks and maturities. The differences between the fair values and carrying amounts of the company's financial instruments, including derivatives, at May 27, 2000, and May 29, 1999, were not material.

Other Long-Term Liabilities

IN THOUSANDS	2000	1999
Accrued pension	$36,217	$34,067
Accrued postretirement benefits	30,743	32,917
Other	9,490	10,654
Other long-term liabilities	$76,450	$77,638

Other long-term liabilities included deferred executive compensation of $6.5 million and $7.5 million in 2000 and 1999, respectively.

Other Income—Net

IN THOUSANDS	2000	1999	1998
Gain (loss) on disposition of fixed assets	$ 15,550	$12,104	$ (2,422)
Gain on sale of marketable equity securities	7,889	6,455	28,269
Currency losses	(2,044)	(3,448)	(278)
Other expenses	(13,110)	(4,738)	(7,279)
Other income—net	$ 8,285	$10,373	$18,290

In May 2000, the company sold 1.15 million shares of its investment in Merix in conjunction with a public offering by that company. This sale resulted in a net gain of approximately $11.4 million, which was included in the gain on sale of marketable equity securities above. The company intends to liquidate its remaining 0.5 million shares of Merix stock through open market sales over time.

Other expenses included charitable contributions, bank fees, losses related to the impairment of other assets, losses on liabilities related to assets previously sold and other miscellaneous non-operating expenses.

Commitments and Contingencies

The company leases a portion of its capital equipment and certain of its facilities under operating leases that expire at various dates. Rental expense was $24.4 million in 2000, $26.8 million in 1999, and $25.4 million in 1998. In addition, the company is a party to long-term or minimum purchase agreements with various suppliers and vendors. The future minimum obligations under operating leases and other commitments having an initial or remaining non-cancelable term in excess of one year as of May 27, 2000 were:

IN THOUSANDS	Operating Leases	Commitments
2001	$14,480	$16,975
2002	11,699	4,207
2003	8,959	1,459
2004	6,802	7
2005	5,869	–
Future years	40,798	–
Total	$88,607	$22,648

In the normal course of business, the company and its subsidiaries are parties to various legal claims, actions and complaints, including matters involving patent infringement and other intellectual property claims and various other risks. It is not possible to predict with certainty whether or not the company and its subsidiaries will ultimately be successful in any of these legal matters or, if not, what the impact might be. However, the company's management does not expect that the results in any of these legal proceedings will have a material adverse effect on the company's results of operations, financial position or cash flows.

Shareholders' Equity

Stock Option and Incentive Compensation Plans

The company maintains stock option plans for selected employees. There were 6,622,342 shares reserved for issuance under these plans at May 27, 2000. Under the terms of the plans, stock options are granted at an option price not less than the market value at the date of grant. Options granted prior to January 1, 1997, generally vest over four years and expire ten years from the date of grant, while options granted between January 1, 1997 and January 1, 2000, generally vest over two years and expire five years from the date of grant. Options granted after January 1, 2000, generally vest over two years and expire ten years from the date of grant. There were 788 employees holding options at May 27, 2000.

Additional information with respect to option activity is set forth below:

	Outstanding		Exercisable	
	Number of Shares in Thousands	Weighted Average Exercise Price	Number of Shares in Thousands	Weighted Average Exercise Price
May 31, 1997	3,873	$26	1,428	$21
Granted	1,149	40		
Exercised	(1,093)	23		
Canceled	(405)	30		
May 30, 1998	3,524	$31	1,509	$26
Granted	2,219	26		
Exercised	(138)	19		
Canceled	(1,766)	36		
May 29, 1999	3,839	$27	2,065	$25
Granted	1,618	39		
Exercised	(2,321)	25		
Canceled	(549)	29		
May 27, 2000	2,587	$35	912	$28

The following table summarizes information about options outstanding and exercisable at May 27, 2000:

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Shares in Thousands	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares in Thousands	Weighted Average Exercise Price
$11.33-28.67	558	4.04 years	$23	443	$23
29.38-32.88	517	3.72 years	30	248	30
33.73-39.92	173	3.21 years	36	148	36
40.13-40.13	1,233	9.65 years	40	50	40
40.19-67.44	106	7.44 years	51	23	42
	2,587	6.74 years	$35	912	$28

The company accounts for stock options according to APB Opinion No. 25, "Accounting for Stock Issued to Employees." Under APB Opinion No. 25, no compensation expense is recognized in the company's consolidated financial statements upon issuance of employee stock options because the exercise price of the options equals the market price of the underlying stock on the date of grant. Alternatively, under the fair value method of accounting provided for by SFAS No. 123, "Accounting for Stock-Based Compensation," the measurement of compensation cost is based on the fair value of employee stock options at the grant date and requires the use of option pricing models to value the options. The weighted average estimated fair value of options granted during 2000, 1999 and 1998 was $17, $10 and $12 per share, respectively.

The company also has plans for certain executives and outside directors that provide stock-based compensation other than options. Under APB No. 25, compensation cost for these plans is measured based on the market price of the stock at the date the terms of the award become fixed. Under the fair value approach of SFAS No. 123, compensation cost is measured based on the market price of the stock at the grant date. The weighted average grant-date fair value of the shares granted under these plans during 2000, 1999 and 1998 was $38, $32 and $41 per share, respectively. Compensation cost recognized in income related to shares granted under these plans was not material.

The pro forma impact to both net earnings and earnings per share from calculating stock-related compensation cost consistent with the fair value alternative of SFAS No. 123 is indicated below:

	2000	1999	1998
Pro forma net earnings (loss) (in thousands)	$344,421	$(61,029)	$74,520
Pro forma earnings (loss) per share:			
Basic	$ 7.29	$ (1.28)	$ 1.48
Diluted	7.16	(1.28)	1.45

The fair value of options were estimated as of the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	2000	1999	1998
Expected life (in years)	3.0	3.0	3.0
Risk-free interest rate	6.3%	5.6%	5.8%
Volatility	57.1%	57.8%	40.0%
Dividend yield	0.1%	2.1%	1.2%

For purposes of the pro forma disclosures, the estimated fair value of the stock-based awards is amortized over the vesting period. Because SFAS No. 123 is applicable only to awards granted after May 27, 1995, the pro forma effect was not fully reflected until 1999.

Shareholder Rights Agreement

On June 21, 2000, the Board of Directors (the Board) adopted a new shareholder rights agreement to replace the 1990 agreement when it expires by its terms in September 2000. To implement the new plan, the Board of Directors declared a dividend of one right for each outstanding common share payable to shareholders of record on September 7, 2000. Each right entitles the holder to purchase one one-thousandth of a share of Series B preferred shares at a purchase price of $375, subject to adjustment. The rights become exercisable ten days after a person or group acquires, or commences a tender offer that would result in, beneficial ownership of 15% or more of the outstanding common shares. Upon the occurrence of certain events described in the rights agreement, each right entitles its holder to purchase common shares of the company, or in certain circumstances common shares of the acquiring company, or other property having a value of twice the right's exercise price. However, rights that are beneficially owned by an acquiring person become null and void. The rights may be redeemed at a price of $0.001 per right at any time before a person becomes an acquiring person, and any time after a person becomes an acquiring person, the company may exchange each right at a ratio of one common share, or one one-thousandth of a preferred share per right. The rights expire on September 7, 2010.

In August 1990, the Board approved a shareholder rights agreement and declared a dividend of one right for each outstanding common share. Each right entitles the holder to purchase one one-thousandth of a share of no par preferred stock at an exercise price of $40, subject to adjustment. Generally, the rights become exercisable ten days after a person or group acquires or commences a tender offer that would result in beneficial ownership of 20% or more of the common shares. In addition, the rights become exercisable if any party becomes the beneficial owner of 10% or more of the outstanding common shares and is determined by the Board to be an adverse party. Upon the occurrence of certain additional events specified in the shareholder rights agreement, each right would entitle its holder to purchase common shares of the company (or, in some cases, a potential acquiring company) or other property having a value of twice the right's exercise price. The rights, which are not currently exercisable, expire in September 2000, but may be redeemed by action of the Board prior to that time, under certain circumstances, for $0.01 per right.

Benefit Plans

Pension and Postretirement Benefits Plans

Tektronix sponsors one IRS-qualified defined benefit plan, the Tektronix Cash Balance Plan, and one non-qualified defined benefit plan, the Retirement Equalization Plan, for eligible employees in the United States. The company also sponsors pension plans in Germany, the Netherlands and the United Kingdom. In addition, the company provides postretirement life insurance benefits to all current employees and provides certain retired and active employees with postretirement health care benefits.

As a result of corporate restructuring and layoffs during 2000 and 1999, the cash balance plan experienced declines in the number of active participants. On two separate occasions, October 1, 1999 and January 31, 1999 the number of employees affected were deemed significant. Interim measurements were performed and curtailment accounting was implemented. A net $7.7 million curtailment gain was recognized in 2000, and a $3.3 million gain was recognized in 1999, both reducing pension expense. At the 2000 re-measurement date, the discount rate was increased from 7.3% to 7.8%. At the 1999 re-measurement date the discount rate was reduced from 7.3% to 7.0%.

In 1998, the U.S. pension plan was amended, converting it from a final average pay plan to a cash balance plan. As a result of this plan amendment, the pension benefit obligation was reduced by $38.9 million. The

reduction is being amortized over the average remaining service period of the active participants in the plan. Upon transition to the cash balance plan on January 1, 1998, the discount rate was reduced to reflect current market conditions. The impact of this change was an increase in the pension benefit obligation of $63.9 million as of January 1998.

The following tables provide information about changes in the benefit obligation and plan assets and the funded status of the company's pension and postretirement benefit plans:

IN THOUSANDS	Pension Benefits		Postretirement Benefits	
	2000	1999	2000	1999
Change in Benefit Obligation				
Beginning balance	$577,536	$553,729	$16,463	$15,944
Service cost	10,984	15,001	180	201
Interest cost	39,423	38,082	1,129	1,102
Actuarial loss (gain)	(18,976)	9,455	(218)	1,169
Curtailment/settlement	(6,909)	367	(1,263)	–
Plan amendments	–	825	–	–
Acquisition	563	–	–	–
Benefit payments	(54,453)	(36,643)	(2,047)	(1,953)
Exchange rate changes	(7,931)	(3,906)	–	–
Participant contributions	658	626	–	–
Special termination benefits	4,887	–	–	–
Ending balance	$545,782	$577,536	$14,244	$16,463
Change in Fair Value of Plan Assets				
Beginning balance	$548,625	$538,728	–	–
Actual return	87,374	49,559	–	–
Employer contributions	48,411	3,505	–	–
Benefit payments	(54,453)	(36,643)	–	–
Other adjustments	(8,988)	(6,524)	–	–
Ending balance	$620,969	$548,625	$ –	$ –
Net unfunded (funded) status of the plan	$ (75,188)	$ 28,911	$14,245	$16,463
Unrecognized initial net obligation	(678)	(1,887)	–	–
Unrecognized prior service cost	20,741	38,047	10,684	13,355
Unrecognized net gain (loss)	15,661	(40,410)	6,965	7,300
Net (prepaid) liability recognized	$ (39,464)	$ 24,661	$31,894	$37,118

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for certain non-U.S. plans with accumulated benefit obligations in excess of plan assets were $20.6 million, $18.5 million and zero, respectively, for 2000, and $22.9 million, $20.2 million and zero, respectively, for 1999.

Assumptions used in the accounting for the Tektronix pension and postretirement benefit plans were:

ASSUMPTIONS ON A WEIGHTED AVERAGE BASIS	2000	1999	1998
Pension Benefits			
Discount rate	7.2%	7.0%	7.0%
Rate of compensation increase	3.7%	3.8%	3.7%
Expected return on plan assets	11.0%	10.9%	10.9%
Postretirement Benefits			
Discount rate	7.8%	7.3%	7.3%
Rate of compensation increase	3.8%	3.4%	3.8%

Effective July 1, 1998, the company replaced its self-funded indemnity health plan for retirees with an insured indemnity plan. The assumed health care cost trend rates used to measure the expected cost of benefits under the indemnity plan were assumed to increase by 13.4% for participants under the age of 65 and 15.6% for participants age 65 and over in the fiscal year 2001. Thereafter, these rates were assumed to gradually decrease until they reach 5.3% and 5.5%, respectively, in 2007. For the existing retiree HMO plans, the rate of increase in the cost of health care benefits was assumed to be 9.3% for 2001, decreasing gradually to a rate of 5.3% in 2007. A 1.0% change in these assumptions would not have a material effect on either the postretirement benefit obligation at May 27, 2000 or the benefit credit reported for 2000.

The components of net pension benefit cost and postretirement benefit credit recognized in income were:

IN THOUSANDS	2000	1999	1998
Pension Benefits			
Service cost	$ 10,984	$ 15,001	$ 14,161
Interest cost	39,423	38,082	37,829
Expected return on plan assets	(55,751)	(50,890)	(48,634)
Amortization of transition asset	(68)	(1,839)	(2,059)
Amortization of prior service cost	(2,707)	(4,039)	(2,209)
Curtailment/settlement gain	(15,158)	(3,311)	–
Cost of special or contractual termination benefits	4,887	–	–
Recognized actuarial net loss	792	3,722	1,792
Other benefit plans	5,087	2,294	1,992
Net benefit cost (credit)	$(12,511)	$ (980)	$ 2,872
Postretirement Benefits			
Service cost	$ 180	$ 201	$ 188
Interest cost	1,129	1,102	1,145
Amortization of prior service cost	(2,671)	(2,671)	(2,671)
Recognized net gain	(553)	(644)	(747)
Curtailment gain	(1,263)	–	–
Net benefit credit	$ (3,178)	$ (2,012)	$ (2,085)

Employee Savings Plan

The company has an employee savings plan that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Participating U.S. employees may defer up to 15% of their compensation, subject to certain regulatory limitations. Employee contributions are invested, at the employees' direction, among a variety of investment alternatives. The company's matching contribution, which was previously invested entirely in company stock, was increased from 3% to 4% of compensation effective January 1, 1998, and may now be invested in any one of the 401(k) plan funds. In addition, the company contributes company stock to the plan for all eligible employees equal to 2% of compensation. The company's total contributions were approximately $9.1 million in 2000, $11.4 million in 1999, and $16.4 million in 1998.

Comprehensive Income (Loss)

Comprehensive income (loss) and its components were as follows:

IN THOUSANDS	2000	1999	1998
Net earnings (loss) (net of tax of $203,268, [24,067] and 40,529, respectively)	$349,038	$(51,161)	$ 82,285
Other comprehensive income (loss):			
Currency translation adjustment (net of tax of $[759], 188 and [9,089], respectively)	(1,138)	281	(13,634)
Unrealized gain (loss) on available-for-sale securities (net of tax of $5,926, [878] and [2,708], respectively)	9,709	(4,688)	(11,795)
Reclassification adjustment for realized gains included in net income (net of tax of $[2,218], [3,095] and [11,298], respectively)	(3,327)	(4,642)	(16,946)
Total comprehensive income (loss)	$354,282	$(60,210)	$ 39,910

Income Taxes

The provision (benefit) for income taxes consisted of:

IN THOUSANDS	2000	1999	1998
Current:			
Federal	$1,533	$(25,231)	$13,948
State	1,187	(1,300)	2,278
Non-U.S.	2,675	26,683	4,874
	5,395	152	21,100
Deferred:			
Federal	767	(36,805)	(81)
State	396	(1,639)	(207)
Non-U.S.	297	7,923	(2,565)
	1,460	(30,521)	(2,853)
Total provision (benefit)	$6,855	$(30,369)	$18,247

The provisions (benefits) differ from the amounts that would result by applying the U.S. statutory rate to earnings before taxes. A reconciliation of the difference is:

IN THOUSANDS	2000	1999	1998
Income taxes based on U.S. statutory rate	$ 6,853	$(33,216)	$19,352
State income taxes, net of U.S. tax	1,029	(1,910)	1,346
Foreign sales corporation	(2,739)	–	(2,877)
Change in beginning of year valuation allowance	–	–	(227)
Other—net	1,712	4,757	653
Total provision (benefit)	$ 6,855	$(30,369)	$18,247

Tax benefits of $18.1 million, $0.3 million and $7.8 million associated with the exercise of employee stock options were allocated to common stock in 2000, 1999 and 1998, respectively.

Net deferred tax assets and liabilities are included in the following Consolidated Balance Sheet line items:

IN THOUSANDS	2000	1999
Other current assets	$55,170	$ 59,325
Deferred tax assets	30,928	56,405
Net deferred tax assets	$86,098	$115,730

The temporary differences and carryforwards that gave rise to deferred tax assets and liabilities were as follows:

IN THOUSANDS	2000	1999
Deferred tax assets:		
Reserves and other liabilities	$ 63,247	$ 45,988
AMT and foreign tax credit carryforwards	20,673	20,412
Restructuring costs and separation programs	16,190	20,904
Accrued postretirement benefits	13,033	14,949
Intangibles	3,045	4,909
Accumulated depreciation	2,883	12,348
Net operating losses	2,813	20,786
Accrued pension obligation	–	3,382
Gross deferred tax assets	121,884	143,678
Less valuation allowance	(2,600)	(2,600)
Deferred tax assets	119,284	141,078
Deferred tax liabilities:		
Accrued pension obligation	(19,412)	–
Software development costs	(10,461)	(26,280)
Unrealized gains on marketable equity securities	(3,313)	932
Deferred tax liabilities	(33,186)	(25,348)
Net deferred tax assets	$ 86,098	$115,730

At May 27, 2000, there were $20.7 million of unused foreign tax credit carryovers which, if not used, will expire between 2004 and 2005.

U.S. taxes have not been provided on $162.0 million of accumulated unremitted earnings of non-U.S. subsidiaries because such earnings are or will be reinvested in operations or will be offset by appropriate credits for foreign income taxes paid.

Quarterly Financial Data (Unaudited)

In the opinion of management, this unaudited quarterly financial summary includes all adjustments necessary to present fairly the results for the periods represented (in thousands, except per share amounts):

QUARTER ENDED	Aug. 28, 1999	Nov. 27, 1999	Feb. 26, 2000	May 27, 2000
Net sales	$ 280,747	$ 261,271	$ 277,044	$ 301,493
Gross profit	124,292	119,997	123,443	156,632
Operating income (loss)	(12,209)	15,777	(31,393)	31,941
Earnings (loss) before taxes from continuing operations	(15,823)	13,769	(25,906)	47,541
Net earnings (loss) from continuing operations	(10,917)	8,941	(16,839)	31,541
Net earnings (loss) from discontinued operations	2,435	6,245	327,632	–
Net earnings (loss)	(8,482)	15,186	310,793	31,541
Earnings (loss) per share—basic	(0.18)	0.32	6.57	0.66
Earnings (loss) per share—diluted	(0.18)	0.32	6.46	0.64
Earnings (loss) per share from continuing operations—basic	(0.23)	0.19	(0.36)	0.66
Earnings (loss) per share from continuing operations—diluted	(0.23)	0.19	(0.36)	0.64
Earnings per share from discontinued operations—basic	0.05	0.13	6.93	0.00
Earnings per share from discontinued operations—diluted	0.05	0.13	6.81	0.00
Average shares outstanding:				
Basic	46,991	47,062	47,297	47,710
Diluted	46,991	47,636	48,080	48,944
Dividends per share	$ 0.12	$ 0.12	$ 0.12	$ 0.00
Common stock prices:				
High	35.56	39.38	54.88	71.75
Low	22.13	28.38	30.75	46.75

QUARTER ENDED	Aug. 29, 1998	Nov. 28, 1998	Feb. 27, 1999	May 29, 1999
Net sales	$ 263,601	$ 272,910	$ 273,009	$ 326,616
Gross profit	117,664	87,331	127,280	146,439
Operating income (loss)	(14,540)	(121,107)	25,439	20,646
Earnings (loss) before taxes from continuing operations	(13,943)	(123,706)	18,002	24,745
Net earnings (loss) from continuing operations	(9,481)	(84,121)	12,241	16,828
Net earnings (loss) from discontinued operations	4,818	(1,750)	2,261	8,043
Net earnings (loss)	(4,663)	(85,871)	14,502	24,871
Earnings (loss) per share—basic and diluted	(0.09)	(1.82)	0.31	0.53
Earnings (loss) per share from continuing operations—basic and diluted	(0.19)	(1.79)	0.26	0.36
Earnings (loss) per share from discontinued operations—basic and diluted	0.10	(0.04)	0.05	0.17
Average shares outstanding:				
Basic	49,475	47,077	46,846	46,877
Diluted	49,475	47,077	47,249	47,167
Dividends per share	$ 0.12	$ 0.12	$ 0.12	$ 0.12
Common stock prices:				
High	38.38	25.75	32.38	29.44
Low	16.56	13.69	19.38	17.56

The company's common stock is traded on the New York and Pacific Stock Exchanges. There were 3,249 shareholders of record at June 24, 2000. The market prices quoted above are the composite daily high and low prices reported by The Wall Street Journal rounded to full cents per share.

Selected Financial Data

Consolidated Financial Performance

AMOUNTS ARE IN MILLIONS, EXCEPT PER SHARE	2000	1999	1998	1997	1996
Net sales	$1,120.6	$1,136.1	$1,357.1	$1,301.6	$1,207.2
Gross margin	46.8%	42.1%	43.2%	44.4%	44.4%
Excluding non-recurring charges(1)	48.1%	44.7%	46.1%	44.4%	44.4%
Net earnings (loss) from					
continuing operations	$ 12.7	$ (64.5)	$ 37.0	$ 56.2	$ 55.0
Excluding non-recurring charges(1)	$ 67.2	$ 17.4	$ 89.9	$ 56.2	$ 55.0
Basic earnings (loss) per share					
from continuing operations	$ 0.27	$ (1.35)	$ 0.73	$ 1.13	$ 1.10
Excluding non-recurring charges(1)	$ 1.42	$ 0.36	$ 1.78	$ 1.13	$ 1.10
Diluted earnings (loss) per share					
from continuing operations	$ 0.26	$ (1.35)	$ 0.72	$ 1.12	$ 1.08
Excluding non-recurring charges(1)	$ 1.40	$ 0.36	$ 1.75	$ 1.12	$ 1.08
Weighted average shares outstanding:					
Basic	47.3	47.7	50.4	49.5	49.8
Diluted	48.1	47.7	51.3	50.2	51.0
Dividends per share	$ 0.36	$ 0.48	$ 0.46	$ 0.40	$ 0.40
Total assets	$1,534.6	$1,248.3	$ 984.4	$ 987.2	$ 996.0
Long-term debt	$ 150.4	$ 150.7	$ 150.7	$ 151.6	$ 202.0

(1) AMOUNTS FOR 2000 DO NOT INCLUDE NON-RECURRING CHARGES OF $83.8 MILLION PRE-TAX, $54.5 MILLION NET OF TAX. AMOUNTS FOR 1999 DO NOT INCLUDE NON-RECURRING CHARGES OF $120.5 MILLION PRE-TAX, $81.9 MILLION NET OF TAX. AMOUNTS FOR 1998 DO NOT INCLUDE NON-RECURRING CHARGES OF $79.0 MILLION PRE-TAX, $52.9 MILLION NET OF TAX. SEE ALSO THE "MANAGEMENT REVIEW" AND THE "NON-RECURRING CHARGES" NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS.

Corporate Information

Corporate Office

Tektronix, Inc.
Beaverton, Oregon

Manufacturing

Beaverton, Oregon
Berlin, Germany
Chelmsford, Massachusetts
Montreal, Canada
Padova, Italy
Yangzhong, China

United States Sales and Service

Albuquerque, New Mexico
Austin, Texas
Beaverton, Oregon
Chicago, Illinois
Dallas, Texas
Irvine, California
Madison, Connecticut
Orlando, Florida
Philadelphia, Pennsylvania
Santa Clara, California
Washington, D.C.
Yorktown, Virginia

International Sales and Service

Argentina—Tektronix International, Inc., Sucursal, and Buenos Aires

Australia—Tektronix Australia Pty. Limited, Sydney, Adelaide, Melbourne, Brisbane, Canberra, and Perth

Austria—Tektronix Ges.m.b.H., Wiener Neudorf (Vienna)

Belgium—Tektronix N.V., Zaventem (Brussels)

Brazil—Tektronix Industria e Comercio Ltda., São Paulo and Rio de Janeiro

Canada—Tektronix Canada Inc., Concord (Toronto), Pointe Claire (Montreal), Ottawa, and Burnaby (Vancouver)

China (PRC)—Tektronix Electronics (China) Co., Ltd., Beijing, Shanghai, Xi'an, Wuhan, Guangzhou and Chengdu; Tektronix (Yangzhong) Co., Ltd., Yangzhong; Tektronix Hong Kong Limited, Hong Kong

Denmark—Tektronix AS, Skovlunde (Copenhagen)

Finland—Tektronix Oy, Espoo (Helsinki)

France—Tektronix S.A., Orsay (Paris), Aix-En-Provence, Labegae Cedex, Levallois, Monfort Sur Meu, Ville Fontaine, Venissieux

Germany—Tektronix GmbH, Cologne; Tektronix Berlin GmbH & Co. KG, Berlin; Tektronix Berlin Verwaltungs GmbH, Berlin

India—Tektronix (India) Limited, Bangalore, Chennai, New Delhi, Calcutta, Mumbai, and Secunderabad

Italy—Tektronix S.p.A., Vimodrone (Milan)

Japan—Sony/Tektronix Corporation, Tokyo, Atsugi, Fukuoka, Nagoya, Osaka, Omiya, Sendai, Tama, Yokohama, Matsumoto, Kyoto, Higashi-Kanto and Hiroshima

Korea—Tektronix Korea, Ltd., Seoul, Daejon and Kumi

Mexico—Tektronix, S.A.de C.V., Mexico City

The Netherlands—Tektronix Holland N.V., Hoofddorp

Norway—Tektronix Norge A/S, Oslo

Poland—Tektronix Polska Sp. z o.o. Warsaw, Poland

Singapore—Tektronix Southeast Asia Pte Tektronix Southeast Asia Pte Ltd

Spain—Tektronix Española, S.A., Madrid

Sweden—Tektronix AB, Kista (Stockholm) and Gothenburg

Switzerland—Tektronix International A.G., Zug

Taiwan (R.O.C.)—Tektronix Taiwan, Ltd., Taipei, Kaohsiung and Hsinchu

United Kingdom—Tektronix U.K. Limited, Bracknell, England

Subsidiary Companies

Gage Applied Inc.
Montreal, Canada

Maxtek Components Corporation, Beaverton, Oregon

Tektronix U.K. Holdings Limited, Bracknell, England

Tektronix Europe Limited, Bracknell, England

Tektronix International, Inc., Beaverton, Oregon

Tektronix Asia, Ltd., Beaverton, Oregon

Tektronix Development Company, Beaverton, Oregon

Tektronix Export, Inc., Beaverton, Oregon

Tektronix Federal Systems, Inc., Beaverton, Oregon

Tektronix Foreign Sales Corporation, Agana, Guam

Tektronix Engineering Development (India) Limited, Bangalore, India

Tektronix Padova S.p.A., Padova, Italy

VideoTele.com, Inc.
Lake Oswego, Oregon

Joint Venture

Sony/Tektronix Corporation, Tokyo and Gotemba, Japan

Board of Directors

Jerome J. Meyer (1990)
Chairman of the Board,
Tektronix, Inc.

Richard H. Wills (2000)*
Chief Executive Officer and President,
Tektronix, Inc.

Pauline Lo Alker (1996)
Chairman of the Board,
Chief Executive Officer and President,
Amplify.net

A. Gary Ames (1994)
Retired, President and
Chief Executive Officer,
MediaOne International

Gerry B. Cameron (1997)
Retired, Chairman of the Board,
US Bancorp

David N. Campbell (1998)
President and Chief Executive Officer,
Xpedior

Paul C. Ely, Jr. (1992)
Former General Partner,
Alpha Partners

Frank C. Gill (1999)
Retired, Executive Vice President,
Intel Corporation

General Merrill A. McPeak (Ret.) (1995)
Former Chief of Staff,
United States Air Force,
Chairman, ECC International Corp.

Ralph V. Whitworth (1999)
Managing Member,
Relational Investors LLC

*EXECUTIVE OFFICERS ELECTED BY THE BOARD OF DIRECTORS

THE CALENDAR YEAR IN ( ) INDICATES WHEN THE INDIVIDUALS BECAME DIRECTORS OF TEKTRONIX.

Officers

Richard H. Wills*
Chief Executive Officer and President

Robert D. Agnes
Vice President, Video Business Unit

Scott Bausback
Vice President, Communications
Business Unit

Barbara Block
Vice President, Administrative Services

Janet E. Britton
Acting Vice President, Human Resources

David J. Brown
Vice President, Central Engineering

David S. Churchill
Vice President,
Instrumentation Business Unit

David E. Coreson*
Vice President, Central Operations

James F. Dalton*
Vice President, General Counsel
and Corporate Secretary

Lee M. Ellison*
Vice President, Global Sales and
International Operations

Vincent T. Ganley
Vice President, Asia/Pacific

Richard D. McBee
Vice President, Global Marketing &
Strategic Initiatives

Paul R. Oldham
Vice President, Finance
and Corporate Controller

Michael R. Oliveri
Vice President, Americas Sales and
Marketing

Gerald Ostheimer
Vice President, European Operations

Craig L. Overhage
Vice President,
Digital Systems Business Unit

Colin L. Slade*
Vice President and
Chief Financial Officer

Robert L. Vance
Vice President, Information Systems

General Information

Shareholders' Meeting
The annual meeting of shareholders of Tektronix, Inc. will be held Thursday, September 21, 2000 at 10:00 a.m. Pacific Daylight Time at Tektronix, Inc., Building 38, Beaverton, Oregon 97077-0001.

Exchange Listings
Stock Symbol: TEK
New York Stock Exchange

Transfer Agent and Registrar
ChaseMellon Shareholder
Services, L.L.C.
Shareholder Relations
P.O. Box 3315
South Hackensack, NJ 07606
or
85 Challenger Road
Ridgefield Park, NJ 07660
(800) 411-7025
www.chasemellon.com

TDD for Hearing Impaired:
(800) 231-5469
Foreign Shareholders:
(201) 329-8660
TDD Foreign Shareholders:
(201) 329-8354

Direct Investment Program
(800) 842-7629

Mailing Address
Tektronix, Inc.
P.O. Box 500
14200 S.W. Karl Braun Drive
Beaverton, OR 97077-0001
(503) 627-7111

Internet
www.tektronix.com

Shareholder Information
Shareholders needing information relating to their shareholdings in Tektronix should contact the Company's Transfer Agent and Registrar at the address or telephone number noted above.

Investor Relations
Securities analysts and investors seeking additional information about the Company should contact Investor Relations at the mailing address above or at (503) 627-7727. Company information also is available on our website at www.tektronix.com.

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