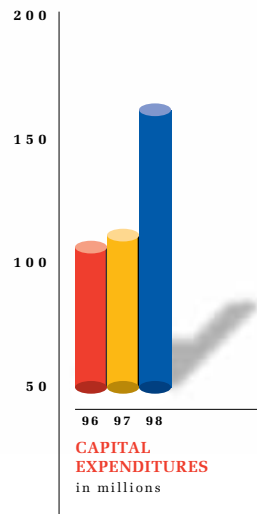
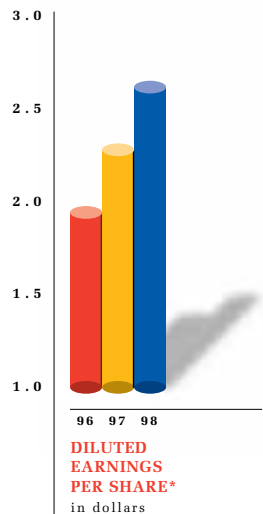
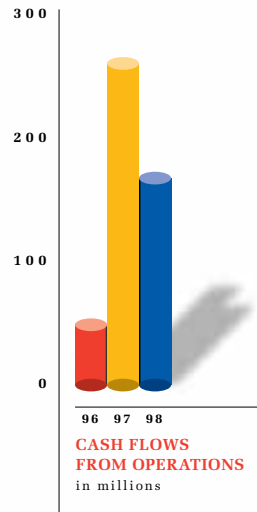
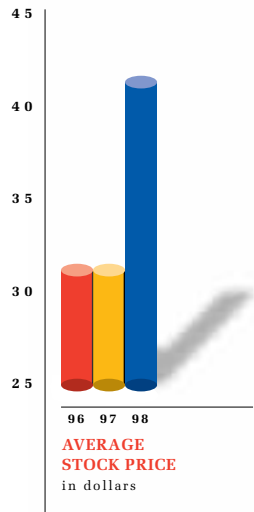
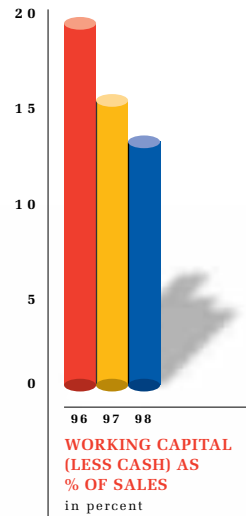
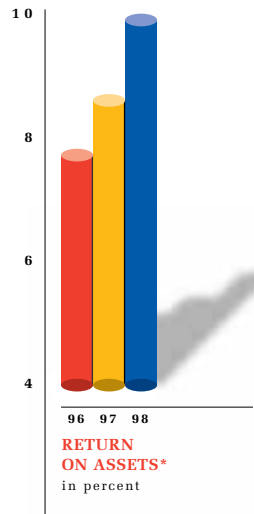


# Financial Performance



\*Amounts for 1998 do not include non-recurring charges of \$79.0 million pre-tax, \$52.9 million net of tax (\$1.05 per basic share, \$1.03 per diluted share). See also the "Management Review" and the "Non-recurring Charges" Note to the Consolidated Financial Statements.

# Management Review

## RESULTS OF OPERATIONS OVERVIEW

Tektronix had record sales and orders for its fiscal year ended May 30, 1998. Net earnings for 1998 were \$82.3 million, or \$1.60 per diluted share. Net earnings in 1997 of \$114.8 million, or \$2.29 per share, increased 15% over fiscal 1996 earnings of \$99.6 million, or \$1.95 per share. Fiscal year 1998 earnings included pre-tax non-recurring charges of \$79.0 million related to the \$60.0 million restructuring of the Video and Networking Division, \$17.0 million of acquired in-process research and development and \$2.0 million of integration costs associated with the acquisition of Siemens' Communications Test Equipment GmbH (CTE). Excluding the non-recurring charges, fiscal year 1998 earnings would have been \$135.2 million, or \$2.63 per share, an increase of 18% over fiscal year 1997 earnings.

## NET SALES AND PRODUCT ORDERS

Net sales in 1998 were \$2.086 billion, an 8% increase over 1997 sales of \$1.940 billion. Growth in the Measurement Business and Color Printing and Imaging Divisions offset the slower sales of the Video and Networking Division as product lines were streamlined. Sales to customers in the United States of \$1.078 billion were 5% above the level for the prior year, and represented 52% of total sales. International sales rose 10%, from \$912.8 million to \$1.008 billion, with strong sales growth in Europe at \$548.8 million, up \$43.5 million or 9% from 1997, and in the Americas at \$114.7 million, up \$36.5 million or 47% from 1997. Sales to the Pacific region, excluding Japan, were up 3% to \$209.0 million in 1998 from \$202.4 million in 1997. Sales to Japan were up 7% to \$135.6 million in 1998.

Net sales in 1997 were 10% higher than they were in 1996. U.S. sales of \$1.027 billion in 1997 were 15% above those of the prior year.

Product orders for 1998 were \$1.912 billion, an increase of 5% over 1997 orders of \$1.829 billion. Orders in 1996 were \$1.658 billion.

The following table summarizes the Company's net sales for the last three years by its three business divisions:

IN THOUSANDS	1998	1997	1996
Measurement Business	\$962,858	\$852,827	\$812,250
Color Printing and Imaging	728,697	638,456	561,642
Video and Networking	394,247	448,799	394,966

Measurement Business sales of \$962.9 million in 1998 represented 46% of total sales and grew 13% from 1997. Growth in 1998 was driven by sales of the TLA 700 logic analyzer and telecommunications test products. Measurement Business sales in 1997 were 5% higher than in 1996 due to the introduction of new logic analyzer products and the TDS 200 oscilloscope during the

second half of the year. Product orders in 1998 were \$860.9 million, compared to \$795.2 million in 1997 and \$754.0 million in 1996.

Color Printing and Imaging sales increased 14%, from sales of \$638.5 million in 1997 to \$728.7 million in 1998. The introduction of three new printers during the year (the Phaser 560, Phaser 380, and Phaser 360) and increased sales of printing supplies drove growth in sales and orders. Color Printing and Imaging sales accounted for 35% of total sales in 1998 compared to 33% in 1997. Sales in 1997 increased 14% over 1996, due to the introduction of the Phaser 350 in that year and continued demand for the Phaser 550. Product orders rose 13% to \$687.3 million in 1998 from \$607.5 million in 1997. Product orders were \$531.1 million in 1996.

Video and Networking sales in 1998 of \$394.2 million were 12% lower than in 1997 due to a reduction in product offerings through the elimination of certain non-profitable product lines as well as general weakness in the broadcast market. In addition, 1997 sales were particularly strong in the netstation business, including two significant installations of networked computers that year. The decline was tempered by continued sales growth of the Profile PDR 200 professional video server. Sales increased 14%, from \$395.0 million in 1996 to \$448.8 million in 1997, due to strength in Profile video disk recorders and networked computers. Product orders were \$363.8 million in 1998, down 15% from orders of \$426.4 million in 1997. Product orders in 1996 were \$372.4 million.

## OPERATING COSTS AND EXPENSES

Gross margin was 41.5% of sales in 1998. Excluding non-recurring charges, gross margin would have been 43.3% of sales, an increase from 42.9% in 1997 due to cost management across all three divisions, streamlining in Video and Networking to focus on profitable products, and cost savings as a result of the restructuring of that business. Non-recurring charges decreased reported gross margin due to \$38.5 million of Video and Networking inventory written off as part of the restructuring of that business. Gross margins increased to 42.9% in 1997, from 41.9% in 1996, due to an improved mix of higher margin supplies sales in Color Printing and Imaging and lower manufacturing costs in Video and Networking.

Research and development expenses were 9.7% of sales in 1998 and 1997 and 9.3% of sales in 1996 at \$203.3 million, \$188.2 million and \$164.3 million, respectively. Selling, general and administrative expenses were \$508.7 million, or 24.4% of sales, in 1998 compared to \$481.1 million, or 24.8% of sales, in 1997 and \$437.9 million, or 24.8% of sales, in 1996.

Operating margin was 5.5% of sales in 1998. Excluding non-recurring charges, operating margins continued an increasing trend, rising to 9.3% in 1998 from 8.5% in 1997 and 8.1% in 1996. Increasing gross margins and continued focus on cost management contributed to the increase in 1998. The improvement in 1997 was due primarily to higher gross margins, partly offset by higher research and development spending and lower equity in business ventures' earnings.

Interest expense decreased 17% to \$10.1 million due to a decrease in both long-term and short-term debt balances in 1998. Interest expense was \$12.1 million in 1997, 13% less than the \$14.0 million in 1996.

Other income was \$17.6 million in 1998 compared with other income of \$15.9 million in 1997 and \$12.9 million in 1996. The improvement primarily reflected higher gains on sales of equity securities in other companies. The Company continues to hold equity positions that it intends to liquidate over time.

The Company's effective tax rate for 1998 was 33%, compared to 32% in 1997 and 30% in 1996.

## FINANCIAL CONDITION

### OVERVIEW

Tektronix continues to focus on improving the efficient management of the capital invested in its business. To monitor that progress, the Company uses the economic value added (EVA) measure. EVA is determined by the Company by deducting taxes and a cost of capital charge from operating income, excluding non-recurring charges, which management believes provides an objective means of determining if the Company's earnings are able to cover the cost of financing its invested capital. Invested capital is the average net assets of the Company excluding cash and debt. The Company generated EVA of \$40.6 million in 1998, compared to \$21.8 million in 1997 and \$11.9 million in 1996. The improvement in 1998 is a result of both the strong earnings for the year, exclusive of non-recurring charges, and continued improvements in invested capital, as average accounts receivable and average inventories both decreased from 1997.

### LIQUIDITY

The Company's financial condition continues to be strong. Cash flows from operating activities and borrowing capacity are expected to be sufficient to fund capital expenditures for fiscal year 1999, currently estimated to be slightly less than 1998 expenditures. Cash provided by operations of \$167.8 million in 1998 was sufficient to fund capital expenditures for increased manufacturing capacity. The Company expects that cash payments required to carry out the remaining restructuring activities will be approximately \$8.0 million. At May 30, 1998, the Company maintained bank credit facilities totaling \$307.6 million, of which \$303.1 million was unused. Unused facilities include \$153.1 million in lines of credit and \$150.0 million under a revolving credit agreement from United States and foreign banks. Additional details, including maturity dates of agreements and certain financial covenants, are included under "Short-term and Long-term Debt" in the Notes to Consolidated Financial Statements.

## BALANCE SHEET

Current assets decreased by \$2.8 million from 1997. Cash decreased \$22.2 million as funds were expended to invest in facilities for continued growth of Color Printing and Imaging and for the acquisition of CTE. Accounts receivable increased by \$40.5 million, due in part to an increase in year over year sales in the fourth quarter. Average days sales outstanding for the year improved from 54.6 days in 1997 to 51.1 days in 1998. Inventories decreased by \$23.7 million as Video and Networking streamlined product offerings allowing for significantly lower inventory requirements. Color Printing and Imaging inventories were down slightly for the year despite increasing sales and orders.

Net property, plant and equipment increased by \$82.0 million due to capital expenditures of \$155.1 million in 1998, primarily related to the expansion of manufacturing capacity for Color Printing and Imaging.

Net deferred tax assets increased \$21.9 million due to timing differences related to restructuring activities and a decline in the deferred tax liability related to unrealized holding gains as securities were sold and market prices on the remaining holdings declined. Other long-term assets declined by \$31.7 million due to the disposition of certain of the Company's available-for-sale securities, offset by the acquisition of identified intangibles.

Current liabilities increased by \$45.7 million primarily due to increases in trade payables, accrued compensation for incentive plans, and accruals related to the remaining restructuring activities.

Shareholders' equity increased by \$13.6 million, or 2%, over 1997. Earnings net of dividends of \$59.1 million was offset by a decrease in unrealized holding gains of \$28.7 million and a decrease in the currency adjustment of \$13.6 million.

## DERIVATIVES AND FOREIGN EXCHANGE

The Company has exposure to interest-rate risk, primarily from its use of short-term and long-term borrowings to finance operations, and to investment risk, primarily from its equity investment portfolio. The Company has not entered into any derivatives to hedge against these interest-rate or investment risks.

The Company is also exposed to exchange-rate risk on transactions and commitments denominated in foreign currencies and uses foreign exchange contracts to mitigate this risk. Changes in foreign exchange rates are not expected to have a significant effect on the Company's financial position, results of operations or cash flows. The Company's policy is to only enter into derivative transactions when the Company has an identifiable exposure to risk, and to only enter into such transactions with creditworthy financial institutions.

#### **FUTURE ACCOUNTING CHANGES**

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 130 establishes requirements for disclosure of comprehensive income and becomes effective for the first quarter ending August 1998. Reclassification of earlier financial statements for comparative purposes is required. SFAS No. 131 establishes standards for disclosure about operating segments in annual financial statements and selected information in interim financial reports. The new disclosures will first be presented in the Company's annual report for the fiscal year ending May 1999. Information presented for earlier years will be restated for comparative purposes. Adoption of these statements may result in additional disclosures but will have no impact on the Company's consolidated financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The new statement will require recognition of all derivatives as either assets or liabilities on the balance sheet at fair value. The new statement is effective for fiscal year 2001, but early adoption is encouraged. Management has not completed an evaluation of the effects this standard will have on the Company's consolidated financial statements.

#### **YEAR 2000**

In connection with the Company's ongoing program to standardize and upgrade its key internal financial, information and operational systems, an assessment has been made of the ability of these systems to operate in, and to process transactions and data involving, the year 2000 and beyond. The Company believes that all key internal systems that are not already year 2000 ready will be modified, upgraded or replaced prior to the year 2000. The Company is currently engaged in assessing the capability of its products to handle the transition to and operate in the year 2000, and has a plan in place to address product issues prior to the year 2000. The Company is working with major suppliers and customers to resolve year 2000 interface issues. Management believes that the cost of these projects over the next two years will not have a material effect on the Company's financial position or overall trends in results of operations. However, because of the existence of numerous systems and related components within the Company and the interdependency of these systems, it is possible that certain systems at the Company, or systems at entities that provide services or goods for the Company, may fail to operate in the year 2000. Although it is not currently anticipated, the inability to complete the Company's year 2000 plans on a timely basis or the failure of a system at the Company or at an entity that provides services or goods to the Company may have a material impact on future operating results or financial condition.

#### **FORWARD LOOKING STATEMENTS**

Statements and information included in the Chairman's letter and Management Review and elsewhere in this report that relate to the Company's goals, strategies and expectations as to future results and events are based on the Company's current expectations. They constitute forward looking statements subject to a number of risk factors that could cause actual results to differ materially from those currently expected or desired. As with many high technology companies, risk factors that could cause the Company's actual results or activities to differ materially from these forward looking statements include, but are not limited to: worldwide economic and business conditions in the electronics industry, including the continuing effect of the Asian economic crisis on demand for the Company's products; competitive factors, including pricing pressures, technological developments and products offered by competitors; changes in product and sales mix, and the related effects on gross margins; the Company's ability to deliver a timely flow of competitive new products, and market acceptance of these products; the availability of parts and supplies from third party suppliers on a timely basis and at reasonable prices; inventory risks due to changes in market demand or the Company's business strategies; changes in effective tax rates; customer demand; currency fluctuations; the fact that a substantial portion of the Company's sales are generated from orders received during the quarter, making prediction of quarterly revenues and earnings difficult; and other risk factors listed from time to time in the Company's Securities and Exchange Commission reports and in press releases.

Additional risk factors specific to the Company's current plans and expectations that could cause the Company's actual results or activities to differ materially from those stated include: the significant operational issues the Company faces in executing its strategy in Video and Networking; the timely introduction of new products scheduled during the Company's fiscal year, which could be affected by engineering or other development program slippages, the ability to ramp up production or to develop effective sales channels; the customers' acceptance of, and demand for, those products; and changes in the regulatory environment affecting the transition to high-definition television within the time frame anticipated by the Company.

Forward looking statements in this report speak only as of the date made. The Company undertakes no obligation to publicly release the result of any revisions to these forward looking statements which may be made to reflect subsequent events or circumstances or to reflect the occurrence of unanticipated events.

## 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 generally accepted accounting principles 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, composed entirely of

outside directors, 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 free access to the Audit Committee, with and without management representatives in attendance.



**MERRILL A. MCPEAK**  
Chairman, Audit Committee



**CARL W. NEUN**  
Senior Vice President and  
Chief Financial Officer

## Independent Auditors' Report

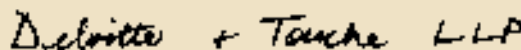
### **TO THE DIRECTORS AND SHAREHOLDERS OF TEKTRONIX, INC.:**

We have audited the accompanying consolidated balance sheets of Tektronix, Inc. and subsidiaries as of May 30, 1998 and May 31, 1997, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years ended May 30, 1998, May 31, 1997, and May 25, 1996. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also

includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Tektronix, Inc. and subsidiaries at May 30, 1998 and May 31, 1997, and the results of their operations and their cash flows for the years ended May 30, 1998, May 31, 1997, and May 25, 1996, in conformity with generally accepted accounting principles.



Portland, Oregon  
June 24, 1998

# Consolidated Statements of Operations

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS  
FOR THE YEARS ENDED

	MAY 30, 1998	MAY 31, 1997	MAY 25, 1996
Net sales	\$2,085,802	\$1,940,082	\$1,768,858
Cost of sales	1,220,475	1,107,355	1,028,331
Gross profit	865,327	832,727	740,527
Research and development expenses	203,312	188,192	164,292
Selling, general and administrative expenses	508,749	481,083	437,949
Equity in business ventures' earnings	2,513	1,556	5,081
Non-recurring charges	40,478	—	—
Operating income	115,301	165,008	143,367
Interest expense	10,076	12,111	13,985
Other income – net	17,589	15,905	12,884
Earnings before taxes	122,814	168,802	142,266
Income taxes	40,529	54,017	42,680
Net earnings	\$ 82,285	\$ 114,785	\$ 99,586
Basic earnings per share	\$ 1.63	\$ 2.32	\$ 2.00
Diluted earnings per share	1.60	2.29	1.95
Dividends per share	0.46	0.40	0.40
Average shares outstanding – basic	50,438	49,513	49,795
Average shares outstanding – diluted	51,320	50,236	50,986

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

# Consolidated Balance Sheets

IN THOUSANDS

MAY 30, 1998      MAY 31, 1997

## ASSETS

Current assets:		
Cash and cash equivalents	\$ 120,541	\$ 142,726
Accounts receivable – net	346,342	305,832
Inventories	214,347	238,040
Other current assets	67,432	64,913
Total current assets	748,662	751,511
Property, plant and equipment – net	425,153	343,130
Deferred tax assets	25,102	12,540
Other long-term assets	177,893	209,560
Total assets	<u>\$1,376,810</u>	<u>\$1,316,741</u>

## LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Short-term debt	\$ 5,442	\$ 6,155
Accounts payable	209,411	181,366
Accrued compensation	119,842	90,946
Deferred revenue	15,102	25,622
Total current liabilities	349,797	304,089
Long-term debt	150,681	151,579
Other long-term liabilities	91,391	89,790
Commitments and contingencies	–	–
Shareholders' equity:		
Preferred stock, no par value (authorized 1,000 shares; none issued)	–	–
Common stock, no par value (authorized 80,000 shares; issued and outstanding 50,345 in 1998, and 50,104 in 1997)	223,527	226,591
Retained earnings	532,679	473,582
Currency adjustment	20,813	34,447
Unrealized holding gains – net	7,922	36,663
Total shareholders' equity	784,941	771,283
Total liabilities and shareholders' equity	<u>\$1,376,810</u>	<u>\$1,316,741</u>

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

# Consolidated Statements of Cash Flows

IN THOUSANDS  
FOR THE YEARS ENDED

	MAY 30, 1998	MAY 31, 1997	MAY 25, 1996
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net earnings	\$ 82,285	\$ 114,785	\$ 99,586
Adjustments to reconcile net earnings to cash provided by operating activities:			
Depreciation expense	65,939	59,591	47,137
Inventory write-down related to restructuring	38,482	—	—
Non-recurring charges	40,478	—	—
Deferred taxes	(5,400)	14,425	26,041
Gain on sale of investments	(28,244)	(27,678)	(20,197)
Changes in operating assets and liabilities:			
Accounts receivable	(35,640)	66,403	(66,647)
Inventories	(4,856)	26,754	(19,681)
Other current assets	(5,119)	22,213	864
Accounts payable	21,027	(179)	1,037
Accrued compensation	4,087	(28,580)	14,026
Other liabilities	3,047	5,672	(33,622)
Other – net	(8,326)	8,923	661
Net cash provided by operating activities	167,760	262,329	49,205
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment	(155,066)	(112,005)	(106,708)
Acquisition of business	(46,600)	—	—
Proceeds from sale of fixed assets	5,819	9,073	19,776
Proceeds from sale of investments	37,003	33,848	23,263
Net cash used by investing activities	(158,844)	(69,084)	(63,669)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net change in short-term debt	(517)	(38,451)	7,339
Issuance of long-term debt	172	358	50,000
Repayment of long-term debt	(1,023)	(50,609)	(3,020)
Issuance of common stock	35,358	26,018	18,104
Repurchase of common stock	(38,422)	(3,797)	(29,985)
Dividends	(23,188)	(19,809)	(19,944)
Net cash provided (used) by financing activities	(27,620)	(86,290)	22,494
Effect of exchange rate changes	(3,481)	(873)	(3,147)
Increase (decrease) in cash and cash equivalents	(22,185)	106,082	4,883
Cash and cash equivalents at beginning of year	142,726	36,644	31,761
Cash and cash equivalents at end of year	\$ 120,541	\$ 142,726	\$ 36,644
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS</b>			
Income taxes paid	\$ 19,981	\$ 13,663	\$ 18,669
Interest paid	12,571	14,633	16,594

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		RETAINED EARNINGS	CURRENCY ADJUSTMENT	UNREALIZED HOLDING GAINS - NET	TOTAL
	SHARES	AMOUNT				
<b>BALANCE MAY 27, 1995</b>	49,624	\$ 216,251	\$ 298,964	\$ 76,948	\$ 12,052	\$ 604,215
Shares issued to employees	667	18,104				18,104
Shares repurchased	(1,260)	(29,985)				(29,985)
Net earnings			99,586			99,586
Dividends - \$0.40 per share			(19,944)			(19,944)
Currency adjustment				(24,879)		(24,879)
Unrealized holding gains - net					28,225	28,225
<b>BALANCE MAY 25, 1996</b>	49,031	204,370	378,606	52,069	40,277	675,322
Shares issued to employees	1,173	26,018				26,018
Shares repurchased	(100)	(3,797)				(3,797)
Net earnings			114,785			114,785
Dividends - \$0.40 per share			(19,809)			(19,809)
Currency adjustment				(17,622)		(17,622)
Unrealized holding gains - net					(3,614)	(3,614)
<b>BALANCE MAY 31, 1997</b>	50,104	226,591	473,582	34,447	36,663	771,283
Shares issued to employees	1,151	35,358				35,358
Shares repurchased	(910)	(38,422)				(38,422)
Net earnings			82,285			82,285
Dividends - \$0.46 per share			(23,188)			(23,188)
Currency adjustment				(13,634)		(13,634)
Unrealized holding gains - net					(28,741)	(28,741)
<b>BALANCE MAY 30, 1998</b>	50,345	\$ 223,527	\$ 532,679	\$ 20,813	\$ 7,922	\$ 784,941

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") is a global high-technology company based on a portfolio of measurement, color printing, and video and networking businesses. Headquartered in Wilsonville, Oregon, Tektronix employs more than 8,600 people and maintains operations in 25 countries outside the United States. Tektronix was founded in 1946.

### 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 on the equity basis. Significant intercompany transactions and balances have been eliminated. Certain items have been reclassified to conform with the current year's presentation with no effect on previously reported earnings.

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

### EARNINGS PER SHARE

Basic earnings per share is based on the average number of common shares outstanding during each period. Diluted earnings per share reflects the potential shares issuable upon assumed exercise of outstanding stock options based on the treasury stock method. All share, per share and option amounts have been restated to give effect to the three-for-two stock split effective October 31, 1997.

### FISCAL YEAR

The Company's fiscal year is the 52 or 53 weeks ending the last Saturday in May. Fiscal years 1998 and 1996 were 52 weeks; fiscal year 1997 was 53 weeks.

### 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 year. Gains and losses resulting from the translation of net assets are reported as a separate component of shareholders' equity. Gains and losses from foreign currency transactions are included in net earnings.

## DERIVATIVES

Gains and losses on foreign exchange contracts used to hedge existing assets and liabilities are recognized in income in the period in which the related hedged transaction occurs. Gains and losses related to hedges of firm commitments are deferred and included in the basis of the hedged transaction when it is completed.

## CASH AND CASH EQUIVALENTS

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

## ACCOUNTS RECEIVABLE

Accounts receivable have been reduced by an allowance for doubtful accounts, which was \$4.8 million in 1998 and \$3.1 million in 1997. The charges to this reserve have not been material.

On September 10, 1996, the Company entered into a five-year revolving receivable 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 \$50.0 million sold under this agreement were reflected as operating cash flows in the Statements of Cash Flows for the year ended May 31, 1997.

## INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out (FIFO) basis.

IN THOUSANDS	1998	1997
Materials and work in process	\$ 76,289	\$134,743
Finished goods	138,058	103,297
Inventories	<u>\$214,347</u>	<u>\$238,040</u>

## 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.

IN THOUSANDS	1998	1997
Land	\$ 5,932	\$ 6,096
Buildings	217,036	199,396
Machinery and equipment	594,677	493,791
	<u>817,645</u>	<u>699,283</u>
Accumulated depreciation and amortization	<u>(392,492)</u>	<u>(356,153)</u>
Property, plant and equipment – net	<u>\$ 425,153</u>	<u>\$ 343,130</u>

## INVESTMENTS

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 unrealized holding gains and losses are excluded from earnings and reported, net of deferred income taxes, as a separate component of shareholders' equity.

## INTANGIBLE ASSETS

Intangible assets are included as other long-term assets at cost. Amortization is provided on a straight-line basis over periods generally not exceeding fifteen years. Long-lived assets and intangibles are reviewed for impairment when events or circumstances indicate costs may not be recoverable. If impairment exists, the asset's book value will be written down to its fair value.

## INCOME TAXES

Deferred income taxes, reflecting the impact of temporary differences between the assets and liabilities recognized for financial reporting purposes and amounts recognized for 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.

## ENVIRONMENTAL COSTS

The Company accrues environmental costs when it is probable that the Company has incurred a liability and the amount can be reasonably estimated.

## FUTURE ACCOUNTING CHANGES

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 130 establishes requirements for disclosure of comprehensive income and becomes effective for the first quarter ending August 1998. Reclassification of earlier financial statements for comparative purposes is required. SFAS No. 131 establishes standards for disclosure about operating segments in annual financial statements and selected information in interim financial reports. The new disclosures will first be presented in the Company's annual report for the fiscal year ending May 1999. Information presented for earlier years will be restated for comparative purposes. Adoption of these statements may result in additional disclosures but will have no impact on the Company's consolidated financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The new statement will require recognition of all derivatives as either assets or liabilities on the balance sheet at fair value. The new statement becomes effective in fiscal year 2001, but early adoption is encouraged. Management has not completed an evaluation of the effects this standard will have on the Company's consolidated financial statements.

## RESTRUCTURING

In the second quarter of 1998, the Company announced and began to implement a restructuring plan designed to return the Video and Networking business to profitability. A pre-tax provision of \$60.0 million was recorded to account for these actions, which included streamlining its product offerings and reducing the unit's cost structure to increase operational efficiency. The plan has resulted in the separation of certain employees worldwide and the exiting of certain facilities and product lines at an expected total cost of \$21.5 million. These costs are included in non-recurring charges for the year ended May 30, 1998 in the Consolidated Statements of Operations. In addition, the decision to streamline product offerings required a \$38.5 million write-down of inventories, which is included in cost of sales for the year ended May 30, 1998 in the Consolidated Statements of Operations.

## ACQUISITION

On September 30, 1997, the Company acquired Siemens' Communications Test Equipment GmbH (CTE), a wholly owned subsidiary of Siemens AG based in Berlin, Germany, for \$46.6 million in cash, including direct acquisition costs. The transaction was accounted for by the purchase method of accounting, and accordingly, the results of operations of CTE have been included in the Company's financial statements since the date 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. The purchase price was allocated as follows:

IN THOUSANDS	1998
Fair value of identified net assets acquired	\$ 6,600
Acquired in-process research and development	17,000
Identified intangibles	23,000
Total purchase price	<u>\$46,600</u>

Acquired in-process research and development of \$17.0 million was expensed in the second quarter of the current year (see Non-recurring Charges below).

The identified intangibles include \$18.0 million of completed technology and \$5.0 million of workforce-in-place and are being amortized on a straight-line basis over 15 years.

## NON-RECURRING CHARGES

IN THOUSANDS	1998
Restructuring of the Video and Networking Division	\$ 59,960
In-process research and development acquired in the purchase of CTE	17,000
Integration costs associated with the purchase of CTE	2,000
Total non-recurring charges	<u>78,960</u>
Inventory write-down included in cost of sales	<u>(38,482)</u>
Non-recurring charges	<u>\$ 40,478</u>

## BUSINESS SEGMENTS

The Company and its affiliates operate predominately in a single industry segment: the design, manufacture, sale and service of electronic measurement, design and display instruments and systems used in science, industry and education. Geographically, the Company operates primarily in the industrialized world. Net sales, earnings before taxes and total assets in the United States, Europe and other geographical areas were:

IN THOUSANDS	1998	1997	1996
Net sales:			
United States sales			
to customers	\$1,077,649	\$1,027,294	\$ 890,930
United States export			
sales to customers	263,717	258,984	271,446
United States transfers			
to affiliates	989,211	824,520	720,969
United States sales	2,330,577	2,110,798	1,883,345
European sales			
to customers	536,817	483,949	470,840
European transfers			
to affiliates	25,216	5,006	3,183
European sales	562,033	488,955	474,023
Other area sales			
to customers	207,619	169,855	135,642
Other area transfers			
to affiliates	29,641	22,975	23,815
Other area sales	237,260	192,830	159,457
Eliminations	(1,044,068)	(852,501)	(747,967)
Net sales	\$2,085,802	\$1,940,082	\$1,768,858
Earnings before taxes:			
United States	\$ 139,647	\$ 178,930	\$ 124,618
Europe	24,820	33,093	25,867
Other areas	5,022	(8,555)	8,174
Corporate and			
eliminations	(46,675)	(34,666)	(16,393)
Earnings			
before taxes	\$ 122,814	\$ 168,802	\$ 142,266
Total assets:			
United States	\$1,034,256	\$ 991,928	\$ 988,578
Europe	232,196	181,757	198,220
Other areas	87,445	89,663	69,883
Corporate and			
eliminations	22,913	53,393	71,815
Total assets	\$1,376,810	\$1,316,741	\$1,328,496

Transfers of products and services are made at arms-length prices between geographic areas. The profit on transfers between geographic areas is not recognized until sales are made to unaffiliated customers. Area earnings before taxes include all directly incurred and allocable costs, except identified corporate expenses. Assets are those that are specifically associated with the operations of each geographical area.

## OTHER LONG-TERM ASSETS

IN THOUSANDS	1998	1997
Investment in business ventures	\$ 76,226	\$ 85,696
Licensing agreements and		
other intangibles – net	62,610	37,151
Investment in marketable		
equity securities	19,450	66,709
Property held for sale	11,366	13,939
Other	8,241	6,065
Other long-term assets	\$177,893	\$209,560

Investment in business ventures includes a 50% investment in a business venture in Japan and a 27% interest in Merix Corporation.

The Company's share of the assets, liabilities, net sales and net earnings of the business venture in Japan, as well as the Company's sales to, purchases from, and accounts receivable consisted of:

IN THOUSANDS	1998	1997	1996
Current assets	\$ 60,236	\$ 55,322	\$ 74,946
Property, plant and			
equipment – net	18,632	19,913	23,371
Other long-term assets	6,482	12,129	12,743
Current liabilities	20,562	18,511	32,775
Other long-term			
liabilities	9,162	8,988	9,323
Net sales	\$135,704	\$152,054	\$147,860
Gross profit	34,436	40,742	44,756
Operating income	849	3,068	113
Earnings before taxes	3,584	2,792	53
Net earnings (loss)	1,277	1,184	(306)
Sales to	\$117,173	\$112,770	\$114,307
Purchases from	17,810	19,596	13,650
Accounts receivable	12,354	9,866	9,524

At May 30, 1998, the carrying value of the Company's investment in Merix was \$17.6 million, with a fair value, based upon quoted market price, of \$19.7 million. The Company's portion of the undistributed earnings of the business ventures was \$20.7 million in 1998 and \$20.2 million in 1997.

Proceeds from the sales of marketable equity securities in 1998, 1997 and 1996 were \$37.0 million, \$33.8 million and \$23.3 million, respectively. Realized gains were computed based on the average cost of the underlying securities and are disclosed in the "Other Income – Net" note. At the end of 1998, 1997 and 1996, unrealized holding gains of \$12.9 million, \$58.8 million and \$67.2 million (less deferred taxes of \$5.0 million, \$22.1 million and \$26.9 million), respectively, were included as a separate component of shareholders' equity.

Licensing agreements and other intangibles have been reduced by accumulated amortization of \$25.3 million at fiscal year-end 1998 and \$17.5 million at fiscal year-end 1997.

Property held for sale is stated at the lower of cost or estimated fair value less costs to sell and includes certain properties no longer used in the Company's operations.

## SHORT-TERM AND LONG-TERM DEBT

The Company's short-term debt consisted of:

IN THOUSANDS	1998	1997
Lines of credit	\$ 4,466	\$ 4,486
Current maturities of long-term debt	976	1,669
Short-term debt	<u>\$ 5,442</u>	<u>\$ 6,155</u>

The Company has a \$150.0 million revolving credit agreement with Morgan Guaranty Trust Company of New York, as agent, that matures in July 2001. The Company has 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. At May 30, 1998, the Company maintained bank credit facilities of \$307.6 million, of which \$303.1 million was unused. Unused facilities include \$153.1 million in lines of credit and \$150.0 million under the revolving credit agreement. A \$20.0 million line of credit expires in October 1998 with all remaining lines providing no specific expiration date.

The Company's long-term debt consisted of:

IN THOUSANDS	1998	1997
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	1,657	3,248
Long-term instruments	151,657	153,248
Current maturities	(976)	(1,669)
Long-term debt	<u>\$150,681</u>	<u>\$151,579</u>

Certain of the Company's debt agreements require the maintenance of specified interest rate coverage ratios and a minimum consolidated tangible net worth. At May 30, 1998, the Company had unrestricted retained earnings of \$156.9 million after meeting those requirements.

Aggregate long-term debt payments will be \$1.0 million in 1999, \$0.6 million in 2000, \$0.1 million in 2001, none in 2002 and \$50.0 million in 2003.

## OTHER LONG-TERM LIABILITIES

IN THOUSANDS	1998	1997
Accrued postretirement benefits	\$ 37,082	\$ 41,778
Accrued pension	35,004	30,019
Other	19,305	17,993
Other long-term liabilities	<u>\$ 91,391</u>	<u>\$ 89,790</u>

## OTHER INCOME - NET

IN THOUSANDS	1998	1997	1996
Gain on sale of marketable equity securities	\$28,244	\$ 27,678	\$ 20,197
Loss on disposition of fixed assets	(2,441)	(5,031)	(1,844)
Other	(8,214)	(6,742)	(5,469)
Other income - net	<u>\$17,589</u>	<u>\$ 15,905</u>	<u>\$ 12,884</u>

## 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 \$28.8 million in 1998, \$27.4 million in 1997, and \$25.3 million in 1996. In addition, the Company has 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 noncancelable term in excess of one year as of May 30, 1998 were:

IN THOUSANDS	OPERATING LEASES	COMMITMENTS
1999	\$ 20,032	\$ 16,121
2000	14,902	9,262
2001	10,300	4,232
2002	7,208	334
2003	5,439	-
Future years	15,068	-
Total	<u>\$ 72,949</u>	<u>\$ 29,949</u>

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. Although 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, the Company believes that disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

## SHAREHOLDERS' EQUITY STOCK OPTION AND INCENTIVE COMPENSATION PLANS

The Company has stock option plans for selected employees. There were 4,974,000 shares reserved for issuance under these plans at May 30, 1998. Under the terms of the plans, incentive stock options are granted at an option price not less than the market value at the date of grant. Nonqualified stock options may not be granted at less than 100% of the market value on the valuation date selected by the Board of Directors. Options granted prior to January 1, 1997, generally vest over four years and expire ten years from the date of grant. Most options granted after January 1, 1997, vest over two years and expire five years from the date of grant. There were 1,172 employees holding options at May 30, 1998.

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 27, 1995	3,539	\$17	1,302	\$14
Granted	1,470	30		
Exercised	(752)	15		
Canceled	(285)	23		
May 25, 1996	3,972	\$23	1,484	\$17
Granted	1,088	32		
Exercised	(975)	17		
Canceled	(212)	27		
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

The following table summarizes information about options outstanding and exercisable at May 30, 1998:

RANGE OF EXERCISE PRICES	OUTSTANDING		EXERCISABLE		
	NUMBER OF SHARES IN THOUSANDS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES IN THOUSANDS	WEIGHTED AVERAGE EXERCISE PRICE
\$ 9-24	876	5.6 years	\$20	716	\$19
25-30	821	7.7 years	29	316	28
31-36	707	4.4 years	34	393	34
37-40	280	4.2 years	40	76	40
41-47	840	4.6 years	40	8	43
	3,524	5.5 years	\$31	1,509	\$26

The Company accounts for stock options according to APB Opinion No. 25, "Accounting for Stock Issued to Employees." Under APB No. 25, no compensation expense is recognized in the Company's consolidated financial statements for 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 1998, 1997 and 1996 was \$12, \$11 and \$10 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 1998, 1997 and 1996 was \$41, \$31 and \$25 per share, respectively. The total shares granted under these plans and the compensation cost recognized in income were 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:

	1998	1997	1996
Pro forma net earnings (in thousands)	\$74,520	\$109,240	\$97,015
Pro forma earnings per share –			
basic	\$ 1.48	\$ 2.21	\$ 1.95
diluted	1.45	2.17	1.90

The fair value of each option was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	1998	1997	1996
Expected life (in years)	3.0	5.0	5.0
Risk-free interest rate	5.8%	6.3%	5.7%
Volatility	40.0%	35.2%	33.9%
Dividend yield	1.2%	1.3%	1.4%

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 will not be fully reflected until 1999.

#### SHAREHOLDER RIGHTS AGREEMENT

In August 1990, the Company's Board of Directors 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 \$60, 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 PLANS

The Company has defined benefit retirement plans covering most employees. The U.S. pension plan was amended in 1998, converting it from a final average pay plan to a cash balance plan. Under the new plan, an initial account was established for all participants who were active employees as of December 31, 1997. Beginning January 1, 1998, a specified percentage of eligible compensation will be credited to each participant's account. In addition, each participant's account will earn interest credits, based on the one-year Treasury Bill rate plus 0.5%. Upon separation from Tektronix, participating employees may choose to have their account balances paid to them in the form of a lump sum amount or as an annuity. As a result of this plan amendment, the pension benefit obligation was reduced by \$38.9 million, which is being amortized as a reduction in pension expense over the average remaining service period of the active participants in the plan.

For 1998, the Company increased the expected long-term rate of return assumption to reflect historical rates of return on plan assets. As a result of this change, pension expense in 1998 was reduced by \$3.8 million. The retirement rate assumption was also revised to reflect actual demographic experience. As a result of this change, the pension benefit obligation as of May 30, 1998, was increased by \$5.5 million. Finally, 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 to increase the pension benefit obligation by \$63.9 million.

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	
	1998	1997	1998	1997
<b>CHANGE IN BENEFIT OBLIGATION</b>				
Beginning balance	\$495,945	\$512,270	\$15,070	\$16,952
Service cost	14,161	11,897	188	177
Interest cost	37,829	37,430	1,145	1,244
Actuarial (gain) loss	68,544	(35,106)	1,252	(1,209)
Plan amendments	(38,882)	(3,527)	—	—
CTE acquisition	2,732	—	—	—
Benefit payments	(25,036)	(22,934)	(1,711)	(2,094)
Other adjustments	(1,565)	(4,085)	—	—
Ending balance	<u>553,728</u>	<u>495,945</u>	<u>15,944</u>	<u>15,070</u>
<b>CHANGE IN FAIR VALUE OF PLAN ASSETS</b>				
Beginning balance	474,222	402,715	—	—
Actual return	86,512	55,611	—	—
Employer contributions	4,379	41,437	—	—
Benefit payments	(25,036)	(22,934)	—	—
Other adjustments	(1,349)	(2,607)	—	—
Ending balance	<u>538,728</u>	<u>474,222</u>	<u>—</u>	<u>—</u>
Net unfunded status of the plan	15,000	21,723	15,944	15,070
Unrecognized initial net asset (obligation)	(124)	1,735	—	—
Unrecognized prior service cost	46,320	9,834	16,026	18,697
Unrecognized net gain (loss)	(37,414)	(8,141)	9,112	11,110
Net liability recognized	<u>\$ 23,782</u>	<u>\$ 25,151</u>	<u>\$41,082</u>	<u>\$44,877</u>

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 \$18.7 million, \$17.2 million and zero, respectively, for 1998, and \$15.2 million, \$13.1 million and zero, respectively, for 1997.

Assumptions used in the accounting for the Company's pension and postretirement benefit plans were:

ASSUMPTIONS ON A WEIGHTED AVERAGE BASIS	1998	1997	1996
<b>PENSION BENEFITS</b>			
Discount rate	7.0%	7.8%	7.6%
Rate of compensation increase	3.7%	3.8%	3.8%
Expected return on plan assets	10.9%	10.2%	9.3%
<b>POSTRETIREMENT BENEFITS</b>			
Discount rate	7.3%	8.0%	7.8%
Rate of compensation increase	3.8%	3.8%	3.8%

Effective July 1, 1998, the Company replaced its self-funded indemnity health plan for retirees with an insured indemnity plan. Accordingly, the assumed health care cost trend rates used to measure the expected cost of benefits were adjusted to reflect the terms of the new plan. As a result, the annual rate of change in the cost of health care benefits for 1999 under the new indemnity plan was assumed to be a decrease of 14.3% for participants under the age of 65 and an increase of 4.7% for participants age 65 and over. These rates were assumed to increase to 13.5% and 16.0%, respectively, for 2000 and 2001, and then were assumed to decrease gradually until they reach an ultimate rate of 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 9.8% for 1999, decreasing gradually to a rate of 5.3% in 2004 and remaining at that level thereafter. A 1% change in these assumptions would not have a material effect on either the postretirement benefit obligation at May 30, 1998, or the benefit credit reported for 1998.

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

IN THOUSANDS	1998	1997	1996
<b>PENSION BENEFITS</b>			
Service cost	\$ 14,161	\$ 12,084	\$ 9,469
Interest cost	37,829	37,627	37,414
Expected return on plan assets	(48,634)	(39,335)	(33,574)
Amortization of transition asset	(2,059)	(1,858)	(1,835)
Amortization of prior service cost	(2,209)	(740)	(780)
Recognized net loss	1,792	2,655	999
Other benefit plans	1,992	1,327	1,454
Net benefit cost	<u>\$ 2,872</u>	<u>\$ 11,760</u>	<u>\$ 13,147</u>
<b>POSTRETIREMENT BENEFITS</b>			
Service cost	\$ 188	\$ 177	\$ 168
Interest cost	1,145	1,244	1,359
Amortization of prior service cost	(2,671)	(2,671)	(2,671)
Recognized net gain	(747)	(631)	(714)
Net benefit credit	<u>\$ (2,085)</u>	<u>\$ (1,881)</u>	<u>\$ (1,858)</u>

## 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 \$16.4 million in 1998, \$14.2 million in 1997, and \$12.1 million in 1996.

## DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes derivative financial instruments to reduce the impact of foreign exchange risks where internal netting strategies cannot be effectively employed. The Company does not hold or issue derivative financial instruments for trading purposes. The Company's derivative activities do not create 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.

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 amounts exchanged are calculated on the basis of the notional amounts and other terms of the instruments. The Company is exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments. However, the Company has entered into these instruments with creditworthy financial institutions and considers the risk of nonperformance to be remote.

## FOREIGN EXCHANGE RISK MANAGEMENT

The Company uses foreign exchange contracts to hedge its exchange rate risks. At the end of 1998 and 1997, the notional amounts of the Company's outstanding contracts were \$127.4 million and \$113.6 million, respectively. Generally, these contracts have maturities that do not exceed one year and require the Company to exchange foreign currencies for U.S. dollars at maturity. 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. The deferred gains or losses attributable to foreign exchange contracts are not material.



## 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 30, 1998, and May 31, 1997, were not material.

## 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. At May 30, 1998, the Company had no significant concentrations of credit risk.

## INCOME TAXES

The components of earnings before taxes on a geographical basis are contained in the "Business Segments" note. The provision for income taxes consisted of:

IN THOUSANDS	1998	1997	1996
Current:			
Federal	\$30,979	\$ 21,457	\$ 9,104
State	5,060	3,742	1,961
Non-U.S.	10,826	7,854	10,789
	<u>46,865</u>	<u>33,053</u>	<u>21,854</u>
Deferred:			
Federal	(180)	15,921	16,363
State	(460)	2,015	3,338
Non-U.S.	(5,696)	3,028	1,125
	<u>(6,336)</u>	<u>20,964</u>	<u>20,826</u>
Total provision	<u>\$40,529</u>	<u>\$ 54,017</u>	<u>\$ 42,680</u>

The provisions 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	1998	1997	1996
Income taxes based on			
U.S. statutory rate	\$42,985	\$ 59,081	\$ 49,793
Foreign sales corporations	(6,391)	(5,935)	(4,565)
Change in beginning of			
year valuation allowance	(505)	(3,824)	(5,526)
State income taxes,			
net of U.S. tax	2,990	3,742	3,445
Other – net	1,450	953	(467)
Total provision	<u>\$40,529</u>	<u>\$ 54,017</u>	<u>\$ 42,680</u>

Tax benefits of \$7.8 million, \$5.6 million and \$5.0 million associated with the exercise of employee stock options were credited to common stock in 1998, 1997 and 1996, respectively.

Net deferred tax assets and liabilities are included in the following consolidated balance sheet accounts:

IN THOUSANDS	1998	1997
Other current assets	\$ 52,434	\$ 43,106
Deferred tax assets	25,102	12,540
Net deferred tax assets	<u>\$ 77,536</u>	<u>\$ 55,646</u>

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

IN THOUSANDS	1998	1997
Deferred tax assets:		
Reserves and other liabilities	\$ 43,179	\$ 41,858
Accrued postretirement benefits	16,022	17,502
Accumulated depreciation	9,162	9,918
Intangibles	8,271	–
AMT and foreign tax credit carryforwards	8,243	14,088
Restructuring costs and separation programs	7,463	–
Accrued pension liability	6,632	6,289
Net operating losses of non-U.S. subsidiaries	<u>5,324</u>	<u>10,432</u>
Gross deferred tax assets	104,296	100,087
Less valuation allowance	<u>(2,600)</u>	<u>(3,105)</u>
Deferred tax assets	<u>101,696</u>	<u>96,982</u>
Deferred tax liabilities:		
Software development costs	(19,167)	(17,464)
Unrealized gains on marketable equity securities	(4,993)	(22,092)
Unamortized LIFO reserve	–	(1,780)
Deferred tax liabilities	<u>(24,160)</u>	<u>(41,336)</u>
Net deferred tax assets	<u>\$ 77,536</u>	<u>\$ 55,646</u>

At May 30, 1998, there were no unused foreign tax credit carryovers. There were \$8.2 million of alternative minimum tax (AMT) credits that can be carried forward indefinitely.

**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. 30, 1997	NOV. 29, 1997	FEB. 28, 1998	MAY 30, 1998
Net sales	\$481,274	\$529,046	\$517,570	\$557,912
Gross profit	201,273	191,995	224,854	247,205
Operating income (loss)	38,317	(32,932)	48,599	61,317
Earnings (loss) before taxes	39,874	(31,667)	51,106	63,501
Net earnings (loss)	26,716	(21,217)	34,241	42,545
Basic earnings (loss) per share	\$ 0.53	\$ (0.42)	\$ 0.68	\$ 0.84
Diluted earnings (loss) per share	0.52	(0.42)	0.67	0.83
Average shares outstanding –				
basic	50,303	50,546	50,483	50,452
diluted	51,442	50,546	51,408	51,413
Dividends per share	\$ 0.10	\$ 0.12	\$ 0.12	\$ 0.12
Common stock prices:				
High	\$ 43.50	\$ 46.42	\$ 46.25	\$ 48.19
Low	36.42	37.08	35.56	36.06

QUARTER ENDED	AUG. 31, 1996	NOV. 30, 1996	MAR. 1, 1997	MAY 31, 1997
Net sales	\$440,115	\$477,166	\$478,886	\$543,915
Gross profit	191,272	199,762	205,233	236,460
Operating income	32,874	38,452	41,255	52,427
Earnings before taxes	33,405	38,905	42,297	54,195
Net earnings	22,715	26,456	28,762	36,852
Basic earnings per share	\$ 0.46	\$ 0.54	\$ 0.58	\$ 0.74
Diluted earnings per share	0.45	0.53	0.57	0.72
Average shares outstanding –				
basic	49,149	49,287	49,616	49,973
diluted	49,888	50,125	50,409	51,006
Dividends per share	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10
Common stock prices:				
High	\$ 29.92	\$ 32.67	\$ 34.83	\$ 39.83
Low	23.92	24.67	31.59	32.25

The Company's common stock is traded on the New York and Pacific Stock Exchanges. There were 3,880 shareholders of record at June 24, 1998. The market prices quoted above are the composite prices reported by The Wall Street Journal rounded to full cents per share.

Dividends are paid at the discretion of the Board of Directors dependent upon their judgment of the Company's future earnings, expenditures and financial condition.

All share and per share amounts have been restated to give effect to the three-for-two stock split effective October 31, 1997.

## Selected Financial Data

AMOUNTS ARE IN MILLIONS, EXCEPT PER SHARE  
AND EMPLOYEES. RETURNS ARE BASED  
ON AVERAGE NET ASSETS.

### CONSOLIDATED FINANCIAL PERFORMANCE

	1998	1997	1996	1995	1994
Net sales	\$ 2,085.8	\$ 1,940.1	\$ 1,768.9	\$ 1,498.0	\$ 1,342.5
Gross margin	41.5%	42.9%	41.9%	45.3%	46.1%
Excluding non-recurring charges <sup>(1)</sup>	43.3%	42.9%	41.9%	45.3%	46.1%
Research and development expenses	9.7%	9.7%	9.3%	11.1%	11.9%
Selling, general and administrative expenses	24.4%	24.8%	24.8%	26.7%	27.6%
Operating margin	5.5%	8.5%	8.1%	7.7%	6.5%
Excluding non-recurring charges <sup>(1)</sup>	9.3%	8.5%	8.1%	7.7%	6.5%
Pretax margin	5.9%	8.7%	8.0%	7.4%	6.5%
Excluding non-recurring charges <sup>(1)</sup>	9.7%	8.7%	8.0%	7.4%	6.5%
Earnings margin	3.9%	5.9%	5.6%	5.4%	4.6%
Excluding non-recurring charges <sup>(1)</sup>	6.5%	5.9%	5.6%	5.4%	4.6%
Net earnings	\$ 82.3	\$ 114.8	\$ 99.6	\$ 81.6	\$ 61.5
Excluding non-recurring charges <sup>(1)</sup>	\$ 135.2	\$ 114.8	\$ 99.6	\$ 81.6	\$ 61.5
Basic earnings per share	\$ 1.63	\$ 2.32	\$ 2.00	\$ 1.67	\$ 1.27
Excluding non-recurring charges <sup>(1)</sup>	\$ 2.68	\$ 2.32	\$ 2.00	\$ 1.67	\$ 1.27
Diluted earnings per share	\$ 1.60	\$ 2.29	\$ 1.95	\$ 1.64	\$ 1.25
Excluding non-recurring charges <sup>(1)</sup>	\$ 2.63	\$ 2.29	\$ 1.95	\$ 1.64	\$ 1.25
Weighted average shares outstanding –					
basic	50.4	49.5	49.8	48.9	48.5
diluted	51.3	50.2	51.0	49.8	49.3
Dividends per share	\$ 0.46	\$ 0.40	\$ 0.40	\$ 0.40	\$ 0.40
Cash and cash equivalents	\$ 120.5	\$ 142.7	\$ 36.6	\$ 31.8	\$ 43.0
Total assets	\$ 1,376.8	\$ 1,316.7	\$ 1,328.5	\$ 1,218.3	\$ 1,002.8
Long-term debt	\$ 150.7	\$ 151.6	\$ 202.0	\$ 105.0	\$ 104.9
Total debt	\$ 156.1	\$ 157.7	\$ 246.6	\$ 192.6	\$ 124.0
Total capitalization	\$ 784.9	\$ 771.3	\$ 675.3	\$ 604.2	\$ 472.8
Return on equity	10.6%	15.9%	15.6%	15.2%	13.5%
Excluding non-recurring charges <sup>(1)</sup>	16.8%	15.9%	15.6%	15.2%	13.5%
Ending shares outstanding	50.3	50.1	49.0	49.6	48.3
Book value per share	\$ 15.59	\$ 15.39	\$ 13.77	\$ 12.18	\$ 9.79
Closing share price	\$ 38.25	\$ 38.25	\$ 25.25	\$ 30.67	\$ 19.17
Capital expenditures	\$ 155.1	\$ 112.0	\$ 106.7	\$ 103.8	\$ 71.9
Depreciation expense	\$ 65.9	\$ 59.6	\$ 47.1	\$ 40.9	\$ 55.3
Square feet in use	4.0	3.8	4.1	4.3	5.0
Employees	8,630	8,392	7,929	7,712	8,591
Net sales per employee (in thousands)	\$ 241.7	\$ 231.2	\$ 223.1	\$ 194.2	\$ 156.3
Revenue from new products <sup>(2)</sup>	74%	73%	67%	62%	50%

<sup>(1)</sup> Amounts for 1998 do not include non-recurring charges of \$79.0 million pre-tax, \$52.9 million net of tax (\$1.05 per basic share, \$1.03 per diluted share). See also the "Management Review" and the "Non-recurring Charges" Note to the Consolidated Financial Statements.

<sup>(2)</sup> Represents percentage of total product sales generated by products introduced within the last two years.

# Corporate Information

## CORPORATE OFFICE

Tektronix, Inc.  
Wilsonville, Oregon

## MANUFACTURING

Beaverton, Oregon  
Bend, Oregon  
Wilsonville, Oregon  
Nevada City, California  
Chelmsford, Massachusetts  
Madison, Wisconsin  
Berlin, Germany

## UNITED STATES SALES AND SERVICE

Albuquerque, New Mexico  
Atlanta, Georgia  
Austin, Texas  
Boston, Massachusetts  
Burnsville, Minnesota  
Chicago, Illinois  
Cleveland, Ohio  
Dallas, Texas  
Denver, Colorado  
Detroit, Michigan  
El Paso, Texas  
Houston, Texas  
Irvine, California  
Livermore, California  
Long Island, New York  
Los Alamos, New Mexico  
Madison, Alabama  
Madison, Connecticut  
Manhattan, New York  
Miami, Florida  
Murray Hill, New Jersey  
Mustang, Oklahoma  
North Hollywood, California  
Orlando, Florida  
Pensacola, Florida  
Philadelphia, Pennsylvania  
Phoenix, Arizona  
Pittsburgh, Pennsylvania  
Portland, Oregon  
Raleigh, North Carolina  
Rochester, New York  
Rohnert Park, California  
Silver Springs, Maryland  
St. Louis, Missouri  
St. Paul, Minnesota  
San Diego, California  
Santa Clara, California  
Seattle, Washington  
Syracuse, New York  
Washington, D.C.  
Woodbridge, New Jersey  
Yorktown, Virginia

## INTERNATIONAL SALES AND SERVICE

*Argentina*-Tektronix International, Inc.,  
(Argentina Branch), Buenos Aires

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

*Austria*-Tektronix Ges.m.b.H.,  
Schwechat (Vienna)

*Belgium*-Tektronix N.V.,  
Zaventem (Brussels)

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

*Canada*-Tektronix Canada Inc., Weston  
(Toronto), Calgary, Pointe Claire  
(Montreal), Ottawa, and Burnaby  
(Vancouver)

*China (PRC)*-Tektronix Electronics  
(China) Co., Ltd., Beijing, Shanghai,  
Xian, Wuhan, Guangzhou and  
Chengdu; Tektronix Hong Kong  
Limited, Hong Kong; Tektronix China,  
Limited, Hong Kong

*Denmark*-Tektronix A/S,  
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, 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; GVG Japan, Ltd., Tokyo

*Korea*-Tektronix Korea, Ltd.,  
Seoul, Daejeon 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

*Singapore*-Tektronix Southeast Asia  
Pte Ltd.

*Spain*-Tektronix Española, S.A., Madrid

*Sweden*-Tektronix AB, Bromma  
(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, Marlow (London), England

## SUBSIDIARY COMPANIES

*Tektronix U.K. Development Centre  
Limited*, London, England

*Tektronix U.K. Holdings Limited*,  
Marlow (London), England

*Tektronix Europe Limited*,  
Marlow (London), England

*Bouwerij Heerenveen N.V.*,  
Heerenveen, The Netherlands

*Tektronix Distribution Europe B.V.*,  
Hoofddorp, The Netherlands

*Tektronix International, Inc.*,  
Wilsonville, Oregon

*Tektronix Asia, Ltd.*,  
Wilsonville, Oregon

*Tektronix Development Company*,  
Wilsonville, Oregon

*Tektronix Export, Inc.*,  
Wilsonville, Oregon

*Tektronix Federal Systems, Inc.*,  
Beaverton, Oregon

*Tektronix Foreign Sales Corporation*,  
Agana, Guam

*Tektronix Funding Corporation*,  
Wilsonville, Oregon

*Tektronix Engineering  
Development (India) Limited*,  
Bangalore, India

## JOINT VENTURES

*MaxTek Components Corporation*,  
Beaverton, Oregon

*Sony/Tektronix Corporation*,  
Tokyo and Gotemba, Japan

*Yangzhong Tektronix Electronic  
Instrument Co., Ltd.*, Yangzhong, China

*Shanghai Tektronix Electronic  
Instrument Co., Ltd.*, Shanghai, China

*Chongqing Tektronix Electronic  
Instrument Co., Ltd.*, Chongqing, China

## BOARD OF DIRECTORS

*Jerome J. Meyer (1990)*  
Chairman of the Board,  
Chief Executive Officer and President,  
Tektronix, Inc.

*Pauline Lo Alker (1996)*  
Chairman of the Board,  
Amplify.net, Inc.

*A. Gary Ames (1994)*  
President and Chief Executive Officer,  
MediaOne International  
(Formerly US WEST International)

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

*David N. Campbell (1998)*  
President,  
BBN Technologies  
(Business unit of GTE Internetworking)

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

*A. M. Gleason (1988)*  
President,  
Port of Portland Commission

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

*William D. Walker (1980)*  
Vice Chairman, Tektronix, Inc.,  
Chairman of the Board,  
Planar Systems, Inc.

## OFFICERS

*Jerome J. Meyer\**  
Chairman of the Board,  
Chief Executive Officer and President

*Carl W. Neun\**  
Senior Vice President and Chief  
Financial Officer

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

## BUSINESS UNIT OFFICERS

*Gerald K. Perkel\**  
Vice President and President,  
Color Printing and Imaging

*Daniel Terpack\**  
Vice President and President,  
Measurement Business

*Timothy E. Thorsteinson\**  
Vice President and President,  
Video and Networking

*Daniel R. Brophy\**  
Vice President and President,  
Pacific Operations

*Douglas C. Shafer\**  
Vice President and President,  
Americas Operations

*Richard H. Wills\**  
Vice President and President,  
European Operations

## CORPORATE STAFF OFFICERS

*E. Scott Hildebrandt*  
Vice President and Treasurer

*Michele M. Marchesi*  
Vice President,  
Corporate Communications

*Colin L. Slade*  
Vice President and Controller

*Robert L. Vance*  
Vice President,  
Information Systems

## GENERAL INFORMATION

### SHAREHOLDERS' MEETING

The annual meeting of shareholders of Tektronix, Inc. will be held Thursday, September 24, 1998 at 10:00 a.m. Pacific Daylight Time at the Portland Art Museum, 1219 S.W. Park Avenue, Portland, Oregon.

### EXCHANGE LISTINGS

Stock Symbol: TEK  
New York Stock Exchange  
Pacific 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](http://www.chasemellon.com)

TDD for Hearing Impaired:  
(800) 231-5469

Foreign Shareholders:  
(201) 329-8660

TDD Foreign Shareholders:  
(201) 329-8354

Dividend Reinvestment Program  
(800) 842-7629

### MAILING ADDRESS

Tektronix, Inc.  
P.O. Box 1000  
26600 S.W. Parkway  
Wilsonville, OR 97070-1000  
(503) 627-7111

### INTERNET

[www.tektronix.com](http://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 above address or at (503) 685-4112. Company information also is available on our website at [www.tektronix.com](http://www.tektronix.com).

\*Elected by the Board of Directors

The calendar year in ( ) indicates when the individuals became directors of Tektronix.

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