

◆ *SALES REMAIN FLAT; EARNINGS INCREASE*

In the first quarter which ended August 20, 1988, Tektronix' sales were about equal to last year's first quarter level, and earnings increased substantially. Last year's earnings were reduced by unusual charges for fraud in the Company's German subsidiary and for moving parts of the CAE Division to Oregon. If those charges are excluded from last year, this year's bottom-line results are about equal to the prior year.

Net sales for the quarter were \$301,037,000, less than 1% above the previous year's \$299,516,000. International sales grew 6% to \$134,732,000, and made up 45% of the total. U.S. sales declined 3% in the quarter.

The strongest sales growth came from the Communications product area, which was up 42% from the year before. This growth was largely driven by the Company's television-related businesses, which have benefitted from new products, solid market positions, and increases in demand which normally occur in years with major TV events such as the Olympics and presidential elections. Information Display sales were 9% above last year, marking a turnaround from declines in recent years. New workstation and high-performance terminal products introduced last fall were a key part of this change in direction. Test and Measurement sales, which made up 58% of the Company's total sales, were down 11% from last year, because of intense competition and weakness in U.S. government-related business.

Earnings were \$7,392,000 or \$0.26 per share, more than four times the \$1,752,000 or \$0.05 per share reported last year. Income before taxes was \$15,727,000, more than five times last year's level. This year's tax rate was 53%, well above last year's 42%, because of foreign withholding taxes and the Alternative Minimum Tax in the U.S.

Last year's income before taxes was reduced by charges totalling \$12,600,000 (\$6,538,000 after tax) because of fraud in the Company's German subsidiary, and because of the cost of moving some CAE division employees from Texas and California to Oregon. If these charges are not included in last year's results, pretax income would have been \$15,619,000, about equal to this year's level. Because of this year's higher tax rate, earnings would have been 11% below last year's adjusted level. On the other hand, earnings per share would have been 8% above last year because fewer shares were outstanding this year.

◆ *EXPENSE MANAGEMENT*

Engineering and Administrative expenses were below last year's levels. This decline was caused in part by the Company's decision to exit from the CAE business last March, and because of layoffs in many areas of the Company at that time. Also, last year's figure includes some of the German fraud and CAE moving expenses. Selling expense was also down from last year, because some of those unusual expenses were included in last year's numbers.

Manufacturing cost of sales for the quarter was 47.9% of sales, better than the 49.3% reported in last year's fourth quarter, but higher than last year's first quarter of 47.0%.

◆ *ORDERS EVEN WITH LAST YEAR*

Customer orders in the quarter were \$309 million, up 1% from last year's \$306 million. The backlog of unfilled orders grew in the quarter from \$243 million to \$251 million; that compares with \$271 million at the end of last year's first quarter.

◆ *NEW PRODUCTS AIMED AT SPURRING GROWTH*

The Company's sales have been essentially flat for more than four years. With expenses reduced because of changes made in the last two quarters, generating new growth is even more important to attaining improved financial results. In recent months, a number of divisions have announced new products which are expected to help the Company grow, and more introductions are planned this fall and winter.

Among the major product introductions since the publication of the annual report in August are the 11800 digital sampling oscilloscope, the 4211 Netstation from Information Display, a host of additions to the TV test equipment line, enhancements to the Vista series of semiconductor production testers, and a development system for the VXI "instruments on a card" standard. A continued product flow, well-targeted at customer needs, must continue.

◆ *ANNUAL MEETING HELD*

The Company's annual shareholders' meeting was held on Saturday, September 24 in Beaverton. Chief Financial Officer Larry Choruby reviewed recent financial results. President Dave Friedley discussed the many changes made in the Company in the last year, and outlined the strategies now in place to improve performance in the Company's three main businesses: Test and Measurement, Information Display, and Communications.

James B. Castles and Louis B. Perry retired from the Board of Directors effective with the annual meeting. Both have contributed much to Tektronix. Jim Castles drew up the incorporation papers for the Company in 1946, has been a board member since 1953, and was Vice President and General Counsel until 1980. Lou Perry has been a director since 1973.

On September 24, the Board of Directors declared a fifteen cent per share quarterly dividend, payable October 31 to shareholders of record on October 7.

TEKTRONIX CONSOLIDATED FIRST QUARTER *unaudited in thousands*

INCOME

12 Weeks to Aug. 22, 1987	12 Weeks to Aug. 20, 1988	52 Weeks to Aug. 22, 1987	52 Weeks to Aug. 20, 1988	
\$299,516	\$301,037	\$1,390,459	\$1,413,385	NET SALES
140,625	144,050	636,321	689,051	Cost of Sales
158,891	156,987	754,138	724,334	GROSS INCOME
48,641	41,868	203,527	208,800	Engineering Expense
64,637	61,112	273,799	295,201	Selling Expense
32,610	29,479	141,248	148,517	Administrative Expense
10,349	7,014	52,156	21,578	Profit Sharing
2,654	17,514	83,408	50,238	OPERATING INCOME
2,587	5,044	10,784	18,317	Interest Expense
2,952	3,257	11,243	(3,624)	Non-Operating Income (Expense)
3,019	15,727	83,867	28,297	INCOME BEFORE TAXES
1,267	8,335	45,572	39,324	Income Taxes
1,752	7,392	38,295	(11,027)	EARNINGS
\$0.05	\$0.26	\$1.00	\$(.34)	EARNINGS PER SHARE
0.15	0.15	0.575	0.60	Dividends Per Share
306,000	309,000	1,356,000	1,394,000	CUSTOMER ORDERS
271,000	251,000	271,000	251,000	Unfilled Orders at Period-End
195,768	173,422	863,930	859,646	Test and Measurement Sales
58,755	63,925	316,256	288,259	Information Display Sales
44,993	63,690	210,273	265,480	Communications Sales
172,050	166,305	797,312	778,698	United States Sales
127,466	134,732	593,147	634,687	International Sales

CHANGES IN FINANCIAL POSITION

12 Weeks to Aug. 22, 1987	12 Weeks to Aug. 20, 1988	52 Weeks to Aug. 22, 1987	52 Weeks to Aug. 20, 1988	
\$17,516	\$19,357	\$139,742	\$65,910	FUNDS FROM OPERATIONS
1,752	7,392	38,295	(11,027)	Earnings
17,517	16,114	84,048	80,339	Depreciation Expense
(975)	(2,309)	(4,356)	(7,248)	Joint Venture Earnings—Net
(778)	(1,840)	21,755	3,846	Deferred Income Taxes
(166,338)	2,596	(252,604)	24,879	NET FINANCING
(1,171)	(8,763)	(74,994)	3,103	Short-Term Debt
(26)	(7,361)	(603)	(11,018)	Long-Term Debt Reductions
70,276	14,613	110,491	116,556	Long-Term Debt Additions
6,748	4,165	30,074	19,691	Shares Issued
(242,165)	(58)	(317,572)	(103,453)	Shares Repurchased
(15,213)	(19,017)	(67,984)	(81,918)	FACILITIES EXPENDITURES
4,440	10,331	14,372	(11,960)	OTHER CHANGES IN FINANCIAL POSITION
(4,656)	(4,231)	(21,132)	(17,285)	DIVIDENDS
(164,251)	9,036	(187,606)	(20,374)	CHANGES IN CASH AND INVESTMENTS

FINANCIAL POSITION

Aug. 22, 1987	Nov. 14, 1987	Mar. 5, 1988	May 28, 1988	Aug. 20, 1988	
\$525,366	\$504,066	\$527,667	\$544,292	\$508,601	CURRENT ASSETS
78,484	48,297	35,377	49,074	58,110	Cash and Investments
248,654	236,767	245,648	262,304	218,781	Accounts Receivable
148,598	167,824	182,429	180,881	182,581	Inventories
49,630	51,178	64,213	52,033	49,129	Other Current Assets
223,566	213,013	221,613	249,871	205,196	CURRENT LIABILITIES
1,734	9,920	11,896	13,600	4,837	Short-Term Debt
134,569	119,564	122,152	134,708	112,582	Accounts Payable
8,114	2,473	0	13,931	14,391	Income Taxes Payable
79,149	81,056	87,565	87,632	73,386	Accrued Compensation
301,800	291,053	306,054	294,421	303,405	WORKING CAPITAL
354,244	352,148	347,899	347,469	343,823	Facilities Less Depreciation
100,857	114,601	122,775	132,499	127,791	Other Assets
121,107	201,109	215,562	219,393	226,645	Long-Term Debt
39,712	51,264	49,849	57,500	56,842	Other Liabilities
596,082	505,429	511,317	497,496	491,532	SHAREOWNERS' EQUITY
134,237	139,034	144,920	149,714	153,821	Share Capital
426,935	323,718	313,392	292,116	295,277	Reinvested Earnings
34,910	42,677	53,005	55,666	42,434	Currency Adjustment
31,084	27,732	27,975	28,155	28,324	Number of Shares Outstanding
17,215	16,879	16,970	16,085	15,873	Number of Employees