

MEASUREX, THE RESULTS COMPANY, DELIVERS
QUALITY PRODUCTS AND SERVICES THAT ENSURE
COMPUTER INTEGRATED MANUFACTURING
EXCELLENCE FOR THE CUSTOMER.

measurex

Corporate Profile

Measurex is "The Results Company." It is a leading supplier of computerized systems that measure and control continuous and batch manufacturing processes. The Company's Computer Integrated Manufacturing Excellence (CIMx™) product line ensures economic results for customers by increasing productivity, reducing raw material usage and energy consumption, and improving product quality and uniformity.

The principal industries served by the Company are: pulp and paper, plastics, metals, rubber, electric utilities, chemicals, glass, pharmaceuticals and food processing. In 1985, Measurex (an abbreviation for "Measurement Excellence") entered the discrete manufacturing marketplace and is developing systems which will provide factory automation for industries such as automotive, aerospace and electronics production.

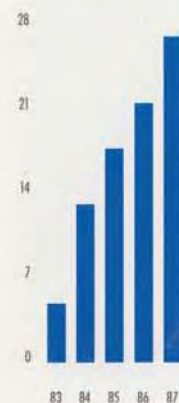
Corporate headquarters are located in Cupertino, California, in the heart of Santa Clara County's high technology "Silicon Valley." Measurex and its subsidiaries employ 2,540 people who are located in 40 offices in 21 countries around the world.

Financial Highlights

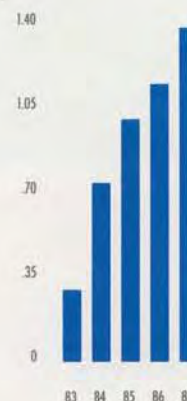
(Dollar amounts in thousands except per share data)

	1987	1986	Percentage Change
FOR THE YEAR			
Revenues	\$227,353	\$192,707	18%
Net income	\$ 26,815	\$ 21,068	27%
Net income per share	\$ 1.39	\$ 1.12	24%
Dividends per share	\$.225	\$.165	36%
System orders	\$187,000	\$135,000	39%
END OF YEAR			
System Backlog	\$102,000	\$ 69,000	48%
Working capital	\$140,951	\$121,245	16%
Total assets	\$258,654	\$224,867	15%
Total debt	\$ 6,214	\$ 6,570	(5%)
Stockholders' equity	\$170,190	\$151,866	12%
Number of employees	2,540	2,490	2%
Shares outstanding (thousands)	18,416	18,516	(1%)

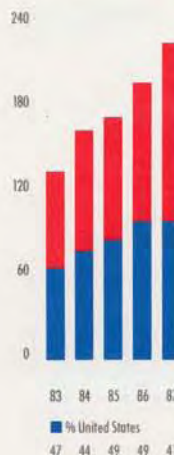
Income Before Extraordinary Credit (\$ millions)



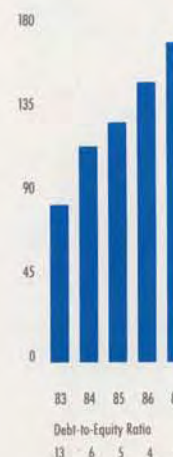
Income Per Share Before Extraordinary Credit



Revenues (\$ millions)

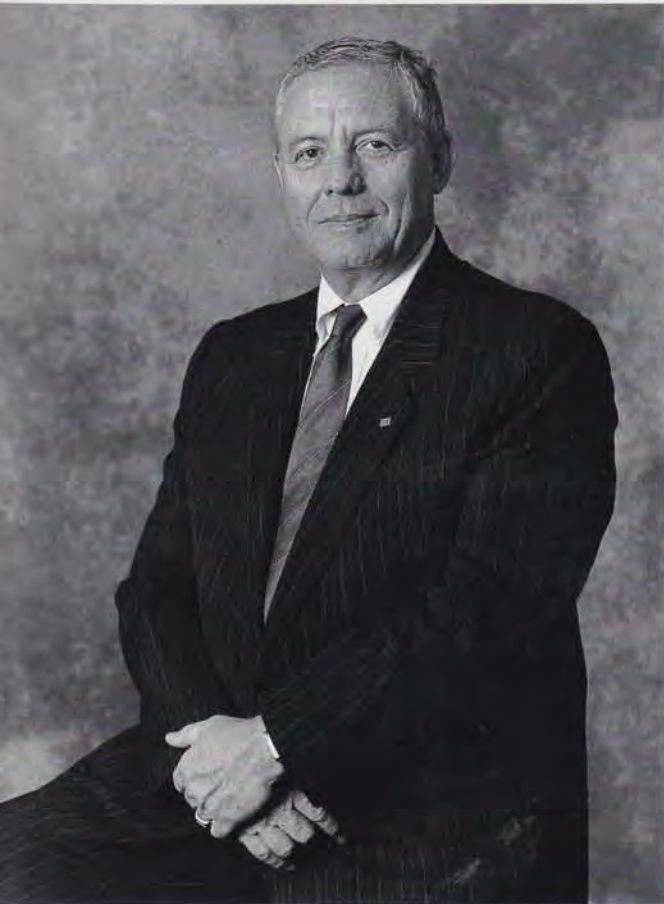


Stockholders' Equity (\$ millions)



Debt-to-Equity Ratio

13 6 5 4 4



To Our Stockholders:

Measurex celebrated its twentieth anniversary on January 18, 1988. I am pleased to announce the Company repeated its achievement of a decade ago, when we reported records in orders, backlog, revenues and profits for our tenth anniversary year. During 1987, our twentieth anniversary year, your Company attained those same records and this was the fourth consecutive year that all-time highs were recorded for income and revenues.

For the year, net income increased 27 percent to \$26.8 million from \$21.1 million in fiscal 1986. Net income per share was \$1.39, up 24 percent from \$1.12 a year ago. Revenues for the year were \$227.4 million, an 18 percent increase over \$192.7 million in 1986.

New system orders for the year topped last year's record, reaching \$187 million, a 39 percent increase over fiscal 1986's \$135 million. System backlog at the end of 1987 was \$102 million, 48 percent above 1986's ending backlog of \$69 million.

The increase in net income for the fiscal year was primarily due to higher revenues. The improvement was partially offset by higher investments for product development and in our marketing and selling organizations. Our investments in development have paid off handsomely with products such as the recently introduced Mass Form and Spectra Form formation sensors.

Fiscal 1987 was an outstanding year for Measurex. Business was excellent around the world and both Pulp and Paper and Industrial Systems orders grew to record levels. Orders from customers in Europe and Japan were exceptional. While the valuation of the U.S. dollar overseas benefited our international sales, we believe the major cause of the improvement was due to the acceptance of our new VISION 2002 ET™ product line.

During 1987, Measurex made the biggest product change in the Company's history as the basic pulp and paper system—the Measurex System 2002—was evolved to this new "Enhanced Technology." Even though this was the most extensive transition ever accomplished, with extremely complex systems, the

changeover was successful and Measurex's quality standards were maintained. The VISION 2002 ET systems are producing excellent results and the market acceptance is very high.

Also, during the year, Measurex Automation Systems (MAS) refined the scope of its co-development program with Ford to better integrate with Ford's long-term CIM strategy. MAS continues to make strides in its joint relationship with IBM Corporation, as well. In this strategic program, CIM software is being jointly developed to support the new generation of IBM Industrial Computers and Operating Systems.

Among the key events of 1987 were: a two-for-one stock split of the Company's common stock, declared on January 22; an increase of the quarterly dividend on common stock to \$.06 per share from \$.045 per share, declared on March 18; a strategic alliance signed with Beloit Corporation, a subsidiary of Harnischfeger Industries, on February 18, and the subsequent initial shipment of a VISION 2002® Network to Beloit in 1987's third quarter; and the shipment of the first pilot system to Ford Motor Company under the MAS/Ford three-year co-development program, in the first quarter.

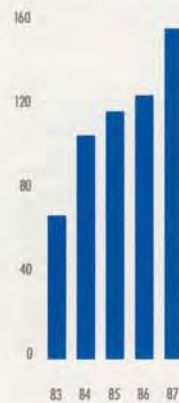
Today, Measurex has a strong balance sheet and more than \$100 million in both backlog and cash. Because of this, we believe the Company is well prepared to withstand the ripple effects of the October stock market crash which may have a negative impact on the economy this year. As we begin our twenty-first year in business, we are optimistic about our ability to continue to provide outstanding results for our customers, investors, employees and suppliers. We thank our stockholders for their support and our employees for their help in making Measurex's first two decades a success.

Sincerely,

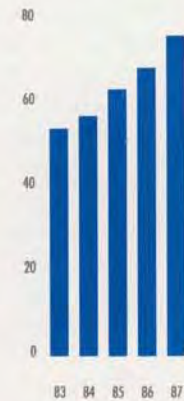
David A. Bossen

David A. Bossen
 President and Chief Executive Officer
 January 26, 1988

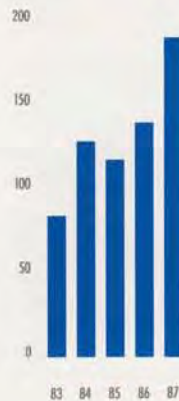
System Sales Revenue (\$ millions)



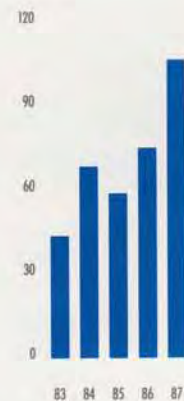
Service and Other Revenue (\$ millions)



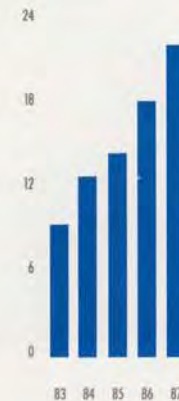
System Orders (\$ millions)



System Backlog (\$ millions)



Product Development Costs (\$ millions)



Worldwide Employment



Management's Discussion and Analysis of Financial Condition and Results of Operations

LIQUIDITY AND CAPITAL RESOURCES—In fiscal 1987 Measurex continued to generate cash from operations and maintained tight controls on inventories and accounts receivable. As a result, the Company ended fiscal 1987 in a strong financial position.

Cash and cash equivalents increased \$18.8 million to \$107.2 million at the end of fiscal 1987 from \$88.4 million at the end of 1986. The increase in accounts receivable of 30% at the end of fiscal 1987 over 1986 was in line with the 25% increase in system sales in the fourth quarter of 1987 compared to the fourth quarter of 1986. Inventory and service parts increased only 7% despite increased production to support system shipment levels which were 22% higher than 1986.

The current ratio (current assets divided by current liabilities) was 3.2 at the end of 1987 compared to 3.5 at the end of the prior year. Total debt continued to decline and was only 4% of stockholders' equity at the end of fiscal 1987.

Capital additions, which totaled \$6.9 million in fiscal 1987, were primarily for engineering and manufacturing equipment. There are no significant commitments for capital additions at this time; however, the Company is planning an expansion of its Cupertino facilities.

In the fourth quarter, the Company repurchased 613,900 shares of its own stock at a total cost of \$13.5 million. The repurchased shares will be used for issuance under the Company's employee stock purchase and stock option plans.

The Company believes its financial position, future earnings and borrowing capabilities provide adequate flexibility to fund financial requirements from operations.

RESULTS OF OPERATIONS—In fiscal 1987, total revenues were \$227.4 million, an increase of \$34.6 million and \$50.7 million over fiscal 1986 and 1985, respectively. The overall gross margin was 43.3%, compared to 44.9% in fiscal 1986 and 44.1% in fiscal 1985.

Fiscal 1987 system sales revenues of \$153.3 million reflect an increase of \$28.0 million and \$38.7 million from fiscal 1986 and 1985, respectively. System sales increased in 1987 in both the Pulp and Paper and Industrial Systems product groups. The new VISION 2002 ET™ product line was a major reason for the increased shipments. In addition, the strengthening of foreign currencies benefited the Company overseas. These factors resulted in higher orders and shipments, particularly in Europe and the Far East in 1987. System backlog at the end of fiscal 1987 was \$102 million compared to \$69 million at the end of fiscal 1986, reflecting strong orders during the latter half of 1987.

Service and other revenues increased to \$74.1 million in fiscal 1987, from \$67.4 million and \$62.0 million in fiscal 1986 and 1985, respectively. The continued growth in service revenues reflects the service requirements of a growing installed base of the Company's systems.

System sales margins were 49.1% in fiscal 1987 compared to 52.4% and 51.1% in fiscal 1986 and 1985, respectively. The lower margins were primarily due to startup costs on the Company's new VISION 2002 ET product line, as well as the geographic mix of product shipments. Service and other margins were 31.3% in fiscal 1987 compared to 30.8% in 1986 and 31.2% in 1985.

The Company increased product development costs by 19.2% (\$3.5 million) to \$21.9 million in fiscal 1987. The increased expenditures were incurred by Measurex Automation Systems under its co-development programs, as well as continued development by Measurex of the VISION 2002 ET product line. During 1987 and 1986, \$2.7 and \$1.9 million of these expenditures, respectively, were reimbursed under the co-development agreements. In accordance with Financial Accounting Standard No. 86, the Company capitalized \$2.4 million and \$2.3 million of software development costs in 1987 and 1986, respectively. In years prior to 1986, such costs were charged to product development expense as incurred. The net amount of \$16.7 million and \$14.1 million was reported as product development expense in 1987 and 1986, respectively.

Selling and administrative expenses increased \$4.9 million (10.3%) and \$12.5 million (31.2%) compared to fiscal 1986 and fiscal 1985, respectively. These increases were primarily for selling and marketing costs related to new product promotion costs, an increased sales force and higher commissions due to increased shipment revenues. The stronger foreign currencies, particularly in fiscal 1987, also contributed to the higher selling and administrative expenses. In addition, profit sharing expense increased in both 1987 and 1986 due to higher profit levels.

Interest income increased in fiscal 1987 and 1986 due to higher cash balances although average interest rates were lower. Included in Other income, net in 1987 is a \$1.7 million gain on sale of securities acquired in connection with a potential acquisition. Other income (expense) in 1986 includes a translation adjustment of (\$0.9) million reflecting the sale of the Company's South African subsidiary.

The Company's effective tax rate in fiscal 1987 was 28.6% of income before income taxes compared to 31.7% in 1986 and 41.0% in 1985. The decrease in the effective tax rate in 1987 was due to the lower U.S. tax rates in 1987, as well as continued increases in profitability of certain foreign subsidiaries operating in low tax rate jurisdictions and the tax benefits from the Measurex Foreign Sales Corporation established in fiscal 1985.

The Tax Reform Act of 1986 will result in a reduction of the blended statutory U.S. income tax rate for Measurex from 41% in 1987 to a 1988 rate of 34%. However, because of the projected geographic mix of earnings, the Company does not anticipate its consolidated effective tax rate will decrease in 1988.

Consolidated Statements of Income

Three years ended November 29, 1987

(Dollar amounts in thousands except per share data)

	1987	1986	1985
REVENUES:			
System sales	\$153,293	\$125,287	\$114,593
Service and other	74,060	67,420	62,021
Total revenues	227,353	192,707	176,614
OPERATING COSTS AND EXPENSES:			
System sales	77,991	59,640	56,017
Service and other	50,886	46,630	42,683
Product development	16,709	14,123	14,502
Selling and administrative	52,729	47,793	40,188
Total operating costs and expenses	198,315	168,186	153,390
Earnings from operations	29,038	24,521	23,224
Other income (expense):			
Interest expense	(1,143)	(1,041)	(777)
Other income, net	9,654	7,387	7,588
Total other income, net	8,511	6,346	6,811
Income before income taxes	37,549	30,867	30,035
Provision for income taxes	10,734	9,799	12,315
Net income	\$ 26,815	\$ 21,068	\$ 17,720
Net income per share	\$ 1.39	\$ 1.12	\$.97
DIVIDENDS PER SHARE	\$.225	\$.165	\$.12
Average number of common and common equivalent shares (thousands)	19,228	18,882	18,340

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

Consolidated Balance Sheets

November 29, 1987 and November 30, 1986
(Dollar amounts in thousands except per share data)

	1987	1986
ASSETS		
Current assets:		
Cash and cash equivalents	\$107,179	\$ 88,391
Accounts receivable	57,116	44,077
Inventories	37,236	31,781
Prepaid and other	2,611	4,921
Total current assets	204,142	169,170
Contracts receivable	5,907	5,805
Service parts, net	4,109	6,818
Property, plant and equipment, net	31,220	29,945
Investments in nonconsolidated finance subsidiaries	3,103	3,938
Other assets	10,173	9,191
Total assets	\$258,654	\$224,867
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 276	\$ 486
Accounts payable	6,812	5,349
Accrued expenses	53,482	40,743
Income taxes payable	2,621	1,347
Total current liabilities	63,191	47,925
Long-term debt	5,938	6,084
Deferred income taxes	19,335	18,992
Stockholders' equity:		
Preferred stock, \$.01 par value; authorized: 10,000,000 shares; issued and outstanding: none	—	—
Common stock, \$.01 par value; authorized: 50,000,000 shares; issued: 1987—19,029,656; 1986—18,515,968	190	185
Additional capital	68,862	64,404
Retained earnings	113,790	91,187
Cumulative foreign translation adjustments	892	(3,910)
Less: Treasury stock, at cost, 613,900 shares	(13,544)	—
Total stockholders' equity	170,190	151,866
Total liabilities and stockholders' equity	\$258,654	\$224,867

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

Consolidated Statements of Stockholders' Equity

Three years ended November 29, 1987 (Dollar amounts in thousands)	Common Stock	Additional Capital	Retained Earnings	Cumulative Foreign Translation Adjustments	Treasury Stock	Total
Balance December 2, 1984	\$ 88	\$58,534	\$ 57,552	\$(5,714)	\$ —	\$110,460
Stock issued under employee stock purchase and stock option plans (169,000 shares)	2	2,100	—	—	—	2,102
Foreign currency translation adjustments for the period	—	—	—	524	—	524
Net income	—	—	17,720	—	—	17,720
Dividends	—	—	(2,136)	—	—	(2,136)
Balance December 1, 1985	90	60,634	73,136	(5,190)	—	128,670
Stock issued under employee stock purchase and stock option plans (257,000 shares)	2	3,863	—	—	—	3,865
Foreign currency translation adjustments for the period	—	—	—	354	—	354
Cumulative translation adjustment of the South African subsidiary transferred to expense	—	—	—	926	—	926
Net income	—	—	21,068	—	—	21,068
Dividends	—	—	(3,017)	—	—	(3,017)
Two-for-one stock split to stockholders of record on February 20, 1987 (9,258,000 shares)	93	(93)	—	—	—	—
Balance November 30, 1986	185	64,404	91,187	(3,910)	—	151,866
Stock issued under employee stock purchase and stock option plans (513,688 shares)	5	4,458	—	—	—	4,463
Foreign currency translation adjustments for the period	—	—	—	4,802	—	4,802
Net income	—	—	26,815	—	—	26,815
Dividends	—	—	(4,212)	—	—	(4,212)
Treasury stock acquired (613,900 shares)	—	—	—	—	(13,544)	(13,544)
Balance November 29, 1987	\$190	\$68,862	\$113,790	\$ 892	\$(13,544)	\$170,190

All share amounts for fiscal year 1985 are presented above on a basis prior to the two-for-one stock split in the form of a 100% stock dividend to stockholders of record on February 20, 1987.

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

Consolidated Statements of Changes in Financial Position

Three years ended November 29, 1987
(Dollar amounts in thousands)

	1987	1986	1985
CASH PROVIDED:			
Operations:			
Net income	\$ 26,815	\$21,068	\$17,720
Items not affecting cash:			
Depreciation:			
Service parts	3,033	2,878	2,731
Property, plant and equipment	5,683	4,568	3,650
Deferred income taxes	851	2,899	3,277
Other, net	1,469	1,583	248
Cash provided by operations	37,851	32,996	27,626
Increase (decrease) in:			
Accounts payable and accrued expenses	14,202	7,854	1,038
Income taxes payable	1,274	(394)	(496)
Decrease (increase) in investments in nonconsolidated finance subsidiaries	835	479	(661)
Issuance of common stock under employee stock purchase and stock option plans	4,463	3,865	2,102
Foreign currency translation	4,802	354	524
Other, net	1,737	(2,770)	(483)
Total cash provided	65,164	42,384	29,650
CASH USED:			
Increase in:			
Accounts and contracts receivable	13,141	5,670	1,891
Inventories and service parts	5,779	4,621	1,874
Prepaid taxes	—	2,111	20
Expenditures for property, plant and equipment	6,912	7,323	7,820
Capitalized software	2,432	2,282	—
Decrease in debt	356	171	239
Purchase of treasury stock	13,544	—	—
Dividends	4,212	3,017	2,136
Total cash used	46,376	25,195	13,980
Increase in cash	18,788	17,189	15,670
Cash and cash equivalents at beginning of period	88,391	71,202	55,532
Cash and cash equivalents at end of period	\$107,179	\$88,391	\$71,202

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

Notes to Consolidated Financial Statements

(Dollar amounts in thousands unless otherwise noted)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year—The Company uses a 52-53 week fiscal year. References to 1987, 1986, and 1985 are for fiscal years ended November 29, 1987, November 30, 1986, and December 1, 1985, respectively. Fiscal years 1987, 1986, and 1985 were 52-week years.

Consolidation—The consolidated financial statements include all subsidiaries, other than the wholly-owned finance subsidiaries, after elimination of inter-company balances and transactions. The investments in the nonconsolidated finance subsidiaries are reported on the equity basis. Income from the finance subsidiaries included in the Company's consolidated statements of income is before income taxes and after elimination of amounts earned from parent companies.

Foreign Currency Translation—The Company has translated its foreign operations (except certain manufacturing operations) as follows: all assets and liabilities at current exchange rates at the balance sheet date, and income and expense accounts at average exchange rates for the year. Resulting translation adjustments were recorded directly to a separate component of stockholders' equity. For certain foreign manufacturing operations, the functional currency is deemed to be U.S. dollars as defined by Statement of Financial Accounting Standards No. 52. For these manufacturing operations, monetary assets and liabilities (primarily inventory and fixed assets) are translated at historical exchange rates.

Revenue Recognition—Revenue is recognized in accordance with the following:

- At the time of shipment for products sold to customers or third-party financing institutions;
- At the time of shipment for products financed under lease transactions which qualify as sales-type leases; and
- At the time of performance for services.

Product Development Expenses—The Company is actively engaged in basic technology and applied research and development programs which are designed to develop new or improved products and process applications. The cost of these programs is charged to expense as incurred except for certain software development costs which are capitalized as described below (see Capitalized Software).

The Company, through its subsidiary Measurex Automation Systems, has entered into co-development programs. Reimbursement under these programs is netted against product development expense and was \$2.7 million in 1987 and \$1.9 million in 1986.

Capitalized Software—Costs related to the conceptual formulation and design of software products are expensed as product development. Costs incurred subsequent to establishing the technological feasibility of software products are capitalized. In years prior to 1986, such costs were charged to product development expense as incurred.

Amortization of capitalized software costs, which begins when products are available for general release to customers, is computed on a straight-line basis over the expected product lives, generally estimated to be three years.

Income Taxes—Taxes are provided for items included in the consolidated statements of income regardless of the period when such items may be reported for tax purposes.

Income taxes have not been provided on the portion of the accumulated earnings from certain of the Company's foreign subsidiaries which it presently intends to invest indefinitely in its foreign operations.

Inventory Valuation—Inventories are stated at the lower of standard cost (which approximates actual cost determined on a first-in, first-out basis) or market.

Inventories comprise the following:

	1987	1986
Purchased parts and components	\$17,819	\$15,105
Work in process	10,941	9,210
Finished subassemblies and systems	8,476	7,466
	\$37,236	\$31,781

Depreciation—Property, plant, equipment and service parts are depreciated on a straight-line basis over estimated useful lives which range as follows: buildings and improvements—3 to 40 years; machinery and equipment—3 to 20 years; and service parts—8 to 10 years. When assets are sold or retired, the cost and related accumulated depreciation is removed from the accounts and the resulting gains or losses are included in income.

Net Income Per Share—Net income per share is computed based on the weighted average number of common shares outstanding during the year adjusted to reflect the assumed exercise of outstanding employee stock options to the extent these items had a dilutive effect on the computation.

ACCOUNTS RECEIVABLE

Accounts receivable are summarized below:

	1987	1986
Accounts receivable	\$57,730	\$45,518
Contracts receivable	3,551	3,480
Less:		
Allowances for noncollection and system returns	4,165	4,921
	\$57,116	\$44,077

CONTRACTS RECEIVABLE

Contracts receivable are summarized below:

	1987	1986
Contracts receivable	\$11,146	\$11,586
Less:		
Unearned financing income	1,629	2,202
Allowances for noncollection and system returns	59	99
	9,458	9,285
Current Portion	3,551	3,480
	\$ 5,907	\$ 5,805

The aggregate amount of payments receivable by the Company in fiscal years subsequent to 1987 is set forth below:

1988—\$4,323	1991—\$1,230
1989—\$2,564	1992— \$981
1990—\$1,457	Thereafter—\$591

THIRD-PARTY TRANSACTIONS

The Company has agreements with bank leasing subsidiaries under which the leasing companies may purchase Measurex systems subject to leases to Measurex customers. Generally, sales of systems under these agreements are at amounts approximating end user purchase prices.

These transactions have been made on both a non-recourse and full-recourse basis. In certain instances, the Company is entitled to participate in revenues received at the conclusion of the basic lease term. In addition, in certain instances, the Company has agreed to assist, for a fee, in remarketing systems when they come off lease.

At November 29, 1987, the Company was contingently liable for approximately \$5.6 million relating to these transactions.

SERVICE PARTS

Service parts comprise the following:

	1987	1986
Service parts, at cost	\$13,413	\$13,408
Less:		
Accumulated depreciation	9,304	6,590
	\$ 4,109	\$ 6,818

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost and comprise the following:

	1987	1986
Land	\$ 1,675	\$ 1,719
Buildings and improvements	19,749	19,379
Machinery and equipment	33,762	27,400
Other	66	159
Less:	55,252	48,657
Accumulated depreciation	24,032	18,712
	\$31,220	\$29,945

OTHER ASSETS

Goodwill—The excess of the purchase price over the fair market value of net assets of purchased subsidiaries (\$3.4 million) is being amortized on a straight-line basis over 40 years and is included in Other Assets.

Capitalized Software—Software costs capitalized in accordance with Statement of Financial Accounting Standards No. 86 are included in Other Assets. Total costs capitalized at November 29, 1987 were \$4.7 million of which \$1.1 million and \$.2 million was amortized to System sales costs in 1987 and 1986, respectively.

NOTES PAYABLE AND LINES OF CREDIT

As of November 29, 1987, the Company had multi-currency Working Capital Agreements totaling \$17.5 million. The Working Capital Agreements are unsecured bank lines of credit which provide for domestic dollar borrowings, Eurocurrency advances or Prime Bankers' Acceptances. There were no borrowings outstanding in connection with these agreements at November 29, 1987.

The agreements, which expire during fiscal year 1988, provide for interest rates ranging from below the prime rate of the particular lending bank to the prime rate, depending upon the type of borrowing; maintenance of average noninterest bearing demand deposits (not legally restricted) with lending banks in amounts equal to approximately 4% of each bank's domestic dollar borrowing commitment or payment of fees; and,

adherence to certain covenants regarding working capital, indebtedness, and a minimum stockholders' equity.

ACCRUED EXPENSES

Accrued expenses are comprised of the following:

	1987	1986
Accrued payroll and related items	\$20,735	\$17,604
Accrued initial service	6,083	4,312
Customer deposits	12,824	7,909
Other	13,840	10,918
	\$53,482	\$40,743

LONG-TERM DEBT

Long-term debt consists of the following:

	1987	1986
Mortgages payable in monthly installments through 2009	\$5,123	\$5,369
Other borrowings	1,091	1,201
	6,214	6,570
Less amount due within one year	276	486
	\$5,938	\$6,084

Interest rates on mortgages payable range from 8¼% to 9¼%.

COMMON STOCK

A two-for-one stock split of the Company's common stock in the form of a 100% stock dividend was declared by the Board of Directors on January 22, 1987 for distribution to stockholders of record on February 20, 1987. All relevant share and per share data in the financial statements and notes thereto have been adjusted to give effect to the two-for-one stock split.

COMMON STOCK IN TREASURY

In October 1987, the Company purchased 613,900 shares of its common stock at prices ranging from \$19½ to \$25 per share. The common stock in treasury is carried at cost and will be used for the Company's stock option and stock purchase plans.

STOCK OPTION PLANS

Under the Company's stock option plans, 3,330,000 shares of common stock have been reserved for issuance to officers and key employees.

Options may be granted at prices not lower than the fair market value of the Company's common stock at the date of grant. Options generally become exercisable in four equal annual installments commencing one year from the date of grant. Options expire, if not exercised, within five years from the date of grant.

A summary of transactions relating to options during fiscal years 1986 and 1987 is set forth below:

(Amounts in thousands except per share data)	Options Outstanding		
	Shares	Price Per Share	Amount
December 1, 1985	1,537.0	\$ 1.06-\$11.38	\$10,360
Granted	368.2	14.00- 17.41	5,666
Terminated	(20.2)	4.00- 14.00	(160)
Exercised	(544.0)	1.06- 11.38	(2,629)
November 30, 1986	1,341.0	\$ 1.06-\$17.41	\$13,237
Granted	362.3	11.09- 33.75	5,615
Terminated	(31.4)	5.28- 17.41	(288)
Exercised	(535.5)	3.36- 17.41	(3,943)
November 29, 1987	1,136.4	\$ 1.06-\$33.75	\$14,621

At year end 1987 and 1986, options to purchase 187,484 shares and 383,064 shares were exercisable at prices ranging from \$1.06 to \$33.75 and from \$1.06 to \$17.41, respectively.

Shares available for option grants at year end 1987 and 1986 were 247,122 and 607,360, respectively.

OTHER INCOME AND EXPENSE

Components of other income and expense are as follows:

	1987	1986	1985
Interest income	\$7,701	\$7,052	\$6,651
Income from finance subsidiaries	421	565	684
Gain on sale of securities	1,745	—	—
South Africa translation adjustment	—	(926)	—
Other	(213)	696	253
	\$9,654	\$7,387	\$7,588

During the first quarter of fiscal 1987, the Company realized a \$1.7 million pretax gain on the sale of securities acquired in connection with a possible business acquisition.

The South Africa translation adjustment is the cumulative translation adjustment for this subsidiary previously recorded in stockholders' equity. This amount was charged to expense in 1986 due to the sale of this subsidiary.

EMPLOYEE BENEFIT PLANS

The Company has a Savings and Deferred Profit Sharing Plan qualified under section 401(k) and 401(a) of the Internal Revenue Code. This Plan is designed to enable eligible U.S. employees to share in the profits of the Company and supplement their retirement income. The Company contributes to the Plan up to

10% of consolidated pretax income before contributions under the Plan. Eligible employees may elect to receive up to 50% of the profit sharing in cash. In addition, the Plan allows eligible employees to defer up to 10% of their salary on a pretax basis through contributions to the Plan.

Certain foreign employees are eligible to participate in similar profit sharing programs or local pension plans.

The Company has a management incentive plan which provides for payments to officers and senior management from an annual incentive fund determined by several factors relating to the financial performance of the Company. Amounts to be distributed under this plan are determined annually by the Board of Directors.

The Company has reserved 512,845 shares of its authorized but unissued common stock for issuance under an employee stock purchase plan. The plan covers substantially all employees of the parent company and its domestic subsidiaries. The participants' purchase price is 85% of the closing market price on the last trading day of the quarter in which the stock is purchased by the employee. The 15% discount is treated as equivalent to the cost of issuing stock for financial reporting purposes. For tax purposes, it is treated as compensation to the employee, and the resulting tax benefit to the Company is credited to Additional Capital. The Company has issued 487,155 shares of its stock under this plan as of November 29, 1987.

INCOME TAXES

The provision for income taxes consists of the following:

	1987	1986	1985
Current income taxes:			
United States	\$ 2,453	\$ 384	\$ 3,400
Foreign	6,491	5,590	4,361
State	939	926	1,277
	9,883	6,900	9,038
Deferred income taxes:			
United States	2,098	4,145	1,443
Foreign	(1,247)	(1,246)	1,834
	851	2,899	3,277
Provision for income taxes	\$10,734	\$9,799	\$12,315

The major components of the provision not currently payable result from:

	1987	1986	1985
Taxes provided on undistributed earnings of foreign subsidiaries	\$1,149	\$ 696	\$1,297
Tax Accounting for:			
Finance leases	(1,018)	(875)	618
Depreciation	773	884	69
Inventory reserves	(465)	534	1,846
Noncollection and system return reserves	291	266	62
Deferred compensation	(227)	(166)	(178)
Capitalized software	535	878	—
Other	(187)	682	(437)
	\$ 851	\$2,899	\$3,277

At November 29, 1987, the Company had net operating loss carryforwards in various foreign subsidiaries of approximately \$1.1 million at current exchange rates expiring in varying amounts between 1988 and 1995. These carryforwards will reduce net tax expense for financial reporting purposes if utilized.

The Company has provided for United States income taxes on the earnings of foreign subsidiaries that are not considered invested indefinitely outside the United States. The accumulated net income of the foreign subsidiaries that are considered permanently invested outside the United States amounted to \$53.7 million at November 29, 1987.

The Company's Irish subsidiary has benefited from a tax holiday in the Republic of Ireland. This tax holiday ends on September 1, 1988 at which time its Irish manufacturing profits will be taxed at a 10% rate.

The principal items accounting for the difference between income taxes computed at the United States statutory rate and the provision for income taxes are as follows:

	1987	1986	1985
United States statutory rate	41.0%	46.0%	46.0%
Effect of:			
Undistributed earnings of foreign subsidiaries on which no tax was provided	(9.2)	(6.7)	(5.4)
Tax credits	(1.4)	(3.5)	(1.3)
Foreign Sales Corporation	(1.6)	(2.7)	(1.3)
Income of foreign subsidiaries taxed at differing statutory rates	0.8	(1.0)	(1.8)
State income taxes	1.5	1.4	2.3
Other items	(2.5)	(1.8)	2.5
Provision for income taxes	28.6%	31.7%	41.0%

BUSINESS SEGMENTS

The Company designs, develops, manufactures, markets, and services computer integrated manufacturing systems. The principal industries served by the Company are pulp and paper, plastics, metals, rubber, electric utilities, chemicals, glass, pharmaceuticals, and food processing.

No single customer accounted for 10% or more of revenues during 1987, 1986 or 1985.

The Company's products are principally distributed and serviced through its own marketing and service organizations. Operations are conducted worldwide and are grouped into three geographic areas: United States, Europe, and Other International (primarily Canada, the Far East, and the Southern Hemisphere countries).

The following table summarizes the geographic operations of the Company:

(Dollar amounts in millions)	1987	1986	1985
Revenues from unaffiliated customers:			
United States	\$ 92.2	\$ 93.5	\$ 86.3
Europe	84.3	53.9	47.7
Other International	50.8	45.3	42.6
Consolidated	\$227.3	\$192.7	\$176.6
Earnings from operations:			
United States	\$ 17.2	\$ 15.5	\$ 10.7
Europe	12.0	6.8	8.8
Other International	6.2	7.4	7.1
Eliminations and Corporate	(6.4)	(5.2)	(3.4)
Consolidated	\$ 29.0	\$ 24.5	\$ 23.2
Identifiable assets:			
United States	\$ 76.0	\$ 74.9	\$ 63.9
Europe	66.4	44.8	37.9
Other International	25.2	23.7	23.5
Corporate	91.1	81.5	67.8
Consolidated	\$258.7	\$224.9	\$193.1

The Company's manufacturing operations sell systems to its sales and service operations. Sales to non-U.S. affiliates from the U.S. manufacturing operations were \$47.6 million in 1987 and \$30.2 million in both 1986 and 1985. Sales to affiliates from other geographic areas were not significant. Internal selling prices are designed to allocate manufacturing profits to manufacturing entities and sales and service profits to sales and service entities.

Of the United States revenues from unaffiliated customers in 1987, 1986, and 1985, there were no significant revenues from overseas customers.

Corporate identifiable assets include short-term cash investments and investments in nonconsolidated finance subsidiaries.

NONCONSOLIDATED FINANCE SUBSIDIARIES

The combined Measurex Credit Companies consist of Measurex Credit Corporation (U.S.) and Measurex Credit (U.K.) Limited.

The following is a combined summary of the financial information of the nonconsolidated finance subsidiaries:

COMBINED BALANCE SHEETS

	1987	1986
Assets:		
Cash	\$ 0	\$ 126
Lease and other contracts receivable	5,473	8,003
Due from parent companies	12,553	12,797
	\$18,026	\$20,926
Liabilities and stockholders' equity:		
Obligations under capital leases	\$ 2,370	\$ 4,191
Stockholders' equity	15,656	16,735
	\$18,026	\$20,926

COMBINED STATEMENTS OF INCOME

	1987	1986	1985
Interest income	\$563	\$771	\$939
Expense related to parent companies	119	189	206
Total income	444	582	733
Interest expense	142	206	249
Other expenses	—	—	6
Income before income taxes	302	376	478
Provision for income taxes	85	132	220
Net income	\$217	\$244	\$258

The Company has agreed to compensate the non-consolidated finance subsidiaries if their earnings before income taxes and fixed charges are less than one and one-half times the fixed charges related to their outside indebtedness.

The Company has not adopted Statement of Financial Accounting Standards No. 94, "Consolidation of All Majority-owned Subsidiaries" and is not required to do so until fiscal 1989. If the Company had adopted SFAS No. 94 during fiscal 1987, total assets would have increased \$2.4 million to \$261.0 million. Operating income and net income would not have changed.

Report of Independent Accountants

TO THE STOCKHOLDERS, MEASUREX CORPORATION

We have examined the consolidated balance sheets of Measurex Corporation and Subsidiary Companies as of November 29, 1987 and November 30, 1986, and the related consolidated statements of income, stockholders' equity and changes in financial position for each of the three fiscal years in the period ended November 29, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Measurex Corporation and Subsidiary Companies at November 29, 1987 and November 30, 1986, and the consolidated results of their operations and changes in their financial position for each of the three fiscal years in the period ended November 29, 1987, in conformity with generally accepted accounting principles consistently applied during the period, except for the change, with which we concur, in accounting for computer software costs as described in Notes to Consolidated Financial Statements.

Coopers & Lybrand

San Jose, California
December 16, 1987

MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The Company's common shares are listed on the New York and Pacific Stock Exchanges. Prices for fiscal year 1986 have been restated to reflect a two-for-one stock split effected in the form of a 100% stock dividend that was distributed to stockholders of record on February 20, 1987.

As of November 29, 1987, there were 1,864 stockholders of record. Dividends of \$.225 and \$.165 per share were paid in 1987 and 1986, respectively.

	1987 Price		1986 Price	
	High	Low	High	Low
1st Quarter	\$24 ¹ / ₄	\$17 ¹ / ₂	\$18 ⁷ / ₈	\$12 ⁵ / ₈
2nd Quarter	29 ³ / ₄	21 ³ / ₈	20 ¹ / ₄	16 ⁵ / ₈
3rd Quarter	32 ¹ / ₄	24 ¹ / ₈	19 ⁷ / ₈	15 ⁷ / ₈
4th Quarter	34 ¹ / ₂	19 ¹ / ₂	19	15 ¹ / ₂

INTERIM FINANCIAL INFORMATION (Unaudited)

	1987 Quarter Ended			
	(Dollar amounts in thousands except per share data)	Mar. 1	May 31	Aug. 30
Revenues	\$51,118	\$57,626	\$57,701	\$60,908
Gross Margin	21,979	24,372	24,816	27,309
Income before income taxes	8,954	8,389	9,199	11,007
Net Income	6,448	6,039	6,623	7,705
Net income per share	.34	.31	.34	.40
Dividends per share	.045	.06	.06	.06

	1986 Quarter Ended			
	(Dollar amounts in thousands except per share data)	Mar. 2	June 1	Aug. 31
Revenues	\$44,656	\$47,432	\$49,752	\$50,867
Gross margin	20,250	21,515	22,382	22,290
Income before income taxes	7,887	7,961	7,897	7,122
Net income	4,969	5,095	5,330	5,674
Net income per share	.27	.27	.28	.30
Dividends per share	.03	.045	.045	.045

Selected Financial Data

Five years ended November 29, 1987

(Dollar amounts in thousands except per share data)

	1987	1986	1985	1984	1983
REVENUES:					
System sales	\$153,293	\$125,287	\$114,593	\$102,201	\$ 68,028
Service and other	74,060	67,420	62,021	58,067	54,677
Total revenues	227,353	192,707	176,614	160,268	122,705
GROSS MARGIN:					
System sales	\$ 75,302	\$ 65,647	\$ 58,576	\$ 52,294	\$ 30,003
Service and other	23,174	20,790	19,338	16,645	15,287
Total gross margin	98,476	86,437	77,914	68,939	45,290
Income before income taxes and extraordinary credit	\$ 37,549	\$ 30,867	\$ 30,035	\$ 25,942	\$ 8,879
Income before extraordinary credit	26,815	21,068	17,720	12,763	4,795
Net income	26,815	21,068	17,720	14,424	4,795
Income per share before extraordinary credit	1.39	1.12	.97	.73	.33
Net income per share	1.39	1.12	.97	.83	.33
Dividends per share	.225	.165	.12	.10	—
System orders	187,000	135,000	112,000	123,000	83,000
System backlog	102,000	69,000	60,000	65,000	40,000
RETURN ON REVENUES:					
Gross margin	43.3%	44.9%	44.1%	43.0%	36.9%
Earnings from operations	12.8%	12.7%	13.1%	11.2%	6.3%
Income before income taxes and extraordinary credit	16.5%	16.0%	17.0%	16.2%	7.2%
Income before extraordinary credit	11.8%	10.9%	10.0%	8.0%	3.9%
Income tax rate	28.6%	31.7%	41.0%	44.4%	46.0%
Working capital	\$140,951	\$121,245	\$ 98,662	\$ 77,606	\$ 42,313
Total assets	258,654	224,867	193,069	172,639	125,990
Total debt	6,214	6,570	6,741	6,980	10,654
Stockholders' equity	170,190	151,866	128,670	110,460	81,412
Current ratio	3.2:1	3.5:1	3.4:1	2.7:1	2.3:1
Total debt-to-equity	3.7%	4.3%	5.2%	6.3%	13.1%
Return on beginning equity	17.7%	16.4%	16.0%	17.7%	6.4%
Return on beginning assets	11.9%	10.9%	10.3%	11.4%	4.0%
Product development:					
Total product development costs	\$ 21,875	\$ 18,346	\$ 14,502	\$ 13,211	\$ 9,362
Less:					
Capitalized software costs (a)	(2,432)	(2,282)	NA	NA	NA
Reimbursement from co-development programs	(2,734)	(1,941)	—	—	—
Product development expense	\$ 16,709	\$ 14,123	\$ 14,502	\$ 13,211	\$ 9,362
Capital expenditures	\$ 6,912	\$ 7,323	\$ 7,820	\$ 6,329	\$ 3,594
Number of employees	2,540	2,490	2,360	2,300	2,050
Shares outstanding (thousands)	18,416	18,516	18,002	17,664	14,474

(a) Computer software costs capitalized in accordance with Statement of Financial Accounting Standards No. 86 effective in fiscal 1986. In prior years, such costs were included in product development expense.

All share and per share data have been adjusted to reflect a two-for-one stock split to stockholders of record on February 20, 1987.

NA=Not applicable

Corporate Directory

DIRECTORS OF MEASUREX CORPORATION

- *Paul Bancroft, III
Venture Capitalist
Retired President and
Chief Executive Officer
Bessemer Securities Corporation
(Private investment company)
- **Dwight C. Baum
Senior Vice President
PaineWebber Incorporated
(Investment banking firm)

David A. Bossen
President,
Chief Executive Officer
Measurex Corporation
- *Dr. Orion L. Hoch
President,
Chief Executive Officer
Litton Industries
(A multi-industry company)
- *John W. Larson
Managing Partner
Brobeck, Phleger and Harrison
(Law firm)
- **John W. McKittrick
President,
Chief Executive Officer
VMX, Inc.
(Manufacturer of voice store
and forward equipment)
- **Graham Tyson
Director
Dataproducts Corporation
(Manufacturer of computer
printers)
- *Member of Compensation
Committee
- **Member of Audit Committee

PRINCIPAL OFFICERS

Measurex Corporation

- David A. Bossen
President,
Chief Executive Officer
- John C. Gingerich
Executive Vice President,
Operations
- Fernand Ostiguy
Executive Vice President,
Sales and Service
- Robert McAdams Jr.
Senior Vice President,
Finance and Administration
- Jerome Raffel
Senior Vice President,
Manufacturing Operations
- Dr. Doris S. Bossen
Vice President,
Corporate Communications
- Phillip E. Peterson
Vice President,
Personnel
- Dr. Harish S. Rao
Vice President,
Corporate Engineering
and Marketing
- Carl A. Thomsen
Vice President
and Controller
- Fred R. Bierbrauer
Treasurer
- Willis Lumpkin
Assistant Treasurer
- John W. Larson
Secretary

Pulp and Paper Group

- Laslo Dudas
Vice President,
Canada
- John P. Fabri
Vice President,
Midwest Region
- Erik J. Hallman
Senior Vice President,
Europe
- Thomas A. King
Vice President,
Engineering and Marketing
- Lance M. Lissner
Vice President,
Pacific
- K.L. Lukanovich
Vice President,
Millwide Systems Europe

William H. Moore
Senior Vice President,
U.S. South/West Division

Masa Ohno
Vice President,
Japanese Operations

Eduard C. Richter
Vice President,
U.S. Northeast Region

Hans Westerberg
Vice President,
Manufacturing Operations

William J. Weyand
Vice President,
U.S. Northern Division

Industrial Systems Group

Harry D. Biehl
Vice President,
Manufacturing Operations

John J. Burke
Vice President,
Americas

Robert Hein
Vice President,
Southern Region

John Preston
Vice President,
Europe

Faust Wertz
Vice President,
Engineering and Marketing

Measurex Automation Systems

Glenn R. Wienkoop
President

Other Officers

Morris J. Fealy
Vice President,
Marketing Communications

Dean A. Forseth
President,
Measurex Management
Systems Division

Richard Hill
Vice President,
European Finance
Measurex International
Corporation

CORPORATE INFORMATION

Form 10-K

Measurex's Form 10-K, the Company's annual report filed with the Securities and Exchange Commission, will be sent without charge upon written request. Please write:
Corporate Communications
Measurex Corporation
One Results Way
Cupertino, CA 95014-5991

Stock Listing

Measurex's common stock is listed on the New York and Pacific Stock Exchanges and trades under the symbol MX.

Transfer Agent and Registrar

Bank of America
N.T. & S.A.
San Francisco, California

Auditors

Coopers & Lybrand
San Jose, California

General Counsel

Brobeck, Phleger and Harrison
San Francisco, California

Notice of Annual Meeting

The annual meeting of stockholders will be held at 10:00 a.m. Tuesday, April 5, 1988, at corporate headquarters, Cupertino, California.



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