



# Milestones

## FISCAL 2001

### Q1

- **Mini Wheel Mouse** hits the road
- QuickCam® Family begins shipping with SpotLife™ software
- A host of **entertainment products** debut at E3 Los Angeles—  
WingMan® Formula™ GP, Formula™ Force GP Racing Wheels, WingMan® RumblePad™, WingMan® Precision™  
Gamepad, New SoundMan® Speaker Family, including **SoundMan® Xtrusio™ DSR-100**
- Cordless TrackMan® Wheel—**the first** cordless optical trackball
- Redesigned QuickCam® Web with **New Internet Video Capabilities**
- Logitech and Motorola announce **Bluetooth** collaboration
- New optical mice mark five years in **optical** technology
- Logitech earns 42nd place in **Business Week's Infotech 100**

### Q2

- iFeel™ Optical Mice add a new dimension to the desktop—**Tactile Response**
- **QuickCam®** Software Development Kit establishes vision as technology platform
- GT Force, the first force feedback steering wheel for **PlayStation® 2** debuts at Tokyo Game Show
- Cordless keyboard sales pass the **two million** mark
- Logitech **ranks #9** in Bloomberg's Global 100 Hot Stocks
- **Stock Split** completed

### Q3

- WingMan® Strike™ Force 3D Joystick offers more **power**, greater **realism** and sleek, compact design
- New line-up of cordless desktop solutions
- **QuickCam® Pro 3000** sets new standard for image quality and one-step simplicity
- Cordless TrackMan® FX offers **cordless freedom**, optical precision, unique design
- **Bluetooth** prototypes unveiled at Fall Comdex
- Logitech and easyEverything **team up** in New York

### Q4

- Logitech acquires **Labtec**
- **Partnership** with VM Labs announced; development underway for **NUON-based** gaming peripherals
- QuickCam® Traveler lets users follow and **capture the action**
- Logitech and Agilent Technologies announce jointly developed **power-saving** optical sensor
- **Cordless MouseMan® Optical** launches at CeBIT Hannover
- Logitech demos working **Bluetooth** prototypes at CeBIT Hannover
- Logitech tops **80 million** products sold as fiscal year closes

# TO OUR **shareholders,** **partners and** **employees**

Fiscal 2001, which ended March 31, 2001, was marked by four record quarters. Sales of \$761.4 million topped last year's by 24 percent, handily surpassing the billion mark in Swiss Francs. Net income of \$48.4 million was 61 percent greater than fiscal 2000. Operating income of \$58 million exceeded our projections and underscored our ability to successfully manage expenses while continuing to invest in growth opportunities. Gross margin of 34.0 percent demonstrated the strength of our current product portfolio.

These results, in sharp contrast to the widespread slowdown in the PC industry, are largely attributable to a transformation of our business model in the past three years. Of key importance in this growth is our strength in the retail market, which now accounts for approximately 80 percent of our revenue. Here, we have continued to introduce innovative products—iFeel™ mice, Cordless MouseMan® Optical, or the dual-purpose QuickCam® Traveler™, to name but a few—that enable consumers to do new and exciting things with today's powerful computing platforms.

This year, we introduced 25 new retail products across all categories. We saw the sale of our 300 millionth mouse, as well as more than six million cordless products and more than four million Internet video cameras. In fact, for both cordless and video, we are the market leader. Impressive as these figures are, the opportunity ahead remains huge, considering that the penetration of camera and cordless categories into the installed base of hundreds of millions of PCs is still in the single digits.



**GUERRINO DE LUCA**  
President and  
Chief Executive Officer

**DANIEL BOREL**  
Chairman of the Board

In March, we added an exciting and highly complementary new business to our corporate family with the purchase of Labtec, a leader in peripherals such as PC headsets and microphones, speakers and personal audio products. Labtec, with approximately \$100 million in revenue during calendar 2000, provides both commercial and strategic synergies for Logitech, supplementing our portfolio of human interface devices with new ways to enrich Internet-based personal communication.

In pursuit of our goal to expand into additional platforms and environments, we announced our first product for the popular PlayStation® 2, our GT Force steering wheel—the only force feedback steering wheel currently available for this audience. At the same time, we are actively exploring additional platforms and technologies, especially in the area of personal wireless connectivity.

As we enter our 20th year, Logitech's vision of providing a human-centered gateway to the digital world is intact and more relevant than ever. We have seen personal computing shift its focus from "computing" to "personal"—from the CPU and its power to the user and the quality of the experience.

Our prospects are exciting, but at the same time, we realize it is only through careful management of resources, continual vigilance and excellence in execution that we will continue to maintain our favorable position in a highly desirable, highly competitive market space. Ours is a work-in-progress, not a *fait accompli*.

It is our customers and industry partners, and especially our employees who have made this a banner year for Logitech. We thank each of them for their dedication and support.



**GUERRINO DE LUCA**  
President and  
Chief Executive Officer



**DANIEL BOREL**  
Chairman of the Board



### A BRAND COMES OF AGE . . .

Ever since Logitech shipped its first order of mice to Hewlett-Packard in 1984, the company has been a leader in the OEM sector. Today, as the world's largest manufacturer of mice, Logitech continues to supply virtually all of the top systems companies, building on years of experience in high-volume manufacturing, tight quality control and worldwide distribution and logistics to meet the stringent requirements of this market.

At the same time, however, Logitech has undergone a significant transformation, broadening its product line to encompass an entire category—human interface devices—and establishing a commanding presence in the retail market as a leading provider of products that enrich the individual computing experience through innovative technology, award-winning design and powerful software. Today, with a strong and growing brand presence in more than 60,000 traditional retail outlets located in over 100 countries, as well as on hundreds of web-based retail sites, Logitech owes approximately 80 percent of its revenue to its retail business. In fiscal 2001 alone, 32 million units were sold under the Logitech brand.

This transformation has had a twofold effect. From a business standpoint, Logitech has been able to withstand a widespread slump in PC sales by addressing the installed base of PCs—a largely untapped potential representing hundreds of millions of units—with compelling, innovative products that serve as enhancements for these existing PCs. At the same time, with its plant capabilities and manufacturing efficiency, the company is able to maintain its role as a leading OEM supplier.

From a market standpoint, the coming of age of the Logitech retail brand means that consumers now have an opportunity to optimize the performance of their PCs with an ever-broader variety of high-quality, innovative peripherals. And with more than 40 technology “firsts” to its credit, Logitech is well positioned to continue delighting consumers with breakthrough products such as iFeel™ optical mice, featuring tactile feedback, or most recently, with the marriage of today's two hottest mouse technologies—cordless and optical.



In essence, Logitech strives to deliver what today's consumers want:

- **Media-rich communication:** Today's PC has become a powerful vehicle for communication, as users embrace popular Internet-enabled applications such as video mail and online chat. Logitech's PC video cameras and speakers add the desired visual and audio dimensions to this multimedia environment.
- **Cordless freedom:** A broad choice of cordless mice, trackballs and keyboards frees the desktop from cable clutter, using reliable digital radio technology, while providing the flexibility to arrange the workspace according to individual preferences.
- **Internet value:** The Internet has become part of the fabric of everyday life, as people spend more and more of their time online. Given this increased time at the computer, consumers seek easy Internet access and navigation—advantages provided by Logitech's innovative iTouch™ and WebWheel™ utilities—as well as mice and keyboards that are comfortable to use.
- **Gaming and music:** Logitech's high-performance interactive controllers add immersive realism to the gaming experience. Their innovative technology is paired with Logitech's signature design, to complete this realism with a corresponding look-and-feel of the game. Most recently, Logitech has further enhanced time spent in play with high-quality sound from its desktop speakers.
- **Design appeal:** In an era when “personalization” has become an industry watchword and aesthetics are increasingly important, Logitech continues to complement technology with great industrial design across a broad variety of shapes and colors, in keeping with its commitment to personal choice and comfort.



A strong brand that delivers these “consumer delight” features is key in seizing the significant opportunity of the aftermarket. Yet such a brand is a challenge to create and sustain. Logitech realizes both the opportunity and the challenge of its very favorable market “space,” and continues to explore and enhance the human interface with best-of-breed products and integrated solutions that meet and strive to exceed these customer demands.

## THE LOGITECH BRAND . . . ON THE DESKTOP

Today, the Logitech brand encompasses virtually everything we touch—or listen to—as we interact with our PC at the desktop. And it is the desktop that represents both the heritage and the personality of our brand. It's what comes to mind for consumers worldwide at the mention of Logitech's name.

Yet the Logitech desktop is far from static. In fact, it is continually redefining itself in response to a changing market and emerging consumer desires. This desktop evolution follows several key paths:

- **Breaking free with cordlessness:** Cutting cables everywhere is an ongoing mandate for a brand based on freedom and comfort on the desktop. With more than ten million cordless products sold, Logitech continues to lead the way in providing consumers with reliable cordless solutions based on digital radio technology. Over the past year, the company has added even more cordless choices to its product line-up: Cordless TrackMan® Wheel and Cordless TrackMan® FX—the first cordless optical trackballs; new cordless keyboard and mouse “desktops” and most recently, Cordless MouseMan® Optical—a breakthrough product that combines the two hottest mouse technologies in today's market.
- **Getting smarter:** Because mice and keyboards represent the two most frequently used peripherals on the desktop, many brands compete for this market segment. What makes Logitech's mice and keyboards rise above competing products is the combination of extra intelligence afforded by MouseWare® software, from the initial windowing capability of early DOS-based versions, to the innovative “HyperJump” feature, which facilitated navigation in the Windows environment, to today's iTouch™ functionality, which provides Internet access and navigation at the touch of a single button. And to be sure, Logitech's award winning design.
- **Working smoother:** Optical sensing, first introduced by Logitech in its trackball family, and incorporated into its mouse line this past year, eliminates moving parts and provides unprecedented precision and accuracy.
- **Feeling the experience:** In September, Logitech brought yet another breakthrough to the desktop with the introduction of the iFeel™ line of optical mice, with the ability to “feel” onscreen events. Now anyone who uses a mouse can experience tactile sensations as the cursor travels through all Windows applications and on the Web. And as software developers continue to incorporate support for iFeel mice, users will be able to feel a wide variety of onscreen landscapes and textures.





### LOGITECH ON THE WEB . . . GETTING CLOSER

With more than four million sold this year, Logitech's QuickCam® PC video cameras are bringing consumers closer to family and friends as they extend the information interface beyond the desktop and enable visual communication via the Internet. The addition of powerful Internet-enabled applications such as video mail, video chat and especially the SpotLife™ personal broadcasting service, is gradually making these cameras a "must have." In proof of the growing popularity of PC video, SpotLife registered more than one million personal broadcasters in the space of just one year—ordinary consumers who have discovered the fun of sharing everything from life in a college dorm to an online wedding.



The QuickCam® Traveler™, which joined the growing Logitech QuickCam family this past year, has brought a new dimension to the video experience. This new category combines easy Web communication with the freedom of a digital still camera. When detached from the PC, QuickCam Traveler can store up to 60 high-resolution or 200 low-resolution images, while in attached mode, it becomes a high-quality VGA camera, complete with a built-in microphone and additional software applications for realistic communication that includes sound, music and special effects.

In addition, to ensure that consumers continue add to the enjoyment of their video experience, Logitech introduced a toolkit for developers wishing to integrate QuickCam video capability into their applications. With the Software Developers' Kit, it is easy to program multiple applications to use a QuickCam at the same time or allow one application to have several video windows open at once.

"I use your QuickCam to keep in touch with family in South Carolina, North Carolina, Indiana and Illinois . . . This coming December will mark the arrival of a new great grandchild in my family and we will then have four generations connected because of your QuickCam. Thanks for providing such a great product!" — **RUTH**

"I have purchased many of your wired and wireless mice and keyboards over the past six years, and I have to admit they are the finest investments I have ever made" — JASON

#### LOGITECH AT PLAY...

#### BEYOND THE DESKTOP AND INTO THE LIVING ROOM

Logitech's WingMan® interactive entertainment family increased dramatically this past year, with the addition of new force feedback joysticks and improved force feedback steering wheels for compelling realism during play. For the first time, this power became affordable for everyone with the introduction of the WingMan® Strike™ Force 3D, a compact unit that takes up far less desk space than Logitech's original premium force feedback joystick, yet in no way compromises the strength of force feedback effects. For the gamepad-based genre, Logitech introduced the popular RumblePad™, which features sophisticated dual-motor technology for maximum vibration feedback and precise 360-degree movement.



The introduction of Logitech's SoundMan® Xtrusio™ DSR-100 speakers, with surround sound provided by a sleek extruded aluminum subwoofer and four satellites, brought 100 watts of additional power and pleasure to games and DVD movies on the PC, delivering high-fidelity sound reproduction from full, deep bass to soaring highs.

This was the year that Logitech kept its promise to move beyond the PC—with the announcement of the first Logitech product for the booming console market—the world's first force feedback steering wheel for PlayStation®2. Previewed at the Tokyo Game Show in September 2000, the Logitech wheel is designed for use with the top-selling Gran Turismo™3 A-spec racing game from Polyphony Digital. This exciting product positions the Logitech brand firmly in the living room, establishing Logitech as a provider of innovative, high-quality interface devices no matter where people seek to interact with digital information.

Logitech continues to explore additional computing platforms, for example, in collaboration with VM Labs, a provider of the DVD-based NUON gaming environment. At the January 2001 Consumer Electronics Show in Las Vegas, the two companies previewed a Logitech gamepad designed for NUON devices.

## LOGITECH AROUND THE WORLD . . . A GLOBAL BRAND

Since its founding in 1981, Logitech has been a truly international operation. Today, the company maintains offices in major cities in North America, Europe and Asia Pacific and distribution centers on each of these continents. Drawing on key strengths of Swiss, American and Chinese engineering, as well as high-volume, high-quality manufacturing facilities in Asia, the Logitech brand continues to reach ever greater numbers of retail consumers worldwide.

This year, the Logitech brand has become increasingly visible and significant in Eastern Europe, where the company's offices in Budapest, Warsaw and Prague enjoy a solid reputation. Responding to the increasing demand for localization in this emerging market, currently growing by more than 100 percent per year, Logitech launched its first product localized for Eastern Europe, with packaging and manuals designed for Polish, Czech, Hungarian and Russian consumers.

In Asia Pacific, whose untapped potential is widely recognized, Logitech's sales have grown by 58 percent over the past two years. Recently, the company expanded its Asian presence with a new office in Hong Kong—which joins Taipei, Suzhou, Shanghai, Beijing, Singapore, Bombay, Seoul and Tokyo as regional offices. In the Americas and Europe, the Logitech brand continues its strong leadership in several key areas, especially cordless mice and keyboards as well as PC video cameras.

Beyond the traditional retail shelves, the Logitech brand is expanding in the virtual world of e-commerce. Today, the company markets its products via the Internet in the U.S. and Europe, either directly or through well-known online retailers such as Amazon.com.



#### THE LOGITECH BRAND... ON THE MOVE

Logitech continues to expand and refine its brand through new products and new technologies. This past year saw the introduction of 25 new retail products and several key technologies—especially tactile feedback and cordless optical devices. In addition, it saw the expansion of the Logitech brand beyond the PC into the console market.

Fiscal 2001 also saw the addition of a new brand—Labtec—to the Logitech family. The Labtec brand brings to Logitech a comprehensive range of products and a significant market presence, particularly in the audio interface space. The company's leading PC headset and microphone lines, its market-leading line of PC speakers and its personal audio products for MP3 players and other portable audio devices, represent an ideal complement to Logitech's broad range of human interface devices, both in the PC arena and on next-generation computing platforms. The Labtec acquisition underscores Logitech's commitment to continual expansion of the interface concept, as the company responds to the ever-increasing impact from technologies such as voice-over-IP, voice chat and digital music, and the resulting mainstream role for audio interface devices.

In the emerging "wireless world," Logitech is well positioned to build on its strength as a leader in cordless devices as the market moves toward tomorrow's world of personal area networks based on Bluetooth technology. To this end, Logitech has been an active participant in the Bluetooth initiative and has demonstrated compatibility between its popular Palomar™ digital radio technology and Bluetooth-based prototypes of both Logitech and third-party devices.

In essence, the Logitech brand serves consumers today while continually looking ahead—ready to provide high-quality, innovative interface devices for whenever, wherever and however people need to access information for working, playing, learning and communicating.



## LOGITECH OFFICERS

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Chairman of the Board

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### **Junien Labrousse**

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### **Marcel Stolk**

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### **Bob Wick**

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### **Patrick Brubeck**

Vice President,  
Quality

### **Collette Bunton**

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### **Steve Daverio**

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### **Bernard Gander**

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### **Ted Hoff**

Vice President,  
Interactive Entertainment

### **Vladimir Langer**

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### **Roberta Linsky**

Vice President,  
Worldwide Human Resources

### **Yudhi Patel**

Vice President,  
Worldwide Manufacturing Outsourcing

### **Steve Perotin**

Vice President,  
Worldwide Supply Chain

### **Dan Poulin**

Vice President,  
Worldwide IT  
Chief Information Officer

### **Robin Selden**

Vice President,  
Worldwide Marketing

### **Haruo Takizawa**

Vice President,  
General Manager,  
Logicool, Japan

### **Gavin Wu**

Vice President,  
Regional Sales and Marketing,  
Asia Pacific

### **Margaret Wynne**

Vice President,  
Legal and General Counsel,  
Secretary of the Board

## BOARD OF DIRECTORS

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President and Chief Executive Officer

### **Kee-Lock Chua**

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Intraco

### **Ron Croen**

President and Chief Executive Officer,  
Nuance Communication  
(to be presented to the shareholders at the  
Annual General Meeting in June 2001)

### **Pier Carlo Falotti**

Former Executive, Oracle, AT&T, ASK  
and Digital Equipment

### **Jean-Louis Gassée**

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Be Inc.

### **Frank Gill**

Former Executive Vice President,  
Intel

### **Peter Pfluger**

Chief Executive Officer,  
Phonak Hearing Systems  
(to be presented to the shareholders at the  
Annual General Meeting in June 2001)



Visit [www.logitech.com](http://www.logitech.com)  
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# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*This annual report to shareholders contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these statements as a result of certain factors, including those set forth below.*

## Overview

Logitech designs, manufactures and markets human interface devices and supporting software that serve as the primary physical interface between people and their personal computers and the internet. The Company's products include corded and cordless mice, trackballs and keyboards; joysticks, gamepads, and racing systems; internet video cameras; and multimedia speakers.

The Company sells its products through two primary channels, original equipment manufacturers ("OEMs") and a network of distributors and resellers ("retail"). Products sold to OEMs, principally pointing devices, are generally resold to end users bundled with new PCs. Sales to OEMs as a percentage of total net sales can vary significantly and have ranged from 17% to 38% on a quarterly basis over the past three fiscal years.

Logitech was founded in Switzerland in 1981, and in 1988 listed its shares in an initial public offering in Switzerland. In 1997, the Company sold shares in a U.S. initial public offering in the form of American Depositary Shares ("ADS"), and listed the ADSs on the Nasdaq National Market System. The Company's operational headquarters are in Fremont, California through its U.S. subsidiary, with regional headquarters in Romanel, Switzerland and Hsinchu, Taiwan through local subsidiaries. In addition, Logitech has manufacturing operations in China, with distribution facilities in the United States, Europe and Asia.

## Recent Developments

On March 27, 2001, Logitech completed the acquisition of Labtec Inc., a publicly traded Vancouver, Washington-based provider of PC speakers, headsets and microphones, personal audio products for MP3 players and other portable audio devices, 3D input devices, and other peripherals and accessories for computing, communication and entertainment. Under terms of the merger agreement, Logitech purchased substantially all outstanding shares of Labtec for \$73 million in cash and stock, plus \$3.3 million of transaction costs. Consideration for the purchase was obtained through i) short term borrowings of \$35 million under a term loan credit facility, ii) the issuance of 1,142,998 Logitech ADSs, and iii) the use of \$12.5 million of working capital funds.

The Company has financed the cash portion of the purchase price with \$90 million of borrowings (\$35 million drawn down as of March 31, 2001) under a bridge loan facility. The bridge loan matures one year after the initial draw. The Company intends to refinance this loan prior to maturity, either through a debt or equity financing or a new bank facility. As a result of the increased leverage, the Company's principal and interest obligations will increase substantially.

The acquisition was accounted for using the purchase method of accounting. Therefore, the assets acquired and liabilities assumed were recorded at their estimated fair values as determined by the Company's management based upon information currently available and on current assumptions as to future operations. Labtec's results of operations from the March 27, 2001 acquisition date were not significant because the acquisition occurred shortly before the end of the fiscal year. Logitech also recorded a \$3.3 million in-process research and development charge in connection with the acquisition.

The acquisition will have a significant impact on the Company's results of operations. The impact will include:

- Significantly increased interest expense resulting from the borrowings under the bridge loan;
- Significantly increased expense resulting from amortization of goodwill and other intangible assets arising from the acquisition;
- A possible increase in the Company's effective tax rate due to the amortization of transaction-related costs;
- A possible dilutive impact on earnings per share resulting from the shares issued to acquire Labtec;
- Higher sales and gross profit, increased headcount, and higher operating expenses.

## Results of Operations

The following table sets forth certain consolidated financial statement amounts as a percentage of net sales for the periods indicated:

	Year ended March 31,		
	2001	2000	1999
Net sales .....	100.0%	100.0%	100.0%
Cost of goods sold .....	66.0	66.4	65.4
Gross profit .....	34.0	33.6	34.6
Operating expenses:			
Marketing and selling.....	17.2	16.7	18.1
Research and development.....	4.8	5.1	6.8
General and administrative.....	4.4	5.1	5.0
Purchased in-process research and development.....	.4	—	1.3
Total operating expenses.....	26.8	26.9	31.2
Operating income.....	7.2	6.7	3.4
Interest income (expense), net.....	—	(.1)	.2
Loss on sale of product line .....	—	—	(1.5)
Other income (expense), net.....	.3	(.5)	(.3)
Income before income taxes .....	7.5	6.1	1.8
Provision for income taxes .....	1.6	1.2	.3
Net income.....	5.9%	4.9%	1.5%

### Year Ended March 31, 2001 Compared to Year Ended March 31, 2000

#### *Net Sales*

Net sales for the year ended March 31, 2001 increased 24% to \$761.4 million. This growth was shared across all product categories, but primarily came from the Company's video and keyboard products, as well as increases from the Company's corded and cordless mice. The Euro's continued loss in value compared to the U.S. dollar restrained sales growth for the year. With approximately 33% of the Company's sales denominated in the Euro, the Company estimates that the impact of the weakening Euro, along with the impact of other exchange rate changes, was approximately \$38 million. Even with this restraining factor, sales for the year were the highest in Logitech's history.

Retail sales grew by 30% over last year. This growth was shared across all product categories. In the retail pointing device category, which includes mice and trackballs, sales grew by 14% while unit volumes grew 6%. The Company continues to see growth in both corded and cordless mice, with sales increasing 24% over last year. The introduction of a variety of corded optical mice, including some models featuring tactile feedback, helped drive much of this growth. Mice sales represented 37% of the Company's total retail revenue for fiscal 2001, compared to 39% last year. Keyboard products continue to be a source of strong growth with sales increasing by 54% over last year and unit volume growing 57%. The majority of growth in this category continues to come from the cordless desktop line. In the video camera business, retail sales grew 56% and unit volumes more than doubled. The Company continues to believe it is the PC video camera market leader for both unit and dollar market share in both the U.S. and Europe. Sales of interactive entertainment products grew 21%, while unit volumes increased 31%. The overall market for PC gaming peripherals continues to be very weak, affecting Logitech products as well. While sales of joysticks and steering wheels increased over last year, almost half of the sales growth in the gaming category was made possible by the initial sales of gaming console steering wheels, which were shipped in preparation for the upcoming launch of the "Gran Turismo™ 3 A-Spec" racing game for PlayStation® 2. These shipments represent the Company's initial movement beyond the PC.

OEM sales grew this year by 8% compared to last year, while unit volume increased by 3%. This growth was made possible by significant growth in sales of PC video cameras, particularly in the first half of the year. Logitech's OEM sales declined in the fourth quarter of fiscal 2001 compared to the same quarter last year. The largest PC manufacturers

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

continue to face difficult business conditions and a reduction in demand for new PCs, and this impacts Logitech OEM sales. As a result, the Company believes that revenue and unit volumes for OEM in total will decline on a year-over-year basis at least through the first half of fiscal 2002.

### *Gross Profit*

Gross profit consists of net sales, less cost of goods sold, which consists of materials, direct labor and related overhead costs, costs of manufacturing facilities, costs of purchasing finished products from outside suppliers, distribution costs and inventory write-offs. Gross profit increased 25% to \$259.1 million for the year ended March 31, 2001 due primarily to significantly higher sales volume.

Gross margin (gross profit as a percentage of net sales) increased from 33.6% to 34.0%. The increase was primarily due to operational efficiencies achieved throughout the supply chain, combined with increased higher-margin internet video camera sales to OEM customers. Retail gross margin declined, reflecting a shift in product mix and the impact of pricing actions, as well as the decline in the value of the Euro compared to the U.S. dollar. Over the next fiscal year, the Company expects gross margin to be within the long-term targeted range of 34% to 35%.

### **Operating Expenses**

#### *Marketing and Selling*

Marketing and selling expense consists of personnel and related overhead costs, corporate and product marketing, promotions, advertising, trade shows, customer and technical support and facilities costs. Marketing and selling expenses increased 27% to \$130.9 million. The increase in sales and marketing expenses is directly related to the Company's increased sales performance and marketing initiatives aimed at strengthening the Company's retail presence. As a percentage of sales, marketing and selling costs increased slightly from 16.7% to 17.2%. The Company continues to make significant investments in advertising, channel marketing, and brand awareness.

#### *Research and Development*

Research and development expense consists of personnel and related overhead costs, contractors and outside consultants, supplies and materials, equipment depreciation and facilities costs, all associated with the design and development of new products, the enhancements of existing products and the performance of quality assurance activities. Research and development expenses increased 16% to \$36.7 million. As a percentage of sales, research and development costs decreased slightly from 5.1% to 4.8%. Research and development efforts are focused on new product development and cost reductions on existing products.

#### *General and Administrative*

General and administrative expenses consist primarily of personnel and related overhead and facilities costs for the finance, information systems, executive, human resources, and legal functions. General and administrative expenses increased 8% to \$33.5 million for the year ended March 31, 2001. This represents 4.4% of net sales, compared to 5.1% last year. The slight increase in general and administrative expenses primarily reflects higher information systems costs.

#### *Purchased In-Process Research and Development*

In connection with the acquisition of Labtec in March 2001, Logitech recorded a one-time charge of \$3.3 million for purchased in-process research and development. The value of IPR&D was determined by estimating the expected cash flows from the projects once commercially viable, discounting the net cash flows back to their present value and then applying a percentage of completion to the calculated value.

#### *Interest Income (Expense), Net*

Net interest expense was \$.1 million for the year ended March 31, 2001 compared to \$.2 million for the year ended March 31, 2000. Interest expense will increase substantially in fiscal 2002, because of short term financing of the cash needs for the Labtec acquisition. The Company borrowed \$35 million in March 2001 and \$55 million in April 2001 to finance the acquisition and repay Labtec obligations and credit lines.

### *Other Income (Expense), Net*

Other income was \$2.6 million for the year ended March 31, 2001, compared to other expense of \$3.3 million for the same period last year. Other income this year was primarily due to the first quarter gains recognized from the sale of a building and the sale of shares of Immersion Corporation. The other expense last year was primarily due to third quarter losses in investments accounted for under the equity method, and the fourth quarter write-off of an investment, which were partially offset by the gain on the sale of the touchpad technology.

### *Provision for Income Taxes*

The provision for income taxes consists of income and withholding taxes and is based on factors such as management's expectations as to payments of withholding taxes on amounts repatriated through dividends, the jurisdictions in which taxable income and losses are generated, changes in local tax laws and changes in valuation allowances based upon the likelihood of realizing deferred tax assets. The provision for income taxes for the year ended March 31, 2001 was \$12.1 million, representing a 21% effective tax rate, compared to \$7.5 million, representing a 20% effective tax rate in 2000. The effective tax rate increased in 2001 due to the non-deductible nature of the one time purchased in-process research and development expense. Excluding the purchased in-process research and development expense, the effective tax rate in 2001 would have been 20%. The Company's effective tax rate is dependent on achieving expected income levels in a number of jurisdictions. If the Company is unable to achieve expected income levels in those jurisdictions, the Company's effective tax rate could change significantly.

## **Year Ended March 31, 2000 Compared to Year Ended March 31, 1999**

### *Net Sales*

Net sales for the year ended March 31, 2000 increased 31% to \$615.7 million. This growth was shared across all product categories, but primarily came from the Company's keyboard and video products, as well as increases in the Company's cordless mouse offerings.

Retail sales grew by 43%. This growth was shared across all product categories. Retail sales of the Company's traditional pointing devices, which include mice and trackballs, grew by 10%, while unit volumes grew 18%. This growth was driven by a 121% increase in sales of the Company's cordless mice. Even with this growth, mice sales represented only 39% of the Company's total retail revenue for fiscal 2000, compared to 50% in fiscal 1999, reflecting the Company's expanded retail product offerings. Sales of keyboard products increased by 172% over the same period last year, while unit volumes more than doubled. The Company added a renewed line of cordless desktops in the third quarter. In the fast growing internet video camera business, retail sales grew by 130% over last year, with unit volumes almost tripling. The video camera increases occurred despite the loss of some shelf space in stores in the third quarter of fiscal 2000 due to product transition issues related to two improved video products. Sales of interactive gaming products increased 15% over last year, with unit volumes increasing 48%. Average selling prices in this category have declined from last year, reflecting the Company's new entry level offerings and a large sell-in of a new line of high end joysticks and racing systems last year. The sales and volume increases occurred despite declines in the overall U.S. PC gaming market, particularly over the last two quarters. The impact of this decline is being felt by all competitors in this market. Logitech's volume increases, combined with the decline in the overall market, have resulted in increased market share in most interactive gaming product categories, and for joysticks in particular.

OEM sales grew by 7% compared to last year, with unit volume increasing 25%. The impact of the volume increase on net sales was partially offset by price reductions in pointing devices due to price pressures in the OEM market. This growth was driven principally by the Company's internet video cameras which, beginning in the fourth quarter, are being bundled by Compaq with most of their Presario® models sold in the North American market.

### *Gross Profit*

Gross profit for the year ended March 31, 2000 increased 27% to \$206.7 million. Gross profit as a percentage of sales decreased slightly from 34.6% to 33.6%. This decrease principally reflects the impact of pricing pressures in the Company's OEM mouse offerings. The price pressures in the OEM mouse business led to a significant margin decline in this area compared to last year. While the Company continues to achieve cost reductions offsetting much of the impact of lower prices, the price reductions for some of the Company's largest customers have outpaced the cost reduction

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

efforts. The lower overall OEM mouse margins were partially offset by the impact of increased sales of higher margin internet video cameras in the OEM channel. Retail gross profit as a percentage of sales remained flat compared to last year.

### **Operating Expenses**

#### *Marketing and Selling*

Marketing and selling expense for the year ended March 31, 2000 increased 21% to \$103 million. This increase is directly related to the Company's increased sales performance and marketing initiatives aimed at strengthening the Company's retail presence. As a percentage of sales, marketing and selling costs decreased from 18.1% to 16.7%. The Company has increased other marketing costs in new product areas, including retail keyboards, internet video cameras and cordless mice.

#### *Research and Development*

Excluding \$1.4 million in development efforts relating to Spotlife Inc., Logitech's spin-off focused on enhancing video communications using the internet infrastructure, research and development expense for the year ended March 31, 2000 decreased 4% to \$30.3 million. As a percentage of sales, research and development decreased from 6.8% to 4.9%. This decrease was primarily related to lower project development costs. The Company has shortened new product development cycle time and reduced the expenses required to bring products to market. The Company continues its development efforts across the entire spectrum of its product portfolio, with initiatives in new product development as well as cost reductions on existing products.

#### *General and Administrative*

General and administrative expense for the year ended March 31, 2000 increased 32% to \$31.1 million, or 5.1% of net sales, compared to \$23.6 million, or 5.0% of net sales in 1999. This increase was primarily due to increased headcount, amortization of goodwill and intangible assets associated with the acquisition of the Connectix business, and higher costs related to intellectual property litigation.

#### *Interest Income (Expense), Net*

Net interest expense for the year ended March 31, 2000 was \$.2 million compared to net interest income of \$.9 million in 1999. The decline was the result of a decrease in the average balances of interest bearing cash and cash equivalents, partially offset by a decrease in the average balance of short-term debt. The Company's short-term debt peaked in the third and fourth quarters of fiscal 1999 with the financing of working capital needs and part of the Company's acquisition of the Connectix business. The Company has been reducing short-term debt and increasing cash balances since then, particularly in the last half of fiscal 2000, out of cash generated from operations.

#### *Other Expense, Net*

Other expense for 2000 was \$3.3 million, compared to \$1.4 million last year. This increase was primarily due to higher losses in investments accounted for under the equity method and a write-off of an investment accounted for under the cost method. This was partially offset by the gain on sale of the Company's touchpad technology and net foreign exchange gains in fiscal 2000 compared to losses in fiscal 1999.

#### *Provision for Income Taxes*

The provision for income taxes consists of income and withholding taxes and is based on factors such as management's expectations as to payments of withholding taxes on amounts repatriated through dividends, the jurisdictions in which taxable income and losses are generated, changes in local tax laws and changes in valuation allowances based upon the likelihood of realizing deferred tax assets. The provision for income taxes for the year ended March 31, 2000 increased to \$7.5 million, representing a 20% effective tax rate, from \$1.3 million, representing a 15% effective tax rate in 1999.

## Liquidity and Capital Resources

### *Cash Balances, Available Borrowings, and Capital Resources*

At March 31, 2001, net working capital was \$116.8 million, compared to \$115.7 million at March 31, 2000. Cash and cash equivalents totaled \$44.1 million, a decrease of \$5.3 million from March 31, 2000. The decrease in cash was primarily due to investing activities, including \$47.7 million for the acquisition of Labtec and other investments and \$16.8 million for purchases of property and equipment, offset partially by \$9.5 million from proceeds of issuing Logitech registered shares for employee stock plans, \$35.0 million of bank borrowings, and \$12.0 million net cash from operations.

The Company has financed its operations and capital requirements primarily through cash flow from operations and, to a lesser extent, bank borrowings. The Company's normal short-term liquidity and long-term capital resource requirements will be provided from three sources: ongoing cash flow from operations, cash and cash equivalents on hand and borrowings, as needed, under the credit facilities.

The Company had credit lines with several European and Asian banks totaling \$59.2 million as of March 31, 2001. As is common for business in European countries, these credit lines are uncommitted and unsecured. Despite the lack of formal commitments from its banks, the Company believes that these lines of credit will continue to be made available because of its long-standing relationships with these banks. As of March 31, 2001 \$53.5 million was available under these facilities.

### *Acquisition of Labtec*

In March 2001, the Company completed the acquisition of Labtec, Inc. for \$73 million in cash and stock. The consummation of the offer to exchange outstanding shares of common stock of Labtec resulted in aggregate payments of \$47.6 million in cash and issuance of 1,142,998 Logitech ADS's valued at \$25.4 million. As of March 31, 2001, the Company borrowed \$35 million under a \$90 million term loan credit facility to finance part of the cash portion of the exchange offer. As of April 30, 2001, the Company had drawn down the remaining term loan balance of \$55.0 million and has repaid \$53.3 million of Labtec outstanding short and long term debt and obligations relating to the acquisition. The Company intends to refinance the \$90 million of short-term loan prior to maturity either through a debt or equity financing or a new bank facility.

### *Cash Flow from Operating Activities*

The Company's operating activities provided net cash of \$12.0 million for the year ended March 31, 2001, compared to \$32.9 million and \$16.8 million in fiscal 2000 and 1999. The Company generated cash from a higher level of sales in fiscal 2001 compared to fiscal 2000. But this was more than offset by the use of cash in fiscal 2001 for increased inventories and receivables, net of increased payables. The increase in inventories is due principally to anticipated demand for video camera products that didn't develop to the extent anticipated, specifically for OEM customers. The Company had committed to long lead time components for video cameras in anticipation of higher demand. The demand did not fully develop primarily due to industry-wide weakening in demand for new personal computers and increased price competition between computer manufacturers.

The increase in cash generated in the year ended March 31, 2000 compared to 1999 was primarily a result of higher earnings from operating income (excluding the non-cash charge of \$6.2 million in 1999).

### *Cash Flow from Investing Activities*

The Company's investing activities used cash of \$59.1 million for the year ended March 31, 2001, compared to \$19.9 million and \$64.8 million in years 2000 and 1999. Fiscal 2001 cash investing activities included \$47.6 million, excluding \$5.5 million cash acquired for the Labtec acquisition, \$5 million for an additional investment in Spotlife, and \$.6 million for investments in other affiliated companies. In addition, 2001 includes cash proceeds of \$3.6 million from the sale of a building in Europe that was no longer being used in the Company's operations, and \$1.8 million from the sale of available-for-sale securities.

Cash used in the year ended March 31, 2000 included \$4.2 million of investments in affiliated companies, almost half of which was used to form Spotlife Inc., Logitech's spin-off focused on enhancing video communications using the Internet infrastructure.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cash used in the year ended March 31, 1999 included \$40 million, primarily for three acquisitions—the Internet video camera business of Connectix Corporation, 49% of the outstanding shares of Space Control GmbH, and 10% of the outstanding shares of Immersion Corporation.

The amounts invested in all three years for capital expenditures include normal expenditures for tooling costs, machinery and equipment, capital improvements, and other computer equipment. Fiscal years 2000 and 1999 also include costs related to the Company's computer systems implementation project, which was completed mid-fiscal 2000.

### *Cash Flow from Financing Activities*

The Company's financing activities provided cash of \$45.2 million for the year ended March 31, 2001. In March 2001, \$35 million was borrowed from banks for the acquisition of Labtec. Also included in fiscal 2001 are \$11.0 million of proceeds from the issuance of registered shares and sale of treasury shares to fulfill employee stock option and stock purchase plan requirements. This was partially offset by \$1.1 million to purchase treasury shares as part of a stock buy-back program in the first quarter.

Net cash used by financing activities for the year ended March 31, 2000 was \$5.8 million. This represents an \$18.4 million net paydown of short-term debt, partially offset by \$12.9 million of proceeds from sales of treasury shares and registered shares pursuant to employee stock purchase and stock option plans.

Net cash provided by financing activities for the year ended March 31, 1999 was \$19.1 million. This represents principally an increase in short-term debt for working capital needs and to finance part of the Company's acquisition of the QuickCam® Internet video camera business unit of Connectix.

### *Capital Commitments*

The Company believes that it will continue to make capital expenditures in the future to support ongoing and expanded operations. Fixed commitments for long lead time parts totaled \$.3 million at March 31, 2001. Fixed commitments for capital expenditures, primarily for manufacturing equipment, approximated \$2.7 million at March 31, 2001. In addition, the Company has guaranteed up to a maximum of \$5.3 million of Spotlife's capital lease obligation. As of March 31, 2001, the outstanding balance of the lease obligation, and therefore the Company's guarantee, was \$3.2 million. The Company believes that its cash and cash equivalents, cash from operations, and available borrowings under its bank lines of credit will be sufficient to fund capital expenditures and working capital needs for the foreseeable future.

## **Market Risk**

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments. As a global concern, the Company faces exposure to adverse movements in foreign currency exchange rates and interest rates. These exposures may change over time as business practices evolve and could have a material adverse impact on the Company's financial results.

### *Foreign Currency Exchange Rates*

Currently, the Company's primary exposures relate to non-U.S. dollar denominated sales in Europe and Asia and non-dollar denominated operating expenses and inventory costs in Europe and Asia, as well as net assets located in these geographies. The principal currencies creating foreign exchange rate risk for the Company are the Euro, the Taiwan Dollar and Japanese Yen.

For the years ended March 31, 2001 and 2000, 47% and 45% of the Company's sales were denominated in non-U.S. currencies. At March 31, 2001 and 2000, 31% and 32% of the Company's net assets were recorded in non-U.S. currencies. With the exception of its manufacturing subsidiary in Suzhou, China which uses the U.S. dollar as its functional currency, the Company primarily uses the local currencies of its foreign subsidiaries as the functional currency. Accordingly, unrealized foreign currency gains or losses resulting from the translation of net assets denominated in foreign currencies to the U.S. dollar are accumulated in the cumulative translation adjustment component of shareholders' equity. From time to time, certain subsidiaries enter into forward exchange contracts to hedge inventory purchase exposures denominated in U.S. dollars. These forward exchange contracts are denominated in the same currency as the underlying

transactions. Logitech does not use derivative financial instruments for trading or speculative purposes. At March 31, 2001 and 2000, there were no forward exchange contracts outstanding. The Company estimates that if the U.S. dollar had appreciated by an additional 10% as compared to the functional currencies used by its foreign subsidiaries, net income for the years ended March 31, 2001 and 2000 would have been adversely impacted by approximately \$10.7 million and \$8.2 million.

#### *Interest Rates*

Changes in interest rates could impact the Company's anticipated interest income on its cash equivalents and interest expense on variable rate short-term debt. The Company prepared sensitivity analyses of its interest rate exposures to assess the impact of hypothetical changes in interest rates. Based on the results of these analyses, a 10% adverse change in interest rates from the fiscal 2001 and 2000 year end rates would not have a material adverse effect on the Company's results of operations, cash flows or financial condition for the next year. However, given the increase in indebtedness of \$90 million for the Labtec acquisition, a 10% increase in interest rates would increase interest expense by approximately \$500,000.



LOGITECH INTERNATIONAL S.A.  
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	<b>March 31,</b>	
	<b>2001</b>	<b>2000</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 44,142	\$ 49,426
Accounts receivable .....	144,781	123,172
Inventories .....	111,612	68,255
Other current assets .....	29,558	25,354
Total current assets .....	<u>330,093</u>	<u>266,207</u>
Investments .....	16,649	10,807
Property, plant and equipment .....	38,160	42,117
Intangible assets:		
Goodwill .....	92,053	3,907
Other intangible assets .....	21,870	10,100
Other assets .....	6,291	939
Total assets .....	<u>\$505,116</u>	<u>\$334,077</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term debt .....	\$ 62,986	\$ 6,990
Accounts payable .....	91,267	92,430
Accrued liabilities .....	59,054	51,049
Total current liabilities .....	<u>213,307</u>	<u>150,469</u>
Long-term debt .....	26,908	2,934
Other liabilities .....	8,847	705
Total liabilities .....	<u>249,062</u>	<u>154,108</u>
Commitments and contingencies		
Shareholders' equity:		
Registered shares, par value CHF 10 – 5,441,861 authorized, 868,139 conditionally authorized, 4,441,861 issued and outstanding at March 31, 2001; 4,362,920 authorized, 1,147,080 conditionally authorized, 4,162,920 issued and outstanding at March 31, 2000 .....	31,396	29,752
Additional paid-in capital .....	118,740	83,686
Less registered shares in treasury, at cost, 16,475 at March 31, 2001 and 20,640 at March 31, 2000 .....	(627)	(1,056)
Retained earnings .....	129,435	84,367
Accumulated other comprehensive loss .....	(22,890)	(16,780)
Total shareholders' equity .....	<u>256,054</u>	<u>179,969</u>
Total liabilities and shareholders' equity .....	<u>\$505,116</u>	<u>\$334,077</u>

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

LOGITECH INTERNATIONAL S.A.  
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share and per share amounts)

	Year ended March 31,		
	2001	2000	1999
Net sales .....	\$761,356	\$615,664	\$470,741
Cost of goods sold .....	502,290	408,969	308,018
Gross profit .....	259,066	206,695	162,723
Operating expenses:			
Marketing and selling .....	130,947	102,957	85,350
Research and development .....	36,686	31,666	31,378
General and administrative .....	33,484	31,102	23,625
Purchased in-process research and development .....	3,275	—	6,200
Total operating expenses .....	204,392	165,725	146,553
Operating income .....	54,674	40,970	16,170
Interest income (expense), net .....	(148)	(163)	906
Loss on sale of product line .....	—	—	(7,272)
Other income (expense), net .....	2,628	(3,252)	(1,407)
Income before income taxes .....	57,154	37,555	8,397
Provision for income taxes .....	12,086	7,511	1,260
Net income .....	<u>\$ 45,068</u>	<u>\$ 30,044</u>	<u>\$ 7,137</u>
Net income per share:			
Basic .....	\$ 10.67	\$ 7.55	\$ 1.85
Diluted .....	\$ 9.60	\$ 6.87	\$ 1.79
Net income per ADS:			
Basic .....	\$ 1.07	\$ .76	\$ .19
Diluted .....	\$ .96	\$ .69	\$ .18
Shares used to compute net income per share:			
Basic .....	4,222,624	3,976,990	3,867,220
Diluted .....	4,694,017	4,375,994	3,982,674

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

LOGITECH INTERNATIONAL S.A.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year ended March 31,		
	2001	2000	1999
Cash flows from operating activities:			
Net income.....	\$ 45,068	\$ 30,044	\$ 7,137
Non-cash items included in net income:			
Depreciation .....	19,012	15,775	13,135
Amortization of goodwill.....	693	693	115
Amortization of other intangible assets.....	2,335	3,547	2,528
Purchased in-process research and development.....	3,275	—	6,200
Write-off of investments and note receivable.....	50	2,000	5,800
Loss (gain) on disposal of property, plant and equipment.....	(1,922)	117	1,081
Gain on sale of investments.....	(1,296)	(1,525)	—
Equity in net losses of affiliated companies .....	440	4,627	254
Stock compensation expense .....	437	422	283
Deferred income taxes.....	593	(24)	(1,844)
Changes in assets and liabilities:			
Accounts receivable .....	(6,630)	(31,823)	(31,886)
Inventories.....	(29,411)	(345)	(32,301)
Other current assets.....	(5,643)	(9,816)	(1,916)
Accounts payable .....	(18,009)	7,232	40,672
Accrued liabilities.....	3,051	11,942	7,541
Net cash provided by operating activities .....	<u>12,043</u>	<u>32,866</u>	<u>16,799</u>
Cash flows from investing activities:			
Purchases of property, plant and equipment .....	(16,824)	(17,872)	(24,756)
Sales of investments.....	1,767	2,150	—
Sales of property, plant and equipment .....	3,637	—	—
Acquisitions and investments, net of cash acquired.....	(47,696)	(4,219)	(40,048)
Net cash used in investing activities .....	<u>(59,116)</u>	<u>(19,941)</u>	<u>(64,804)</u>
Cash flows from financing activities:			
Net borrowing (repayment) of short-term debt.....	35,000	(18,416)	19,063
Net borrowing (repayment) of long-term debt .....	211	(330)	(172)
Purchase of treasury shares .....	(1,065)	—	(4,018)
Proceeds from sale of treasury shares .....	1,553	5,413	4,192
Proceeds from issuance of registered shares.....	9,496	7,512	—
Net cash provided by (used in) financing activities .....	<u>45,195</u>	<u>(5,821)</u>	<u>19,065</u>
Effect of exchange rate changes on cash and cash equivalents .....	<u>(3,406)</u>	<u>(929)</u>	<u>(185)</u>
Net increase (decrease) in cash and cash equivalents.....	(5,284)	6,175	(29,125)
Cash and cash equivalents at beginning of period.....	49,426	43,251	72,376
Cash and cash equivalents at end of period .....	<u>\$ 44,142</u>	<u>\$ 49,426</u>	<u>\$ 43,251</u>
Supplemental cash flow information:			
Interest paid.....	\$ 158	\$ 616	\$ 1,230
Income taxes paid.....	\$ 863	\$ 1,808	\$ 1,423
Non-cash investing and financing activities:			
Property acquired through capital lease financing .....	\$ 900	—	\$ 1,007
Acquisition of Labtec through issuance of registered shares .....	\$ 25,436	—	—

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

**LOGITECH INTERNATIONAL S.A.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(In thousands, except share amounts)

	Registered shares		Additional	Treasury shares		Retained	Net	Cumulative	Total
	Shares	Amount	paid-in	Shares	Amount	earnings	unrealized	translation	
			capital				gain on	adjustment	
							investment		
March 31, 1998.....	4,003,376	\$ 28,738	\$ 75,577	145,978	\$(6,677)	\$ 47,186	—	\$(12,090)	\$ 132,734
Net income.....	—	—	—	—	—	7,137	—	—	7,137
Cumulative translation adjustment.....	—	—	—	—	—	—	—	(291)	(291)
Total comprehensive income.....	—	—	—	—	—	—	—	—	6,846
Purchase of treasury shares....	—	—	—	67,812	(4,018)	—	—	—	(4,018)
Sale of treasury shares upon exercise of options and purchase rights.....	—	—	140	(83,944)	4,052	—	—	—	4,192
March 31, 1999.....	<u>4,003,376</u>	<u>\$ 28,738</u>	<u>\$ 75,717</u>	<u>129,846</u>	<u>\$(6,643)</u>	<u>\$54,323</u>	<u>—</u>	<u>\$(12,381)</u>	<u>\$139,754</u>
Net income.....	—	—	—	—	—	30,044	—	—	30,044
Cumulative translation adjustment.....	—	—	—	—	—	—	—	(4,399)	(4,399)
Total comprehensive income.....	—	—	—	—	—	—	—	—	25,645
Issuance of registered shares upon exercise of options.....	159,544	1,014	6,498	—	—	—	—	—	7,512
Tax benefit from exercise of stock options.....	—	—	1,645	—	—	—	—	—	1,645
Sale of treasury shares upon exercise of options and purchase rights.....	—	—	(174)	(109,206)	5,587	—	—	—	5,413
March 31, 2000.....	<u>4,162,920</u>	<u>\$ 29,752</u>	<u>\$ 83,686</u>	<u>20,640</u>	<u>\$(1,056)</u>	<u>\$84,367</u>	<u>—</u>	<u>\$(16,780)</u>	<u>\$179,969</u>
Net income.....	—	—	—	—	—	45,068	—	—	45,068
Cumulative translation adjustment.....	—	—	—	—	—	—	—	(7,075)	(7,075)
Unrealized gain net of income taxes.....	—	—	—	—	—	—	965	—	965
Total comprehensive income.....	—	—	—	—	—	—	—	—	38,958
Issuance of registered shares upon exercise of options.....	154,729	907	8,589	—	—	—	—	—	9,496
Issuance of registered shares for acquisition of Labtec.....	114,300	678	24,758	—	—	—	—	—	25,436
Issuance of registered shares at par value.....	9,912	59	—	9,912	(59)	—	—	—	—
Tax benefit from exercise of stock options.....	—	—	1,707	—	—	—	—	—	1,707
Purchase of treasury shares....	—	—	—	3,900	(1,065)	—	—	—	(1,065)
Sale of treasury shares upon exercise of options and purchase rights.....	—	—	—	(17,977)	1,553	—	—	—	1,553
March 31, 2001.....	<u>4,441,861</u>	<u>\$31,396</u>	<u>\$ 118,740</u>	<u>16,475</u>	<u>\$ (627)</u>	<u>\$129,435</u>	<u>\$965</u>	<u>\$(23,855)</u>	<u>\$256,054</u>

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

# LOGITECH INTERNATIONAL S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **Note 1 — The Company:**

Logitech International S.A. designs, manufactures and markets human interface devices and supporting software that serve as the primary physical interface between people and their personal computers and the Internet. The Company's products include corded and cordless mice, trackballs, and keyboards; joysticks, gamepads and racing systems; Internet video cameras; and multimedia speakers. The Company sells its products to both original equipment manufacturers ("OEMs") and to a network of retail distributors and resellers.

Logitech was founded in Switzerland in 1981, and in 1988 listed its registered shares in an initial public offering in Switzerland. In 1997, the Company sold shares in a U.S. initial public offering in the form of American Depositary Shares ("ADSs") and listed the ADSs on the Nasdaq National Market system. The Company's operational headquarters are in Fremont, California through its U.S. subsidiary, with regional headquarters in Romanel, Switzerland and Hsinchu, Taiwan through local subsidiaries. The Company has manufacturing operations in China, and distribution facilities in the U.S., Europe and Asia

### **Note 2 — Summary of Significant Accounting Policies:**

#### *Basis of Presentation*

The consolidated financial statements include the accounts of Logitech and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated. The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and comply with relevant Swiss Law. On March 27, 2001 the Company acquired Labtec, Inc. The accompanying consolidated balance sheet includes the assets and liabilities of Labtec; Labtec's results of operations from the date of acquisition through March 31, 2001 were not material.

#### *Use of Estimates*

In conformity with U.S. GAAP, management has used estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

#### *Revenue Recognition*

Revenues are recognized upon transfer of title and risk of loss, which is generally when products are shipped. Revenues from sales to distributors and authorized resellers are subject to terms allowing price protection and certain rights of return. Accordingly, allowances for estimated future returns and price protection are provided for upon revenue recognition. Such amounts are estimated based on historical and anticipated rates of returns, distributor inventory levels and other factors.

#### *Advertising*

Advertising costs are expensed as incurred and amounted to \$53.9 million in 2001, \$33.5 million in 2000 and \$27.9 million in 1999.

#### *Foreign Currency*

The functional currencies of the Company's operations are primarily the U.S. dollar, and to a lesser extent, the Euro, Swiss franc, Taiwanese dollar and Japanese yen. The financial statements of the Company's subsidiaries whose functional currency is other than the U.S. dollar are translated to U.S. dollars using period-end rates of exchange for assets and liabilities and using monthly rates for net sales and expenses. Translation gains and losses are deferred and included in the cumulative translation adjustment component of shareholders' equity. Gains and losses arising from transactions denominated in currencies other than a subsidiary's functional currency are reflected in other income (expense), net in the statements of income.

### *Cash Equivalents*

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

### *Concentration of Credit Risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company maintains cash and cash equivalents with various financial institutions to limit exposure with any one financial institution.

The Company sells to large OEMs and to high volume resellers and, as a result, maintains individually significant receivable balances with large customers. At March 31, 2001, two customers represented 10.5% of total accounts receivable and at March 31, 2000, three customers represented 23.6% of total accounts receivable. The Company's OEM customers tend to be well capitalized, multi-national companies, while retail customers may be less well capitalized. The Company controls its accounts receivable credit risk through ongoing credit evaluation of its customers' financial condition and by purchasing credit insurance on European retail accounts receivable. The Company generally does not require collateral from its customers.

### *Inventories*

Inventories are stated at the lower of cost or market. Cost is computed on a first-in, first-out basis. Provisions are made for potentially obsolete, excess or slow moving inventories.

### *Investments*

Investments in companies in which Logitech owns between 20% and 50%, and does not control, are accounted for by the equity method. Under the equity method, the Company adjusts its carrying value to recognize its share of results of operations. Investments less than 20% owned are carried at cost. The Company also has a marketable investment that is classified as "available-for-sale". The Company carries this investment at market value and records increases or decreases in market value as a component of shareholders' equity.

### *Property, Plant and Equipment*

Property, plant and equipment are stated at cost. Additions and improvements are capitalized, whereas maintenance and repairs are expensed as incurred. The Company capitalizes the cost of software developed for internal use in connection with major projects. Costs incurred during the application development stage are capitalized, whereas costs incurred during the feasibility stage are expensed. Depreciation is provided using the straight-line method over estimated useful lives of five to 25 years for plant and buildings, one to five years for equipment and three to five years for software development.

### *Intangible Assets*

Intangible assets principally include goodwill, acquired technology, assembled workforce and trade names. Intangible assets are recorded at cost and amortized on the straight-line method over periods not exceeding twenty years. Accumulated amortization of intangible assets was \$14.3 million and \$6.8 million at March 31, 2001 and 2000.

### *Impairment of Long-Lived Assets*

The Company reviews for impairment of long-lived assets, such as investments, property and equipment, and goodwill and other intangible assets, whenever events indicate that the carrying amount might not be recoverable. Management assesses recoverability by comparing the projected undiscounted net cash flows associated with those assets to their carrying values. If impaired, the asset is written down to fair value, which is determined based on discounted cash flows or appraised value, depending on the nature of the asset.

### *Income Taxes*

The Company provides for income taxes using the liability method, which requires that deferred tax assets and liabilities be recognized for the expected future tax consequences of temporary differences arising between the bases of assets and liabilities for financial reporting and income tax purposes. In estimating future tax consequences, expected future events are taken into consideration, with the exception of potential tax law or tax rate changes.

LOGITECH INTERNATIONAL S.A.  
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*Fair Value of Financial Instruments*

For certain of the Company's financial instruments, including cash and cash equivalents and accounts receivable, accounts payable and accrued liabilities, short-term debt and current maturities of long-term debt, carrying value approximates fair value due to their short maturities. The estimated fair value of publicly traded financial equity instruments is determined by using quoted market prices. The carrying values of long-term debt do not materially differ from their estimated fair values based upon quoted market prices for the same or similar instruments

*Net Income Per Share*

Basic earnings per share is computed by dividing net income by the weighted average number of outstanding registered shares. Diluted earnings per share is computed using weighted average registered shares and, if dilutive, weighted average registered share equivalents. The registered share equivalents included in the Company's diluted earnings per share computations are registered shares issuable upon the exercise of stock option or stock purchase plan agreements (using the treasury stock method).

*Stock Split*

In July 2000, Logitech completed a two-for-one stock split. All references to share and per-share amounts for all periods presented have been adjusted to give effect to the stock split.

*Stock-Based Compensation Plans*

The Company has adopted the pro forma disclosure-only requirements of SFAS 123, "Accounting for Stock-Based Compensation," which requires companies to measure employee stock compensation based on the fair value method of accounting. As permitted by SFAS 123, the Company follows the accounting provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, compensation expense is not recognized unless the exercise price of an option is less than the market value of the underlying stock on the grant date.

*Comprehensive Income:*

Comprehensive income is defined as the total change in shareholders' equity during the period other than from transactions with shareholders. For the Company, comprehensive income consists of net income, the net change in the accumulated foreign currency translation adjustment account, and the net change in unrealized gains or losses on marketable equity securities. Comprehensive income is presented as an element of shareholder's equity.

*Reclassifications*

Certain amounts reported in prior years' financial statements have been reclassified to conform with the current year presentation.

**Note 3 — Acquisition of Labtec:**

On March 27, 2001, the Company acquired Labtec, Inc. a publicly-traded Vancouver, Washington-based provider of PC speakers, headsets and microphones, personal audio products for MP3 players and other portable audio devices, 3D input devices, and other peripherals and accessories for computing, communications and entertainment. Under terms of the merger agreement, Logitech purchased substantially all outstanding shares of Labtec for \$73 million in cash and stock, plus \$3.3 million of transaction costs. Consideration for the purchase was obtained through: i) short-term borrowings of \$35 million under a term loan credit facility, ii) the issuance of 1,142,998 Logitech ADSs based upon a working capital funds. The ADSs issued in the acquisition were valued using the 5-day weighted average market value of Logitech ADSs encompassing the offer expiration date of March 20, 2001.

The acquisition was accounted for using the purchase method of accounting. Therefore, the assets acquired and liabilities assumed were recorded at their estimated fair values as determined by the Company's management based upon information currently available and on current assumptions as to future operations. The Company obtained an independent appraisal of the fair values of the acquired identifiable intangible assets. A summary of the purchase consideration is as follows (in thousands):

ADs issued to stockholders .....	\$ 25,436
Cash payment to stockholders.....	47,554
Transaction costs.....	<u>3,300</u>
Total consideration .....	<u>\$ 76,290</u>

A summary of the allocation of purchase consideration to the fair values of assets acquired and liabilities assumed in the acquisition is as follows (in thousands):

Estimated fair value of tangible assets acquired.....	\$ 42,877
Estimated fair values of intangible assets acquired: .....	
Patents and core technology.....	2,944
Existing technology .....	3,879
Trademark/tradename .....	4,151
Assembled workforce.....	2,977
Goodwill .....	88,947
Estimated fair value of liabilities assumed .....	(69,510)
Restructuring liabilities .....	(3,250)
Purchased in-process research and development.....	<u>3,275</u>
Total net assets acquired (purchase price).....	<u>\$ 76,290</u>

The tangible assets acquired represent the estimated fair values of the net tangible assets of Labtec Inc. as of March 27, 2001.

The values of the patents, core technology, trademark and tradename were estimated using the relief from royalty method. These assets will be amortized on a straight-line basis over their estimated useful lives of four to five years. The value of the assembled workforce was derived by estimating the costs to replace the existing employees, including recruiting, hiring and training costs. This asset will be amortized on a straight-line basis over its estimated useful life of four years. Where development projects have reached technological feasibility, they have been classified as existing technology, and will be amortized on a straight-line basis over an estimated useful life of four years.

Where the development projects have not reached technological feasibility and have no future alternative uses, they have been classified as in-process research and development ("IPR&D"), which was expensed upon the consummation of the merger. The value of IPR&D was determined by estimating the expected cash flows from the projects once commercially viable, discounting the net cash flows back to their present value and then applying a percentage of completion to the calculated value.

As a result of the acquisition of Labtec, the Company expects to incur restructuring costs of \$3.25 million for the incremental costs to exit and consolidate activities at Labtec locations, and to involuntarily terminate certain employees. These estimated restructuring liabilities are based on the Company's current integration plan which focuses on three key areas of integration: 1) manufacturing process and supply chain rationalization, 2) elimination of redundant administrative overhead and support activities, and 3) restructuring and repositioning of sales and marketing functions to eliminate redundancies.

Unaudited pro forma condensed combined income statement information for the years ended March 31, 2001 and 2000, as if Labtec had been acquired as of the beginning of fiscal year 2000 are shown below. These pro formas exclude the \$3.3 million purchased in-process research and development charge in connection with the acquisition and costs incurred by Labtec to complete the acquisition, but include adjustments to conform Labtec's accounting policies, including areas such as accounts receivable, inventories and related accounts, to those accounting policies followed by Logitech.



LOGITECH INTERNATIONAL S.A.  
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**Pro forma**  
**Year ended March 31,**  

<b>2001</b>	<b>2000</b>
-------------	-------------

**(in thousands, except per share data)**

Net sales .....	\$860,041	\$704,764
Net income .....	\$39,787	\$24,539
Net income per share:		
Basic .....	\$9.17	\$6.00
Diluted .....	\$8.27	\$5.46
Net income per ADS:		
Basic .....	\$0.92	\$.60
Diluted .....	\$.83	\$.54

The above pro forma information includes, for both years, the non-cash amortization expenses attributable to goodwill and intangible assets recorded in connection with the Labtec acquisition. These amounts totaled \$7.5 million in both years, representing diluted earnings per share of \$1.56 (\$.16 per ADS) in the year ended March 31, 2001, and \$1.67 (\$.17 per ADS) in the year ended March 31, 2000 in the table above.

**Note 4 — Acquisition of Connectix PC Video Camera Division:**

In September 1998, the Company completed the acquisition of Connectix Corporation's QuickCam® PC video camera business for \$26.2 million (including closing and other costs). The Connectix business has been combined with the Company's video division to offer a complete line of PC Internet video cameras. The transaction was recorded using the purchase method of accounting. Accordingly, the results of operations of the acquired business from the date of acquisition have been included in the consolidated statement of income.

In connection with the acquisition, the Company recorded \$19.4 million in goodwill and other intangible assets. In addition, the Company recorded a one-time charge of \$6.2 million for purchased in-process research and development in the quarter ended September 30, 1998.

**Note 5 — Equity Investments:**

In November 1999, Logitech announced the formation of a new company, Spotlife Inc., whose business is to enhance video communications using the Internet infrastructure. Logitech has invested \$7 million in Spotlife, and has agreed to guarantee up to a maximum of \$5.3 million of the company's capital lease obligation. As of March 31, 2001, the outstanding balance of the lease obligation, and therefore the Company's guarantee, was \$3.2 million. As of March 31, 2001, Logitech owned approximately 34.6% of Spotlife's outstanding shares on a fully diluted basis, with outside investors having the ability to exercise significant influence over the management of the company. Logitech accounts for its investment in this company using the equity method.

In June 1998, the Company acquired 49% of the outstanding shares of the LogiCad 3D Group (formerly Space Control, GmbH), the German-based provider of Logitech's Magellan 3D Controller. The Company has an obligation to acquire the remaining outstanding shares of LogiCad 3D, if certain conditions are met, and an option to acquire the remaining shares if these conditions are not met. The Company is using the equity method of accounting for this investment.

In April 1998, the Company acquired 10% of the then outstanding stock of Immersion Corporation, a developer of force feedback technology for PC peripherals and software applications. In November 1999, Immersion registered shares on the U.S. Nasdaq Stock Market in an initial public offering. In fiscal 2001, the Company sold a partial interest in Immersion and recognized a gain of \$1.3 million in other income. The Company accounts for its investment in Immersion as available-for-sale in accordance with FASB 115 – Accounting for Certain Investments in Debt and Equity Securities. Accordingly, the Company carries its investment in Immersion at market value and records periodic increases or decreases in market value as a component of shareholders' equity. As of March 31, 2001, Logitech owned approximately 5.7% of Immersion. The cost of these securities was \$4.5 million and the gross unrealized gain was \$1.5 million.

The Company uses the cost method of accounting for all other investments, all of which are less than 20% owned by Logitech.

**Note 6 — Sale of Product Line:**

In December 1997, the Company sold its scanner product line to Storm Technology Inc. for \$5 million in cash, a \$4 million convertible note, and a 10% common stock ownership in Storm. The Company recognized a loss on this sale in fiscal 1998 of \$3.2 million.

During the second quarter of fiscal 1999, the Company wrote off \$5.8 million related to the convertible note and common stock investment in Storm. The write-off was prompted by changes in the personal scanner business, which in management's opinion called into question the ability of Storm to meet its obligations to the Company. Storm later filed for protection under the United States Bankruptcy Code. The additional expenses in fiscal 1999 primarily relate to costs to conclude certain obligations exceeding management's estimate made in 1998.

**Note 7 — Balance Sheet Components:**

	<u>March 31,</u>	
	<u>2001</u>	<u>2000</u>
	(In thousands)	
Accounts receivable:		
Accounts receivable.....	\$ 163,240	\$ 130,944
Allowance for doubtful accounts .....	(7,502)	(3,190)
Allowance for returns and other .....	(10,957)	(4,582)
	<u>\$ 144,781</u>	<u>\$ 123,172</u>
Inventories:		
Raw materials .....	\$ 26,002	\$ 16,762
Work-in-process.....	225	517
Finished goods .....	85,385	50,976
	<u>\$ 111,612</u>	<u>\$ 68,255</u>
Property, plant and equipment:		
Land.....	\$ 1,851	\$ 1,980
Plant and buildings .....	18,256	25,297
Equipment .....	63,996	48,175
Computer equipment and software.....	48,870	43,042
	132,973	118,494
Less accumulated depreciation .....	(94,813)	(76,377)
	<u>\$ 38,160</u>	<u>\$ 42,117</u>

**Note 8 — Financing Arrangements:**

*Short-term Credit Facilities*

On March 8, 2001, in connection with the acquisition and merger of Labtec, Inc., Logitech entered into a short term \$90 million bank credit facility (the "bridge loan") for the purpose of financing the cash consideration paid to Labtec shareholders, repaying indebtedness and obligations of Labtec, and paying costs and expenses in connection with the acquisition. Amounts drawn down at March 31, 2001 were \$35 million. In April 2001, the Company borrowed an additional \$55 million. The bridge loan will mature in March 2002, provides for interest at varying LIBOR rates plus .925% - 1.8% (5.98% at March 31, 2001), and is secured by Logitech's investment in its U.S. subsidiary. It is management's intention to refinance the bridge note prior to maturity, either through a debt or equity financing or a new bank facility.

The Company had several uncommitted, unsecured bank lines of credit aggregating \$59.2 million at March 31, 2001. Borrowings outstanding were \$5.7 million and \$6.6 million at March 31, 2001 and March 31, 2000. The borrowings under these agreements were denominated in Japanese yen at a weighted average annual interest rate of 1.6% at March 31, 2001 and 2000, and were due on demand. In addition, Labtec had a short-term revolving bank debt of \$19 million, which was repaid in full on April 5, 2001.

LOGITECH INTERNATIONAL S.A.  
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*Long-term Debt*

	March 31	
	2001	2000
	(In thousands)	
Renewable Swiss mortgage loan due April 2004, bearing interest at 4.0%, collateralized by properties with net book values aggregating \$1.9 million at March 31, 2001 .....	\$ 2,671	\$ 2,774
Capital lease obligation, with repayments of \$565,000 and \$151,000 in fiscal 2001 and 2002 .....	716	504
Labtec long-term debt assumed by Logitech.....	<u>26,822</u>	<u>—</u>
Total long-term debt .....	30,209	3,278
Less current maturities, including \$2,736,000 Labtec current maturities.....	<u>3,301</u>	<u>344</u>
Long-term portion .....	<u>\$26,908</u>	<u>\$ 2,934</u>

Labtec long-term debt assumed by Logitech was repaid in full on April 5, 2001. Proceeds from the bridge loan were used to repay the Labtec debt. This debt consisted of a bank note payable, a subordinated note payable, and notes payable to former Labtec shareholders.

**Note 9 — Shareholders' Equity:**

In June 2000, the Company's shareholders approved a two-for-one stock split which took effect on July 5, 2000 and was distributed to stockholders of record as of July 4, 2000. In fiscal 2000, the authorization for 200,000 registered shares previously authorized by the Company's shareholders expired unused, and in June 2000, the Company's shareholders approved an increase of 1 million authorized registered shares for use in acquisitions, mergers and other transactions.

In June 1998, the shareholders approved an increase of 600,000 conditional registered shares, par value CHF 10, the issuance of which is conditional upon the exercise of stock options granted under the Company's stock option plans and the issuance of shares under the Company's employee share purchase plans.

Pursuant to Swiss corporate law, Logitech International S.A. may only pay dividends in Swiss francs. The payment of dividends is limited to certain amounts of unappropriated retained earnings (approximately \$63 million at March 31, 2001) and is subject to shareholder approval.

Under Swiss corporate law, a minimum of 5% of the Company's annual net income must be retained in a legal reserve until this reserve equals 20% of the Company's issued and outstanding aggregate par value share capital. Certain other countries in which the Company operates apply similar laws. These legal reserves represent an appropriation of retained earnings that are not available for distribution and approximated \$5 million at March 31, 2001.

**Note 10 — Employee Benefit Plans:**

Stock Compensation Plans

*Employee Share Purchase Plans*

Under the 1989 and 1996 Employee Share Purchase Plans (the "Purchase Plans"), eligible employees may purchase registered shares at the lower of 85% of the fair market value at the beginning or the end of each six-month offering period. Subject to continued participation in the Purchase Plans, purchase agreements are automatically exercised at the end of each offering period.

*Stock Option Plans*

Under the 1988 Stock Option Plan (the "1988 Option Plan"), options to purchase registered shares were granted to employees and consultants at exercise prices ranging from zero to amounts in excess of the fair market value of the registered shares on the date of grant. The terms and conditions with respect to options granted were determined by the Board of Directors who administered the 1988 Option Plan. Options generally vest over four years and remain outstanding for periods not exceeding ten years. Further grants may not be made under this plan.

Under the 1996 Stock Option Plan, (the "1996 Option Plan") options for registered shares may be granted to

employees at exercise prices of not less than 100% of the fair market value of the registered shares on the date of grant. A total of 1,200,000 registered shares may be issued under the 1996 Option Plan. Options generally vest over four years and remain outstanding for periods not exceeding ten years.

The Company also maintains a limited number of other small option agreements, principally for directors and certain foreign executives, under which options may be granted at exercise prices discounted from fair market value of the registered shares on the date of grant.

Compensation expense is recognized over the vesting period when the exercise price of an option is less than the fair market value of the underlying stock on the date of grant. Compensation expense of \$437,000, \$422,000, and \$283,000 was recorded for the years ended March 31, 2001, 2000 and 1999. Such amounts are accrued as a liability when the expense is recognized and subsequently credited to additional paid-in capital upon exercise of the related stock option. Compensation expense arising from stock options outstanding at March 31, 2001 to be recognized in future periods was \$500,000.

A summary of activity under the stock option plans is as follows:

	Year ended March 31,					
	2001		2000		1999	
	Number	Exercise Price	Number	Exercise Price	Number	Exercise Price
Outstanding, beginning of year .....	770,554	\$ 58	856,002	\$ 47	623,910	\$ 61
Granted .....	211,218	\$288	234,060	\$ 85	963,304	\$ 52
Exercised .....	(154,729)	\$ 51	(229,550)	\$ 44	(49,348)	\$ 42
Cancelled or expired .....	(42,377)	\$133	(89,958)	\$ 58	(681,864)	\$ 70
Outstanding, end of year.....	<u>784,666</u>	<u>\$116</u>	<u>770,554</u>	<u>\$ 58</u>	<u>856,002</u>	<u>\$ 47</u>
Exercisable, end of year .....	245,077	\$ 53	186,984	\$ 48	153,498	\$ 44

The following table summarizes information regarding stock options outstanding at March 31, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Weighted Average Exercise Price	Weighted Average Contractual Life (years)	Number	Weighted Average Exercise Price
\$ 0 - \$ 64	382,523	\$ 39	7.32	181,875	\$ 44
\$ 65 - \$ 77	174,841	\$ 70	8.13	54,188	\$ 68
\$ 78 - \$ 275	117,264	\$230	9.10	7,480	\$119
\$ 276 - \$ 331	74,058	\$311	9.30	442	\$296
\$ 332 - \$ 340	<u>35,980</u>	<u>\$338</u>	<u>9.26</u>	<u>1,092</u>	<u>\$338</u>
\$ 0 - \$340	<u>784,666</u>	<u>\$116</u>	<u>8.04</u>	<u>245,077</u>	<u>\$ 53</u>

*Pro Forma Stock Compensation Disclosure*

The Company applies the provisions of APB 25 and related interpretations in accounting for compensation expense under the purchase plans and the stock option plans. If compensation expense under these plans had been determined pursuant to SFAS 123, the Company's net income and net income per share would have been as follows:

	Year ended March 31,		
	2001	2000	1999
	(In thousands, except per share amounts)		
Pro forma net income .....	\$ 31,353	\$ 23,584	\$ 911
Pro forma basic net income per share .....	\$ 7.42	\$ 5.93	\$ .24
Pro forma diluted net income per share .....	\$ 6.67	\$ 5.39	\$ .23

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The fair value of the grants under the purchase plans and stock option plans was estimated using the Black-Scholes valuation model with the following assumptions and values:

	Year ended March 31,					
	Purchase Plans			Stock Option Plans		
	2001	2000	1999	2001	2000	1999
Dividend yield.....	0	0	0	0	0	0
Expected life .....	6 months	6 months	6 months	2.7 years	2.5 years	3.0 years
Expected volatility .....	70%	50%	48%	66%	55%	47%
Risk-free interest rate.....	4.25%	6.5%	4.875%	4.25%	6.5%	4.875%
Weighted average fair value of grant ....	\$90.00	\$19.00	\$21.00	\$138.00	\$31.50	\$20.00

The above pro forma amounts include compensation expense based on the fair value of options vesting during the years ended March 31, 2001, 2000 and 1999. As provided by SFAS 123, these calculations exclude the effects of options granted prior to April 1, 1996 when SFAS 123 became effective. Accordingly, these amounts are not representative of the effects of computing stock option compensation expense using the fair value method for future periods.

In 2001 and 1999, the Company granted 540 and 86,220 options with exercise prices less than the fair market value of the underlying stock at the date of grant. The weighted average exercise price of the 2001 option grants was zero, and the weighted average fair value was \$335.22. The weighted average exercise price of the 1999 option grants was \$44.50, and the weighted average fair value was \$63.

Pension Plans

*Defined Contribution Plans*

Certain of the Company's subsidiaries have defined contribution employee benefit plans covering all or a portion of their employees. Contributions to these plans are discretionary for certain plans and are based on specified or statutory requirements for others. The charges to expense for these plans for the years ended March 31, 2001, 2000 and 1999, were \$1,275,000, \$1,214,000, \$1,170,000.

*Defined Benefit Plan*

One of the Company's subsidiaries sponsors a noncontributory defined benefit pension plan covering substantially all of its employees. Retirement benefits are provided based on employees' years of service and earnings. The Company's practice is to fund amounts sufficient to meet the requirements set forth in the applicable employee benefit and tax regulations.

Net pension cost for the years ended March 31, 2001, 2000, and 1999 were \$193,000, \$340,000, and \$339,000. The plan's net pension liability at March 31, 2001 and 2000 was \$375,000 and \$625,000.

**Note 11 — Income Taxes:**

The Company is incorporated in Switzerland but operates in various countries with differing tax laws and rates. Further, a substantial portion of the Company's income before taxes and the provision for income taxes are generated primarily outside of Switzerland. Consequently, the weighted average expected tax rate may vary from period to period to reflect the generation of taxable income in different tax jurisdictions.

The provision for income taxes consists of the following:

	Year ended March 31,		
	2001	2000	1999
	(In thousands)		
Current:			
Swiss .....	\$ 852	\$ 986	\$ 268
Foreign.....	10,641	6,549	2,836
Deferred:			
Swiss .....	—	—	59
Foreign.....	593	(24)	(1,903)

Total.....	<u>\$12,086</u>	<u>\$ 7,511</u>	<u>\$ 1,260</u>
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Deferred income tax assets and liabilities consist of the following:

	<b>March 31,</b>	
	<b>2001</b>	<b>2000</b>
	<b>(In thousands)</b>	
Net operating loss carryforwards .....	\$10,613	\$ 2,485
Research and development and other tax credit carryforwards .....	6,307	5,794
Accruals .....	20,556	13,606
Other .....	1,014	1,073
Gross deferred tax assets .....	<u>38,490</u>	<u>22,958</u>
Depreciation and amortization .....	(1,204)	(831)
Unrealized gain on available-for-sale securities .....	(520)	—
Deferred tax liabilities related to intangible assets .....	(4,889)	—
Deferred tax liabilities .....	<u>(6,613)</u>	<u>(831)</u>
Valuation allowance .....	<u>(24,346)</u>	<u>(15,190)</u>
Net deferred tax assets .....	<u>\$ 7,531</u>	<u>\$ 6,937</u>

Management regularly assesses the realizability of deferred tax assets recorded in the Company's subsidiaries based upon the weight of available evidence, including such factors as the recent earnings history and expected future taxable income. The methodology used by management to determine the amount of deferred tax assets that are more likely than not to be realized is based upon the Company's recent earnings and estimated future taxable income in applicable tax jurisdictions for approximately the next two years. Management believes that it is more likely than not that the Company will not realize a portion of its deferred tax assets and, accordingly, a valuation allowance of \$24.3 million has been established for such amounts at March 31, 2001. In the event future taxable income is below management's estimates or is generated in tax jurisdictions different than projected, the Company could be required to increase the valuation allowance for deferred tax assets. This would result in an increase in the Company's effective tax rate.

At March 31, 2001, the Company's foreign net operating loss and tax credit carryforwards for income tax purposes were approximately \$30.7 million and \$6.3 million, respectively. If not utilized, these carryforwards will expire through 2020.

Deferred tax assets of approximately \$5.9 million at March 31, 2001 pertain to certain tax credits and net operating loss carryforwards resulting from the exercise of employee stock options. When recognized, through the reversal of the valuation allowance placed on the deferred tax assets, the tax benefit of these credits and losses will be accounted for as a credit to shareholders' equity rather than as a reduction of the income tax provision.

The difference between the provision for income taxes and the expected tax provision at the weighted average tax rate is reconciled below. The expected tax provision at the weighted average rate is generally calculated using pre-tax accounting income or loss in each country multiplied by that country's applicable statutory tax rates.

	<b>Year ended March 31,</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>(In thousands)</b>		
Expected tax provision (benefit) at weighted average rate.....	\$12,665	\$ 8,638	\$ (1,082)
Non-deductible purchased in-process research and development .....	655	—	—
Increase (decrease) in valuation allowance .....	(1,380)	(1,986)	2,895
Other .....	146	859	(553)
Total provision for income taxes.....	<u>\$12,086</u>	<u>\$ 7,511</u>	<u>\$ 1,260</u>

**Note 12 — Commitments and Contingencies:**

The Company leases facilities under operating leases, certain of which require it to pay property taxes, insurance and maintenance costs. Operating leases for facilities are generally renewable at the Company's option and usually include escalation clauses linked to inflation.

LOGITECH INTERNATIONAL S.A.  
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Future minimum annual rentals at March 31, 2001 are as follows (in thousands):

Year ending March 31,	
2002 .....	\$ 4,614
2003 .....	4,334
2004 .....	3,725
2005 .....	3,344
2006 .....	3,369
2007 and thereafter .....	400
	\$ 19,786

Rent expense was \$3.2 million, \$1.9 million and \$2.6 million during the years ended March 31, 2001, 2000 and 1999.

Fixed commitments for long lead time parts totalled \$.3 million at March 31, 2001. Fixed commitments for capital and other expenditures, primarily for manufacturing equipment, approximated \$2.7 million.

In December 1996, the Company was advised of the intention to begin implementing a value added tax ("VAT") on goods manufactured in certain parts of China since July 1995, including where the Company's operations are located, and intended for export. In January 1999, the Company was advised that the VAT would not be applied to goods manufactured during calendar 1999 and subsequent years. With respect to prior years, the Company is in ongoing discussions with Chinese officials and has been assured that, notwithstanding statements made by tax authorities, the VAT for these prior periods would not be charged to the Company. As a result, the Company revised its estimate of VAT liability and released an accrual of approximately \$1.7 million into income in fiscal 2000 and \$.6 million in fiscal 2001. The Company believes the ultimate resolution of this matter will not have a material adverse effect on the Company's financial position, cash flows or results of operations.

The Company is involved in a number of lawsuits relating to patent infringement and intellectual property rights. The Company believes the lawsuits are without merit and intends to defend against them vigorously. However, there can be no assurances that the defense of any of these actions will be successful, or that any judgment in any of these lawsuits would not have a material adverse impact on the Company's business, financial condition and result of operations.

**Note 13 — Interest and Other Income:**

	<b>Year ended March 31,</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>(In thousands)</b>		
Interest income.....	\$ 1,175	\$ 796	\$ 2,203
Interest expense.....	(1,323)	(959)	(1,297)
Interest income (expense), net.....	\$ (148)	\$ (163)	\$ 906
Gain on sale of building.....	\$ 1,922	—	—
Foreign currency exchange gains (losses), net.....	20	\$ 899	\$ (1,366)
Gain on sale of investments.....	1,296	1,525	—
Equity in net income (losses) of affiliated companies.....	(670)	(3,584)	249
Write-off of investment .....	(50)	(2,000)	—
Other, net .....	110	(92)	(290)
Other income (expense), net.....	\$ 2,628	\$(3,252)	\$ (1,407)

Other, net includes rental income of \$251,000 and \$206,000 for the years ended March 31, 2000, and 1999, while the related rental expense amounted to \$101,000 and \$106,000.

**Note 14 — Geographic Information:**

The Company operates in one business segment, which is the design, development, production, marketing and support of computer interface devices. Geographic net sales information in the table below are based on the location of the selling entity. Long-lived assets, primarily fixed assets, unamortized intangibles, and investments are reported below based on the location of the asset.

Net sales to unaffiliated customers by geographic region were as follows:

	<b>Year ended March 31,</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>(In thousands)</b>		
Europe .....	\$ 336,099	\$ 259,486	\$ 195,913
North America .....	301,963	253,502	196,778
Asia Pacific .....	123,294	102,676	78,050
Net sales .....	<u>\$ 761,356</u>	<u>\$ 615,664</u>	<u>\$ 470,741</u>

Long-lived assets by geographic region were as follows:

	<b>March 31,</b>	
	<b>2001</b>	<b>2000</b>
	<b>(In thousands)</b>	
Europe .....	\$ 37,701	\$ 35,345
North America .....	117,834	8,258
Asia Pacific .....	19,488	24,267
Total long-lived assets .....	<u>\$ 175,023</u>	<u>\$ 67,870</u>

Substantially all of the Company's manufacturing operations are located in Suzhou, China. These operations could be severely impacted by economic or political instability in China, including instability which may occur in connection with a change in the current leadership in China, by evolving interpretation and enforcement of legal standards, by strains on the Chinese transportation, communications, trade and other infrastructures related to the rapid industrialization of an agrarian economy, by conflicts, embargoes, increased tensions or escalation of hostilities between China and Taiwan, and by other events.

**Note 15 — Other Disclosures Required by Relevant Swiss Law:***Balance Sheet Items*

	<b>March 31,</b>	
	<b>2001</b>	<b>2000</b>
	<b>(In thousands)</b>	
Prepayments and accrued income.....	\$ 5,524	\$ 6,205
Non-current assets.....	\$ 175,023	\$ 67,869
Pension liabilities, current .....	\$ 218	\$ 80
Fire insurance value of property, plant, and equipment .....	\$ 162,166	\$ 108,833

*Statement of Income Items*

Total personnel expenses amounted to \$64.1 million, \$60.3 million and \$53.9 million in 2001, 2000 and 1999.



LOGITECH INTERNATIONAL S.A.  
 QUARTERLY SUMMARY (Unaudited)

	Three months ended,							
	Mar. 31, 2001	Dec. 31, 2000	Sept. 30, 2000	June 30, 2000	Mar. 31, 2000	Dec. 31, 1999	Sept. 30, 1999	June 30, 1999
	(In millions, except share and per share amounts)							
Net sales.....	\$197.4	\$ 232.0	\$ 190.6	\$ 141.4	\$ 176.0	\$ 185.4	\$ 133.2	\$ 121.1
Gross profit.....	67.3	80.3	64.2	47.3	60.2	67.3	43.2	36.0
Operating expenses:								
Marketing and selling .....	29.5	36.9	34.8	26.4	28.5	31.3	21.8	21.4
Research and development .....	13.2	9.5	8.8	8.5	8.8	7.6	8.2	7.0
General and administrative .....	8.2	8.4	8.6	8.3	9.2	7.9	7.4	6.6
Purchased in-process R&D (1).....	3.3	—	—	—	—	—	—	—
Total .....	\$ 54.2	54.8	52.2	43.2	46.5	46.8	37.4	35.0
Operating income.....	13.1	25.5	12.0	4.1	13.7	20.5	5.8	1.0
Net income.....	\$ 10.8	\$ 19.9	\$ 9.4	\$ 5.0	\$ 9.3	\$ 14.9	\$ 5.2	\$ 6
Shares used to compute net income per share (2):								
Basic .....	4,284,775	4,242,544	4,208,662	4,153,071	4,096,878	3,983,060	3,935,526	3,893,412
Diluted.....	4,709,513	4,698,403	4,714,177	4,680,840	4,641,740	4,340,528	4,095,034	4,001,732
Net income per share (2):								
Basic .....	\$ 2.52	\$ 4.69	\$ 2.23	\$ 1.20	\$ 2.29	\$ 3.74	\$ 1.32	\$ .15
Diluted.....	\$ 2.30	\$ 4.24	\$ 1.99	\$ 1.06	\$ 2.02	\$ 3.43	\$ 1.27	\$ .15
Net income per ADS (2):								
Basic .....	\$ .25	\$ .47	\$ .22	\$ .12	\$ .23	\$ .37	\$ .13	\$ .02
Diluted.....	\$ .23	\$ .42	\$ .20	\$ .11	\$ .20	\$ .34	\$ .13	\$ .01

- (1) In connection with the acquisition of Labtec Inc., the Company recorded a one-time charge of approximately \$3.3 million for purchased in-process research and development.
- (2) Logitech completed a two-for-one stock split in July 2000. All references to share and per share data for all periods presented have been adjusted to give effect to the stock split.

The following table sets forth certain quarterly financial information as a percentage of net sales:

	Three months ended,							
	Mar. 31, 2001	Dec. 31, 2000	Sept. 30, 2000	June 30, 2000	Mar. 31, 2000	Dec. 31, 1999	Sept. 30, 1999	June 30, 1999
Net sales .....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit.....	34.1	34.6	33.7	33.4	34.2	36.3	32.4	29.7
Operating expenses:								
Marketing and selling .....	16.6	15.9	18.3	18.7	16.2	16.9	16.4	17.7
Research and development.....	5.0	4.1	4.6	6.0	5.0	4.1	6.2	5.8
General and administrative .....	4.2	3.6	4.5	5.8	5.2	4.3	5.5	5.4
Purchased in-process R&D.....	1.7	—	—	—	—	—	—	—
Total .....	27.5	23.6	27.4	30.5	26.4	25.3	28.1	28.9
Operating income .....	6.6	11.0	6.3	2.9	7.8	11.0	4.3	.8
Net income .....	5.5%	8.6%	4.9%	3.5%	5.3%	8.0%	3.9%	.5%

**Report of the Group Auditors  
to the General Meeting  
of Logitech International S.A., Apples**

We have audited the consolidated financial statements of Logitech International S.A. and its subsidiaries on pages 9 to 24, consisting of the consolidated balance sheets at March 31, 2001 and 2000, the consolidated statements of income, of cash flows and of changes in shareholders' equity for the years ended March 31, 2001, 2000 and 1999, and the notes to the consolidated financial statements.

These consolidated financial statements are the responsibility of the Board of Directors of Logitech International S.A. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the Swiss legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the profession in Switzerland and those generally accepted in the United States of America, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Logitech International S.A. and its subsidiaries at March 31, 2001 and 2000 and the results of operations and cash flows for the years ended March 31, 2001, 2000 and 1999 in accordance with accounting principles generally accepted in the United States of America and comply with the relevant Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA



M. Foley



M. Perry

Lausanne, Switzerland

April 24, 2001

LOGITECH INTERNATIONAL S.A., APPLES  
BALANCE SHEET

(In thousands of Swiss francs)

	March 31,	
	<u>2001</u>	<u>2000</u>
<b>ASSETS</b>		
Current assets:		
Cash .....	CHF 2,233	CHF 6,554
Short-term bank deposits .....	19,030	18,678
Dividend receivable.....	371	191
Accrued interest and other receivables.....	967	91
Advances to group companies.....	96,813	14,284
Total current assets.....	<u>119,414</u>	<u>39,798</u>
Long-term assets:		
Intangible assets .....	11,751	16,607
Investments in subsidiaries.....	82,149	69,615
Loans to subsidiaries .....	203,165	115,146
Provisions on investments in and loans to subsidiaries .....	(10,267)	(10,267)
Other investments and loans .....	27,045	18,055
Provisions on other investments and loans .....	(9,328)	(8,753)
Total long-term assets.....	<u>304,515</u>	<u>200,403</u>
Total assets .....	<u>CHF 423,929</u>	<u>CHF 240,201</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Bank borrowings .....	CHF 60,550	CHF -
Payables to group companies.....	12,550	5,466
Accruals and other liabilities.....	2,751	4,162
Deferred unrealized exchange gains .....	13,063	8,179
Total current liabilities .....	<u>88,914</u>	<u>17,807</u>
Long-term liabilities:		
Payables to group companies.....	34,008	29,079
Total liabilities .....	<u>122,922</u>	<u>46,886</u>
Shareholders' equity:		
Share capital.....	44,419	41,629
Legal reserves:		
General reserve.....	142,474	88,369
Reserve for treasury shares .....	5,967	1,609
Unappropriated retained earnings .....	108,147	61,708
Total shareholders' equity .....	<u>301,007</u>	<u>193,315</u>
Total liabilities and shareholders' equity.....	<u>CHF 423,929</u>	<u>CHF 240,201</u>

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

LOGITECH INTERNATIONAL S.A., APPLES  
STATEMENT OF INCOME

(In thousands of Swiss francs)

	Year ended March 31,	
	2001	2000
Dividend income.....	CHF 33,757	CHF 15,360
Royalty fees .....	22,279	10,974
Interest income from third parties.....	394	438
Interest and guarantee fee income from subsidiaries.....	11,861	7,484
Realized exchange gains, net of exchange losses .....	366	13,941
Other .....	3,009	-
	<u>71,666</u>	<u>48,197</u>
Administrative expenses .....	2,291	3,729
Brand development expenses.....	12,425	11,184
Amortization of intangibles .....	4,856	4,856
Interest paid to subsidiaries .....	1,354	1,104
Bank interest and charges .....	1,330	434
Income, capital and non-recoverable withholding taxes.....	1,423	419
Other expenses.....	1,548	6,089
	<u>25,227</u>	<u>27,815</u>
Net income.....	CHF 46,439	CHF 20,382

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

# LOGITECH INTERNATIONAL S.A., APPLES

## NOTES TO FINANCIAL STATEMENTS

### Note 1 — Contingent Liabilities :

Logitech International SA (“the Holding Company”) pledged its share holding in Logitech Inc, as collateral for a bank loan obtained to finance the acquisition of Labtec.

### Note 2 — Investments:

Principal operating subsidiaries include the following: Logitech Inc., Logitech Europe S.A., Logitech Far East Ltd., Suzhou Logitech Electronic Co. Ltd., and Logicool Co. Ltd. All subsidiaries are 100% owned by the Holding Company. Principal investments include a 49% interest in Logitech 3D Group GmbH, a 6% interest in Immersion Corporation and a 35% interest in Spotlife Inc.

### Note 3 — Treasury Shares:

	Number of shares	Total cost (In thousands)
Held by a subsidiary at March 31, 1998 .....	72,989	CHF 9,816
Additions .....	33,906	5,706
Disposals .....	(41,972)	(5,661)
Held by a subsidiary at March 31, 1999 .....	64,923	CHF 9,861
Additions .....	—	—
Disposals .....	(54,603)	(8,252)
Held by a subsidiary at March 31, 2000 pre-split 2:1 .....	10,320	CHF 1,609
Held by a subsidiary at March 31, 2000 post-split 2:1 .....	20,640	CHF 1,609
Additions .....	128,112	50,449
Disposals .....	(132,277)	(46,091)
Held by subsidiaries at March 31, 2001 .....	16,475	CHF 5,967

The movement in the number of treasury shares held by subsidiaries relate to the exercise by directors and employees of options granted to them under the Holding Company’s share option and share purchase plans and, during the year ended March 31, 2001, to the acquisition of Labtec.

### Note 4 — Authorized and Conditional Share Capital Increases:

In June 2000, the Company’s shareholders approved a two for one share split whereby one share with a par value of CHF 20 was converted into two shares with a par value of CHF 10 per share. Additionally, in June 2000, the Company’s shareholders approved an increase of 1 million authorized registered shares for use in acquisitions, mergers and other similar transactions.

The general meeting of June 25, 1998 approved the renewal for an additional two-year period of the previously approved increase of 100,000 authorized registered shares, par value CHF 20. The general meeting also approved an additional 300,000 conditional registered shares, par value CHF 20, the issuance of which is conditional upon the exercise of stock options granted under the Holding Company’s stock option plans and the issuance of shares under the Holding Company’s employee share purchase plans.

The general meeting of June 27, 1996 previously approved an increase of 400,000 conditional registered shares, par value CHF 20.

The remaining number of conditional registered shares amounted to 868,139 at March 31, 2001.

### Note 5 — Significant Shareholders:

The Holding Company’s share capital consists of registered shares. To the knowledge of the Holding Company, the only beneficial owner holding more than 5% of the voting rights of the Holding Company is Mr. Daniel Borel, who owns 5.01%,

LOGITECH INTERNATIONAL S.A., APPLES  
 NOTES TO FINANCIAL STATEMENTS

**Note 6 — Movements on Retained Earnings:**

	Year ended March 31,	
	<u>2001</u>	<u>2000</u>
	(In thousands)	
Retained earnings at the beginning of the year.....	CHF 61,708	CHF 41,326
Net income for the year.....	<u>46,439</u>	<u>20,382</u>
Retained earnings at the disposal of the annual general meeting.....	<u>CHF 108,147</u>	<u>CHF 61,708</u>

**PROPOSAL OF THE BOARD OF DIRECTORS FOR APPROPRIATION OF RETAINED EARNINGS**

	Year ended March 31,	
	<u>2001</u>	<u>2000</u>
	(In thousands)	
	Proposal of the Board of Directors	Resolution of the General Meeting
To be carried forward .....	<u>CHF 108,147</u>	<u>CHF 61,708</u>

**Report of the Statutory Auditors  
to the General Meeting  
of Logitech International S.A., Apples**



As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of Logitech International S.A. for the year ended March 31, 2001.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA

A handwritten signature in black ink, appearing to be 'M. Foley'.

M. Foley

A handwritten signature in black ink, appearing to be 'M. Perry'.

M. Perry

Lausanne, Switzerland

April 24, 2001