LOGITECH INTERNATIONAL SA
Form 20-F
June 11, 2002
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2002

Commission File Number: 0-29174

LOGITECH INTERNATIONAL S.A.
(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant s name into English)

Canton of Vaud, Switzerland
(Jurisdiction of incorporation or organization)

Logitech International S.A.
Apples, Switzerland
c/o Logitech Inc.
6505 Kaiser Drive
Fremont, California 94555
(510) 795-8500
(Address and telephone number of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act: None

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one registered share at par value CHF 1 per share	Nasdaq National Market

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each of the issuer s classes of capital or common stock as of March 31, 2002 was 47,901,655 registered shares.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

þ **Yes** ¨ **No**

Indicate by check mark which financial statement item the registrant has elected to follow.

¨ **Item 17** þ **Item 18**

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In this document, unless otherwise indicated, references to the Company or Logitech are to Logitech International S.A., its consolidated subsidiaries and predecessor entities. In addition, references to ADSs are to the American Depositary Shares of Logitech International S.A., each representing one registered share. Unless otherwise specified, all references to U.S. dollars, dollars or $ are to United States dollars, the legal currency of the United States of America. All references to the Swiss franc or CHF are to the Swiss franc, the legal currency of Switzerland.

Logitech, the Logitech logo, and the Logitech products referred to herein are either the trademarks or the registered trademarks of Logitech. All other trademarks are property of their respective owners.

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FORWARD-LOOKING INFORMATION

This Annual Report on Form 20-F contains forward-looking statements based on beliefs of our management. Any statements contained in this Annual Report on Form 20-F that are not historical facts are forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. These include, without limitation, statements related to:

- the sufficiency of our cash and cash equivalents, cash from operations, and available borrowings under the bank lines of credit to fund capital expenditures and working capital needs for the foreseeable future;
- the business strategy for new areas of growth;
- our ability to introduce additional essential interface devices that people touch and use every day;
- our belief that the need for intuitive personal interface products will continue, and with it the opportunity for Logitech products; and
- the adequacy of our leased and owned facilities to meet our needs in the foreseeable future.

We have based these forward-looking statements on our current expectations and projections about future events, including:

- general economic and business conditions;
- competition in the computer peripheral industry;
- implementing our business strategy;
- developing and introducing new services and products;
- obtaining and expanding market acceptance of our services and products; and
- meeting changing customer requirements and emerging industry standards.

The words anticipate, believe, estimate, expect, forecast, intend, may, plan, project, predict, should and will and similar to identify such forward-looking statements. Such statements reflect our current views and assumptions. All forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. The factors that could affect our future financial results are discussed more fully under Item 3. Key Information Risk Factors, as well as elsewhere in this Annual Report on Form 20-F and in our other filings with the U.S. Securities and Exchange Commission (SEC). Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the dates of their filings. We undertake no obligation to publicly update or revise any forward-looking statements.

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Part I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

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ITEM 3. KEY INFORMATION

A. Selected Financial Data

The financial data for the years ended March 31, 2002, 2001, 2000, 1999 and 1998, and the financial condition as of those years then ended have been derived from our audited consolidated financial statements. This financial data should be read with the consolidated financial statements and notes to those statements for the fiscal years ended March 31, 2002, 2001 and 2000, included elsewhere in this Form 20-F. The selected consolidated financial data for the fiscal years ended March 31, 1999 and 1998 are derived from the Company s audited consolidated financial statements which are not included in this Form 20-F. This table should be read in conjunction with Item 5 Operating And Financial Review And Prospects and the Company s consolidated financial statements and notes thereto included elsewhere in this Form 20-F.

	Year ended March 31,				
	2002	**2001**	**2000**	**1999**	**1998**
	(In thousands, except share and per share amounts)				
Consolidated statement of operations data:					
Net sales	$ 943,546	$ 735,549	$ 592,092	$ 448,136	$ 390,227
Gross profit	315,548	233,259	183,127	140,118	116,961
Operating expenses:					
Marketing and selling	130,060	105,140	79,389	62,745	52,931
Research and development	50,531	36,686	31,666	31,378	27,774
General and administrative	37,739	33,484	31,102	23,625	19,944
Purchased in-process research and development(1)		3,275		6,200	
Total operating expenses	218,330	178,585	142,157	123,948	100,649
Operating income	97,218	54,674	40,970	16,170	16,312
Loss on sale of product line(2)				(7,272)	(3,174)
Net income	$ 74,956	$ 45,068.00	$ 30,044.00	$ 7,137	$ 15,456
Net income per share(3):					
Basic	$ 1.67	$ 1.07	$ 0.76	$ 0.19	$ 0.41
Diluted	$ 1.50	$ 0.96	$ 0.69	$ 0.18	$ 0.39
Shares used to compute net income per share and ADS(3):					
Basic	44,928,853	42,226,240	39,769,900	38,672,200	37,764,640
Diluted	50,939,060	46,940,170	43,759,940	39,826,740	39,541,140

	March 31,				
	2002	**2001**	**2000**	**1999**	**1998**
	(In thousands)				
Consolidated balance sheet data:					
Cash and cash equivalents	$ 143,101	$ 44,142	$ 49,426	$ 43,251	$ 72,376
Total assets	$ 598,844	$ 505,116	$ 334,077	$ 294,489	$ 208,479
Long-term debt, net of current maturities	$ 104,812	$ 26,908	$ 2,934	$ 3,624	$ 3,031
Shareholders equity	$ 323,017	$ 256,054	$ 179,969	$ 139,754	$ 132,734

(1) In connection with the acquisition of Labtec in fiscal 2001 and Connectix Corporation s PC video camera business in 1999, the Company recorded charges of $3.3 million and $6.2 million for purchased in-process research and development.

(2) In fiscal 1998, the Company sold its scanner product line to Storm Technology, Inc. and recorded a $3.2 million loss on the sale. In 1999, the Company wrote off $5.8 million related to a convertible note and common stock investment in Storm made in connection with the sale. The additional expenses in 1999 primarily relate to costs to conclude certain obligations exceeding management s estimate made in 1998.

(3) In July 2000, Logitech completed a two-for-one stock split. The stock split did not alter the ADS to share ratio. In August 2001, the Company completed a ten-for-one stock split that related only to shares traded on the Swiss Exchange. As a result, the ratio of ten ADSs to

one registered share changed to a new ratio of one ADS to one registered share. All references to share and per share data for all periods presented have been adjusted to give effect to these stock splits.

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Exchange Rates

Fluctuations in the exchange rate between the Swiss franc and the U.S. dollar will affect the U.S. dollar equivalent of the Swiss franc price of our registered shares on the Swiss Exchange and, as a result, will likely affect the market price of the ADSs in the United States, and vice versa.

The following table sets forth certain historical information with respect to the Noon Buying Rate for dollars expressed in Swiss francs per dollar. The Noon Buying Rate is the rate in New York City for cable transfers in selected currencies as certified for customs purposes by the Federal Reserve Bank of New York.

	Average(1)	High	Low	Period End
Fiscal 1998	CHF 1.460	CHF 1.535	CHF 1.385	CHF 1.522
Fiscal 1999	1.437	1.515	1.374	1.478
Fiscal 2000	1.560	1.663	1.478	1.663
Fiscal 2001	1.697	1.830	1.590	1.736
Fiscal 2002	1.699	1.819	1.586	1.682

(1) Represents the average of the Noon Buying Rates on the last business day of each month during the relevant period.

	High	Low
Monthly Highs and Lows (over the most recent six month period):		
November 2001	CHF 1.6680	CHF 1.6295
December 2001	1.6920	1.6307
January 2002	1.7190	1.6424
February 2002	1.7179	1.6835
March 2002	1.7060	1.6555
April 2002	1.6740	1.6215

The Noon Buying Rate for dollars expressed in Swiss francs per dollar was 1.6010 as of May 1, 2002.

B. Capitalization

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our quarterly operating results are difficult to predict. This means that our results could fall below investors expectations, which could cause the price of Logitech ADSs and registered shares to decline significantly.

Our operating results in the past have varied significantly from quarter to quarter and these fluctuations are expected to continue in the future. Future quarterly operating results may vary significantly due to a number of factors, including:

- the volume and timing of orders received during the quarter;
- the maturation of product lines;
- the timing of new product introductions by us and our competitors and their acceptance by the market;
- the impact of competition on our average selling prices and operating expenses;
- inventory levels in the distribution channels;

changes in laws or regulations;

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- fluctuations in exchange rates;
- changes in product or distribution channel mix;
- price protection charges;
- product returns from customers;
- deferrals of customer orders in anticipation of new products or otherwise;
- changes in technologies and their acceptance by the market;
- the performance and financial strength of our suppliers and third-party product manufacturers;
- the rate of economic growth in our principal geographic markets; and
- deterioration of the financial strength of our larger customers.

Many of these factors are beyond our control. In addition, due to the short product life cycles inherent in our markets, our failure to introduce new, competitive products consistently and in a timely manner would adversely affect results of operations for one or more quarters.

In addition, the volume and timing of orders received during a quarter are difficult to forecast. Customers generally order on an as-needed basis. Accordingly, our net sales in any quarter depend primarily on orders booked and shipped in that quarter. In spite of the difficulty in forecasting sales in advance of a quarter, we generally must plan production, order components and enter into development, sales and marketing, and other operating commitments well before each quarter begins. This is particularly acute because a substantial portion of our products are manufactured in Asia, and we rely on suppliers who are located in many other parts of the world. Consequently, any shortfall in net sales in a given quarter may negatively impact our results of operations due to an inability to adjust expenses during such quarter. Excess inventory may negatively impact cash flows and result in charges associated with inventory write-offs. The foregoing means that our operating results could fall below investors expectations, which could cause the price of Logitech ADSs and registered shares to decline significantly.

Our success depends on the continued viability and financial stability of our distributors, retailers and OEM customers, as well as continued demand by these customers for our products.

We sell our products through a domestic and international network of distributors, retailers and OEM customers, and our success depends on the continued viability and financial stability of these customers, as well as continued demand by these customers for our products. The distribution, retail and OEM industries have been historically characterized by rapid change, including periods of widespread financial difficulties and consolidations, and the emergence of alternative distribution channels. In particular, consolidation in the personal computer and retail industries has increased the purchasing power of our customers. This puts pressure on us to reduce the prices at which we sell our products, decreasing our revenues. In addition, our distributor and retail customers generally offer products of our competitors. Accordingly, there is a risk that these customers may give higher priority, including greater retail shelf space, to products of other suppliers, which would reduce demand for, and sales of, our products.

The loss of one or more of our distributors, major retailers or OEM customers could have a material adverse effect on our business, financial condition and results of operations. In addition, because of our sales to customers that are large or who have high volume, we maintain individually significant receivable balances with these customers. As of March 31, 2002, one customer, Tech Data, represented 10% of total accounts receivable and 11% of net sales for fiscal 2002. We seek to control our credit risk through ongoing credit evaluation of our customers financial condition and by purchasing credit insurance on European retail accounts receivable balances, but generally we do not require any collateral from our customers. If any of our major customers were to default in the payment of its receivables owed to us, our operating results could be materially adversely affected.

Product returns and effects of price protection that exceed our accruals may significantly impact our financial results.

As a manufacturer of consumer products, we are exposed to the risk of product returns, either through the exercise by customers of contractual return rights or as a result of our assistance in balancing inventories of retailers and distributors. In addition, we offer price protection to our distributors and retailers, which means that we may refund or credit some of the price these customers have paid for a product if we later lower its price while it is still in the customers inventory. Overstocking by our distributors and retailers has in the past led and may in the future lead to higher than normal returns or reduced orders by these customers in future periods. As a result, our past sales may not be indicative of future sales. In addition, the generally short product life cycles of our products and the difficulty in predicting future sales increase the risk that new product introductions or price reductions results in significant product returns. In addition, we continuously introduce product upgrades, enhancements and improved packaging, and which may lead to higher rates of return on our older products.

We recognize revenue upon transfer of title and risk of loss, which is generally when we ship our products. Because we are exposed to the risk of product returns and price protection, we provide allowances for these risks upon recognition of revenue. We base these allowances on historical and anticipated experience and our assessment of inventory in our distribution channels. We review and adjust the allowances periodically, based on changes in the same factors. Although we believe we have provided adequate allowances, if product returns exceed our estimates or if we do not make sufficient price protection accruals, there may be a significant adverse effect on our financial results.

To continue to be successful, we will need to effectively respond to future changes in technology and customer demands.

The market for our products is characterized by rapidly changing technology and frequent new product introductions. Our success depends to a substantial degree on our ability to develop and introduce in a timely manner new products and enhancements that meet changing customer requirements and emerging industry standards. The development of new, technologically advanced products and enhancements is a complex and uncertain process requiring high levels of innovation as well as the anticipation of technology and market trends. We may not be able to identify, develop, manufacture, market, sell, or support new products and enhancements successfully, new products or enhancements may not achieve market acceptance, or we may not be able to respond effectively to technology changes, emerging industry standards or product announcements by competitors. In addition, others may have patents or intellectual property rights which prevent us from being able to respond effectively to new or emerging technologies and changes in customer requirements. New product announcements by us could cause our customers to defer purchases of existing products or cause distributors to request price protection credits or stock rotations. Any of these events could materially harm our business, financial condition and results of operations.

The introduction of products for non-PC platforms may consume significant resources and not result in significant future revenues for Logitech.

We may continue to expand our product offerings to include products that are not based on PC platforms, and products that are outside of our traditional areas of expertise, which has historically been PC peripheral devices. To accomplish this, we may commit substantial resources to develop, sell and market these new products. With limited experience in these product lines and because these products are based on new technologies, it may be difficult for us to accurately predict revenues, manufacturing costs and product returns. Our ongoing investments in the development and marketing of products for non-PC platforms could produce higher costs without a proportional increase in revenues.

A significant amount of our manufacturing operations are located in China, which exposes us to risks associated with doing significant business in that country.

A significant amount of our manufacturing operations are located in 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 leadership in China, by evolving interpretation and enforcement of legal standards, by strains on 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 trade customs and practices that are dissimilar to those in the United States. Interpretation and enforcement of China s laws and regulations continue to evolve and we expect differences in interpretation and enforcement to continue in the foreseeable future. In addition, our Chinese employees in our Suzhou, China facilities are subject to a number of government regulations regarding employment practices and customs that are fundamentally different in many respects from those in the United States and Europe. The Suzhou facilities are managed by several of our key Taiwanese expatriate employees. The loss of these employees, either voluntarily or because of a deterioration in relations between China and Taiwan, may diminish the productivity and effectiveness of our Suzhou manufacturing operations.

If we do not successfully coordinate the world wide manufacturing and distribution of our products we will lose sales and may face significant financial penalties from our customers.

Our business requires us to coordinate the manufacture and distribution of our products over much of the world. We increasingly rely on third parties to manufacture and distribute our products. If we do not successfully

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coordinate the timely manufacture and distribution of quality products, we will lose sales and our revenues will be harmed. In addition, distributors, retailers and OEMs are increasingly assessing charge-backs , or monetary penalties, against suppliers like Logitech for product delivery times, quantities or products that do not match their specifications. If we are unable to timely deliver quality products due to our own fault or those of third parties on which we rely, or due to events over which we or the third parties do not have control, our customers may assess penalties against us that may significantly harm our financial results.

The effect of business, legal and political risks associated with foreign countries and markets may negatively affect us.

We transact a substantial portion of our business outside the United States. There are risks inherent in doing business in international markets, including:

- difficulties in staffing and managing foreign operations;
- laws and regulations, including environmental laws, varying from country to country and over time, increasing the costs of compliance and potential risks of non-compliance;
- political and financial instability, leading to currency exchange losses, collection difficulties or other losses;
- foreign exchange controls; and