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PLANTRONICS
ANNUAL REPORT

financial highlights

(IN THOUSANDS, EXCEPT PER SHARE DATA AND NUMBER OF EMPLOYEES)

1998

1999

OPERATIONS

| | | |
|---|-----------|-----------|
| Revenue | \$236,112 | \$286,261 |
| Earnings before extraordinary item | \$ 39,189 | \$ 55,253 |
| Diluted earnings before extraordinary item per common share | \$ 2.15 | \$ 3.02 |
| Shares used in diluted per share calculations | 18,233 | 18,282 |
| Number of employees | 1,817 | 1,825 |

FINANCIAL POSITION

| | | |
|----------------------|-----------|-----------|
| Total assets | \$165,475 | \$142,868 |
| Debt | \$ 65,050 | \$ — |
| Net working capital | \$ 98,759 | \$ 76,296 |
| Stockholders' equity | \$ 53,436 | \$ 89,405 |



CORPORATE PROFILE Founded in 1961, Plantronics has offices in 18 countries with headquarters in Santa Cruz, California. The Company is recognized as the world leader in lightweight communications headsets, offering a full line of comfortable, high-quality headsets used in call centers, offices, automobiles, residences and for personal computers and cordless, cellular and wireless telephones. In addition, the Company's Walker Equipment division produces specialty phones for the hearing impaired and amplified telephone handsets. The Company's broad range of communications products are sold and supported through a worldwide network of authorized Plantronics resellers.

letter

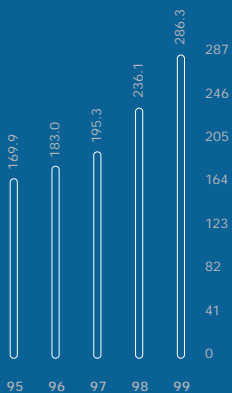
TO STOCKHOLDERS

Dear Fellow Stockholders,

Growing acceptance of headsets combined with our superior products and customer satisfaction to create strong financial performance in fiscal 1999. Revenues increased 21% to \$286 million, net income rose 41% to \$55 million, and earnings per share improved 33% to \$3.02. Higher net income and improved working capital management led to cash flow generation of \$87 million, which was used to retire debt and repurchase shares. At year end, our share price increased over 50% and our market capitalization reached \$1.1 billion.

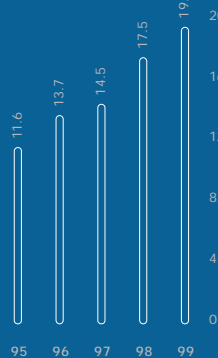
Our mission is to enhance personal communications. Keeping in touch with other people—communicating—is one of the single most important things we do in work and life. Our headsets make communications easier and provide people with greater freedom of movement and comfort while they are talking. In the office, people can talk and still have their hands free to use a computer. In the car, people can have a conversation and still have their hands free to drive more safely. There is nothing natural about having to hold a handset every time you need to speak on the phone. Increasing headset adoption is our greatest opportunity, and **our vision** is headsets for everyone. We would like to encourage all of our stockholders to try our headsets!

Our strategy is to use our expertise in headsets to continue to develop the best products and services for our core markets in the call center, while leveraging this expertise to create products appealing to new users in the office, mobile, computer, and residential market segments. In April of 1999, we announced the formation of our Computer Audio Systems Division and our new family of headsets for speech recognition, broadening our reach from voice to written communications and helping people create documents faster and more



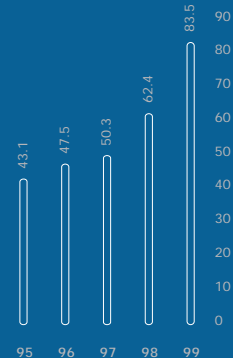
sales

(DOLLARS IN MILLIONS)



investment in research and development

(DOLLARS IN MILLIONS)



operating income

(DOLLARS IN MILLIONS)

comfortably. We also intend to increase our focus on marketing programs to cooperate with our channel partners in promoting adoption of headsets.

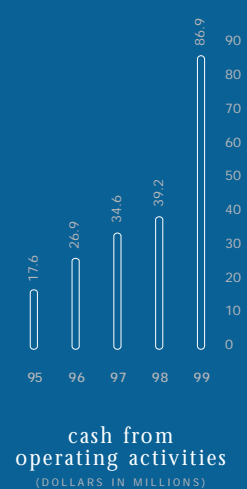
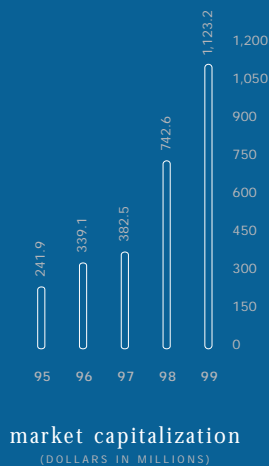
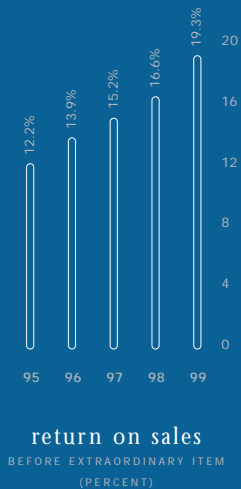
During fiscal 1999 we strengthened the management team with the addition of Neil Snyder, Vice President and General Manager of the Computer Audio Systems Division, Lyndall Fry, Director of Quality, and Vedat Bilgutay, Senior Director of Product Marketing, and the promotion of Dean Lane to Vice President and Chief Information Officer. We would also like to recognize the many contributions Bob Cecil made during his nearly seven years as CEO and, on a personal note, thank him on behalf of the many people at Plantronics who had the opportunity to work directly with him and benefit from his leadership and friendship. And finally, we regret the passing of Sid Webb, a Director of Plantronics for 16 years. His contributions, wise counsel, and friendship will be sorely missed.

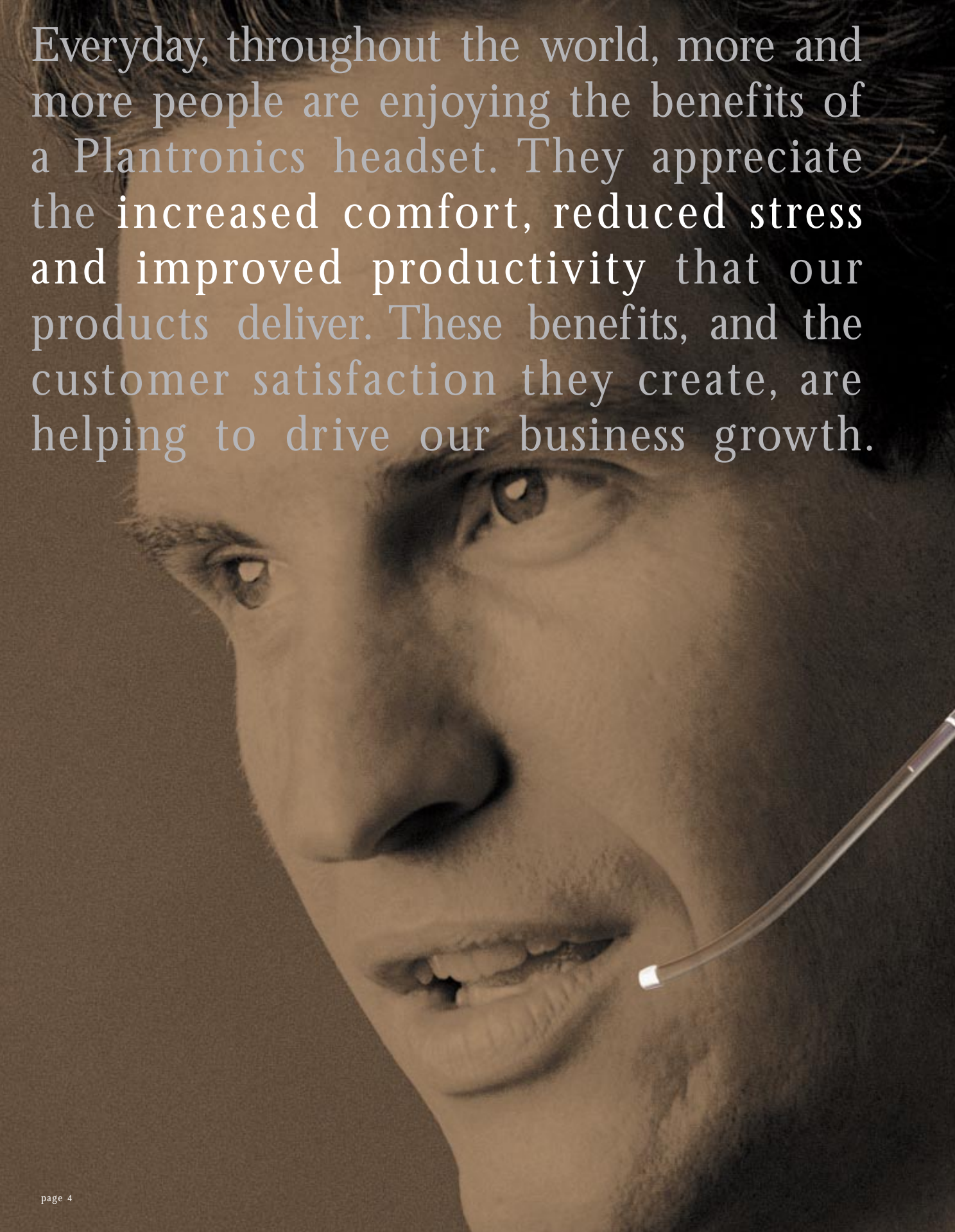
Thank you for your support.



Ken Kannappan

PRESIDENT AND CHIEF EXECUTIVE OFFICER





Everyday, throughout the world, more and more people are enjoying the benefits of a Plantronics headset. They appreciate the increased comfort, reduced stress and improved productivity that our products deliver. These benefits, and the customer satisfaction they create, are helping to drive our business growth.



HI. HOW ARE YOU DOING?...



TRISTAR® HEADSET
THE LIGHTEST, MOST STABLE
OVER-THE-EAR HEADSET



ENCORE® HEADSET
ALL-DAY COMFORT WITH ADJUSTABLE
BASS AND TREBLE



FREEHAND®/CHS132 HEADSET
ULTRA-LIGHTWEIGHT STYLE
DESIGNED TO PUT ON AND TAKE OFF
WITH ONE HAND



SUPRA® HEADSET
THE WORLD'S BEST-SELLING
TELEPHONE HEADSET, DESIGNED
FOR COMFORT AND DURABILITY



DUOSET™/CHS142 HEADSET
TWO CONFIGURATIONS, OVER-THE-EAR
AND OVER-THE-HEAD IN A STYLISH,
LIGHTWEIGHT DESIGN



SR1 HEADSET
DESIGNED FOR SUPERIOR SPEECH
RECOGNITION PERFORMANCE

HANDS-FREE CONVENIENCE: WITH A PLANTRONICS HEADSET, THERE'S NO NEED TO STOP FOR A PHONE CALL WHILE WORKING AT HOME OR ON THE RUN—YOUR HANDS ARE FREE TO WORK WHILE YOU TALK. INCREASED PRODUCTIVITY: HANDS-FREE CONVENIENCE TRANSLATES TO MORE PRODUCTIVITY—STUDIES SHOW THAT ADDING HEADSETS TO CALL CENTERS INCREASES PRODUCTIVITY UP TO 43%. ERGONOMIC COMFORT: IN DEMANDING WORK ENVIRONMENTS, IT'S A SCIENTIFIC FACT THAT HEADSETS REDUCE NECK, UPPER BACK, AND SHOULDER TENSION—PLANTRONICS HEADSETS ALLOW USERS TO MAINTAIN A NATURAL POSTURE WHILE WORKING. SAFE MOBILE COMMUNICATIONS: PLANTRONICS HEADSETS ARE DESIGNED TO ENHANCE DRIVER SAFETY WHILE DELIVERING OFFICE-QUALITY SOUND. BETTER SOUND: PLANTRONICS LEADING-EDGE TECHNOLOGY DELIVERS SOUND THAT IS CRISP AND CLEAR, WHILE MINIMIZING OUTSIDE NOISE AND INTERFERENCE. PERSONALIZED FIT: PLANTRONICS SETS THE STANDARD FOR HEADSET COMFORT. WITH HUMAN FACTORS IN MIND, EVERY HEADSET IS ERGONOMICALLY DESIGNED TO FIT THE WAY YOU WORK. EASY TO USE: EVERY PLANTRONICS HEADSET EASILY CONNECTS TO OVER 4,000 TELEPHONES OR CONSOLE MODELS VIA A COMPACT, EASY-TO-USE UNIVERSAL ADAPTER. WITH A PLANTRONICS HEADSET, THERE'S VIRTUALLY NO COMPLICATED SET-UP TIME. HANDS-FREE CONVENIENCE: WITH A PLANTRONICS HEADSET, THERE'S NO NEED TO STOP FOR A PHONE CALL WHILE WORKING AT HOME OR ON THE RUN—YOUR HANDS ARE FREE TO WORK WHILE YOU TALK. INCREASED PRODUCTIVITY: HANDS-FREE CONVENIENCE TRANSLATES TO INCREASED PRODUCTIVITY—A RECENT STUDY CONCLUDED THAT ADDING PLANTRONICS HEADSETS TO OFFICE TELEPHONES IMPROVES PRODUCTIVITY UP TO 43%. ERGONOMIC COMFORT: IN DEMANDING WORK ENVIRONMENTS, IT'S A SCIENTIFIC FACT THAT HEADSETS REDUCE NECK, UPPER

comfort

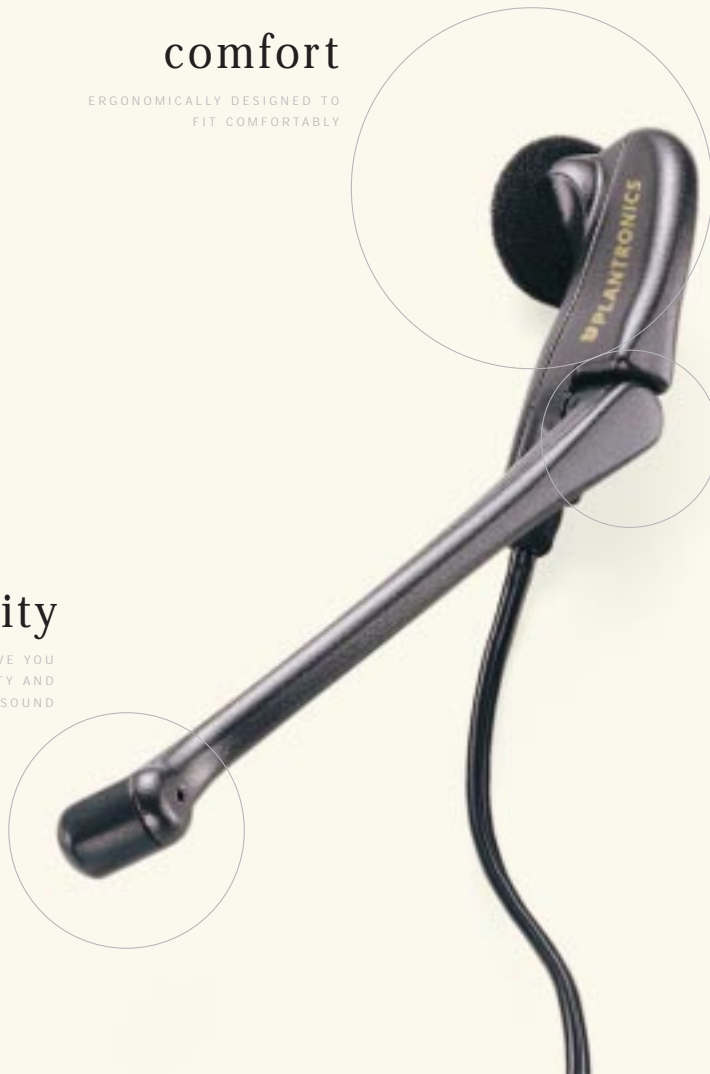
ERGONOMICALLY DESIGNED TO
FIT COMFORTABLY

clarity

OUR PRODUCTS GIVE YOU
THE HIGHEST QUALITY AND
CLARITY OF SOUND

flexibility

THE FREEDOM TO DO OTHER
THINGS WHILE ON THE PHONE



At Plantronics, we believe that good design should not only facilitate personal communications, but should fundamentally improve it.

financial

C O N T E N T S

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Consolidated balance sheets

MARCH 31,

(IN THOUSANDS)

| | 1998 | 1999 |
|---|-----------|-----------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 64,901 | \$ 42,999 |
| Accounts receivable, net | 41,550 | 46,807 |
| Inventory | 29,741 | 18,889 |
| Deferred income taxes | 2,130 | 3,159 |
| Other current assets | 1,774 | 7,880 |
| Total current assets | 140,096 | 119,734 |
| Property, plant and equipment, net | 21,255 | 20,323 |
| Other assets | 4,124 | 2,811 |
| Total assets | \$165,475 | \$142,868 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 8,327 | \$ 9,453 |
| Accrued liabilities | 26,629 | 33,475 |
| Income taxes payable | 6,381 | 510 |
| Total current liabilities | 41,337 | 43,438 |
| Deferred tax liability | 5,652 | 10,025 |
| Long-term debt | 65,050 | — |
| Total liabilities | 112,039 | 53,463 |
| Commitments and contingencies (note 8) | | |
| Stockholders' equity: | | |
| Common stock, \$0.01 par value per share; 40,000 shares authorized, 16,449 shares and 16,798 shares issued and outstanding | 174 | 185 |
| Additional paid-in capital | 63,816 | 91,423 |
| Accumulated other comprehensive income | (891) | (891) |
| Retained earnings | 15,355 | 69,559 |
| | 78,454 | 160,276 |
| Less: Treasury stock (common: 963 and 1,669) at cost | (25,018) | (70,871) |
| Total stockholders' equity | 53,436 | 89,405 |
| Total liabilities and stockholders' equity | \$165,475 | \$142,868 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated statements of operations

FISCAL YEAR ENDED MARCH 31,

(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

| | 1997 | 1998 | 1999 |
|--|-----------|-----------|-----------|
| Net sales | \$195,307 | \$236,112 | \$286,261 |
| Cost of sales | 90,567 | 108,514 | 125,698 |
| Gross profit | 104,740 | 127,598 | 160,563 |
| Operating expenses: | | | |
| Research, development and engineering | 14,503 | 17,543 | 19,521 |
| Selling, general and administrative | 39,898 | 47,682 | 57,528 |
| Total operating expenses | 54,401 | 65,225 | 77,049 |
| Operating income | 50,339 | 62,373 | 83,514 |
| Interest expense, including amortization of debt issuance costs | 7,104 | 6,984 | 5,785 |
| Interest income and other income, net | (1,722) | (2,243) | (3,525) |
| Income before income taxes | 44,957 | 57,632 | 81,254 |
| Income tax expense | 15,286 | 18,443 | 26,001 |
| Income before extraordinary item | 29,671 | 39,189 | 55,253 |
| Extraordinary item—retirement of debt, net of taxes (note 4) | — | — | 1,049 |
| Net income | \$ 29,671 | \$ 39,189 | \$ 54,204 |
| Net income per share: basic | | | |
| Income before extraordinary item | \$ 1.75 | \$ 2.38 | \$ 3.33 |
| Extraordinary item | — | — | 0.06 |
| Basic earnings per common share | \$ 1.75 | \$ 2.38 | \$ 3.27 |
| Shares used in basic per share calculations | 17,003 | 16,481 | 16,574 |
| Net income per share: diluted | | | |
| Income before extraordinary item | \$ 1.67 | \$ 2.15 | \$ 3.02 |
| Extraordinary item | — | — | 0.06 |
| Diluted earnings per common share | \$ 1.67 | \$ 2.15 | \$ 2.96 |
| Shares used in diluted per share calculations | 17,792 | 18,223 | 18,282 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated statements of cash flows

FISCAL YEAR ENDED MARCH 31,

(IN THOUSANDS)

| | 1997 | 1998 | 1999 |
|---|----------|----------|-----------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | \$29,671 | \$39,189 | \$ 54,204 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization of property and equipment | 2,935 | 3,632 | 4,738 |
| Deferred income taxes | 2,789 | 4,746 | 3,344 |
| Provision for doubtful accounts | (50) | 455 | 574 |
| Other non-cash charges, net | 649 | (225) | — |
| Changes in assets and liabilities: | | | |
| Accounts receivable | 1,624 | (5,024) | (5,831) |
| Inventory | (2,035) | (9,699) | 10,852 |
| Other current assets | 318 | (865) | (6,106) |
| Other assets | (459) | 1,113 | 1,313 |
| Accounts payable | 1,194 | (1,251) | 1,126 |
| Accrued liabilities | (251) | 6,188 | 6,846 |
| Income taxes payable | (1,769) | 986 | 15,863 |
| Cash provided by operating activities | 34,616 | 39,245 | 86,923 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Capital expenditures | (8,195) | (5,917) | (3,806) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Retirement of long-term debt | — | — | (65,050) |
| Purchase of treasury stock | (12,880) | (13,162) | (46,384) |
| Proceeds from sale of treasury stock | 99 | 1,250 | 1,275 |
| Proceeds from exercise of stock options | 1,835 | 1,223 | 5,140 |
| Cash provided by (used for) financing activities | (10,946) | (10,689) | (105,019) |
| Net increase (decrease) in cash and cash equivalents | 15,475 | 22,639 | (21,902) |
| Cash and cash equivalents at beginning of year | 26,787 | 42,262 | 64,901 |
| Cash and cash equivalents at end of year | \$42,262 | \$64,901 | \$ 42,999 |
| Supplemental disclosures: | | | |
| Cash paid for: | | | |
| Interest | \$ 6,577 | \$ 6,550 | \$ 6,525 |
| Income taxes | \$14,192 | \$12,439 | \$ 7,913 |
| Extraordinary charge on retirement of debt | — | — | \$ 1,301 |
| Noncash operating and financing activities: | | | |
| Income tax benefit associated with stock options | \$ 597 | \$ 4,279 | \$ 21,734 |
| Write off of unamortized debt issuance costs | — | — | \$ 390 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated statements of stockholders' equity

| (IN THOUSANDS, EXCEPT SHARE AMOUNTS) | COMMON STOCK | | ADDITIONAL PAID-IN CAPITAL | ACCUMULATED OTHER COMPREHENSIVE INCOME | RETAINED EARNINGS | TREASURY STOCK | TOTAL STOCKHOLDERS' EQUITY |
|---|--------------|--------|----------------------------------|---|----------------------|-------------------|----------------------------------|
| | SHARES | AMOUNT | | | | | |
| Balance at March 31, 1996 | 16,777,912 | \$169 | \$55,642 | \$(891) | \$(53,505) | \$ — | \$ 1,415 |
| Stock option compensation amortization | — | — | 146 | — | — | — | 146 |
| Exercise of stock options | 284,442 | 2 | 1,832 | — | — | — | 1,834 |
| Income tax benefit associated with stock options | — | — | 597 | — | — | — | 597 |
| Purchase of treasury stock | (701,226) | — | — | — | — | (12,873) | (12,873) |
| Sale of treasury stock | 5,084 | — | — | — | — | 92 | 92 |
| Net income | — | — | — | — | 29,671 | — | 29,671 |
| Balance at March 31, 1997 | 16,366,212 | 171 | 58,217 | (891) | (23,834) | (12,781) | 20,882 |
| Stock option compensation amortization | — | — | (225) | — | — | — | (225) |
| Exercise of stock options | 348,958 | 3 | 1,220 | — | — | — | 1,223 |
| Income tax benefit associated with stock options | — | — | 4,279 | — | — | — | 4,279 |
| Purchase of treasury stock | (317,600) | — | — | — | — | (13,162) | (13,162) |
| Sale of treasury stock | 51,072 | — | 325 | — | — | 925 | 1,250 |
| Net income | — | — | — | — | 39,189 | — | 39,189 |
| Balance at March 31, 1998 | 16,448,642 | 174 | 63,816 | (891) | 15,355 | (25,018) | 53,436 |
| Exercise of stock options | 1,056,093 | 11 | 5,129 | — | — | — | 5,140 |
| Income tax benefit associated with stock options | — | — | 21,734 | — | — | — | 21,734 |
| Purchase of treasury stock | (735,593) | — | — | — | — | (46,384) | (46,384) |
| Sale of treasury stock | 29,301 | — | 744 | — | — | 531 | 1,275 |
| Net income | — | — | — | — | 54,204 | — | 54,204 |
| Balance at March 31, 1999 | 16,798,443 | \$185 | \$91,423 | \$(891) | \$ 69,559 | \$(70,871) | \$ 89,405 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

Notes to consolidated financial statements

note 1. THE COMPANY:

Plantronics, Inc. (the "Company"), introduced the first lightweight communications headset in 1962. Since that time, the Company has established itself as a world leading designer, manufacturer and marketer of lightweight communications headset products.

note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

MANAGEMENT'S USE OF ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiary companies. Intercompany transactions and balances have been eliminated in consolidation.

FISCAL YEAR

The Company's fiscal year end is the Saturday closest to March 31. For purposes of presentation, the Company has indicated its accounting year ending on March 31. Results of operations for fiscal years 1997, 1998 and 1999 each included 52 weeks.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with a maturity of 90 days or less at the date of purchase to be cash equivalents. The Company's cash and cash equivalents consist of the following:

MARCH 31,

(IN THOUSANDS)

| | 1998 | 1999 |
|---------------------------|-----------------|-----------------|
| Cash | \$ 9,662 | \$ 7,427 |
| Cash equivalents | 55,239 | 35,572 |
| Cash and cash equivalents | <u>\$64,901</u> | <u>\$42,999</u> |

INVENTORY

Inventory is stated at the lower of cost, determined on the first-in, first-out method, or market.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization of property, plant and equipment are principally calculated using the straight-line method over the estimated useful lives of the respective assets.

DEFERRED DEBT ISSUANCE COSTS

Debt issuance costs are assigned to the various debt instruments and amortized over the shorter of the terms of the respective debt agreements or the estimated period the debt will be outstanding.

Notes to consolidated financial statements

REVENUE RECOGNITION

Revenue is recognized when products are shipped. Provision is made for estimated potential customer returns and warranty costs at the time of shipment.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents and trade receivables. The Company's cash investment policies limit investments to those that are short-term and low risk. Concentrations of credit risk with respect to trade receivables are generally limited due to the large number of customers comprising the Company's customer base, and their dispersion across different geographic areas. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. The Company maintains an allowance for uncollectible accounts receivable based upon expected collectibility of all accounts receivable.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of the Company's financial instruments, including cash, cash equivalents, accounts receivable, accrued expenses and liabilities, approximate fair value due to their short maturities.

INCOME TAXES

The Company accounts for income taxes under the liability method, which recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the tax basis of assets and liabilities and their financial statement reported amounts. Tax credits are accounted for as a reduction of tax expense in the year in which the credits reduce taxes payable.

FOREIGN OPERATIONS AND CURRENCY TRANSLATION

The Company has foreign assembly and manufacturing operations in Mexico, light assembly, research and development and sales and marketing in the United Kingdom, an international finance, customer service and logistics headquarters in the Netherlands, and sales offices in Canada, Asia, Europe, Australia and South America. For fiscal 1997, 1998 and 1999, the functional currency of all foreign operations was the US dollar. Accordingly, gains or losses arising from the translation of foreign currency statements and transactions are included in determining consolidated results of operations. Aggregate exchange gains (losses) for fiscal 1997, 1998 and 1999 were \$0.4 million, (\$0.2) million and (\$0.2) million, respectively. Gains or losses arising from the translation of the United Kingdom statements prior to fiscal 1997 were recorded as a separate component of stockholders' equity and are presented as accumulated other comprehensive income.

COMPREHENSIVE INCOME

Effective April 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). The statement establishes presentation and disclosure requirements for reporting comprehensive income. Comprehensive income includes charges or credits to equity that are not the result of transactions with owners. Total comprehensive income was the same as net income for all periods presented.

SEGMENT REPORTING

In fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"). The statement requires the Company to report certain information about operating segments in its annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers (see note 9).

Notes to consolidated financial statements

STOCK-BASED COMPENSATION

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("FAS 123"), encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans based on the fair value of options granted. The Company has elected to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations, and to provide additional disclosures with respect to the pro forma effects of adoption had the Company recorded compensation expense as provided in FAS 123, (see note 10).

note 3. DETAILS OF CERTAIN BALANCE SHEET ACCOUNTS:

MARCH 31,

(IN THOUSANDS)

| | 1998 | 1999 |
|--|-----------------|-----------------|
| ACCOUNTS RECEIVABLE: | | |
| Accounts receivable from customers | \$43,302 | \$49,133 |
| Allowance for doubtful accounts | (1,752) | (2,326) |
| | <u>\$41,550</u> | <u>\$46,807</u> |
| INVENTORY: | | |
| Finished goods | \$13,224 | \$ 9,425 |
| Work in process | 4,431 | 1,461 |
| Purchased parts | 12,086 | 8,003 |
| | <u>\$29,741</u> | <u>\$18,889</u> |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Land | \$ 4,693 | \$ 4,693 |
| Buildings and improvements (useful life 10-30 years) | 9,486 | 9,923 |
| Machinery and equipment (useful life 2-8 years) | 31,484 | 32,853 |
| | 45,663 | 47,469 |
| Less accumulated depreciation | (24,408) | (27,146) |
| | <u>\$21,255</u> | <u>\$20,323</u> |
| ACCRUALS: | | |
| Employee benefits | 11,689 | 15,209 |
| Other | 14,940 | 18,266 |
| | <u>\$26,629</u> | <u>\$33,475</u> |

Notes to consolidated financial statements

note 4. DEBT:

During 1999, the Company retired \$65.1 million of 10% subordinated debentures due in 2001. The Company paid a premium to debenture holders, and the transaction resulted in an extraordinary loss of approximately \$1.0 million (\$0.06 per diluted share), net of income tax benefits of \$0.7 million. The transaction was paid out of available cash.

Effective November 30, 1998, the Company increased its revolving unsecured credit facility with Bank of America from \$20.0 million to \$30.0 million. The facility expires on November 29, 1999. The facility includes a \$10.0 million letter-of-credit subfacility. Principal outstanding bears interest at the Company's choice of the Bank of America base rate, the offshore rate or a CD rate plus a margin ranging from 0.000% to 1.375%, depending on the rate choice and performance level ratios. There were no borrowings outstanding under the facility at March 31, 1999, however, at that date \$2.3 million, associated with inventory purchases and other matters, was committed under the letter-of-credit subfacility. The revolving credit facility includes covenants relating to, among other things, the maintenance of a maximum net funded debt ratio, a minimum tangible net worth ratio and a minimum interest coverage ratio. The Company was in compliance with the terms of the covenants as of March 31, 1999.

The revolving credit facility also expressly restricts the ability of the Company to incur additional indebtedness (including contingent liabilities and guarantees), grant additional liens, redeem stock, dispose of and acquire assets, incur lease obligations, and make investments, including loans, joint ventures, and acquisitions of other businesses. The Company is permitted to pay cash dividends on shares of its capital stock in an amount not to exceed 50% of the Company's cumulative net income (net of cumulative losses) for the period commencing February 19, 1997 through the date of declaration.

note 5. COMMON AND TREASURY STOCK:

In July 1997, the Company's stockholders approved an increase in the authorized shares of Common Stock of Plantronics, Inc., to 40,000,000. On September 2, 1997, the Company effected a two-for-one stock split in the form of a stock dividend to stockholders of record as of August 18, 1997. All share, per share, Common Stock, and capital in excess of par value amounts herein have been restated to reflect the effect of this split.

On January 8, 1999, the Company filed with the Securities Exchange Commission a Registration Statement on Form S-3 for the sale by certain stockholders in an underwritten offering of 1,250,000 shares of Common Stock. Plantronics did not receive any proceeds from this offering, other than approximately \$0.8 million (net of offering expenses) received upon the exercise of options to purchase 443,548 shares of Common Stock by two of the stockholders selling in the offering. The offering increased outstanding shares by 443,548.

During fiscal 1999, the Board of Directors authorized the Company to repurchase a total of 1,000,000 shares of Common Stock. During fiscal 1999, the Company repurchased 735,593 shares of its Common Stock in the open market at a total cost of \$46.4 million and 29,301 shares for proceeds of \$1.3 million were reissued through employee benefit plans.

Notes to consolidated financial statements

note 6. INCOME TAXES:

Income tax expense for fiscal 1997, 1998 and 1999 consisted of the following:

| FISCAL YEAR ENDED MARCH 31, | | | |
|-----------------------------|-----------------|-----------------|-----------------|
| (IN THOUSANDS) | 1997 | 1998 | 1999 |
| Federal | | | |
| Current | \$ 8,744 | \$10,109 | \$18,127 |
| Deferred | 2,789 | 4,746 | 3,344 |
| State | 1,854 | 1,472 | 1,943 |
| Foreign | 1,899 | 2,116 | 2,587 |
| | <u>\$15,286</u> | <u>\$18,443</u> | <u>\$26,001</u> |

Pre-tax earnings of the foreign subsidiaries were \$8.2 million, \$15.7 million and \$24.5 million for fiscal years 1997, 1998 and 1999, respectively. Cumulative earnings of foreign subsidiaries that have been permanently reinvested as of March 31, 1999 totaled \$22.5 million.

The following is a reconciliation between statutory federal income taxes and the total provision for taxes on pre-tax income:

| FISCAL YEAR ENDED MARCH 31, | | | |
|---|-----------------|-----------------|-----------------|
| (IN THOUSANDS) | 1997 | 1998 | 1999 |
| Tax expense at statutory rate | \$15,735 | \$20,171 | \$27,847 |
| Foreign operations taxed at different rates | (971) | (4,364) | (3,609) |
| State taxes, net of federal benefit | 1,204 | 1,476 | 1,263 |
| Other, net | (682) | 1,160 | 500 |
| | <u>\$15,286</u> | <u>\$18,443</u> | <u>\$26,001</u> |

Deferred tax liabilities (assets) represent the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

| MARCH 31, | | |
|---|----------------|-----------------|
| (IN THOUSANDS) | 1998 | 1999 |
| Deferred gains on sales of properties | \$2,476 | \$ 2,413 |
| Deferred state tax | 314 | 793 |
| Unremitted earnings of certain subsidiaries | 5,749 | 7,249 |
| Other deferred tax liabilities | 1,111 | 1,200 |
| Gross deferred tax liabilities | <u>9,650</u> | <u>11,655</u> |
| Accruals and other reserves | (5,670) | (4,122) |
| Other deferred tax assets | (458) | (667) |
| Gross deferred tax assets | <u>(6,128)</u> | <u>(4,789)</u> |
| Total net deferred tax liabilities | <u>\$3,522</u> | <u>\$ 6,866</u> |

Notes to consolidated financial statements

note 7. EMPLOYEE BENEFIT PLANS:

Subject to eligibility requirements, substantially all domestic employees participate in quarterly cash, annual cash and annual deferred profit sharing plans. All other employees, with the exception of direct labor in Mexico, participate in quarterly cash profit sharing plans. Domestic employees also have the option of participating in a salary deferral plan qualified under Section 401(k) of the Internal Revenue Code. The Quarterly Profit Sharing Plan benefits are paid on the basis of profitability and the relationship of each participating employee's base salary as a percent of the total base salaries of all participants. The percent of profit distributed to employees varies by location. The Annual Profit Sharing Plan benefits are based on 10% of the Company's results of operations before interest and taxes, adjusted for other items, minus quarterly profit sharing cash distributions and administrative expenses, and are allocated to employees based on the relationship of each participating employee's base salary as a percent of all participants' base salaries. The Annual Profit Sharing Plan distributions include a cash distribution and a tax deferred distribution made to individual accounts of participants held in trust. The deferred portion is subject to a two year vesting schedule based on an employee's date of hire. Total annual and quarterly profit sharing contributions were \$5.5 million, \$6.9 million and \$9.4 million for fiscal 1997, 1998 and 1999, respectively.

note 8. COMMITMENTS AND CONTINGENCIES:

MINIMUM FUTURE RENTAL PAYMENTS

The Company leases certain equipment and facilities under operating leases expiring in various years through and after 2004. Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of March 31, 1999:

FISCAL YEAR ENDING MARCH 31,

(IN THOUSANDS)

AMOUNT

| | |
|--------------------------------------|---------|
| 2000 | \$1,234 |
| 2001 | 947 |
| 2002 | 427 |
| 2003 | 412 |
| 2004 | 410 |
| Thereafter | 4,510 |
| Total minimum future rental payments | \$7,940 |

Rent expense for operating leases was approximately \$1.1 million in fiscal 1997, \$1.3 million in fiscal 1998 and \$1.1 million in fiscal 1999.

EXISTENCE OF RENEWAL OPTIONS

Certain operating leases provide for renewal options for periods from one to three years. In the normal course of business, operating leases are generally renewed or replaced by other leases.

CLAIMS AND LITIGATION

In the opinion of management, litigation, contingent liabilities and claims against the Company arising in the ordinary course of business are not expected to involve any judgments or settlements which would be material to the Company's consolidated financial condition or results of operations.

Notes to consolidated financial statements

note 9. SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION:

The Company adopted SFAS No. 131 in fiscal 1999 which changes the way the Company reports information about its operating segments.

OPERATING SEGMENT

The Company organizes the reporting segments based on geographic areas. The nature of products, (telecommunications equipment), development, manufacturing, marketing and servicing are similar in each geographic area. The Company evaluates segment performance based on profit or loss from operations before interest expense, foreign exchange gains and losses and income taxes. No one customer accounted for 10% or more of total revenue from consolidated sales for fiscal year 1997, 1998 or 1999.

GEOGRAPHIC SEGMENTS

In geographical reporting, revenues are attributed to the geographical location of the sales and service organizations. Costs directly and indirectly incurred in generating revenues are similarly assigned.

FISCAL YEAR ENDED MARCH 31,

(IN THOUSANDS)

| | 1997 | 1998 | 1999 |
|---|------------------|------------------|------------------|
| NET REVENUES FROM UNAFFILIATED CUSTOMERS: | | | |
| United States | \$135,664 | \$164,074 | \$198,910 |
| International | 59,643 | 72,038 | 87,351 |
| | <u>\$195,307</u> | <u>\$236,112</u> | <u>\$286,261</u> |
| Intersegment revenues | \$ 47,952 | \$ 80,421 | \$ 92,141 |
| OPERATING PROFIT: | | | |
| United States | \$ 36,718 | \$ 45,051 | \$ 63,169 |
| International | 13,621 | 17,322 | 20,345 |
| | <u>\$ 50,339</u> | <u>\$ 62,373</u> | <u>\$ 83,514</u> |
| LONG LIVED ASSETS: | | | |
| United States | \$ 97,138 | \$121,627 | \$ 76,339 |
| International | 30,103 | 43,848 | 66,529 |
| | <u>\$127,241</u> | <u>\$165,475</u> | <u>\$142,868</u> |

The geographical reporting classification reflects the international restructuring completed in fiscal 1997. The establishment of Plantronics B.V. changed the ownership of inventory and the methodology of intersegment revenues. Intersegment revenues are from Plantronics B.V. to the US and are at arms length prices sufficient to recover a reasonable profit.

Notes to consolidated financial statements

note 10. STOCK OPTION PLANS AND STOCK PURCHASE PLANS:

STOCK OPTION PLAN

In September 1993, the Board of Directors approved the PI Parent Corporation 1993 Stock Plan (the "1993 Stock Plan"). Under the 1993 Stock Plan, 5,459,242 shares of Common Stock (which number is subject to adjustment in the event of stock splits, reverse stock splits, recapitalization or certain corporate reorganizations) are reserved for issuance to employees and consultants of the Company, as approved from time to time by the Compensation Committee of the Board of Directors. The reserved shares include 980,000 shares in 1997 and 1,300,000 in 1999, which were authorized by the Board of Directors and approved by the stockholders for issuance in 1997 and 1999 respectively. The 1993 Stock Plan, which has a term of ten years, provides for incentive as well as nonqualified stock options to purchase shares of Common Stock. The Board of Directors may terminate the 1993 Stock Plan at any time at its discretion.

Incentive stock options may not be granted at less than 100% of the estimated fair market value, as determined by the Board of Directors, of the Company's Common Stock at the date of grant and the option term may not exceed 10 years. For holders of 10% or more of the total combined voting power of all classes of the Company's stock, incentive stock options may not be granted at less than 110% of the estimated fair market value of the Common Stock at the date of grant and the option term may not exceed five years. Nonqualified stock options may be granted at less than fair market value. Options generally vest over four years.

DIRECTORS' STOCK OPTION PLAN

In September 1993, the Board of Directors adopted a Directors' Stock Option Plan (the "Directors' Option Plan") and reserved 40,000 shares of Common Stock for issuance to non-employee directors of the Company. An additional 20,000 shares were authorized for issuance in 1997 under the Directors' Option Plan, pursuant to Board of Directors' and stockholder approval. The Directors' Option Plan provides that each non-employee director shall be granted an option to purchase 4,000 shares of Common Stock on the later of the effective date of the Company's initial public offering or the date on which the person becomes a director. Thereafter, each non-employee director shall be granted an option to purchase 1,000 shares of Common Stock each year. At the end of fiscal 1999, options for 48,500 shares of Common Stock were outstanding under the Directors' Option Plan. All options were granted at fair market value and generally vest over a four-year period.

Notes to consolidated financial statements

Stock option activity under the 1993 Stock Plan and the Directors' Stock Option Plan are as follows:

| | SHARES AVAILABLE FOR GRANT | OPTIONS OUTSTANDING | |
|-------------------------------|----------------------------------|---------------------|---------------------------|
| | | SHARES | WEIGHTED AVERAGE PRICE |
| Balance at March 31, 1996 | 58,754 | 2,783,282 | \$ 4.52 |
| Options Authorized | 1,000,000 | | |
| Options Granted | (631,588) | 631,588 | \$19.80 |
| Options Exercised | | (284,442) | \$ 6.45 |
| Options Cancelled | 111,048 | (111,048) | \$ 6.49 |
| Balance at March 31, 1997 | 538,214 | 3,019,380 | \$ 7.46 |
| Options Granted | (654,500) | 654,500 | \$27.37 |
| Options Exercised | | (348,958) | \$ 3.49 |
| Options Cancelled | 233,010 | (233,010) | \$18.53 |
| Balance at March 31, 1998 | 116,724 | 3,091,912 | \$11.29 |
| Options Authorized | 1,300,000 | | |
| Options Granted | (666,000) | 666,000 | \$55.75 |
| Options Exercised | | (1,056,093) | \$ 4.91 |
| Options Cancelled | 184,445 | (184,445) | \$18.55 |
| Balance at March 31, 1999 | 935,169 | 2,517,374 | \$25.19 |
| Exercisable at March 31, 1999 | | <u>1,293,104</u> | |

Significant option groups outstanding at March 31, 1999 and related weighted average prices and lives are as follows:

| RANGE OF EXERCISE PRICE | OPTIONS OUTSTANDING | | OPTIONS EXERCISABLE | | |
|----------------------------|--|--|---------------------------------------|--|---------------------------------------|
| | NUMBER OUTSTANDING AS OF MARCH 31, 1999 | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER EXERCISABLE AS OF MARCH 31, 1999 | WEIGHTED AVERAGE EXERCISE PRICE |
| \$ 0.90–\$ 0.90 | 292,216 | 4.50 | \$ 0.90 | 292,216 | \$ 0.90 |
| 2.74– 17.44 | 716,102 | 5.31 | 7.14 | 685,190 | 6.69 |
| 18.44– 21.06 | 519,093 | 7.82 | 19.74 | 234,849 | 19.61 |
| 21.13– 59.75 | 693,213 | 8.91 | 41.69 | 80,849 | 27.94 |
| 61.13– 81.25 | 297,000 | 9.60 | 63.41 | 0 | 0.00 |
| \$ 0.90–\$81.25 | 2,517,374 | 7.23 | \$25.16 | 1,293,104 | \$ 9.06 |

Notes to consolidated financial statements

FAIR VALUE DISCLOSURES

All options in fiscal 1997, 1998 and 1999 were granted at an exercise price equal to the fair market value of the Company's Common Stock at the date of grant. The weighted average fair value at date of grant for options granted during 1997, 1998 and 1999 were \$6.34, \$9.79 and \$25.25 per share, respectively. The fair value of options at date of grant was estimated using the Black-Scholes model with the following assumptions for 1997: dividend yield of 0%, an expected life of 5 years, expected volatility of 17% and risk free interest rate of 6.6%. For 1998 the assumptions were: dividend yield of 0%, an expected life of 5 years, expected volatility of 28% and risk free interest rate of 5.6%. For 1999 the assumptions were: dividend yield of 0%, an expected life of 5.6 years, expected volatility of 39% and risk free interest rate of 5.3%.

Volatility is a measure of the amount by which a price has fluctuated over a historical period. The higher the volatility, the more the returns on the stock can be expected to vary. The risk free interest rate is the rate on a US Treasury bill or bond that approximates the expected life of the option.

Had compensation expense for the Company's stock-based compensation plans been determined based on the methods prescribed by SFAS No. 123, the Company's net income and net income per share would have been as follows:

FISCAL YEAR ENDED MARCH 31,

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | 1997 | 1998 | 1999 |
|-----------------------|----------|----------|----------|
| Net income: | | | |
| As reported | \$29,671 | \$39,189 | \$54,204 |
| Pro forma | \$29,044 | \$37,381 | \$51,771 |
| Net income per share: | | | |
| As reported | \$ 1.67 | \$ 2.15 | \$ 2.96 |
| Pro forma | \$ 1.63 | \$ 2.05 | \$ 2.83 |

Notes to consolidated financial statements

EMPLOYEE STOCK PURCHASE PLAN

On April 23, 1996 the Board of Directors of the Company approved the 1996 Employee Stock Purchase Plan, (the "ESPP") which was approved by the stockholders on August 6, 1996, to provide certain employees with an opportunity to purchase Common Stock through payroll deductions. The plan is a qualified plan under applicable IRS guidelines and certain highly compensated employees are excluded from participation. Under the ESPP, the purchase price of the Common Stock will equal 95% of the market price of the Common Stock immediately before the beginning of the applicable participation period. Each participation period is six months long. Once purchased the shares are restricted for six months. During fiscal 1997, 581 shares were issued under the plan. The fair value of the employee's purchase rights was estimated using the Black-Scholes model with the following assumptions: dividend yield of 0%, an expected life of six months, expected volatility of 17%, and risk free interest rate of 6.6%. During fiscal 1998, 2,021 shares were issued under the plan. The fair value of the employee's purchase rights was estimated using the Black-Scholes model with the following assumptions: dividend yield of 0%, an expected life of six months, expected volatility of 28%, and risk free interest rate of 5.6%. The weighted-average fair value of these purchase rights granted in fiscal 1998 was \$4.85. During fiscal 1999, 2,531 shares were issued under the plan. The fair value of the employee's purchase rights was estimated using the Black-Scholes model with the following assumptions: dividend yield of 0%, an expected life of six months, expected volatility of 39%, and risk free interest rate of 4.6%. The weighted-average fair value of these purchase rights granted in fiscal 1999 was \$5.92.

SENIOR EXECUTIVE STOCK OWNERSHIP PLAN

In November, 1996 the Board of Directors approved a Senior Executive Stock Purchase Plan, effective January 1, 1997, to encourage ownership of the Company's Common Stock by senior executives. This is a voluntary plan in which executives are encouraged to participate and achieve a target ownership over a five year period in annual increments of 20% or more. The target ownership is equal to two times the Chief Executive Officer's base salary and one times the individual Vice Presidents' base salary. To encourage participation, the Company will sell the Company's Treasury Stock to executives under this voluntary purchase program. The price will be equal to the greater of: 95% of the price set by the Board of Directors on an annual basis or 85% of the fair market value of the stock on the date of transaction. The various vehicles that are available to executives to obtain ownership of the Company's stock are as follows: 401 (k) Plan contributions, personal IRA account purchases, Deferred Compensation Plan contributions, outright purchase of stock or exercising and holding vested stock options. The discounted price is not applicable to exercising and holding of vested stock options.

Report of independent accountants

To the Board of Directors and Stockholders of Plantronics, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Plantronics, Inc. and its subsidiaries at March 31, 1998 and 1999 and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.



San Jose, California
April 16, 1999

Management's discussion and analysis of financial condition and results of operations

CERTAIN FORWARD-LOOKING INFORMATION:

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include, without limitation, the statements that (i) we expect interest expenses in future periods to be minimal discussed in the last sentence of the paragraph below titled "Interest Expense" under Annual Results of Operations; (ii) cash from operations and available borrowings will be sufficient to fund operations for the next 12 months discussed in the final paragraph of the section titled "Liquidity" under Financial Condition; (iii) we expect that the repurchase of Senior Notes will increase diluted earnings per share by approximately \$0.10 on an annual pro forma basis discussed in the final paragraph in the section titled "Financing Activities" under Financial Condition; and (iv) the Year 2000 readiness statements set out in various paragraphs under Year 2000, including the expected Year 2000 compliance of our information systems and applications by June 1999, the expected Year 2000 certifications from our principal suppliers and customers by July 1999 and August 1999, respectively, our belief that there will be no material impact of Year 2000 problems due to failures of our systems or those of third parties with whom we do business, and the expectation that we will substantially complete our contingency planning by July 1999. In addition, the Company may from time to time make oral forward-looking statements. These forward-looking statements are based on current expectations and entail various risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth below under "Risk Factors Affecting Future Operating Results" set forth in the Company's Annual Report on Form 10-K filed with the Securities Exchange Commission on or before June 25, 1999. The following discussions titled "Results of Operations" and "Financial Condition" should be read in conjunction with those risk factors, the consolidated financial statements and related notes included elsewhere herein, and the discussion and additional disclosures in our Annual Report on Form 10-K.

ANNUAL RESULTS OF OPERATIONS

Net Sales Net sales in fiscal 1999 increased 21.2% to \$286.3 million compared to \$236.1 million in fiscal 1998, which in turn increased 20.9% compared to fiscal 1997 net sales of \$195.3 million. Both domestic and international sales contributed to the growth in net sales. Domestic sales increased 21.2% to \$198.9 million in fiscal 1999, compared to an increase of 20.9% to \$164.1 million in fiscal 1998 compared to the prior year. Domestic sales growth occurred in all our sales channels, with the largest percentage increases coming in the retail and Original Equipment Manufacturer ("OEM") channels.

International sales in fiscal 1999 increased 21.3% to \$87.4 million compared to \$72.0 million in fiscal 1998, which in turn increased 20.8% compared to the prior year. Most of the growth in fiscal 1999 occurred in Europe, with sales in the Asia Pacific/Latin America region and Canada growing at a slower rate. International sales in fiscal 1999, 1998 and 1997 have accounted for approximately 30.5% of total net sales in each of these periods.

Gross Profit Gross profit in fiscal 1999 increased 25.8% to \$160.6 million (56.1% of net sales), compared to \$127.6 million (54.0% of net sales) in fiscal 1998. Gross profit in fiscal 1998 increased 21.8% compared to gross profit of \$104.7 million (53.6% of net sales) in fiscal 1997. The increases in gross profit as a percent of net sales in the last two fiscal years mainly reflect reductions in product costs through design and manufacturing efficiencies and by obtaining lower costs from our suppliers.

Management's discussion and analysis of financial condition and results of operations

Research, Development and Engineering Research, development and engineering expenses in fiscal 1999 increased 11.3% to \$19.5 million (6.8% of net sales), compared to \$17.5 million (7.4% of net sales) in fiscal 1998. Research, development and engineering expenses in fiscal 1998 increased 21.0% compared to \$14.5 million (7.4% of net sales) in fiscal 1997. The increase in these expenses reflects continued investment in new product development and technologies.

Selling, General and Administrative Selling, general and administrative expenses in fiscal 1999 increased 20.6% to \$57.5 million (20.1% of net sales), compared to \$47.7 million (20.2% of net sales) in fiscal 1998. Selling, general and administrative expenses in fiscal 1998 increased 19.5% compared to \$39.9 million (20.4% of net sales) in fiscal 1997. Increases in expenses in fiscal 1999 were primarily from costs associated with the expansion of sales programs and higher worldwide sales and related variable expenses, such as sales commissions and employee profit sharing. General and administrative expenses also increased due to the addition of two senior corporate executive positions.

Operating Income Operating income in fiscal 1999 increased 33.9% to \$83.5 million (29.2% of net sales), compared to \$62.4 million (26.4% of net sales) in fiscal 1998. Operating income in fiscal 1998 increased 23.9% compared to \$50.3 million (25.8% of net sales) in fiscal 1997. The increase in operating income over the past two fiscal years was primarily due to: (i) higher net sales, (ii) the increase in gross margin and (iii) a concerted effort to limit the growth of operating expenses relative to sales growth.

Interest Expense Interest expense in fiscal 1999 decreased 17.2% to \$5.8 million, compared to \$7.0 million in fiscal 1998, which in turn decreased 1.7% from \$7.1 million in fiscal 1997. Interest expense for all periods reported principally represents interest payable on our 10% Senior Notes Due 2001 (Senior Notes) which were redeemed on January 15, 1999. The early redemption of these Senior Notes was the reason for the decrease in interest expense in fiscal 1999, and we expect interest expense to be minimal in fiscal 2000.

Interest and Other Income Interest and other income in fiscal 1999 increased 57.2% to \$3.5 million compared to \$2.2 million in fiscal 1998, which in turn increased 30.3% compared to \$1.7 million in fiscal 1997. The increases were primarily attributable to interest income derived from increases in cash and cash equivalents.

Income Tax Expense In fiscal 1999, fiscal 1998 and fiscal 1997, income tax expense was \$26.0 million, \$18.4 million and \$15.3 million, respectively, representing effective tax rates of 32% in fiscal 1999 and fiscal 1998 with a 34% effective tax rate in fiscal 1997. The decrease in the overall rate from fiscal 1997 was due to the faster relative increase in income in countries with tax rates lower than the United States.

FINANCIAL CONDITION

Liquidity As of March 31, 1999, we had working capital of \$76.3 million, including \$43.0 million of cash and cash equivalents, compared with working capital of \$98.8 million, including \$64.9 million of cash and cash equivalents, as of March 31, 1998. During the fiscal year ended March 31, 1999, we generated \$86.9 million of cash from operating activities, due primarily to \$54.2 million in net income, decreases of \$10.9 million in inventory, \$6.8 million in accrued liabilities and the income tax benefit associated with the exercise of options of \$21.7 million. In comparison, we generated \$39.2 million in cash from operating activities for the fiscal year ended March 31, 1998, due mainly to \$39.2 million in net income and increases of \$6.2 million in accrued liabilities, partially offset by increases of \$9.7 million in inventory and \$5.0 million in accounts receivable.

Management's discussion and analysis of financial condition and results of operations

We have a \$30.0 million revolving credit facility, including a \$10.0 million letter-of-credit subfacility, with a major bank, both of which expire in November 1999. As of March 31, 1999, we had no cash borrowings under the revolving credit facility and \$2.3 million outstanding under the letter-of-credit subfacility. The amounts outstanding under the letter-of-credit subfacility were principally associated with purchases of inventory. The terms of the credit facility contain covenants that materially limit our ability to incur debt, make capital expenditures and pay dividends, among other matters.

After giving effect to the redemption of the Senior Notes, we believe that our current cash balance and cash to be provided by operations, together with available borrowing capacity under our revolving credit facility and letter-of-credit subfacility, will be sufficient to fund operations for at least the next 12 months.

Investing Activities Capital expenditures of \$3.8 million in the fiscal year ended March 31, 1999 were incurred principally in tooling to expand manufacturing capacity and investments in computer and telephone equipment.

Financing Activities In the fiscal year ended March 31, 1999, we sold 29,301 shares of our treasury stock for approximately \$1.3 million and repurchased 735,593 shares of our Common Stock for approximately \$46.4 million. As of March 31, 1999, we remained authorized to repurchase approximately 452,407 shares under all repurchase plans.

We received \$5.1 million in proceeds from the exercise of stock options during the fiscal year ended March 31, 1999. In July 1998, our stockholders approved an increase of 1,300,000 shares of Common Stock issuable under our 1993 Stock Plan (the "1993 Stock Plan"). This increased the maximum aggregate number of shares that may be optioned and sold under the 1993 Stock Plan to 5,459,242 shares.

Effective January 15, 1999, we repurchased all of our Senior Notes. The transaction resulted in a net extraordinary charge of approximately \$1.0 million, or approximately \$0.06 per diluted share, in the fourth quarter of fiscal 1999. Based on current interest rates and the alternative of investing the cash, we expect the transaction to increase diluted earnings per share by approximately \$0.10 on an annual pro forma basis.

YEAR 2000

State of Readiness Many existing electronic systems, including computer systems, use only the last two digits to refer to a year. Therefore, these systems may recognize a date using "00" as 1900 rather than the year 2000. If not corrected, many computer and other electronic applications and systems could fail or create erroneous results when addressing dates on and after January 1, 2000. Our products do not address or utilize dates in their operation, and, accordingly, our products should not fail due to the year 2000 problem. However, we use and depend on information technology systems (including business information computer systems and design and manufacturing computer systems) and other machinery and equipment that include embedded date sensitive technology. We also depend on the proper functioning of date sensitive electronic systems of third parties, such as customers and suppliers. The failure of any of these systems to appropriately interpret the year 2000 could have a material adverse effect on our business, financial condition and results of operations. We are undertaking efforts to ensure that our business systems and those of our suppliers and customers are compliant with the requirements of the year 2000.

Management's discussion and analysis of financial condition and results of operations

We have established a worldwide year 2000 task force, led by an Executive Steering Committee of our senior management, including representatives of each of our operating organizations and corporate functions, to oversee and regularly review the status of our year 2000 compliance plan. Through our year 2000 task force, we are proceeding with implementation of a formal year 2000 compliance program. The compliance program addresses three key elements: (i) internal infrastructure, addressing internal hardware and software and non-information technology systems; (ii) supplier readiness, addressing the preparedness of our suppliers of goods and services; and (iii) customer readiness, addressing the preparedness of our customer support and the preparedness of our customers to transact business with us. In each of those compliance areas, we are systematically performing a global risk assessment, conducting testing, implementing upgrades, communicating with and assisting suppliers and customers in raising awareness of the year 2000 issues and developing contingency plans to mitigate known and unknown year 2000 risks. The status of our compliance efforts in those three areas is set forth below:

Internal Infrastructure We are assessing all internal applications and computer software and hardware. Our key business information systems have been made year 2000 compliant. Resources have been assigned to address other applications, such as product testing and product design hardware and software, based upon our determination of how critical each of those systems is to our business operations and the time required to bring them into full year 2000 compliance. We currently expect that all our critical business information systems and other critical applications will be fully year 2000 compliant by June 1999.

Supplier Readiness This program focuses on minimizing the risks associated with supplier year 2000 issues in two areas: (i) the suppliers' business capability to continue providing products and services in and after the year 2000 and (ii) the year 2000 readiness of products supplied to us for our use. Requests for information and certification of compliance have been and are being sent to our principal and critical suppliers. The year 2000 task force is monitoring responses from suppliers and following up where necessary and appropriate. We expect that we will have certification from our principal and critical suppliers of goods and services by July 1999.

Customer Readiness This program focuses on ensuring that customers are aware of the year 2000 issues and that customers are capable of placing orders for our products, receiving products ordered and paying our invoices for products sold and delivered. Requests for information and certification of year 2000 compliance have been sent to our major customers. The year 2000 task force will follow up with customers where necessary and appropriate. We expect that we will have certification from our principal customers by August 1999.

Costs to Address Year 2000 Issues We currently estimate that the aggregate cost of our year 2000 compliance efforts will be approximately \$1.2 million, of which approximately \$0.7 million has been incurred to date. The costs consist principally of (i) fees paid to outside consultants and software programmers, (ii) purchase of telephone PBX systems which require upgrades to be year 2000 compliant and (iii) purchase of software and software upgrades to meet the year 2000 issue. The funds expended and to be expended are being funded through operating cash flows. Approximately \$0.5 million of the total cost, related to the purchase of fixed assets, will be capitalized, with the balance expensed as incurred.

Management's discussion and analysis of financial condition and results of operations

Risks of the Year 2000 Issues We currently believe that our internal year 2000 compliance efforts will be successful and there will be no material impact to us by reason of the failure or malfunction of any systems owned or operated by us or third parties with whom we do business. However, our year 2000 program may not be effective or we may not be able to implement it in a timely and cost-effective manner. Our year 2000 efforts may not, therefore, ensure against disruptions caused by the approach or advent of the year 2000. The year 2000 problem is potentially very widespread, and it is not possible to determine all the potential risks that we may face. Our inability to remedy our own year 2000 problems or the failure of third parties to do so may cause business interruptions or shutdowns, financial loss, regulatory actions, harm to our reputation and exposure to liability.

Contingency Plans We are developing contingency plans to mitigate the potential disruptions that may result from the year 2000 issue. We expect to substantially complete our contingency planning by July 1999. These plans may include identifying and securing alternate suppliers of components, containers, packaging materials and utilities; adjusting manufacturing facility production, shutdown and start-up schedules; stockpiling of critical inventory components and other measures considered appropriate by management. Once developed and approved, contingency plans, and the related cost estimates, will be continually refined as additional information becomes available.

Selected financial data

FISCAL YEAR ENDED MARCH 31,

| (IN THOUSANDS, EXCEPT EARNINGS PER SHARE) | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|-----------|-----------|-----------|-----------|-----------|
| STATEMENT OF OPERATIONS DATA | | | | | |
| Net sales | \$169,923 | \$182,959 | \$195,307 | \$236,112 | \$286,261 |
| Income before extraordinary item | 20,808 | 25,470 | 29,671 | 39,189 | 55,253 |
| Extraordinary item, net of taxes | — | — | — | — | 1,049 |
| Net income | \$ 20,808 | \$ 25,470 | \$ 29,671 | \$ 39,189 | \$ 54,204 |
| Diluted net income per common share: | | | | | |
| Income before extraordinary item | \$ 1.19 | \$ 1.42 | \$ 1.67 | \$ 2.15 | \$ 3.02 |
| Extraordinary item, net of taxes | — | — | — | — | 0.06 |
| Net income | \$ 1.19 | \$ 1.42 | \$ 1.67 | \$ 2.15 | \$ 2.96 |
| Shares used in diluted per share calculations | 17,512 | 17,964 | 17,792 | 18,223 | 18,282 |

FISCAL YEAR ENDED MARCH 31,

| (IN THOUSANDS) | 1995 | 1996 | 1997 | 1998 | 1999 |
|---------------------------|----------|-----------|-----------|-----------|-----------|
| BALANCE SHEET DATA | | | | | |
| Total assets | \$74,855 | \$108,661 | \$127,241 | \$165,475 | \$142,868 |
| Long-term debt | 65,050 | 65,050 | 65,050 | 65,050 | — |

QUARTER ENDED

| (IN THOUSANDS, EXCEPT EARNINGS PER SHARE) | JUN. 30 1997 | SEP. 30 1997 | DEC. 31 1997 | MAR. 31 1998 | JUN. 30 1998 | SEP. 30 1998 | DEC. 31 1998 | MAR. 31 1999 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| QUARTERLY DATA UNAUDITED | | | | | | | | |
| Net sales | \$54,023 | \$56,539 | \$62,017 | \$63,533 | \$70,060 | \$71,150 | \$72,038 | \$73,013 |
| Gross profit | 29,067 | 30,536 | 33,553 | 34,442 | 38,163 | 38,958 | 41,036 | 42,406 |
| Income before extraordinary item | 8,305 | 9,366 | 10,421 | 11,097 | 12,471 | 13,613 | 14,423 | 14,746 |
| Extraordinary item, net of taxes | — | — | — | — | — | — | — | 1,049 |
| Net income | \$ 8,305 | \$ 9,366 | \$10,421 | \$11,097 | \$12,471 | \$13,613 | \$14,423 | \$13,697 |
| Diluted net income per common share: | | | | | | | | |
| Income before extraordinary item | \$ 0.47 | \$ 0.51 | \$ 0.57 | \$ 0.61 | \$ 0.68 | \$ 0.74 | \$ 0.79 | \$ 0.81 |
| Extraordinary item, net of taxes | — | — | — | — | — | — | — | 0.06 |
| Net income | \$ 0.47 | \$ 0.51 | \$ 0.57 | \$ 0.61 | \$ 0.68 | \$ 0.74 | \$ 0.79 | \$ 0.75 |

Corporate officers and information

BOARD OF DIRECTORS

Robert S. Cecil*
Chairman of the Board

Robert F. B. Logan
Private Investor

Ken Kannappan
President and Chief Executive Officer

M. Saleem Muqaddam
Vice President
Citicorp Venture Capital, Ltd.

John Mowbray O'Mara
Management Consultant

Trude C. Taylor
Private Investor

David A. Wegmann
Private Investor

EXECUTIVE OFFICERS

Robert S. Cecil*
Chairman of the Board

Ken Kannappan
President and Chief Executive Officer

Benjamin Brussell
Vice President—
Corporate Development

Donald S. Houston
Senior Vice President—Sales

David Huddart
Senior Vice President—
Engineering and Technology

Farhad Kashani
Senior Vice President—Operations

John A. Knutson
Vice President—Legal, Senior
General Counsel and Secretary

H. Craig May
Senior Vice President—Marketing

Barbara V. Scherer
Senior Vice President—
Finance and Administration and
Chief Financial Officer

CORPORATE INFORMATION

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Fax: 831-426-6098
<http://www.plantronics.com>

Registrar and Transfer Agent
Boston EquiServe, L.P.
Shareholder Services
MailStop: 45-01-06
P.O. Box 644
Boston, Massachusetts 02102-0644

Independent Accountants
PricewaterhouseCoopers LLP
San Jose, California
Corporate Counsel
Wilson Sonsini Goodrich & Rosati
Palo Alto, California

*Mr. Cecil will not seek re-election to the Board of Directors at the Company's 1999 Annual Meeting of Stockholders.

Investor information

FORM 10-K

A copy of the Annual Report on Form 10-K filed with the Securities and Exchange Commission that contains additional information about the Company may be obtained without charge by writing to:

Investor Relations
Plantronics, Inc.
P.O. Box 1802
Santa Cruz, CA 95061-1802

Or visit the Plantronics web site at www.plantronics.com

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock, \$.01 par value, has traded on the New York Stock Exchange, under the symbol "PLT," since the Company's initial public offering on January 19, 1994. The initial offering price was \$6.25 per share.

The following table sets forth the quarterly high and low sales prices for the Common Stock for the Company's 1998 and 1999 fiscal years.

| FY 1998 | LOW | HIGH |
|----------------|------------------------------------|-----------------------------------|
| First Quarter | \$20 ¹ / ₄ | \$25 ³ / ₁₆ |
| Second Quarter | \$25 | \$38 ³ / ₄ |
| Third Quarter | \$33 ¹⁵ / ₁₆ | \$41 ⁷ / ₁₆ |
| Fourth Quarter | \$39 ¹ / ₄ | \$44 ³ / ₄ |

| FY 1999 | LOW | HIGH |
|----------------|----------------------------------|------------------------------------|
| First Quarter | \$39 ¹ / ₂ | \$59 ¹³ / ₁₆ |
| Second Quarter | \$45 | \$65 ¹ / ₂ |
| Third Quarter | \$48 | \$72 ¹ / ₄ |
| Fourth Quarter | \$59 | \$87 ¹ / ₂ |

No cash dividends were declared or paid during fiscal 1998 and fiscal 1999, and the Company has no current intention to pay dividends. As of March 31, 1999, there were approximately 93 holders of record of the Company's Common Stock.

Plantronics worldwide operations

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Mobile Communications Division
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Fax: 831-458-7787

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Clonee, Co. Meath
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