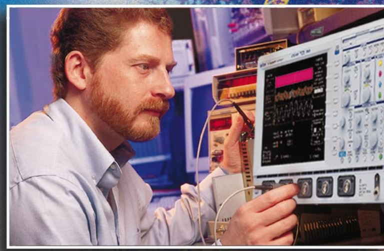
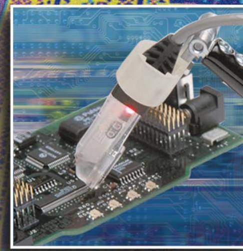
LeCroy

2001 ANNUAL REPORT





COMPANY Profile

LeCroy Corporation is a leading designer, manufacturer and distributor of high-speed electronic signal acquisition and analysis systems. The Company's core technology consists of high-speed, custom integrated circuits and proprietary software that can be deployed in a variety of signal analysis equipment. Leveraging its unique technology, LeCroy offers a family of high-performance digital oscilloscopes used by electronic design engineers to develop products and systems for the communications, data storage and power electronics markets.

Quality

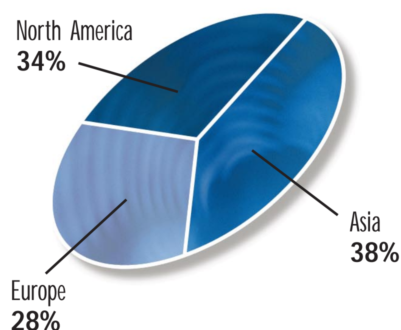
Capturing, displaying and analyzing *complex, high-speed* electronic signals is the *fundamental competency* of LeCroy Corporation. We strive to achieve a *leading-edge* position in that competency, and use it to *create* and *deliver* innovative, high-quality products and services to our customers.

Financial
HIGHLIGHTS

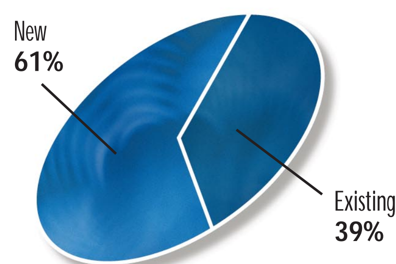
Year Ended June 30,	2001	2000	1999
Revenues:			
Digital oscilloscopes and related products	**$129,425**	$110,237	$100,366
All other revenue	**11,963**	11,163	19,125
Total revenue	**141,388**	121,400	119,491
Gross profit margin(1)	**52.0%**	49.2%	49.3%
Operating income:			
As reported	**11,409**	8,885	1,027
Pro forma(1)	**12,076**	6,885	5,085
Net income (loss) from continuing operations:			
As reported	**11,835**	7,571	(1,314)
Pro forma(1)	**9,932**	4,520	3,949
Fully diluted earnings per share from continuing operations:			
As reported	**1.15**	0.76	(0.41)
Pro forma(1)	**0.93**	0.37	0.28
Cash and cash equivalents	**11,449**	9,051	1,791
Total assets	**122,160**	100,849	99,685
Total bank debt	**—**	11,000	8,200
Preferred stock	**11,390**	9,692	8,152
Stockholders' equity	**60,480**	47,109	51,855

(1) For comparison purposes, these amounts exclude license fee revenue of $4.9 million in fiscal 1999, restructuring and other charges (credits) of $667 in fiscal 2001, ($2.0 million) in fiscal 2000 and $9.0 million in fiscal 1999 (including $2.2 million included in cost of sales), the gain on sale of marketable securities of $2.0 million in fiscal 2000 and a $2.5 million net tax credit in fiscal 2001.

Geographic Revenue



New DSO Product Revenue(1)



(1) New products are defined as those products introduced over the past two fiscal years.

TO OUR FELLOW SHAREHOLDERS

Strategic Execution

LUTZ P. HENCKELS, ***Chief Executive Officer***

Fiscal 2001 was a year of accomplishments that validated our product-driven growth strategy and put LeCroy on a path toward solid future growth. The seeds for this success were planted three years ago. At that time, we determined that the signal analysis market would inevitably migrate to higher-end analysis products as signal speed and complexity continued to increase. On this basis, we launched an aggressive product development program to satisfy upcoming market needs and capitalize on the related growth opportunities. We saw the first fruits of this program in fiscal 2001, as we virtually replaced LeCroy's entire line of oscilloscopes in only nine months. Better yet, our product development pipeline is full, and we anticipate several exciting new introductions in fiscal 2002.

I am often asked why LeCroy posted such strong results this year, while the difficult economy negatively affected many other test and measurement companies. Although no company can claim immunity to the effects of a slow economy, I believe we performed well for two reasons. The first is the nature of our customer base, and the second is execution of our growth strategy.

Our customers are predominantly R&D engineers who are sharply focused on their company's next-generation products. Investments in this area are usually among the last to be affected by a downturn in the economy. In addition, LeCroy's customer base is geographically diverse worldwide, which provides some protection from particularly severe pockets of economic sluggishness, such as in the United States this year.

More important to LeCroy's strong fiscal 2001 performance, I believe, was the crisp execution of our growth strategy. We targeted our new products to the fastest-growing, high-end segment of the signal analysis market. Chief among these products were our very successful WavePro and Waverunner-2 families of oscilloscopes. These new lines encompass nine oscilloscope models and more than a dozen major accessory and software products, all of which were enthusiastically embraced by the market. In fact, products that the Company introduced during the first nine months of fiscal 2001 generated more than 60 percent of LeCroy's fourth-quarter revenues. By successfully executing our product development strategy, we created higher performance products that position us within the fastest-growing segment of the market for the first time.

As a result, LeCroy posted record sales of $141.4 million in fiscal 2001. Gross margins increased by approximately 300 basis points to 52.0%, and operating margins improved from 5.7% to 8.5%, compared with fiscal 2000. Operating income and fully diluted earnings per share before unusual items grew to $12.1 million and $0.93, respectively.

We also made excellent progress in our continuing pursuit of operating efficiencies. The Company is now focused on one business—the oscilloscope business—at a single site other than for sales offices. We sell worldwide directly to our customers with Europe, Asia and the United States each contributing roughly one-third of total sales. During the last three years we invested over $10 million in infrastructure, including roughly $5 million to upgrade our New York facility. We augmented our previous ISO 9001 certification by achieving certification under the new ISO 9001:2000 quality standard on the first day the new standard became effective. In addition, LeCroy went live on April 1, 2001 with our new fully integrated Enterprise Resource Planning tool, which has greatly improved our ability to optimize and allocate strategic resources.

As LeCroy begins the new fiscal year, I believe that our growth strategy is comprehensive and that we are continuing to execute successfully. Our financial condition is excellent, with over $30 million in cash on hand and no debt. Most importantly, I am proud of the people—the LeCroy team. I have the utmost confidence in Tom Reslewic, who I have helped prepare for the last three years to succeed me as LeCroy's chief executive officer effective January 1, 2002. Tom joined LeCroy more than 11 years ago, and progressed through the Company's ranks from divisional marketing director to president and chief operating officer. He is not only highly regarded in the industry but has proven to be a natural leader. Clearly, he has earned the LeCroy team's respect and full support.

I will continue to serve LeCroy as a member of the Board of Directors, and I eagerly anticipate consulting with Tom in that capacity.

"BY SUCCESSFULLY EXECUTING OUR PRODUCT DEVELOPMENT STRATEGY, WE CREATED HIGHER PERFORMANCE PRODUCTS THAT POSITION US WITHIN THE FASTEST-GROWING SEGMENT OF THE MARKET FOR THE FIRST TIME."

—Lutz Henckels

When I look back over my past eight years at LeCroy, nothing impresses me more than the quality of the people I have been fortunate enough to come to know as coworkers and, most importantly, as friends. I am grateful to all of them and to our shareholders for the support they have given to the Company and to me over the years. I firmly believe the best is yet to come for LeCroy!

THOMAS H. RESLEWIC, *President*

As I prepare to take on the chief executive officer role, I would like to express my sincere thanks to Lutz for his years of service to LeCroy, and especially for the guidance and support he has provided to me personally. With Lutz at the helm, LeCroy has more than doubled its revenues, has greatly improved its business processes and is in excellent financial condition. In short, we are primed for growth.

Our growth strategy is aimed at leveraging our core competency in the capture and analysis of complex electronic signals, or, in its most advanced form, "WaveShape Analysis." Industry trends suggest that there is no end in sight to the need for faster and faster data communications. To improve the speed of data communications, the complexity of electronic signals will increase significantly. As such, design engineers will require far more sophisticated analysis tools to determine that the circuits on their next-generation products are performing properly. LeCroy's core competency in WaveShape Analysis positions us to meet the need for these advanced tools.

Our near-term growth strategy is to continue to develop products for the high-end (2 GHz and above) segment of the $1 billion digital oscilloscope market. This segment, which we entered in fiscal 2001 with our WavePro 960 product, is growing much faster than the overall market. Among the product introductions planned for fiscal 2002 are LeCroy's first high-speed silicon germanium-based oscilloscope and a new Windows-based operating system and analysis tool.

Longer term, our strategy is to use our WaveShape Analysis competency to expand into the multi-billion-dollar non-oscilloscope segment of the overall test and measurement market. In this sense, WaveShape Analysis is not so much a single technology as it is a guiding direction for LeCroy that will propel us beyond oscilloscopes into a large potential growth market that currently is served by products such as logic analyzers, protocol analyzers, signal generators and others. These products are designed to detect and analyze electronic events and they are often "blind" to the shape of the signal itself. As signals become faster and more complex, these "event analyzers" cannot keep pace and WaveShape Analysis techniques are required.

To execute our strategy, recruiting talented employees and improving our financial flexibility and liquidity will be critical. We recently completed major advances on both of these objectives. The first achievement was raising $25 million through a private equity placement in August 2001. The second advance was the addition of Scott Bausback as LeCroy's chief operating officer. Scott has nearly 20 years of experience with a major competitor in the signal analysis industry, including responsibility for a business unit involved in high-end segments of the signal analysis market.

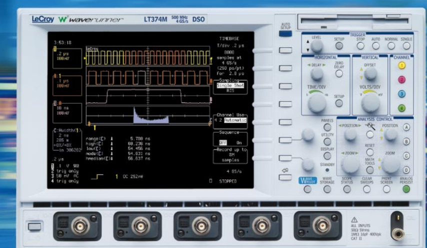
I am excited about our growth prospects, and I believe that we have the team and the technology to move LeCroy to the next level. LeCroy's core competency in WaveShape Analysis puts us on the inside track in the race to capitalize on the drive for faster data communications. I look forward to meeting the challenges ahead and to earning your continued support.

September 6, 2001

Thomas H. Reslewic
President

Lutz P. Henckels
Chief Executive Officer

"LONGER TERM, OUR STRATEGY IS TO USE OUR WAVESHAPE ANALYSIS COMPETENCY TO EXPAND INTO THE MULTI-BILLION-DOLLAR NON-OSCILLOSCOPE SEGMENT OF THE OVERALL TEST AND MEASUREMENT MARKET."
—Tom Reslewic



WaveShape Analysis

TECHNOLOGY CLIMATE

Thomas Edison would feel right at home in any of the world's most advanced digital technology labs. Today's microprocessors, digital communications chips and electronic power supplies are generations apart from the light bulb. But they all were born in the same place—the design engineer's bench. Not fundamentally different from the bench where Edison developed the light bulb, the engineer's bench is where microelectronic circuits are conceived, designed, tested and refined. It is also where tens of thousands of LeCroy oscilloscopes prove their value day after day, year after year.

In the R&D lab today, nothing defines the state of the art in digital electronics more than signal speed. Faster data communication rates require higher and higher signal speeds that can only be transmitted, measured or analyzed with higher bandwidth tools and systems. Acquisition and analysis of these increasingly complex electronic signals is LeCroy Corporation's primary competence. The Company's core business is designing and producing high-performance oscilloscopes—instruments that allow the design engineer to analyze the fastest and most intricate signals with the highest levels of accuracy, reliability and ease-of-use.

One way to engineer faster data rates is to speed up the microprocessor clock so the device can process more instructions or more bits of data per second. The key problem for the design engineer is that, although clock speeds are increasing, the acceleration is not fast enough to provide the exponential gains in data rates that the next generations of applications technology will require.

The alternative to higher clock speeds is to push more data with every clock pulse, which requires very complex signals. And, in order to know whether a new product design actually works, the engineer must understand how these complex signals are behaving by analyzing them within a high-speed domain created in the R&D lab. At today's high-data rates, however, conventional signal test and measurement techniques are inadequate. Conventional instruments are incapable of assessing the analog characteristics of the transmission lines, which requires far more sophisticated signal analysis and will become only more critical as signal speeds continue to increase.

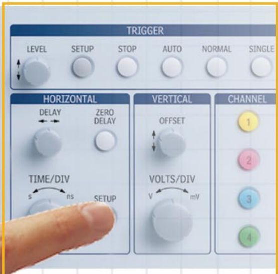
The solution is WaveShape Analysis, and this is LeCroy's value proposition. LeCroy's newest test and measurement instrument offerings provide much more than signal acquisition, viewing and measurement. They take the design engineer inside the signal, displaying the wave shape and enabling not only design and troubleshooting; but multi-dimensional understanding of even the fastest, most complex signals. LeCroy's WaveShape Analysis is a true time-to-market enabler for the next generation of digital devices.

LEADERS IN TECHNOLOGY

LeCroy's strength in WaveShape Analysis is the fruit of an aggressive research and product development program that began more than three years ago. Anticipating the looming demand for high-bandwidth data communications, the Company recognized that the prime sales opportunities within the worldwide test and measurement market would be found at progressively higher signal frequencies and at greater levels of signal complexity. In pursuit of these growth opportunities, the Company set out to create an innovative technology platform with the

LeCroy's WaveShape Analysis is a true time-to-market enabler for the next generation of digital devices.

WAVE PILOT
CURSORS
MEASURE
GRAPH
ANALYSIS PACKAGES
LeCroy
wavepro 960
2 GHz Oscilloscope


TRIGGER
LEVEL
SETUP
STOP
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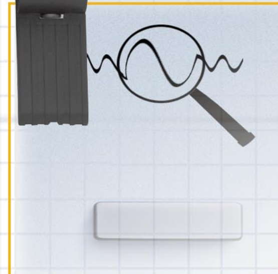
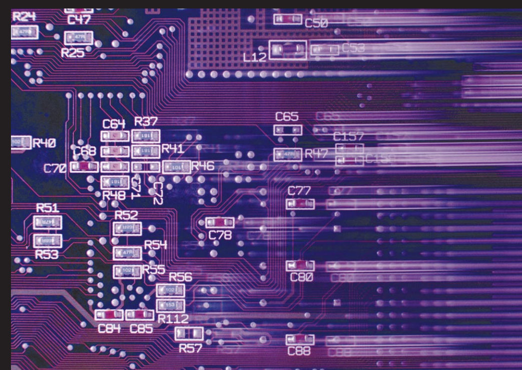
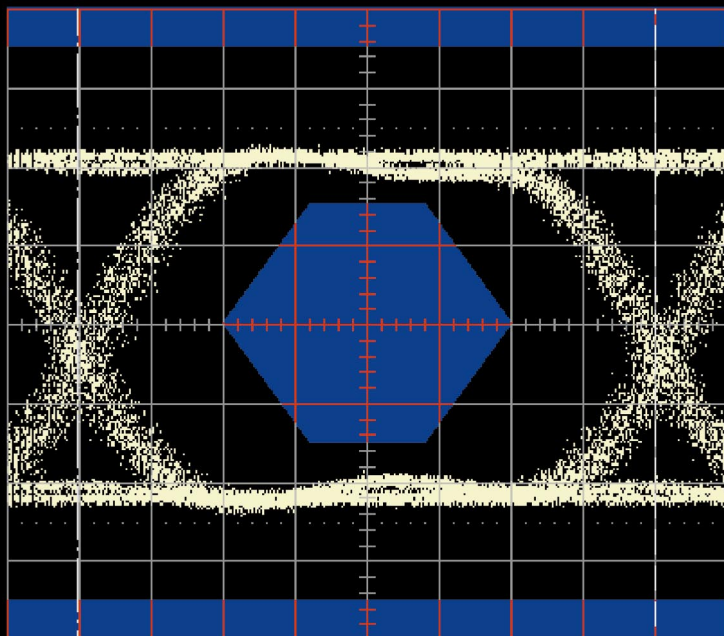
LeCroy



1 million triggers per second
2 GHz
full TV/HDTV trigger
dual delay time bases
persistence
color display



LeCroy
PXD 222
2.5GS/s
200MHz
ISOLATED INPUTS
CH 1
CH 2
PXI



LECROY EXPERTISE IN WAVESHAPE ANALYSIS IS VALUABLE IN APPLICATIONS RANGING FROM DESIGN OF POWER SUPPLIES (ABOVE) TO TESTING OF TELECOMMUNICATIONS DEVICES (SIGNAL ANALYSIS VIEW AT LEFT).

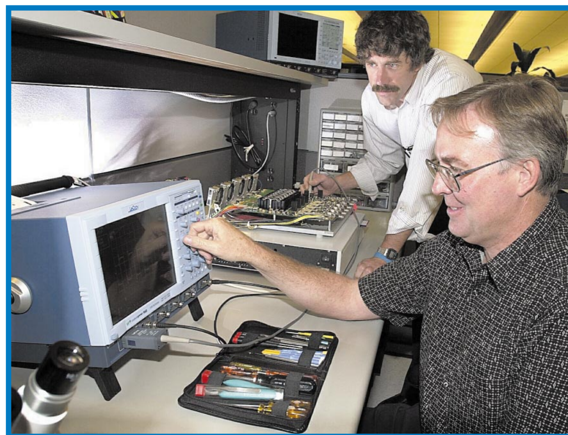
EXECUTING THE STRATEGY

Innovative Products

goal of introducing at least one significant new product into the market each quarter.

By the end of fiscal 2001, LeCroy had successfully executed against this goal by launching new product lines targeted at some of the highest points on the bandwidth chain. As a result, LeCroy currently offers unrivaled oscilloscope performance in market segments ranging from 200 MHz bandwidth to 2 GHz. The Company expects to continue launching significant new products throughout fiscal 2002. At the same time, LeCroy plans to begin working to dramatically broaden its total available market with a next generation of WaveShape Analysis instruments targeted to the larger overall Test & Measurement space.

LeCroy's WavePrœ series of oscilloscopes represents the first fruits of the Company's high-end product development effort. Launched in October 2000, all three WavePro oscilloscope models incorporate "digitizer on a chip" technology that offers industry-leading sampling rates and memory in the 500 MHz to 2.0 GHz bandwidth range—at lower prices than competing digital oscilloscopes. WavePro's flagship is the 960 model, a 2.0 GHz bandwidth oscilloscope with a maximum sampling rate of 16 GS/s and up to an industry-leading 64 Mpts of memory. The high-sampling rate and huge memory combine to allow the WavePro 960 to capture the long, complex signals found in telecommunication and data communication applications, making it the highest-performing and most cost-competitive oscilloscope in its class. The Company launched a fourth WavePro product, the 954, in June 2001 to offer customers a high-performance 1 GHz oscilloscope at a very attractive price point of below $20,000. All of these new oscilloscopes also incorporate LeCroy's unique new Wavepilot™ software, which facilitates quick measurements, provides greater signal behavior clarity for troubleshooting problems, and allows the user to customize the oscilloscope for their application. Along with the WavePro oscilloscopes, LeCroy also released three new high-frequency probes, which are important components of the oscilloscope system for capturing high-speed electronic signals.



LECROY SENIOR ENGINEERS PURSUE HIGH-LEVEL FUNCTIONALITY IN THE WAVEPRO SCOPES WHICH LAUNCHED OCTOBER 2000.

Following on the heels of the WavePro products, was the Waverunner-2 oscilloscope series launched in January 2001. Deploying key features of WavePro's innovative technology at a lower retail price point, the four new Waverunner-2 oscilloscopes offer comprehensive signal analysis capabilities in bandwidths ranging from 200 MHz to 500 MHz. They provide a four-fold increase in sample rate and memory length compared to LeCroy's original and highly successful Waverunner series oscilloscopes. Both the WavePro and Waverunner-2 scopes are also compatible with optional application-specific analysis packages for testing communications signals, designing optical and magnetic data storage devices, or locating timing jitter in high-speed digital electronics.

LeCroy's fiscal 2001 product introductions also included two new PowerMeasure System products based on the Waverunner-2, which enhance the Company's position in the market for the design and testing of power supplies and power devices. The steady growth of LeCroy's PowerMeasure products reflects the need for more efficient power generation in applications ranging from base stations to computers.

Looking forward in the near term, LeCroy has two exciting products poised to exit its R&D pipeline. One is a Windows based, ground-up redesign of the entire oscilloscope operating system, which will deliver a new speed paradigm nearly 100 times faster than current systems. It also features flexibility for the customer with its open architecture, instant customization

Photo courtesy of The Journal News/Kathy Gardner

LEVERAGING WAVESHAPE ANALYSIS

Beyond Oscilloscopes

capabilities and physical independence from the scope. The other product is a high-bandwidth silicon germanium-based oscilloscope, which will mark the Company's initial entrance into the highest level of the real-time oscilloscope market.

LeCroy's customers like what they see in this new product roadmap. A multi-year survey by *Electronic Design* magazine revealed dramatic gains for LeCroy in awareness and product acceptance within the design engineer community during the past two years. In its June 2001 issue, *Electronic Design* reported a nearly eight-fold increase since 1999 in the percentage of design engineers who had considered LeCroy products at some point in their oscilloscope purchase cycle. LeCroy's sales results validate these research findings. Products the Company introduced during the first nine months of fiscal 2001 generated more than 60 percent of LeCroy's fourth-quarter revenues.

STRATEGIC VISION

LeCroy's growth strategy is designed to leverage the Company's competence in the acquisition and analysis of high-speed signals—or WaveShape Analysis. The goal is to develop and deploy new technology platforms aimed at delivering unprecedented value in Test and Measurement applications beyond oscilloscopes. Growth in these segments is expected to accelerate as high-speed data communications applications evolve and expand.

Looking at Internet-based applications, for example, current trends suggest that by the middle of this decade, the home or office computer will have evolved into an integrated information and entertainment device, representing the full convergence of computing, Web surfing, television, audio and video entertainment along with home photography and videography—and most likely additional applications that have yet to be developed. This same desktop computer will be networked with a wide range of mobile devices, such as cell phones and wireless PDAs, and it will also be called upon to process massive digital downloads to and from digital cameras, MP3 players and similar audio devices, plus scanners, video camcorders and related products.

All of these devices will generate huge data files that must move across the serial data bus in each device for data communications, processing and storage. None of them, however, will reach their full potential without significant increases in data rates. Today's data communications technology is several steps behind the applications technology that ultimately drives consumer demand. The potential of the Internet to provide truly compelling new information and entertainment services will remain largely untapped until the device and network infrastructure can accommodate data rates far in excess of those that currently prevail.

Looking forward, the early-stage status of data communications technology presents LeCroy with an unprecedented opportunity to extend its dominance in WaveShape Analysis beyond the high-end oscilloscope market. The Company's product roadmap includes new lines of instruments such as sampling scopes and network analyzers aimed at capitalizing on this opportunity.

LeCroy believes there is no end in sight to the need for faster data communications. With its dominance in WaveShape Analysis, LeCroy is strongly positioned to meet this critical need.

Selected
FINANCIAL DATA

The following Selected Consolidated Statements of Operations Data for the five years ended June 30, 2001 and the Balance Sheet Data at June 30, 2001, 2000, 1999, 1998 and 1997 are derived from the Consolidated Financial Statements of the Company and have been adjusted to reflect the discontinuance of the Vigilant Networks segment. The data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Consolidated Financial Statements and related Notes included herein.

In thousands, except per share amounts

Years Ended June 30,	**2001**	2000	1999	1998	1997
Statements of Operations Data:					
Revenues:					
Digital oscilloscopes and related products	**$129,425**	$110,237	$100,366	$101,584	$100,582
High energy physics products	**3,757**	4,132	7,362	6,167	6,993
Service and other[1]	**8,206**	7,031	11,763	11,831	9,552
Total revenues	**141,388**	121,400	119,491	119,582	117,127
Cost of sales[2]	**67,838**	61,706	60,298	54,000	49,829
Gross profit	**73,550**	59,694	59,193	65,582	67,298
Operating expenses:					
Selling, general and administrative	**45,059**	38,998	37,511	37,645	39,115
Research and development	**16,415**	13,811	13,867	16,812	14,208
Restructuring and other charges (credit), net[3]	**667**	(2,000)	6,788	5,852	3,857
Acquisition charge[4]	**—**	—	—	1,600	—
Total operating expenses	**62,141**	50,809	58,166	61,909	57,180
Operating income	**11,409**	8,885	1,027	3,673	10,118
Gain from sale of marketable securities	**—**	2,460	—	—	—
Other (expense) income, net	**(471)**	(276)	158	(3)	361
Income from continuing operations before income taxes	**10,938**	11,069	1,185	3,670	10,479
Income tax benefit (provision)	**897**	(3,498)	(2,499)	(3,160)	(3,521)
Income (loss) from continuing operations	**11,835**	7,571	(1,314)	510	6,958
(Loss) income from discontinued operations, net of tax	**(1,994)**	(11,009)	(5,474)	(2,390)	616
Net income (loss) before the cumulative effect of an accounting change	**9,841**	(3,438)	(6,788)	(1,880)	7,574
Cumulative effect of an accounting change for revenue recognition, net of tax	**4,417**	—	—	—	—
Net income (loss)	**5,424**	(3,438)	(6,788)	(1,880)	7,574
Charges related to convertible preferred stock	**1,700**	1,540	1,844	—	—
Cumulative effect of an accounting change for preferred stock	**1,848**	—	—	—	—
Net income (loss) applicable to common stockholders	**$ 1,876**	$ (4,978)	$ (8,632)	$ (1,880)	$ 7,574
Income (loss) per common share—basic:					
Income (loss) from continuing operations	**$ 1.20**	$ 0.78	$ (0.41)	$ 0.07	$ 1.10
(Loss) income from discontinued operations	**(0.24)**	(1.42)	(0.72)	(0.32)	0.10
Cumulative effect of an accounting change	**(0.74)**	—	—	—	—
Net income (loss)	**$ 0.22**	$ (0.64)	$ (1.13)	$ (0.25)	$ 1.20
Income (loss) per common share—diluted:					
Income (loss) from continuing operations	**$ 1.15**	$ 0.76	$ (0.41)	$ 0.06	$ 0.92
(Loss) income from discontinued operations	**(0.23)**	(1.38)	(0.72)	(0.29)	0.08
Cumulative effect of an accounting change	**(0.71)**	—	—	—	—
Net income (loss)	**$ 0.21**	$ (0.62)	$ (1.13)	$ (0.23)	$ 1.00
Weighted average number of common shares:					
Basic	**8,476**	7,749	7,621	7,375	6,299
Diluted	**8,847**	7,977	7,621	8,055	7,541

(See legend on following page)

Selected
FINANCIAL DATA
(continued)

(1) Included in Service and other revenue in fiscal 1999, 1998 and 1997 were license fees of $4,900, $5,500 and $4,000, respectively. Service and other revenue in fiscal 2001 includes the recognition of $1.3 million of revenue that was deferred with the adoption of the Securities and Exchange Commission's Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" (see Note 1 to the Consolidated Financial Statements).

(2) Included in cost of sales in fiscal 1999 and fiscal 1998 are inventory write-downs of $2,170 and $2,697, respectively, pursuant to restructuring of the Company's business.

(3) Costs were incurred in fiscal 1997 due to a restructuring of the Company's High Energy Physics business; in fiscal 1998 due to a restructuring of the Company's business in reaction to uncertainties in the Pacific region; in fiscal 1999 due to the consolidation of the Company's oscilloscope operations. In fiscal 2000, the Company reversed $2,000 of the restructuring charge taken in fiscal 1999 (see Note 2 to the Consolidated Financial Statements). In fiscal 2001, the Company reduced its workforce by approximately 25 positions (approximately 5%) to improve operating efficiencies and recorded a severance charge of approximately $900. This was partially offset by the reversal in fiscal 2001 of the remaining unused 1999 restructuring reserve of approximately $200.

(4) Incident to an acquisition in fiscal 1998, there was a purchase of incomplete technology that resulted in a $1,600 pre-tax charge.

(in thousands)

Years Ended June 30,	**2001**	2000	1999	1998	1997
Balance Sheet Data:					
Working capital(5)	**$ 41,610**	$ 24,129	$31,516	$27,697	$41,978
Total assets	**122,160**	100,849	99,685	89,110	79,389
Total debt and capitalized leases	**456**	11,000	8,200	2,294	160
Redeemable convertible preferred stock	**11,390**	9,692	8,152	—	—
Total stockholders' equity	**60,480**	47,109	51,855	54,107	54,324

(5) At June 30, 2000, all of the Company's outstanding debt of $11.0 million under its bank credit facility was classified as current and is included in net working capital.

Management's DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(in thousands, except percentages)

The following discussion and analysis should be read in conjunction with "Selected Financial Data" and the Company's Consolidated Financial Statements and related Notes thereto included elsewhere in this Annual Report.

CONSOLIDATED RESULTS OF OPERATIONS

The following table indicates the percentage of total revenues represented by each item in the Company's Consolidated Statements of Operations for the fiscal years ended June 30, 2001, 2000 and 1999. On August 25, 2000, the Company sold substantially all of the assets and business of its Vigilant Networks segment. Accordingly, the results of operations of this business segment have been reflected as discontinued operations.

Years Ended June 30,	2001	2000	1999
Revenues:			
Digital oscilloscopes and related products	**91.5%**	90.8%	84.0%
High energy physics products	**2.7**	3.4	6.2
Service and other	**5.8**	5.8	9.8
Total revenues	**100.0**	100.0	100.0
Cost of sales	**48.0**	50.8	50.5
Gross profit	**52.0**	49.2	49.5
Operating expenses:			
Selling, general and administrative	**31.9**	32.1	31.4
Research and development	**11.6**	11.4	11.6
Restructuring and other charges (credits), net	**0.5**	(1.6)	5.6
Total operating expenses	**44.0**	41.9	48.6
Operating income	**8.0**	7.3	0.9
Gain on sale of marketable securities	**—**	2.0	—
Other (expense) income, net	**(0.3)**	(0.2)	0.1
Income from continuing operations before income taxes	**7.7**	9.1	1.0
Income tax benefit (provision)	**0.6**	(2.9)	(2.1)
Income (loss) from continuing operations	**8.3**	6.2	(1.1)
(Loss) from discontinued operations, net of tax	**(1.4)**	(9.0)	(4.6)
Net income (loss) before the cumulative effect of an accounting change	**6.9**	(2.8)	(5.7)
Cumulative effect of an accounting change for revenue recognition, net of tax benefit	**3.1**	—	—
Net income (loss)	**3.8%**	(2.8)%	(5.7)%

Comparison of Fiscal Years 2001 and 2000. Total revenues were $141.4 million in fiscal 2001 compared to $121.4 million in fiscal 2000, an increase of 16.5%, or $20.0 million. On a geographical basis, the Americas comprised $47.4 million, or 34%, of fiscal 2001 revenues compared to $45.1 million, or 37% in fiscal 2000, Europe and the Middle East comprised $39.9 million, or 28%, compared to $34.7 million, or 29% in fiscal 2000 and the Asia/Pacific region accounted for $54.1 million, or 38%, compared to $41.6 million, or 34%, in fiscal 2000.

Revenues from digital oscilloscopes and related products increased 17.4%, or $19.2 million, in fiscal 2001 primarily due to the successful launches of the new high-end WavePro line of oscilloscopes in the second quarter of fiscal 2001 and the lower-end Waverunner-2 oscilloscopes in the third quarter of fiscal 2001. Also contributing to the improved digital oscilloscopes and other related products revenue were increased sales of probes and accessories. Revenues from high energy physics products declined by $375, or 9.1%, in fiscal 2001. The Company expects that high energy physics products revenue will continue to decline as it exits from this product line. Service and other revenue increased by $1.2 million, or 16.7%, due to the recognition of $1.3 million of revenue that was deferred with the adoption of the Securities and Exchange Commission's Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" (see Note 1 to the Consolidated Financial Statements).

Gross margin was 52.0% in fiscal 2001 compared to 49.2% in fiscal 2000. This improvement was due to a favorable mix of higher margin WavePro products introduced in the second quarter of fiscal 2001 and the recognition of $1.3 million of deferred revenue noted above with no associated costs of sales.

Selling, general and administrative expense increased by 15.5%, or $6.1 million, from $39.0 million in fiscal 2000 to $45.1 million in fiscal 2001. As a percentage of sales, selling, general and administrative expense was 31.9% in fiscal 2001, compared with 32.1% in fiscal 2000. The slight decrease as a percentage of sales was due primarily to efficiencies from the leveraging of costs over a higher sales volume substantially offset by the absence of any allocation of general and administrative costs to the discontinued Vigilant operation since the measurement date in August 2000.

Research and development expense increased by 18.9%, or $2.6 million, from $13.8 million in fiscal 2000 to $16.4 million in fiscal 2001. As a percentage of sales, research and development expense increased from 11.4% in fiscal 2000 to 11.6% in fiscal 2001. The increase as a percentage of sales was primarily attributable to higher spending in various categories including employment and outsourced non-recurring engineering related to new product development. The Company intends to continue to invest a substantial percentage of its revenues in its research and development efforts.

See "Restructuring and Other Charges (Credits), Net" for a discussion and analysis of such amounts.

The Company recorded a pre-tax gain of $2.5 million on the sale of 2.7 million shares of Iwatsu common stock in fiscal 2000. No shares of Iwatsu stock were sold during fiscal 2001. As of June 30, 2001, the Company had 1.0 million shares of such equity securities remaining that are recorded on the Consolidated Balance Sheet at their fair value of $2.0 million.

Other (expense) income, net, which consists primarily of net interest income and foreign exchange gains or losses, was an expense of $471 in fiscal 2001, compared to an expense of $276 in fiscal 2000. The increase in expense was due to foreign exchange losses of $756 in fiscal 2001 compared to foreign exchange gains of $600 in fiscal 2000. Substantially offsetting this increase in expense was net interest income in fiscal 2001 of $76 compared to net interest expense of $877

(in thousands, except percentages)

in fiscal 2000. The improvement in net interest was due to higher cash balances and lower bank borrowings in fiscal 2001.

In fiscal 2001, the Company recorded a tax benefit of $897, or an effective tax rate of (8.2)%, compared to a tax provision of $3.5 million, or an effective rate of 31.6%, in fiscal 2000. During fiscal 2001, the Company used $8.2 million of net operating losses ($3.2 million of tax benefit) to offset taxable income from continuing operations and reversed, during the fourth quarter of fiscal 2001, $4.1 million of its valuation allowance into income. Partially offsetting these items, the Company recorded a tax expense of $1.6 million for the projected repatriation of cash from one of its foreign subsidiaries. Excluding these items, the Company's tax provision in fiscal 2001 would have been $4.7 million, or an effective tax rate of 43.3%. This 43.3% effective tax rate in fiscal 2001 was higher than the 31.6% effective rate in fiscal 2000 primarily due to the use of restructuring payments to offset taxable income in fiscal 2000.

See "Discontinued Operations" for a discussion and analysis of such amounts.

See "Recently Adopted Accounting Standards" for a discussion and analysis of the cumulative effect of an accounting change for revenue recognition.

Comparison of Fiscal Years 2000 and 1999. Total revenues were $121.4 million in fiscal 2000 compared to $119.5 million in fiscal 1999, an increase of 1.6%, or $1.9 million. Excluding license fees of $4.9 million in fiscal 1999, revenues increased 5.9%, or $6.8 million in fiscal 2000. On a geographical basis, the Americas comprised $45.1 million, or 37%, of fiscal 2000 revenues compared to $51.0 million, or 43% in fiscal 1999, Europe and the Middle East comprised $34.7 million, or 29%, compared to $35.7 million, or 30% in fiscal 1999 and the Asia/Pacific region accounted for $41.6 million, or 34%, compared to $32.8 million, or 27%, in fiscal 1999.

Revenues from digital oscilloscopes and related products increased 9.8%, or $9.9 million, primarily due to the launch of a new 1.5 GHz oscilloscope in the LC series product family in the second quarter of fiscal 2000, and higher unit volume of the Company's successful Waverunner family of digital oscilloscopes introduced in the third fiscal quarter of 1999. In addition, the Company had $4.6 million of shipments to Kelly Air Force Base, fulfilling orders on a four-year, $20 million contract awarded to the Company in the second fiscal quarter of 2000. The increase in digital oscilloscopes and related product revenues was partially offset by decreases in revenues from high energy physics products. These products comprised only 3.4% of revenues in fiscal 2000 compared to 6.4% for fiscal 1999, excluding license fees. The Company expects that revenues from high energy physics products will continue to decline as a percent of total revenues. Included in service and other revenue in fiscal 1999 were $4.9 million of license fees. No license fee revenue was recorded in fiscal 2000.

Gross margin was 49.2% in fiscal 2000 compared to 49.5% in fiscal 1999. Included in gross profit for fiscal 1999 was the favorable effect of the $4.9 million license fee revenue noted above, partially offset by $2.2 million of inventory related restructuring charges. Excluding the net effect of the license fees and restructuring charges, gross margin in fiscal 1999 was 49.3%. The slight decline in gross margin year over year was the result of lower margins on the $4.6 million Kelly Air Force Base business noted above, partially offset by lower warranty costs. The decline in warranty costs resulted from significant quality enhancements in the Company's product offerings, warranty coverage provided by Iwatsu on Waverunner parts they manufacture and a more refined methodology used to determine the Company's accrual for warranty exposure. As a result, the Company decreased its warranty reserve by $625 in the third fiscal quarter of 2000.

Selling, general and administrative expense increased by 4.0%, or $1.5 million, from $37.5 million in fiscal 1999 to $39.0 million in fiscal 2000. Excluding the aforementioned revenue from license fees, selling, general and administrative expense as a percentage of sales was 32.1% in fiscal 2000, compared with 32.7% in fiscal 1999. The decrease as a percentage of sales was primarily due to leveraging higher product revenues, as well as cost reduction activities and greater productivity resulting from the Company's restructuring at the end of fiscal 1999.

Research and development expense in fiscal 2000 of $13.8 million was substantially the same as in fiscal 1999. As a percentage of sales before license fees, research and development expense decreased from 12.1% in fiscal 1999 to 11.4% in fiscal 2000. The decrease as a percentage of sales was primarily attributable to efficiencies resulting from the consolidation of the oscilloscope operations at the end of fiscal 1999.

See "Restructuring and Other Charges (Credits), Net" for a discussion and analysis of such amounts.

The Company recorded a pre-tax gain of $2.5 million on the sale of 2.7 million shares of Iwatsu common stock. This sale generated approximately $7.6 million of proceeds that were used to pay down existing debt. As of June 30, 2000, the Company has 1.0 million shares of such equity securities remaining which are recorded on the Consolidated Balance Sheet at their fair value of $2.9 million.

Other (expense) income, net, which consists primarily of net interest expense and foreign exchange gains or losses, was an expense of $276 in fiscal 2000, compared with income of $158 in fiscal 1999. The increase in expense in fiscal 2000 was due to higher interest expense resulting from higher average outstanding borrowings under the Company's credit facility and lower foreign exchange gains in 2000.

The Company's effective tax rate was 31.6% in fiscal 2000, compared to 210.9% in fiscal 1999. The unusually high effective tax rate in fiscal 1999 was due primarily to certain restructuring and other charges for which a tax benefit was not recorded. In connection with recording the Vigilant Networks segment as a discontinued operation, the Company's consolidated tax provision was allocated between continuing and discontinued operations. As a result of such allocation, substantially all of the Company's continuing operation's U.S. tax provision in both fiscal 2000 and 1999 is offset by a tax benefit netted against losses from discontinued operations.

RESTRUCTURING AND OTHER CHARGES (CREDITS), NET

During the fourth quarter of fiscal 2001, the Company reduced its workforce by approximately 25 positions (approximately 5%) to improve operating efficiencies. As a result of this restructuring, the Company recorded a severance charge of approximately $900.

During fiscal year 1999, the Company adopted a restructuring plan, the objectives of which were to consolidate the oscilloscope operations in order to enhance operating efficiencies and to dedicate additional resources to develop advanced technologies. In connection with this consolidation, the Company recorded total restructuring and other charges of $11.3 million, $10.4 million of which related to restructuring costs. The remaining $900 of the total charge related to additional costs to redeploy manufacturing, engineering and employee resources. The restructuring costs were comprised of inventory write-offs of $2.2 million, which were included in cost of sales, an accrual for the future minimum lease payments for the Geneva, Switzerland manufacturing facility of $3.4 million, severance and employee benefit costs of $3.0 million for the reduction of full and part-time employees and the write-down of plant assets and capitalized management information system software and other costs of $1.8 million.

During fiscal 2001, the 1999 restructuring plan was completed. Cumulative through fiscal 2001, $8.2 million of the initial restructuring reserve established has been paid or used to reduce asset balances. Of this $8.2 million, $2.1 million related to inventories, $3.0 million related to severance and other employee benefit costs, $1.3 million related to the Geneva facility lease and $1.8 million related to plant assets, capitalized management information system software and other costs. In addition, during fiscal 2000, the Company negotiated the assignment of the remaining lease payments on the Geneva facility to a third party as of August 1, 2000. As such, a restructuring credit of $2.0 million relating to the reversal of the remaining lease payments, net of fees, was recorded in the fourth quarter of fiscal 2000. The residual balance of approximately $200 was credited to Restructuring and other charges (credit), net in fiscal 2001.

In the fourth quarter of fiscal 1998, the Company finalized a restructuring plan amounting to $8.5 million in response to uncertainties in the Pacific Region. These charges included inventory write-offs of $2.7 million, which were included in cost of sales, the write-down of plant assets, leases and contracts of $2.9 million, and severance charges for the reduction of 90 full and part-time employees of the Company's workforce, which approximated $2.9 million. In the fourth quarter of fiscal 1999, the Company recorded restructuring credits of $2.4 million relating to the reversal of restructuring accruals for severance and leases due to the decision to continue certain European sales offices. As of June 30, 2001, the 1998 restructuring plan has been completed.

DISCONTINUED OPERATIONS

In August 2000, the Company divested its Vigilant Networks segment, which was comprised of its Vigilant Networks, Inc. and Digitech Industries, Inc. subsidiaries. Vigilant Networks' principal product, the Big Tangerine network analyzer, was a new product which was also being sold into a new market for the Company. Since this product's inception, LeCroy had made substantial investments in the Vigilant Networks segment in terms of selling, marketing, research and development, and administrative expenses. While the network analyzer had a unique technology, the Company decided that it could not continue to invest the financial resources necessary to capitalize on its future growth potential.

The Company closed on the sale of the assets and business of Vigilant and a portion of the assets and business of Digitech in August 2000 for gross proceeds of $12.0 million. The buyer also assumed certain liabilities of Vigilant. In connection with the sale, the Company issued warrants to purchase 200,000 shares of LeCroy Common Stock at $10.05 per share to the buyer. Using the Black-Scholes option-pricing model, these warrants were valued at approximately $1.3 million. The remaining business of Digitech is being discontinued. After deducting the value of these warrants, along with fees and certain retained liabilities, the Company recorded a loss of $552, net of a $314 tax benefit, on the sale and discontinuance of the Vigilant Networks segment. For the fiscal years ended June 30, 2001, 2000 and 1999, revenues from discontinued operations were $405 (through the measurement date), $7.4 million and $6.7 million, respectively, and losses from discontinued operations, net of tax were $1.4 million (through the measurement date), $11.0 million and $5.5 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Working capital was $41.6 million at June 30, 2001, which represented a working capital ratio of 1.9 to 1, compared to $24.1 million, or 1.5 to 1, at June 30, 2000. Of the $17.5 million increase in working capital, $11.0 million was due to the repayment in fiscal 2001 of the Company's borrowings under its credit agreement that were classified as a current liability as of June 30, 2000. The funds used to repay these borrowings were generated primarily from the proceeds from the sale of the Vigilant segment and the sale of common stock in a private equity placement as discussed below.

Net cash provided by (used in) operating activities for the fiscal years ended June 30, 2001, 2000 and 1999 was $1.1 million, $4.9 million and $(3.3) million, respectively. The decrease in cash provided by operating activities in fiscal 2001 from fiscal 2000 was primarily due to increases in accounts receivable and inventories to support the Company's revenue growth partially offset by increases in accounts payable and accrued liabilities and higher current year earnings. The improvement in cash provided by operating activities in fiscal 2000 from fiscal 1999 was primarily due to working capital reductions partially offset by lower operating earnings before restructuring and other charges (credits).

Net cash provided by (used in) investing activities for the fiscal years ended June 30, 2001, 2000 and 1999 was $5.0 million, $(599) and $(13.7) million, respectively. The increase in cash provided by investing activities in 2001 was primarily due to the gross proceeds of $12.0 million received from the sale of the assets and business of

(in thousands, except percentages)

the Vigilant Networks segment in fiscal 2001, partially offset by the proceeds from the sale of marketable securities of $7.6 million in fiscal 2000. The decrease in cash used in investing activities from fiscal 1999 to 2000 was primarily due to the sale of marketable securities in October 1999, which generated $7.6 million in proceeds. In addition, during fiscal 1999, the Company purchased manufacturing rights for complementary products from its strategic partner, Iwatsu Electric Co., Ltd. ("Iwatsu") for $5.0 million.

Net cash (used in) provided by financing activities for the fiscal years ended June 30, 2001, 2000 and 1999 was $(3.9) million, $3.7 million and $17.1 million, respectively. The decrease in cash provided in fiscal 2001 was primarily due to the repayment of $11.0 million of borrowings under the Company's credit facility, partially offset by net proceeds of $4.8 million raised from a private equity placement. The decrease in cash provided by financing activities from fiscal 1999 to fiscal 2000 was primarily due to the issuance of preferred stock for gross proceeds of $10.0 million in fiscal 1999.

The Company has a $15.0 million revolving line of credit with a commercial bank expiring on September 30, 2003, which can be used to provide funds for general corporate purposes and acquisitions. As of June 30, 2001, the Company has met its financial covenant requirements and there were no borrowings outstanding under this line of credit.

As of June 30, 2001, the Company had $456 outstanding under a $2.0 million capital lease credit facility available to fund certain capital expenditures.

In addition to the above U.S. based facilities, the Company maintains certain short-term foreign credit facilities, principally facilities with two Japanese banks totaling 150 million yen ($1.2 million as of June 30, 2001). No amounts were outstanding under such facilities as of June 30, 2001.

As discussed in Note 20 to the Consolidated Financial Statements "Subsequent Events," in August 2001 the Company raised gross proceeds of $25.0 million in connection with a private equity placement of 1,428,572 shares of its Common Stock.

The Company believes that its cash on hand, cash flow generated by its continuing operations, the cash generated from the $25.0 million private equity placement noted above and availability under its revolving credit agreement will be sufficient to fund working capital and capital expenditure requirements for at least the next twelve months and provide funds for potential acquisition opportunities.

RISK MANAGEMENT

The Company purchases materials from suppliers and sells its products around the world and maintains investments in foreign subsidiaries and securities, all denominated in a variety of currencies. As a consequence, it is exposed to risks from fluctuations in foreign currency exchange rates with respect to a number of currencies, changes in government policies and legal and regulatory requirements, political instability, transportation delays and the imposition of tariffs and export controls. Among the more significant potential risks to the Company of relative fluctuations in foreign currency exchange rates is the relationship among and between the United States dollar, the euro, Swiss franc, Japanese yen, and Korean won, and, to a lesser extent, the German deutschemark, British pound, French franc and Italian lira.

During the third quarter of fiscal 2001, the Company began a program of entering into foreign exchange forward contracts to minimize the risks associated with currency fluctuations on assets or liabilities denominated in other than the functional currency of LeCroy or its subsidiaries. It cannot be assured, however, that this program will effectively offset all of the Company's foreign currency risk related to these assets or liabilities. Other than this program, the Company does not attempt to reduce its foreign currency exchange risks by entering into foreign currency management programs and it has no plans to do so in the near term. As a consequence, there can be no assurance that fluctuations in foreign currency exchange rates in the future as a result of mismatches between local currency revenues and expenses, the translation of foreign currencies into the U.S. dollar, the Company's financial reporting currency, or otherwise, will not adversely affect the Company's results of operations. Moreover, fluctuations in exchange rates could affect the demand for our products. During the fiscal years ended June 30, 2001, 2000 and 1999 the Company reported foreign currency exchange gains (losses) of $(756), $600 and $742, respectively.

The Company's investment in the common stock of Iwatsu, which is recorded in "Marketable securities" on the Consolidated Balance Sheet, is subject to the impact of fluctuations in foreign exchange rates and in the Japanese stock market. In October 1999, the Company sold 2.7 million shares of such stock reducing its exposure to these market risks. As of June 30, 2001, Japanese stock market and currency fluctuations resulted in a cumulative increase of approximately $361 to the remaining investment's original cost. The change in the value of this investment, which is deemed temporary, is included as part of "Accumulated other comprehensive loss" on the Consolidated Balance Sheet and, accordingly, not in net income or loss.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In June 2001, SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets" were released. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. With the adoption of SFAS No. 142, goodwill will no longer be amortized over its estimated useful life, but will be subject to at least an annual assessment of impairment by applying a fair-value based test. The Company will adopt SFAS No. 142 beginning in the first quarter of fiscal 2002. Excluding the impact of any impairment charges that cannot be determined at this time, management estimates that the effect of implementing SFAS No. 142 will be to reduce selling and general administrative expenses and increase operating income by approximately $340 in fiscal 2002.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements," which summarizes

certain of the SEC Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. Under SAB 101, which the Company adopted in fiscal 2001, certain previously recognized license fee revenue was deferred and recognized in future periods over the term of the agreements. The adoption of SAB 101 was recorded as of the beginning of fiscal 2001 and resulted in a non-cash charge for the cumulative effect of an accounting change of $4.4 million, net of a tax benefit of $2.7 million. The deferred revenue will be amortized into revenue over 5.5 years, the remaining terms of the license agreements. In fiscal 2001, the Company recognized $1.3 million of the $7.1 million pre-tax deferred license fee revenue, which is included in Service and other revenue in the Consolidated Statement of Operations. The Company has not entered into an agreement in which it has recognized license fee revenue since the third quarter of fiscal 1999.

Assuming that SAB 101 had been adopted as of July 1, 1998, pro forma net income (loss) from continuing operations and earnings (loss) per diluted share from continuing operations in fiscal years 2000 and 1999 would be as follows:

	Pro Forma	
	2000	1999
Net income (loss) from continuing operations	$ 8,457	$ (5,345)
Net (loss)	(2,552)	(10,819)
Net income (loss) from continuing operations per diluted share	$ 0.87	$ (0.94)
Net (loss) per diluted share	(0.51)	(1.66)

SUBSEQUENT EVENT

On August 15, 2001, the Company sold 1,428,572 shares of its Common Stock for gross proceeds of approximately $25.0 million in a private equity placement. The Company intends to use the proceeds to fund growth through acquisitions and other transactions.

FORWARD-LOOKING STATEMENTS

This Annual Report may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including without limitation, statements regarding the intent, belief or current expectations of the Company or its directors or officers with respect to, among other things, (i) market trends in the Company's industries and the projected impact on the Company, (ii) the increasing importance of signal shape analysis; (iii) the Company's ability to meet its customers' evolving needs; (iv) the Company's position within its industries and ability to effectively compete; (v) the Company's ability to expand into new markets; (vi) the success of the Company's new product introductions; (vii) trends in the seasonality of the Company's sales; (viii) a shift in technology towards higher speed digital signals containing more complex data and the demands of users of signal analyzer products; (ix) market opportunities for dedicated signal analyzers; (x) the resolution of certain environmental remediation activities; (xi) sufficiency of the Company's cash balances, cash flow and the availability of external financing sources to fund working capital, capital expenditure requirements and business or technology acquisitions; (xii) trends affecting the Company's financial condition and results of operations; (xiii) the Company's business and growth strategies; (xiv) the impact of adoption of accounting conventions; and (xv) certain other statements identified or qualified by words such as "likely," "will," "suggests," "may," "would," "could," "should," "expects," "anticipates," "estimates," "plans," "projects," "believes," "is optimistic about," or similar expressions (and variants of such words or expressions). Investors are cautioned that forward-looking statements are inherently uncertain. These forward-looking statements represent the best judgment of the Company as on the date of this Annual Report, and the Company cautions readers not to place undue reliance on such statements. Actual performance and results of operations may differ materially from those projected or suggested in the forward-looking statements due to certain risks and uncertainties including, without limitation, risks associated with fluctuations in the Company's operating results; volume and timing of orders received; changes in the mix of products sold; competitive factors, including pricing pressure, technological developments and products offered by competitors; the Company's ability to deliver a timely flow of competitive new products and market acceptance of these products; the Company's ability to anticipate changes in the market; the Company's ability to negotiate new financing arrangements with lenders on terms that are acceptable; the Company's ability to attract and retain qualified personnel, including the Company's management; changes in the global economy and fluctuations in foreign currency rates; inventory risks due to changes in market demand or the Company's business strategies; risks due to an interruption in supply or an increase in price for the Company's parts, components and sub-assemblies; the Company's ability to realize sufficient margins on the sales of its products, as well as other risk factors listed from time to time in the Company's reports filed with the Securities and Exchange Commission and press releases, specifically, those discussed in the section entitled "Risk Factors" in the Prospectus to Form S-3 Registration Statements No. 333-64848 and No. 333-43690.

CONSOLIDATED

Balance Sheets

(in thousands, except share and per share amounts)

June 30,	**2001**	2000
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 11,449**	$ 9,051
Accounts receivable, net of reserves of $241 in 2001 and $541 in 2000	**32,982**	27,788
Inventories, net	**31,415**	24,389
Other current assets	**11,017**	6,949
Total current assets	**86,863**	68,177
Property and equipment, net	**21,427**	15,093
Marketable securities	**2,043**	2,870
Other assets	**11,827**	14,709
Total assets	**$122,160**	$100,849
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	**$ 23,661**	$ 16,309
Accrued expenses and other liabilities	**21,592**	16,739
Current bank debt	**—**	11,000
Total current liabilities	**45,253**	44,048
Deferred revenue and other non-current liabilities	**5,037**	—
Total liabilities	**50,290**	44,048
Contingencies and commitments	**—**	—
Redeemable convertible preferred stock, $.01 par value (authorized 5,000,000 shares; 500,000 shares issued and outstanding; liquidation value, $12,544,000 and $11,200,000 at June 30, 2001 and 2000, respectively)	**11,390**	9,692
Stockholders' Equity:		
Common stock, $.01 par value (authorized 45,000,000 shares; 8,734,505 and 7,802,694 issued and outstanding in 2001 and 2000, respectively)	**87**	78
Additional paid-in capital	**56,315**	41,911
Warrants to purchase common stock	**1,848**	1,848
Accumulated other comprehensive loss	**(7,548)**	(4,629)
Retained earnings	**9,778**	7,901
Total stockholders' equity	**60,480**	47,109
Total liabilities and stockholders' equity	**$122,160**	$100,849

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

CONSOLIDATED STATEMENTS OF Operations

(in thousands, except per share amounts)

Years Ended June 30,	**2001**	2000	1999
Revenues:			
Digital oscilloscopes and related products	**$129,425**	$110,237	$100,366
High energy physics products	**3,757**	4,132	7,362
Service and other	**8,206**	7,031	11,763
Total revenues	**141,388**	121,400	119,491
Cost of sales	**67,838**	61,706	60,298
Gross profit	**73,550**	59,694	59,193
Operating expenses:			
Selling, general and administrative	**45,059**	38,998	37,511
Research and development	**16,415**	13,811	13,867
Restructuring and other charges (credit), net	**667**	(2,000)	6,788
Total operating expenses	**62,141**	50,809	58,166
Operating income	**11,409**	8,885	1,027
Gain from sale of marketable securities	**—**	2,460	—
Other (expense) income, net	**(471)**	(276)	158
Income from continuing operations before income taxes	**10,938**	11,069	1,185
Income tax benefit (provision)	**897**	(3,498)	(2,499)
Income (loss) from continuing operations	**11,835**	7,571	(1,314)
Discontinued operations:			
Loss from operations, net of tax benefit of $957, $2,730 and $1,350 in 2001, 2000 and 1999, respectively	**(1,442)**	(11,009)	(5,474)
Loss on sale, net of tax benefit of $314	**(552)**	—	—
Net income (loss) before the cumulative effect of an accounting change	**9,841**	(3,438)	(6,788)
Cumulative effect of an accounting change for revenue recognition, net of tax benefit of $2,728	**4,417**	—	—
Net income (loss)	**5,424**	(3,438)	(6,788)
Charges related to convertible preferred stock	**1,700**	1,540	1,844
Cumulative effect of an accounting change for preferred stock	**1,848**	—	—
Net income (loss) applicable to common stockholders	**$ 1,876**	$ (4,978)	$ (8,632)
Income (loss) per common share—basic:			
Income (loss) from continuing operations	**$ 1.20**	$ 0.78	$ (0.41)
Loss from discontinued operations	**(0.24)**	(1.42)	(0.72)
Cumulative effect of an accounting change	**(0.74)**	—	—
Net income (loss)	**$ 0.22**	$ (0.64)	$ (1.13)
Income (loss) per common share—diluted:			
Income (loss) from continuing operations	**$ 1.15**	$ 0.76	$ (0.41)
Loss from discontinued operations	**(0.23)**	(1.38)	(0.72)
Cumulative effect of an accounting change	**(0.71)**	—	—
Net income (loss)	**$ 0.21**	$ (0.62)	$ (1.13)
Weighted average number of common shares:			
Basic	**8,476**	7,749	7,621
Diluted	**8,847**	7,977	7,621

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

CONSOLIDATED STATEMENTS OF

Stockholders' Equity

(in thousands)	Common Stock		Common Stock Warrants	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss)	Retained Earnings	Total
	Shares	Amount					
Balance at June 30, 1998	7,569	$76	$ —	$37,867	$(5,347)	$21,511	$54,107
Comprehensive loss:							
Net loss						(6,788)	(6,788)
Foreign currency translation					(754)		(754)
Unrealized gain on marketable securities					2,131		2,131
Total comprehensive loss							(5,411)
Stock option and stock purchase plans	136	1		1,300			1,301
Tax benefit from exercise of stock options				30			30
Issuance of warrants with preferred stock			1,848				1,848
Charges related to convertible preferred stock				1,844		(1,844)	—
Securities offering costs				(20)			(20)
Balance at June 30, 1999	7,705	77	1,848	41,021	(3,970)	12,879	51,855
Comprehensive loss:							
Net loss						(3,438)	(3,438)
Foreign currency translation					(853)		(853)
Unrealized gain on marketable securities					194		194
Total comprehensive loss							(4,097)
Stock option and stock purchase plans	98	1		951			952
Charges related to convertible preferred stock						(1,540)	(1,540)
Securities offering costs				(61)			(61)
Balance at June 30, 2000	7,803	78	1,848	41,911	(4,629)	7,901	47,109
Comprehensive income:							
Net income						5,424	5,424
Foreign currency translation					(2,412)		(2,412)
Unrealized loss on marketable securities					(507)		(507)
Total comprehensive income							2,505
Stock option and stock purchase plans	188	2		2,427			2,429
Tax benefit from exercise of stock options				3,135			3,135
Charges related to convertible preferred stock				1,847		(3,547)	(1,700)
Issuance of shares in private placements	517	5		5,191			5,196
Issuance of shares for acquisition	100	1		974			975
Issuance of stock warrants			1,366	(106)			1,260
Exercise of stock warrants	126	1	(1,366)	1,366			1
Securities offering costs				(430)			(430)
Balance at June 30, 2001	**8,734**	**$87**	**$ 1,848**	**$56,315**	**$(7,548)**	**$ 9,778**	**$60,480**

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

CONSOLIDATED STATEMENTS OF Cash Flows

(in thousands)

Years Ended June 30,	**2001**	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	**$ 5,424**	$(3,438)	$ (6,788)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Loss on sale of discontinued operations, net of taxes	**552**	—	—
Cumulative effect of an accounting change, net of taxes	**4,417**	—	—
Depreciation and amortization	**5,231**	5,868	4,769
Restructuring (credits) provisions	**667**	(2,000)	7,380
Current tax benefit of exercise of non-qualified stock options	**537**	—	30
Deferred income taxes	**(3,957)**	—	—
Gain on sale of marketable securities	—	(2,460)	—
Acquisition (credits) charges	—	—	(1,140)
Change in operating assets and liabilities:			
Accounts receivable	**(8,130)**	2,164	(1,874)
Inventories	**(7,661)**	186	(4,435)
Other current and non-current assets	**(1,978)**	1,035	(414)
Accounts payable, accrued expenses and other	**6,021**	3,499	(801)
Net cash provided by (used in) operating activities	**1,123**	4,854	(3,273)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	**(4,858)**	(6,766)	(7,330)
Purchase of intangible assets	—	—	(5,125)
Purchase of computer software	**(2,097)**	(1,463)	(1,217)
Proceeds from sale of marketable securities	—	7,630	—
Proceeds from sale of business segment	**12,000**	—	—
Net cash provided by (used in) investing activities	**5,045**	(599)	(13,672)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in short-term debt	—	(1,575)	(710)
Borrowings under line of credit and capital leases	**458**	4,400	6,600
Repayment of borrowings under line of credit	**(11,000)**	—	—
Issuance of common stock	**4,766**	—	—
Issuance of preferred stock	—	—	9,980
Current tax benefit of exercise of non-qualified stock options	**(537)**	—	(30)
Stock options exercised and stock purchase plans	**2,429**	891	1,301
Net cash (used in) provided by financing activities	**(3,884)**	3,716	17,141
Effect of exchange rates changes	**114**	(711)	(300)
Net increase (decrease) in cash and cash equivalents	**2,398**	7,260	(104)
Cash and cash equivalents, beginning of year	**9,051**	1,791	1,895
Cash and cash equivalents, end of year	**$ 11,449**	$ 9,051	$ 1,791
Supplemental Cash Flow Disclosure			
Cash paid during the year for:			
Interest	**$ 462**	$ 1,016	$ 662
Income taxes	**590**	880	1,797
Issuance of shares for acquisition	**1,000**	—	—

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

Notes

TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. The LeCroy Corporation (the “Company”), founded and incorporated in the State of New York in 1964 and reincorporated in the State of Delaware in 1995, develops, manufactures, and markets electronic signal acquisition and analysis products and services. The Company’s core business is the production of high-performance digital oscilloscopes, which are used by design engineers and researchers in a broad range of industries, including electronics, computers and communications.

Basis of Presentation and Use of Estimates. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to prior-year amounts to conform to the current-year presentation. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates and assumptions are based on management’s judgment and available information and, consequently, actual results could be different from these estimates.

Fiscal Year Ending Dates. The operations of the U.S. parent company, LeCroy Corporation, have a fiscal year ending on the Saturday closest to June 30 (June 30, 2001, July 1, 2000 and July 3, 1999). For 2001 and 2000, the fiscal years represented a 52-week period. For 1999 the fiscal year represented a 53-week period. The majority of foreign subsidiaries have a June 30 fiscal year-end. The consolidated financial statement year-end references are stated as June 30.

Revenue Recognition. Revenue is recognized when products are shipped or services are rendered to customers, net of allowances for anticipated returns. Revenues from service contracts are recognized ratably over the contract period. A deferral is recorded for post-contract support and any other further deliverables included within the sales contract agreement. This deferral is earned as contract elements are completed. Beginning in fiscal 2001 with the adoption of the Securities and Exchange Commission’s Staff Accounting Bulletin No. 101 (“SAB 101”) “Revenue Recognition in Financial Statements,” revenue from license fees under agreements that have exclusivity clauses and, from the licensee’s perspective, have ongoing requirements or expectations that are more than perfunctory, are recognized over the term of the related agreement. An on-going requirement or expectation would be considered more than perfunctory if any party to the contract considers it to be “essential to the functionality” of the delivered product or service or failure to complete the activities would result in the customer receiving a full or partial refund or rejecting the products delivered or services performed to date. Prior to adopting SAB 101, revenue from license agreements was recognized when non-refundable payments were received and all significant obligations under the license agreements were fulfilled.

Warranty. Estimated future warranty obligations related to products are provided by charges to operations in the period that the related revenue is recognized.

Research and Development. Research and development costs are expensed as incurred.

Cash and Cash equivalents. Cash and cash equivalents consist primarily of highly liquid investments with maturities of three months or less when purchased.

Marketable Securities. The Company classifies its equity investments as available for sale and reports them at fair market value. Unrealized gains or losses are reported net of tax and foreign exchange effect in stockholders’ equity until disposition. In October 1999, the Company recorded a pre-tax gain of $2.5 million on the sale of 2.7 million shares of its equity investment in Iwatsu Electric, Co. (“Iwatsu”). As of June 30, 2001, Japanese stock market and currency fluctuations resulted in a cumulative increase of approximately $361 to the remaining investment’s original cost, which has a fair market value of $2.0 million.

Property and Equipment. Property and equipment is recorded at cost. Depreciation and amortization are provided on the straight-line basis over the estimated useful lives of the related asset. The estimated useful lives are as follows:

Building	20–32 years
Furniture, machinery and equipment	3–12 years
Computer software	5–7 years

Inventories. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Intangible Assets. The cost of product technology and manufacturing and distribution rights acquired is amortized primarily on units produced or shipped over the contract period, generally five years, but in no event longer than their expected useful lives. Excess of cost over fair market value of net assets acquired is being amortized on a straight line basis between five and fifteen years.

Impairment of Long-Lived Assets. In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 121, “Accounting for the Impairment of Long-Lived Assets to be Disposed Of,” the Company reviews long-lived assets used in operations when indicators of impairment are present. If the anticipated undiscounted operating cash flow generated by those assets is less than the assets’ carrying value, an impairment charge is recorded for the difference between the fair value and the carrying value of the asset.

Concentration of Credit Risk. The Company develops and manufactures electronic equipment, principally digital oscilloscopes, which it sells primarily to research and development engineers in research facilities, governmental agencies and the test and measurement industry. Sales are to all regions of the United States as well as to a multitude of foreign countries. The Company performs periodic credit evaluations of its customers' financial condition. Credit losses have been minimal and within management's expectations. There is no significant concentration of the Company's accounts receivable portfolio in any customer or geographical region that presents a risk to the Company based on that concentration. Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of short-term deposits in the United States and Europe with major banks with investment levels and debt ratings set to limit exposure with any one institution.

Income Taxes. Deferred tax assets and liabilities are recognized under the liability method based upon the difference between the amounts reported for financial reporting and tax purposes. These deferred taxes are measured by applying current enacted tax rates. In general, the Company's policy is not to provide for U.S. taxes on undistributed earnings of foreign subsidiaries to the extent such earnings are determined to be permanently invested outside the United States. During the fourth quarter of fiscal 2001, the Company determined that it was likely it would repatriate excess cash balances held by one of its foreign subsidiaries. Accordingly, included in the Company's fiscal 2001 tax provision is the U.S. tax expense anticipated to be due when such amounts are repatriated.

Foreign Exchange. The Company's foreign subsidiaries use their local currency as the functional currency and translate all assets and liabilities at current exchange rates and all income and expenses at average exchange rates. The translation adjustments that result from translating the balance sheets at different rates than the income statements are included in accumulated comprehensive loss, which is a separate component of stockholders' equity. Gains (losses) in fiscal 2001, 2000 and 1999 resulting from foreign currency transactions approximated $(756), $600 and $742, respectively, and are included in Other income (expense), net in the Consolidated Statements of Operations.

Derivative Financial Instruments. The Company enters into foreign exchange forward currency contracts that are designated as fair value hedges, to minimize the risks associated with foreign currency fluctuations on assets or liabilities denominated in other than the functional currency of the Company or its subsidiaries. These foreign forward exchange contracts are highly inversely correlated to the hedged items and are considered effective as hedges of the underlying assets and liabilities. The net gain or loss resulting from changes in the fair value of these derivatives and on assets or liabilities denominated in other than their functional currencies in fiscal 2001 is included in Other income (expense), net in the Consolidated Statements of Operations. At June 30, 2001, the Company had approximately $16.9 million of open foreign exchange forward contracts with short-term maturities of less than six months.

Stock Option Plan. The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its employee stock options. Under APB 25, if the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is generally recognized.

Per Share Information. Basic earnings per share ("EPS") excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised and resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted EPS is computed using the treasury stock method when the effect of common stock equivalents would be dilutive. Common stock equivalents are comprised of convertible preferred stock, employee stock options and warrants to purchase common stock. Common stock equivalents related to employee stock options and warrants to purchase common stock were 371,000, 228,000 and 308,000, in fiscal years 2001, 2000 and 1999, respectively. In fiscal 2001 and 2000, 500,000 of common stock equivalents related to the Company's convertible preferred stock, and in fiscal 1999 all common stock equivalents, were excluded from the loss per common share calculation because the effect would be anti-dilutive.

Comprehensive Income (Loss). Comprehensive income (loss) for the three years ended June 30, 2001, 2000 and 1999 included foreign currency translation losses of $2.4 million, $853 and $754, respectively, and unrealized gains and (losses) on marketable equity securities classified as available for sale of $(507), $194 and $2.1 million, respectively. The cumulative foreign currency translation losses were $7.9 million at June 30, 2001 and $5.5 million at June 30, 2000. The cumulative unrealized gains on marketable equity securities classified as available for sale were $361 at June 30, 2001 and $866 at June 30, 2000. These unrealized gains were net of deferred tax liabilities of $121 and $289 at June 30, 2001 and 2000, respectively.

Change in Accounting Estimate. The Company has experienced improved quality on its newer product offerings and refined its methodology to reflect these improvements in its assessment of warranty exposure. As a result, the Company reduced its warranty reserve and increased operating income by $625 in the quarter ended March 31, 2000.

New Pronouncements. In June 2001, SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible

(in thousands, except share and per share amounts)

Assets" were released. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. With the adoption of SFAS No. 142, goodwill will no longer be amortized over its estimated useful life, but will be subject to at least an annual assessment of impairment by applying a fair-value based test. The Company will adopt SFAS No. 142 beginning in the first quarter of fiscal 2002. Excluding the impact of any impairment charges that cannot be determined at this time, management estimates that the effect of implementing SFAS No. 142 will be to reduce selling and general administrative expenses and increase operating income by approximately $340 in fiscal 2002.

In December 1999, the Securities and Exchange Commission ("SEC") issued SAB 101, "Revenue Recognition in Financial Statements," which summarizes certain of the SEC Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. Under SAB 101, which the Company adopted in fiscal 2001, certain previously recognized license fee revenue was deferred and recognized in future periods over the term of the agreements. The adoption of SAB 101 was recorded as of the beginning of fiscal 2001 and resulted in a non-cash charge for the cumulative effect of an accounting change of $4.4 million, net of a tax benefit of $2.7 million. The deferred revenue will be amortized into revenue over 5.5 years, the remaining terms of the license agreements. In fiscal 2001, the Company recognized $1.3 million of the $7.1 million pre-tax deferred license fee revenue, which is included in Service and other revenue in the Consolidated Statement of Operations. The Company has not entered into an agreement in which it has recognized license fee revenue since the third quarter of fiscal 1999.

Assuming that SAB 101 had been adopted as of July 1, 1998, pro forma net income (loss) from continuing operations and earnings (loss) per diluted share from continuing operations in fiscal years 2000 and 1999 would be as follows:

	Pro Forma	
	2000	1999
Net income (loss) from continuing operations	$ 8,457	$ (5,345)
Net (loss)	(2,552)	(10,819)
Net income (loss) from continuing operations per diluted share	$ 0.87	$ (0.94)
Net (loss) per diluted share	(0.51)	(1.66)

Discontinued Operations. The Consolidated Statements of Operations have been restated to segregate the operating results of the Vigilant Networks segment, which was comprised of its Vigilant Networks, Inc. ("Vigilant") and Digitech Industries, Inc. ("Digitech") subsidiaries, and to report them as "Loss from discontinued operations" for all periods presented. In addition, the net assets of the Vigilant Networks segment that were sold in August 2000, along with the assets related to any remaining portion of the Vigilant Networks segment not included in the sale but which will be discontinued, have been reclassified as "Net assets of discontinued operations" and included in Other current assets on the Consolidated Balance Sheets for all periods presented (See Note 3).

2 RESTRUCTURING AND OTHER CHARGES (CREDITS), NET

During the fourth quarter of fiscal 2001, the Company reduced its workforce by approximately 25 positions (approximately 5%) to improve operating efficiencies. As a result of this restructuring, the Company recorded a severance charge of approximately $900.

During fiscal year 1999, the Company adopted a restructuring plan, the objectives of which were to consolidate the oscilloscope operations in order to enhance operating efficiencies and to dedicate additional resources to develop advanced technologies. In connection with this consolidation, the Company recorded total restructuring and other charges of $11.3 million, $10.4 million of which related to restructuring costs. The remaining $900 of the total charge related to additional costs to redeploy manufacturing, engineering and employee resources. The restructuring costs were comprised of inventory write-offs of $2.2 million, which were included in cost of sales, an accrual for the future minimum lease payments for the Geneva, Switzerland manufacturing facility of $3.4 million, severance and employee benefit costs of $3.0 million for the reduction of full and part-time employees and the write-down of plant assets and capitalized management information system software and other costs of $1.8 million.

During fiscal 2001, the 1999 restructuring plan was completed. Cumulative through fiscal 2001, $8.2 million of the initial restructuring reserve established has been paid or used to reduce asset balances. Of this $8.2 million, $2.1 million related to inventories, $3.0 million related to severance and other employee benefit costs, $1.3 million related to the Geneva facility lease and $1.8 million related to plant assets, capitalized management information system software and other costs. In addition, during fiscal 2000, the Company negotiated the assignment of the remaining lease payments on the Geneva facility to a third party as of August 1, 2000. As such, a restructuring credit of $2.0 million relating to the reversal of the remaining lease payments, net of fees, was recorded in the fourth quarter of fiscal 2000. The residual balance of approximately $200 was credited to Restructuring and other charges (credit), net in fiscal 2001.

In the fourth quarter of fiscal 1998, the Company finalized a restructuring plan amounting to $8.5 million in response to uncertainties in the Pacific Region. These charges included inventory write-offs of $2.7 million, which were included in cost of sales, the write-down of plant assets, leases and contracts of $2.9 million, and severance charges for the reduction of 90 full and part-time employees of the Company's workforce, which approximated $2.9 million. In the fourth quarter of fiscal 1999, the Company recorded restructuring credits of $2.4 million relating to the reversal of restructuring accruals for severance and leases due to the decision to continue certain European sales offices. As of June 30, 2001, the 1998 restructuring plan has been completed.

3 DISCONTINUED OPERATIONS

In August 2000, the Company divested its Vigilant Networks segment, which was comprised of its Vigilant Networks, Inc. and

Digitech Industries, Inc. subsidiaries. Vigilant Networks' principal product, the Big Tangerine network analyzer, was a new product which was also being sold into a new market for the Company. Since this product's inception, LeCroy had made substantial investments in the Vigilant Networks segment in terms of selling, marketing, research and development, and administrative expenses. While the network analyzer had a unique technology, the Company decided that it could not continue to invest the financial resources necessary to capitalize on its future growth potential.

The Company closed on the sale of the assets and business of Vigilant and a portion of the assets and business of Digitech in August 2000 for gross proceeds of $12.0 million. The buyer also assumed certain liabilities of Vigilant. In connection with the sale, the Company issued warrants to purchase 200,000 shares of LeCroy Common Stock at $10.05 per share to the buyer. Using the Black-Scholes option-pricing model, these warrants were valued at approximately $1.3 million. The remaining business of Digitech is being discontinued. After deducting the value of these warrants, along with fees and certain retained liabilities, the Company recorded a loss of $552, net of a $314 tax benefit, on the sale and discontinuance of the Vigilant Networks segment. This includes a $1.4 million adjustment to the loss recorded in the fourth quarter due to changes in estimates. For the fiscal years ended June 30, 2001, 2000 and 1999, revenues from discontinued operations were $405 (through the measurement date), $7.4 million and $6.7 million, respectively, and losses from discontinued operations, net of tax were $1.4 million (through the measurement date), $11.0 million and $5.5 million, respectively.

4 INVENTORIES

Inventories, including demonstration units in finished goods, are stated at the lower of cost (first-in, first-out method) or market.

	June 30, 2001	June 30, 2000
Raw materials	**$ 6,865**	$ 6,863
Work in process	**9,829**	7,348
Finished goods	**14,721**	10,178
	$31,415	$24,389

The allowance for excess and obsolete inventory included above amounted to $3,633 in 2001 and $2,643 in 2000.

5 OTHER CURRENT ASSETS

Other current assets consist of the following:

	June 30, 2001	June 30, 2000
Deferred tax assets, net	**$ 7,786**	$ —
Net assets of discontinued operations	**241**	4,996
Other	**2,990**	1,953
	$11,017	$6,949

6 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	June 30, 2001	June 30, 2000
Land and building	**$12,472**	$ 11,729
Furniture, machinery and equipment	**28,378**	28,098
Computer software	**5,852**	—
	46,702	39,827
Less: Accumulated depreciation and amortization	**(25,275)**	(24,734)
	$21,427	$ 15,093

Depreciation and amortization expense for the fiscal years ended June 30, 2001, 2000 and 1999 was $3.3 million, $3.5 million and $4.5 million, respectively.

In the fourth quarter of fiscal 2001, the Company placed into service computer software for internal use and transferred the cumulative amount of funds expended on such software from Other assets to Property and equipment.

7 OTHER ASSETS

Other assets consist of the following:

	June 30, 2001	June 30, 2000
Manufacturing and distribution rights, net	**$ 8,133**	$ 8,889
Computer software for internal use	**—**	3,719
Excess of cost over net assets acquired, net	**1,574**	1,031
Other	**2,120**	1,070
	$11,827	$14,709

The excess of cost over net assets acquired is net of accumulated amortization of $1.2 million and $841 for fiscal 2001 and fiscal 2000, respectively. Manufacturing and distribution rights are net of accumulated amortization of $1.4 million and $591 for fiscal 2001 and fiscal 2000, respectively.

In the fourth quarter of fiscal 2001, the Company placed into service computer software for internal use and transferred the cumulative balance of funds expended on such software from Other assets to Property and Equipment.

8 ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following:

	June 30, 2001	June 30, 2000
Compensation and benefits	**$ 7,689**	$ 6,527
Retained liabilities from discontinued operations	**3,309**	—
Warranty	**1,529**	1,608
Deferred revenue	**1,321**	1,131
Income taxes	**3,417**	3,247
Other	**4,327**	4,226
	$21,592	$16,739

Notes

TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

(in thousands, except share and per share amounts)

9 INCOME TAXES

The components of income from continuing operations before income taxes are as follows:

	2001	2000	1999
Domestic	**$10,032**	$ 4,913	$ 5,165
Foreign	**906**	6,156	(3,980)
	$10,938	$11,069	$ 1,185

The benefit (provision) for income taxes from continuing operations for the fiscal year June 30 is as follows:

	2001	2000	1999
Current:			
State	**$ (410)**	$ (490)	$ (208)
Federal	**(1,262)**	(2,540)	(1,083)
Foreign	**(646)**	(468)	(543)
Deferred:			
State	**583**	—	—
Federal	**2,575**	—	—
Foreign	**57**	—	(665)
	$ 897	$(3,498)	$(2,499)

The reconciliation between U.S. federal statutory rate and the Company's effective tax rate from continuing operations is as follows:

	2001	2000	1999
Tax at U.S. federal statutory rate	**$(3,828)**	$(3,874)	$ (415)
Increase (reduction) to statutory tax rate from:			
Difference between U.S. and foreign rates	**(305)**	(21)	365
Use of net operating losses to offset taxable income	**3,159**	—	—
Tax effect of restructuring	**—**	1,156	(1,966)
Change in valuation allowances	**4,096**	160	(321)
Repatriation of foreign earnings	**(1,622)**	(444)	—
State taxes	**(627)**	(319)	(135)
Other, net	**24**	(156)	(27)
Income tax benefit (provision)	**$ 897**	$(3,498)	$(2,499)

Significant components of the Company's net deferred tax as of June 30, 2001 and 2000 were as follows:

	2001	2000
Federal and state loss and credit carryforwards	**$ 6,970**	$ 9,008
Foreign loss and credit carryforwards	**1,949**	1,973
Inventory and other reserves	**4,248**	3,167
Deferred tax assets before valuation allowance	**13,167**	14,148
Valuation allowance	**(4,296)**	(14,148)
Net deferred tax assets	**$ 8,871**	$ —

At June 30, 2001, $7.8 million of the Company's net deferred tax assets were included on the Consolidated Balance Sheet in Other current assets, with the remaining $1.1 million included in Other assets. Under SFAS No. 109, "Accounting for Income Taxes," the Company is required to recognize all or a portion of its net deferred tax asset if it believes that it is more likely than not, given the weight of all available evidence, that all or a portion of the benefits of the carryforward losses and tax credits will be realized. Management assesses the realizability of its net deferred tax assets at each interim and annual balance sheet date based on actual and forecasted operating results. Based upon its assessment as of June 30, 2001, Management concluded that it was more likely than not that the Company would realize benefits from a portion of its remaining deferred tax assets. Accordingly, the Company reduced its reserve against such assets by $6.7 million in the fourth quarter of fiscal 2001, $2.6 million of which related to deductions from employee stock option exercises and was credited to Additional paid-in-capital on the Consolidated Balance Sheet. In addition, during fiscal 2001 the Company utilized $8.2 million of net operating losses ($3.2 million tax benefit) to offset taxable income from continuing operations. Management will continue to assess the realizability of the deferred tax asset at each interim and annual balance sheet date based on actual and forecasted operating results.

Historically, it has been the practice of the Company to reinvest unremitted earnings of foreign subsidiaries. During the fourth quarter of fiscal 2001, however, the Company determined that it would repatriate approximately $7.0 million in future periods from one of its foreign subsidiaries. The Company believes repatriation of these earnings will result in additional taxes in the amount of $1.6 million and has provided for that amount in the current year tax provision. The cumulative amount of all other undistributed earnings of consolidated foreign subsidiaries, for which U.S. federal income tax has not been provided, was $20.1 million at June 30, 2001. These earnings, which reflect full provision for non-U.S. income taxes, are anticipated to be reinvested permanently outside the United States. Determining the U.S. income tax liability that might result if these earnings were remitted is not practicable.

At June 30, 2001, the Company has U.S. federal income tax net operating loss carryforwards of $9.3 million available to offset future taxable income. The carryforwards expire in 2019 and 2020. Foreign tax net operating losses of $500 at June 30, 2001 are available to offset future taxable income of certain foreign subsidiaries. The foreign losses expire in 2004. Federal, State and foreign tax credits expire at various dates between 2002 and 2020.

10 DEBT

As of June 30, 2001, the Company had a $15.0 million revolving line of credit with a commercial bank expiring on September 30, 2003, which can be used to provide funds for general corporate purposes and acquisitions. Borrowings under this line bear interest at prime plus a margin of between .25% and 1.25%, or LIBOR plus a margin of between 1.5% and 2.5%, depending on the Company's Leverage Ratio. A commitment fee of between .375% and .50% per annum, depending on the Company's Leverage Ratio, is payable on any unused amount under the line. This revolving line of credit is secured by a lien on substantially all of the domestic assets of the

Company. As of June 30, 2001, the Company has met its financial covenant requirements and there were no borrowings outstanding under this line of credit.

Prior to entering into its current credit agreement on October 11, 2000, the Company had a $12.0 million credit facility with two commercial banks. Borrowings under this credit facility since an April 19, 2000 amendment bore interest at the higher of the prime rate, or the federal funds rate plus ½%, plus 2%. Prior to that date, borrowings under this facility bore interest at the higher of the prime rate, the federal funds rates plus ½% or, on foreign currency borrowings, the Eurocurrency Interest Rate plus applicable margins (as defined). A commitment fee of .1875% was payable on any unused amounts under the credit facility. Outstanding borrowings under this credit facility as of June 30, 2000 of $11.0 million were recorded as a current liability due to the projection that certain financial covenants would be violated at the end of the first quarter of fiscal 2001. In August 2000, proceeds from the sale of the Company's Vigilant Networks segment were used to repay the outstanding borrowings under this facility.

On June 12, 2000, the Company secured a $2.0 million capital lease line of credit to fund certain capital expenditures. As of June 30, 2001, the Company had $456 outstanding under this line of credit, $73 of which was included in Accrued expenses and other liabilities and the remaining $383 in Non-current liabilities on the Consolidated Balance Sheet. The outstanding borrowings under this line bear interest at 12.2%.

In addition to the above U.S. based facilities, the Company maintains certain short-term foreign credit facilities, principally facilities with two Japanese banks totaling 150 million yen ($1.2 million as of June 30, 2001). No amounts were outstanding under such facilities as of June 30, 2001.

Interest income (expense), net, included in Other income (expense), net was $76 in fiscal 2001, $(877) in fiscal 2000 and $(584) in fiscal 1999.

The Company's debt approximates fair value.

11 STOCK OPTION PLANS

Under the Company's Amended and Restated 1993 Stock Incentive Plan (the "Plan"), 1,521,739 shares of Common Stock can be issued through the exercise of stock options, increasing annually by 5% of the common shares outstanding each July 1 during the term of the Plan. At July 1, 2001, a maximum of 3,719,205 shares was reserved for issuance of incentive stock options, non-qualified stock options and restricted stock awards. Options issued under the Plan allow full-time employees, including officers, to purchase shares of Common Stock at prices equal to fair market value at the date of grant. For individuals who own more than 10% of the Common Stock of the Company, the exercise price under incentive stock options may not be less than 110% of the fair market value on the date of grant. No more than an aggregate of 2,608,696 shares of Common Stock may be issued pursuant to the exercise of incentive stock options granted under the Plan. This limitation does not apply to non-qualified stock options or restricted stock awards that may be granted under the Plan. The vesting period and expiration of each grant is determined by the Compensation Committee of the Board of Directors. In general, the vesting period is 25% per annum over a four year period, or 50% after the second year and 25% for the third and fourth years. The lives of the options are either ten or eleven years from the date of grant.

Under the Plan, stock options can be issued to full-time employees, including officers and non-employee consultants. Pursuant to an amendment to the Plan dated August 16, 2000, options must be granted at an exercise price not less than 100% of the fair market value on the date of grant.

Transactions for incentive and non-qualified stock options for the Plan for fiscal years 2001, 2000 and 1999 are as follows:

	Number of Shares	Exercise Price Per Share	Weighted Average Exercise Price
Outstanding at June 30, 1998	1,673,569	$ 5.95 – $36.75	$18.74
Granted	409,000	14.88 – 20.50	15.71
Exercised	(71,726)	6.33 – 15.75	6.84
Cancelled	(71,440)	6.33 – 36.25	19.64
Outstanding at June 30, 1999	1,939,403	5.95 – 36.75	18.55
Granted	703,000	10.13 – 17.50	14.10
Exercised	(36,220)	5.95 – 9.20	6.83
Cancelled	(303,190)	5.95 – 36.75	21.56
Outstanding at June 30, 2000	2,302,993	5.95 – 32.25	16.99
Granted	166,929	13.88 – 25.00	18.82
Exercised	(144,438)	5.95 – 23.50	12.90
Cancelled	(245,389)	5.95 – 32.25	20.87
Outstanding at June 30, 2001	**2,080,095**	**$ 6.33 – $32.25**	**$16.92**

The following table summarizes information about stock options outstanding at June 30, 2001:

	Options Outstanding at June 30, 2001			Options Exercisable at June 30, 2001	
Range	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life (years)	Number of Shares	Weighted Average Exercise Price
$ 6.33 – $12.00	242,137	$ 6.62	3.41	242,137	$ 6.62
$12.01 – $24.00	1,747,958	17.70	7.56	784,082	19.85
$24.01 – $32.25	90,000	29.30	6.97	60,000	31.45
Total	2,080,095	$16.92		1,086,219	$17.54

Of the total options outstanding under the 1993 Plan, 1,086,219, 964,658 and 804,147 were exercisable at June 30, 2001, 2000 and 1999, respectively. Stock options available for grant were 634,983, 99,774 and 110,411 at June 30, 2001, 2000 and 1999, respectively.

Notes
TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

(in thousands, except share and per share amounts)

In October 1998, the Board of Directors and stockholders terminated the 1995 Non-Employee Director Stock Option Plan ("1995 Plan") and adopted the 1998 Non-Employee Director Stock Option Plan ("1998 Plan"). Pursuant to the 1998 Plan, each non-employee director received a stock option grant of 15,000 shares exercisable at market price on the date the plan was adopted or upon initial election to the Board of Directors. These options vest ratably over a 36 month period. Additionally, each non-employee director will receive an annual stock option grant of 7,000 shares (5,000 shares prior to an amendment dated October 25, 2000) exercisable at the market price on the date of grant. These options vest immediately. A total of 500,000 shares of Common Stock can be issued during the term of the 1998 Plan. As of June 30, 2001, no shares of Common Stock had been issued upon exercise of options granted or cancelled under the 1998 Plan. Options for shares of Common Stock granted and outstanding under the 1998 Plan consist of 35,000 options at an exercise price of $19.13 and 15,000 options at an exercise price at $23.69 granted during fiscal 2001, 25,000 options at an exercise price of $13.50 granted during fiscal 2000 and 60,000 options at an exercise price of $14.875 granted during fiscal 1999. Stock options issued pursuant to the 1995 Plan of 20,688 vested according to the provisions of the plan on the date the plan was terminated.

Pro forma information regarding net income (loss) and earnings (loss) per share is required by SFAS 123 and has been determined as if the Company had been accounting for its employee stock options under the fair value method of that Statement. The fair value of these options was estimated at the date of grant using a Black-Scholes option-pricing model with the following assumptions: weighted average risk-free interest rates of 4.82% for 2001, 6.1% for 2000 and 6.0% for 1999; no dividends; volatility factors of the expected market price of the Company's Common Stock of 0.724 for 2001, 0.592 for 2000 and 0.582 for 1999 and a weighted average expected life of the options of 4.4 years for 2001, 4.3 years for 2000 and 4.7 years for 1999.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options granted in 2001, 2000 and 1999 is amortized to expense over the option vesting periods. The pro forma amortization is reflected on the anniversary date of each vesting period. The weighted average grant date fair value of options granted during fiscal years 2001, 2000 and 1999 was $11.18, $7.47 and $8.47, respectively. The Company's pro forma information follows:

	Pro Forma		
	2001	2000	1999
Pro forma net loss applicable to common stockholders	**$(1,396)**	$(7,776)	$(12,999)
Pro forma net loss per common share applicable to common stockholders:			
Basic	**$ (0.16)**	$ (1.00)	$ (1.71)
Diluted	**$ (0.16)**	$ (0.97)	$ (1.71)

These amounts may not necessarily be indicative of the pro forma effect of SFAS 123 for future periods in which options may be granted.

12 COMMON STOCK

During the third quarter of fiscal 2001, the holders of warrants to purchase 220,701 shares of Common Stock at $10.05 per share exercised their rights to a cash-less conversion. As a result, 126,646 shares of Common Stock were issued and $1.4 million, representing the fair value of the warrants at the date of issue, was transferred from Warrants to purchase common stock to Additional paid-in capital on the Consolidated Balance Sheet.

In August 2000, the Company sold 517,520 shares of its Common Stock for gross proceeds of $5.2 million in a private equity placement. Proceeds from this sale of securities were used to repay existing indebtedness, fund working capital requirements and other general corporate purposes.

The Company has reserved 3,719,205 shares of Common Stock for issuance upon the exercise of stock options granted or available for future grant, 500,000 shares of Common Stock for issuance upon the conversion of the Company's Redeemable Convertible Preferred Stock and 344,055 shares of Common Stock for issuance upon the exercise of outstanding warrants to purchase Common Stock.

13 STOCKHOLDER RIGHTS PLAN

On November 2, 1998 the Company's Board of Directors declared a dividend distribution of one right in respect to each share of the Company's Common Stock outstanding at the record date, November 18, 1998. Initially, the rights will trade together with the Common Stock and will not be exercisable or separately tradable. The rights will be exercisable if a person or group acquires, in the future, 15% or more of the Company's stock or announces a tender offer. Right holders, other than the acquiring person or group, are then entitled to purchase an amount of the Company's stock at a 50% discount to the share price at that time. The amount of stock that a right holder is entitled to purchase is based on the exercise price. Under certain circumstances, the right will entitle the stockholder to buy shares in an acquiring entity at a discount.

The Company's Board of Directors may redeem the rights at a price of $0.001 per right up until 10 days following a public announcement that any person or group has acquired 15% or more of LeCroy's Common Stock. The rights will expire on November 2, 2008, unless redeemed prior to that date.

14 REDEEMABLE CONVERTIBLE PREFERRED STOCK

On June 30, 1999 (the "Closing"), the Company completed a private placement of 500,000 shares of convertible redeemable preferred stock (the "Preferred Stock") for proceeds of $10.0 million. The shares of the Preferred Stock are convertible at any time by the holders into 500,000 shares of Common Stock. After the fifth anniversary of the Closing, the holders may redeem their shares at cost plus a 12% compounding annual dividend since the date of issue. The shares of Preferred Stock automatically convert to Common Stock on a one-for-one basis in the event of a firmly underwritten public offering raising at least $20.0 million, provided that the price per share is at least $28 if the public offering takes place prior to the first anniversary of the closing, at least $36 prior to the second anniversary of the Closing and at least $40 if the offering takes place after the second anniversary of the Closing (an "automatic conversion"). Upon an automatic conversion, the holders of the Preferred Stock will also receive payment of all accrued 12% dividends from the issue date to the conversion date. The holders of the Preferred Stock are also entitled to payment of the 12% compounding annual dividend in the event of a liquidation of the Company or upon a merger or sale of substantially all of the Company's assets. Using the 12% dividend rate, the liquidation value of the Preferred Stock at June 30, 2001 was $12.5 million.

In connection with the private placement of Preferred Stock, the Company issued 250,000 fully exercisable warrants to purchase shares of Common Stock at an exercise price of $20. On the Closing, the Company used the Black-Scholes option-pricing model to assign an aggregate value of $1.8 million to the 250,000 warrants. As such, $1.8 million of the $10.0 million proceeds was allocated to Additional paid-in capital and the remaining $8.2 million was allocated to redeemable Preferred Stock. The value assigned to the warrants of $1.8 million will accrete to the value of the Preferred Stock over five years. This will result in a non-cash charge to net income of approximately $360,000 per year to arrive at net income applicable to common stockholders.

On the Closing, the Company's stock price was $23.69 per share. This caused the conversion feature of the redeemable Preferred Stock to be "in the money." As a result, the intrinsic value of this conversion feature was calculated to be $1.84 million. This $1.84 million was treated as an additional preferred dividend to the preferred investors and was charged to Additional paid-in capital. This additional preferred dividend was deducted from net income to arrive at net income applicable to common stockholders in the calculation of earnings per share for fiscal 1999.

During fiscal 2001, the Company adopted the provisions of the Financial Accounting Standards Board's Emerging Issues Task Force ("EITF") Issue No. 00-27 "Application of EITF Issue No. 95-5, 'Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios,' to Certain Convertible Instruments." EITF No. 00-27 adjusts the calculation of the original conversion discount charge by requiring that the fair value of the Preferred Stock be reduced by the value assigned to warrants to buy common stock that were issued with the Preferred Stock. As a result, the Company recorded an additional $1.8 million cash conversion discount charge in fiscal 2001 that has been presented as the cumulative effect of a change in accounting principle in determining net income applicable to common shareholders.

15 EMPLOYEE BENEFIT PLANS

The Company has a trusteed employee 401(k) savings plan for eligible U.S. employees under which it may make a discretionary match up to 50% of employee contributions up to a maximum employer contribution of 2.5% of the employee's total compensation. For the years ended June 30, 2001, 2000 and 1999, the Company has expensed $495, $130 and $313, respectively, in contributions to the plan. In November 1999, the Company made a decision not to distribute its discretionary fiscal 1999 401(k) match and, therefore, reversed such expense in November 1999.

The Company's subsidiary in Switzerland maintains a defined contribution plan, which requires employee contributions based upon a percentage of the employee's earnings currently ranging from 2.0% to 6.5%. The employer makes a matching contribution based also upon a percentage of the employee's earnings currently ranging from 3.5% to 11.0%. Company contributions amounting to $286 in 2001, $368 in 2000 and $687 in 1999 were charged to expense in each respective period.

In July 1995, the Company adopted the 1995 Employee Stock Purchase Plan and reserved for issuance an aggregate of 434,783 shares of Common Stock. The Plan allows eligible employees to purchase Common Stock through payroll deductions at prices equal to 85% of fair market value on the first or last business day of the offering period, whichever is lower. The option to purchase stock will terminate on July 7, 2005. To date, 290,709 shares have been issued under the Employee Stock Purchase Plan and 144,074 shares were available for future issuance.

The Company maintains a qualified Employee Stock Ownership Plan ("ESOP" or the "Plan") which has been established in accordance with the requirements and provisions of the Employee Retirement Income Security Act of 1974 ("ERISA") and has been approved by the Internal Revenue Service ("IRS"). Annually, the Board of Directors determines the contribution, if any, to the Employee Stock Ownership Trust ("ESOT"), which trust has been established under the Plan for the purpose of administering and investing the funds contributed by the Company. For the years ended June 30, 2001, 2000 and 1999, respectively, the Company did not contribute to the ESOP and does not intend to contribute in the future.

Notes
TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

(in thousands, except share and per share amounts)

16 SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in the signal analysis segment of the Test and Measurement Instrument market, in which it develops, manufactures, sells and licenses signal acquisition and analysis products principally in the form of high-performance digital oscilloscopes. These products are used by design engineers and researchers in a broad range of industries, including electronics, computers and communications.

Revenues are attributed to countries based on customer ship-to addresses. Revenues by geographic area are as follows:

	2001	2000	1999
North America	**$ 47,432**	$ 45,106	$ 51,068
Europe	**39,900**	34,674	35,652
Other foreign	**54,056**	41,620	32,771
Total	**$141,388**	$121,400	$119,491

Total assets by geographic area are as follows:

	2001	2000
North America	**$ 89,455**	$ 67,445
Europe	**24,221**	25,512
Other foreign	**8,484**	7,892
Total	**$122,160**	$100,849

Other foreign revenues consist principally of sales from Japan and Asia. No customer accounted for more than 10% of the Company's consolidated revenues in any of the last three fiscal years. Revenues attributable to Canada and Mexico are included in North America and represent less than 7% and .2%, respectively, of North American revenues in all years presented.

Revenue attributable to individual countries that account for 10% or more of total revenues in fiscal 2001 include the United States ($45.2 million), Japan ($27.7 million) and Germany ($14.3 million); in fiscal 2000 include the United States ($42.5 million), Japan ($22.7 million) and Germany ($12.5 million); and in fiscal 1999 include the United States ($50.5 million), Japan ($19.7 million) and Germany ($14.1 million).

17 COMMITMENTS AND CONTINGENCIES

Leases. The Company has operating leases covering plant, certain office facilities, and equipment that expire at various dates through 2011. Future minimum annual lease payments required during the years ending in fiscal 2002 through 2006 and later years under noncancellable operating leases having an original term of more than one year are $1,410, $1,257, $1,115, $821, $482 and $2,396, respectively. Aggregate rental expense on noncancelable operating leases for the years ended June 30, 2001, 2000 and 1999 approximated $1.7 million, $1.6 million and $2.8 million, respectively.

Technology Dispute Settlement. In the normal course of business, the Company and its subsidiaries are parties to various legal claims, actions and complaints. Included among these was an intellectual property claim in fiscal 1994 in the form of a lawsuit that alleged patent infringement with respect to some of the Company's oscilloscope products. In February 1994, the Company concluded negotiations to resolve this dispute and avoid extensive litigation. The result was an initial payment of $1.5 million and a license agreement providing for minimum annual future royalty payments of $3.5 million over ten years with potential additional amounts contingent on future product sales not to exceed an aggregate of $3.5 million. Royalty expense, which approximated $545 in 2001, $1.0 million in 2000 and $982 in 1999, is included in cost of sales. As of June 30, 2001, the Company has expensed the maximum royalty payments due under the settlement and license agreements.

Environmental. The Company's subsidiary, Digitech Industries, Inc., was notified by the Connecticut Department of Environmental Protection (the "DEP") that it may be responsible for environmental damage that occurred at its previously leased facilities in Ridgefield, Connecticut (the "Ridgefield Site"). Based upon recommendations made by the DEP, Digitech engaged environmental consultants to assist it in evaluating the costs associated with the DEP's recommendations for monitoring and remediation of the environmental damage.

In May 1999, the Company, Digitech Industries, Inc. and the former owners of the Ridgefield Site entered into an agreement with the current owners of the Ridgefield Site. The current owners have purchased an insurance policy providing for $2.0 million of coverage against certain environmental liabilities related to the Ridgefield Site. This insurance policy names both the Company and Digitech as insured parties. The current owners of the Ridgefield Site have also agreed to remediate all environmental problems associated with the property and to obtain all applicable approvals and certifications from the DEP. The current owners of the Ridgefield Site have also agreed to hold both the Company and Digitech Industries harmless in the event of a claim made against them relating to these environmental matters. In return for the above, forty-five days after the DEP has provided written notification to the Company that the site remediation has been accomplished to its satisfaction, the Company has agreed to pay the former owners of the Ridgefield Site $160 as compensation for the reduced sale value of the property due to the environmental problems existing on the site. The Company has retained this liability after the sale of the Vigilant segment.

18 ACQUISITIONS

In July 2000, the Company issued 100,000 shares of its Common Stock to acquire all of the outstanding common stock of Lightspeed Electronics Corporation ("Lightspeed"). The acquisition of Lightspeed was recorded using the purchase method of accounting. The excess of cost over net assets acquired of $1.0 million is being amortized over five years.

In April 1998 the Company acquired selected assets of its Korean sales distributor, Woojoo Hi-Tech Corporation, for approximately $1.7 million. A non-compete agreement of $600 is being amortized over 30 months. The investment in excess of fair market value of assets purchased of $800 is being amortized over 15 years.

19 QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Summarized unaudited quarterly operating results for fiscal year 2001 and 2000 are as follows:

	Quarters Ended							
	Fiscal Year 2000				Fiscal Year 2001			
(in thousands, except for per share data)	Sept. 30, 1999	Dec. 31, 1999	Mar. 31, 2000	June 30, 2000	Sept. 30, 2000	Dec. 31, 2000	Mar. 31, 2001	June 30, 2001
Revenues								
Digital oscilloscopes and related products	$23,623	$26,973	$28,343	$31,298	$26,356	$32,206	$34,181	$36,682
High energy physics products	1,437	1,320	828	547	987	778	1,257	735
Service and other	1,846	1,642	1,860	1,683	2,114	2,002	1,976	2,114
Total revenues	26,906	29,935	31,031	33,528	29,457	34,986	37,414	39,531
Cost of sales	13,897	15,739	14,879	17,191	14,495	16,920	17,785	18,638
Gross profit	13,009	14,196	16,152	16,337	14,962	18,066	19,629	20,893
Selling, general and administrative expenses	8,913	9,508	9,792	10,785	9,889	11,488	11,716	11,966
Research and development expenses	3,974	3,287	3,460	3,090	3,881	3,884	4,255	4,395
Restructuring and other (credits) charges	—	—	—	(2,000)	—	—	—	667
Operating income	122	1,401	2,900	4,462	1,192	2,694	3,658	3,865
Gain from sale of marketable securities	—	2,460	—	—	—	—	—	—
Other (expense) income, net	(210)	449	(85)	(430)	(2)	(245)	(111)	(113)
Income from continuing operations before income taxes	(88)	4,310	2,815	4,032	1,190	2,449	3,547	3,752
Income tax benefit (provision)	28	(1,362)	(890)	(1,274)	(137)	(478)	(727)	2,239
Income (loss) from continuing operations	(60)	2,948	1,925	2,758	1,053	1,971	2,820	5,991
Loss from discontinued operations, net of tax	1,635	733	2,856	5,785	1,545	—	—	450
Net (loss) income before the cumulative effect of a change in accounting principle	(1,695)	2,215	(931)	(3,027)	(492)	1,971	2,820	5,541
Cumulative effect of an accounting change for revenue recognition, net of tax	—	—	—	—	4,417	—	—	—
Net income (loss)	(1,695)	2,215	(931)	(3,027)	(4,909)	1,971	2,820	5,541
Charges related to convertible preferred stock	384	385	385	386	425	424	425	425
Cumulative effect of an accounting change for preferred stock	—	—	—	—	—	1,848	—	—
Income (loss) applicable to common stockholders	$ (2,079)	$ 1,830	$ (1,316)	$ (3,413)	$ (5,334)	$ (301)	$ 2,395	$ 5,116
Income (loss) per common share—basic:								
Income (loss) from continuing operations	$ (0.06)	$ 0.33	$ 0.20	$ 0.30	$ 0.08	$ 0.18	$ 0.28	$ 0.64
Income (loss) from discontinued operations	(0.21)	(0.09)	(0.37)	(0.74)	(0.19)	—	—	(0.05)
Cumulative effect of accounting change	—	—	—	—	(0.54)	(0.22)	—	—
Net (loss) income	$ (0.27)	$ 0.24	$ (0.17)	$ (0.44)	$ (0.65)	$ (0.04)	$ 0.28	$ 0.59
Income (loss) per common share—diluted:								
Income (loss) from continuing operations	$ (0.06)	$ 0.32	$ 0.19	$ 0.30	$ 0.08	$ 0.18	$ 0.26	$ 0.61
Income (loss) from discontinued operations	(0.21)	(0.09)	(0.36)	(0.73)	(0.19)	—	—	(0.05)
Cumulative effect of accounting change	—	—	—	—	(0.54)	(0.21)	—	—
Net (loss) income	$ (0.27)	$ 0.23	$ (0.17)	$ (0.43)	$ (0.65)	$ (0.03)	$ 0.26	$ 0.56
Weighted average number of shares:								
Basic	7,708	7,738	7,757	7,792	8,153	8,490	8,622	8,726
Diluted	7,708	7,912	7,991	7,924	8,153	8,872	9,163	9,083

Included in revenue and pre-tax income for each of the four quarters in fiscal 2001, is $324 related to the recognition of deferred revenue associated with the adoption of SAB 101.

20 SUBSEQUENT EVENTS (UNAUDITED)

On August 15, 2001, the Company sold 1,428,572 shares of its Common Stock for gross proceeds of approximately $25.0 million in a private equity placement. The Company intends to use the proceeds to fund growth through acquisitions and other transactions.

REPORT OF Independent Auditors

The Board of Directors and Stockholders
LeCroy Corporation

We have audited the accompanying consolidated balance sheets of LeCroy Corporation as of June 30, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2001. 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 in accordance with auditing standards generally accepted in the United States. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LeCroy Corporation as of June 30, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

MetroPark, New Jersey
July 27, 2001

Market for Registrant's COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

LeCroy's Common Stock has been traded on the Nasdaq National Market® under the symbol LCRY. The following table sets forth, for the periods indicated, the range of high and low sales prices for the Common Stock as reported by Nasdaq National Market.

	High	**Low**		High	Low
	Fiscal Year 2001			Fiscal Year 2000	
First Quarter	**$18.19**	**$ 9.38**	First Quarter	$29.25	$15.13
Second Quarter	**20.75**	**11.75**	Second Quarter	18.00	10.38
Third Quarter	**28.00**	**12.38**	Third Quarter	19.63	12.25
Fourth Quarter	**27.00**	**13.50**	Fourth Quarter	15.50	9.50

The Company has never declared or paid cash dividends on its Common Stock and intends to retain all available funds for use in the operation and expansion of its business. The Company therefore does not anticipate that any cash dividends will be declared or paid in the foreseeable future. As of August 8, 2001, there were approximately 225 holders of record of the Common Stock.

On June 30, 1999, the Company issued and sold an aggregate of 500,000 shares of its Series A Convertible Redeemable Preferred Stock ("Series A Preferred Stock") for an aggregate purchase price of $10,000,000 and warrants to purchase an aggregate of 250,000 shares of the Company's Common Stock, for an aggregate purchase price of $0.01, in reliance on Section 4(2) of the Securities Act of 1933, as amended. The securities were sold to Advent Global GECC III Limited Partnership, EnviroTech Investment Fund I Limited Partnership, Adwest Limited Partnership, Oakstone Ventures Limited Partnership and Advent Partners Limited Partnership, all of which are accredited investors as defined under Regulation D of the Securities Act. Proceeds of the issuance of Series A Preferred Stock and warrants to purchase Common Stock were allocated for general working capital purposes.

The Series A Preferred Stock is convertible into shares of Common Stock at any time at the option of the holder and, under certain circumstances specified in the Company's Certificate of Incorporation, the Series A Preferred Stock is automatically convertible into shares of Common Stock. The warrants are exercisable, at an exercise price of $20 per share of Common Stock, at any time until June 30, 2006.

In August 2000, the Company sold 517,520 shares of its Common Stock for gross proceeds of $5.2 million in a private equity placement. Proceeds from this sale of securities were used to repay existing indebtedness, fund working capital requirements and other general corporate purposes.

In August 2001, the Company sold 1,428,572 shares of its Common Stock for gross proceeds of approximately $25.0 million. The Company intends to use the proceeds to fund growth through acquisitions and other transactions.

Board of Directors and Corporate Officers

BOARD OF DIRECTORS

Walter O. LeCroy, Jr.
Honorary Chairman of the Board of Directors

Charles A. Dickinson
Chairman of the Board
Management Consultant
Williamstown, Vermont

Lutz P. Henckels
Chief Executive Officer and Director

Robert E. Anderson
President, Omniken, Inc.
Groton, Massachusetts

Douglas A. Kingsley
Senior Vice President, Advent International Corporation
Boston, Massachusetts

William G. Scheerer
President, Performance Quest LLC
Morganville, New Jersey

Allyn C. Woodward, Jr.
Vice Chairman, Adams, Harkness & Hill, Inc.
Boston, Massachusetts

Peter H. Kamin
Partner, ValueAct Capital Partners
Boston, Massachusetts

CORPORATE OFFICERS

Lutz P. Henckels
Chief Executive Officer and Director

Thomas H. Reslewic
President

R. Scott Bausback
Executive Vice President, Chief Operating Officer

Ronald S. Nersesian
Senior Vice President, Chief Administrative Officer

Werner H. Brokatzky
Vice President, Operations

Conrad J. Fernandes
Vice President, Worldwide Sales

David C. Graef
Vice President, Research and Development

Rene M. Haas
Vice President, Information Technology,
Chief Information Officer

Raymond F. Kunzmann
Vice President, Finance, Chief Financial Officer,
Secretary and Treasurer

Corporate Information

CORPORATE HEADQUARTERS

LeCroy Corporation
700 Chestnut Ridge Road
Chestnut Ridge, New York 10977
Telephone: (845) 425-2000
Fax: (845) 425-8967
http://www.lecroy.com

ANNUAL MEETING INFORMATION

The Annual Meeting of Stockholders will be held on Tuesday, November 20, 2001, 10:00 a.m. at the Park Ridge Marriott, 300 Brae Boulevard, Park Ridge, NJ 07656. Formal notice of the meeting, proxy statement and proxy will be mailed to stockholders in advance of the meeting.

STOCK LISTING

LeCroy Corporation common stock is traded on the Nasdaq National Market under the symbol LCRY.

INDEPENDENT AUDITORS

Ernst & Young LLP
Iselin, New Jersey

INVESTOR RELATIONS

Sharon Merrill Associates, Inc.
Boston, Massachusetts

LEGAL COUNSEL

Bingham Dana LLP
Boston, Massachusetts

FINANCIAL INFORMATION

Additional information, copies of this Annual Report and Form 10-K filed with the U.S. Securities and Exchange Commission may be obtained without charge by writing to Raymond F. Kunzmann, Chief Financial Officer, at the Company's corporate headquarters.

TRANSFER AGENT

EquiServe Trust Company, N.A.
P.O. Box 43010
Providence, RI 02940-3400
Telephone: 781-575-3400
http://www.equiserve.com

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FRONT COVER: LECROY TECHNOLOGY COVERS THE WORLD IN THIS RENDERING OF OUR NEW SILICON GERMANIUM ANALOG TO DIGITAL CONVERTER.

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www.lecroy.com

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