

LOGITECH INTERNATIONAL SA  
Form 10-Q  
February 03, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarter ended December 31, 2008

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-29174

**LOGITECH INTERNATIONAL S.A.**

(Exact name of registrant as specified in its charter)

**Canton of Vaud, Switzerland**  
(State or other jurisdiction

of incorporation or organization)

**None**  
(I.R.S. Employer

Identification No.)

**Logitech International S.A.**

**Apples, Switzerland**

**c/o Logitech Inc.**

**6505 Kaiser Drive**

**Fremont, California 94555**

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

(Address of principal executive offices and zip code)

(510) 795-8500

(Registrant's telephone number, including area code)

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting  
company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

As of January 1, 2009, there were 178,536,866 shares of the Registrant's share capital outstanding.

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<b>Part I</b>	<b>FINANCIAL INFORMATION</b>
Item 1.	<u>Consolidated Financial Statements (Unaudited)</u> 3
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 27
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 45
Item 4.	<u>Controls and Procedures</u> 48
<b>Part II</b>	<b>OTHER INFORMATION</b>
Item 1.	<u>Legal Proceedings</u> 49
Item 1A.	<u>Risk Factors</u> 49
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 56
Item 6.	<u>Exhibit Index</u> 57
<u>Signatures</u>	58

**Exhibits**

In this document, unless otherwise indicated, references to the Company or Logitech are to Logitech International S.A., its consolidated subsidiaries and predecessor entities. Unless otherwise specified, all references to U.S. dollar, dollar or \$ are to the United States dollar, the legal currency of the United States of America. All references to CHF are to the Swiss franc, the legal currency of Switzerland.

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

**Table of Contents**

**PART I FINANCIAL INFORMATION**

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

<b>Financial Statement Description</b>	<b>Page</b>
<u>Consolidated Statements of Income for the three and nine months ended December 31, 2008 and 2007</u>	4
<u>Consolidated Balance Sheets as of December 31, 2008 and March 31, 2008</u>	5
<u>Consolidated Statements of Cash Flows for the nine months ended December 31, 2008 and 2007</u>	6
<u>Consolidated Statements of Changes in Shareholders' Equity for the nine months ended December 31, 2008 and 2007</u>	7
<u>Notes to Consolidated Financial Statements</u>	8

**Table of Contents****LOGITECH INTERNATIONAL S.A.****CONSOLIDATED STATEMENTS OF INCOME****(In thousands, except per share amounts)**

	<b>Three months ended December 31,</b>		<b>Nine months ended December 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>(Unaudited)</b>			
Net sales	\$ 627,466	\$ 744,235	\$ 1,800,884	\$ 1,769,262
Cost of goods sold	439,970	469,801	1,211,742	1,134,088
Gross profit	187,496	274,434	589,142	635,174
Operating expenses:				
Marketing and selling	86,046	98,512	248,066	239,762
Research and development	32,401	31,378	99,011	91,082
General and administrative	26,273	28,318	89,202	83,789
Total operating expenses	144,720	158,208	436,279	414,633
Operating income	42,776	116,226	152,863	220,541
Interest income, net	2,212	4,301	7,539	11,764
Other income (expense), net	8,101	26,182	7,809	(37,522)
Income before income taxes	53,089	146,709	168,211	194,783
Provision for income taxes	12,596	13,137	26,101	24,095
Net income	\$ 40,493	\$ 133,572	\$ 142,110	\$ 170,688
Net income per share:				
Basic	\$ 0.23	\$ 0.74	\$ 0.80	\$ 0.94
Diluted	\$ 0.22	\$ 0.71	\$ 0.77	\$ 0.90
Shares used to compute net income per share:				
Basic	178,497	181,549	178,721	181,602
Diluted	181,145	188,814	183,484	188,748

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

**Table of Contents****LOGITECH INTERNATIONAL S.A.****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share amounts)

	December 31, 2008 (Unaudited)	March 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 480,176	\$ 482,352
Short-term investments	2,176	3,940
Accounts receivable	374,968	373,619
Inventories	339,518	245,737
Other current assets	73,070	60,668
Total current assets	1,269,908	1,166,316
Property, plant and equipment	107,217	104,461
Goodwill	247,171	194,383
Other intangible assets	34,467	21,730
Other assets	40,117	40,042
Total assets	\$ 1,698,880	\$ 1,526,932
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 360,891	\$ 287,001
Accrued liabilities	168,296	156,094
Total current liabilities	529,187	443,095
Other liabilities	127,533	123,793
Total liabilities	656,720	566,888
Commitments and contingencies		
Shareholders' equity:		
Shares, par value CHF 0.25 - 191,606,620 issued and authorized and 50,000,000 conditionally authorized at December 31, 2008; 231,606,620 authorized, 60,661,860 conditionally authorized and 191,606,620 issued at March 31, 2008	33,370	33,370
Additional paid-in capital	55,076	49,821
Less shares in treasury, at cost, 13,069,754 at December 31, 2008 and 12,431,093 at March 31, 2008	(368,625)	(338,293)
Retained earnings	1,376,739	1,234,629
Accumulated other comprehensive loss	(54,400)	(19,483)
Total shareholders' equity	1,042,160	960,044
Total liabilities and shareholders' equity	\$ 1,698,880	\$ 1,526,932

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



**Table of Contents****LOGITECH INTERNATIONAL S.A.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	<b>Nine months ended December 31, 2008                  2007 (Unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 142,110	\$ 170,688
<b>Non-cash items included in net income:</b>		
Depreciation	33,850	33,030
Amortization of other intangible assets	5,808	3,655
Share-based compensation expense related to options, purchase rights and performance restricted stock units	17,952	15,259
Write-down of investments	1,764	72,923
Gain on sale of investments		(27,761)
Excess tax benefits from share-based compensation	(6,641)	(14,080)
Loss (gain) on cash surrender value of life insurance policies	1,440	(842)
In-process research and development	1,000	
Deferred income taxes and other	(3,495)	(2,190)
<b>Changes in assets and liabilities, net of acquisitions:</b>		
Accounts receivable	(10,916)	(116,602)
Inventories	(100,063)	(24,276)
Other assets	(7,058)	(6,426)
Accounts payable	75,945	131,195
Accrued liabilities	23,273	55,334
<b>Net cash provided by operating activities</b>	<b>174,969</b>	<b>289,907</b>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(38,631)	(41,289)
Purchases of short-term investments		(379,793)
Sales of short-term investments		538,479
Proceeds from sale of investment		11,308
Acquisitions, net of cash acquired	(64,430)	(21,911)
Premiums paid on cash surrender value life insurance policies	(427)	(346)
<b>Net cash provided by (used in) investing activities</b>	<b>(103,488)</b>	<b>106,448</b>
<b>Cash flows from financing activities:</b>		
Repayment of short-term debt		(11,739)
Purchases of treasury shares	(78,870)	(137,890)
Proceeds from sale of shares upon exercise of options and purchase rights	23,496	40,371
Excess tax benefits from share-based compensation	6,641	14,080
<b>Net cash used in financing activities</b>	<b>(48,733)</b>	<b>(95,178)</b>
Effect of exchange rate changes on cash and cash equivalents	(24,924)	1,874
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(2,176)</b>	<b>303,051</b>
Cash and cash equivalents at beginning of period	482,352	196,197

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Cash and cash equivalents at end of period	\$ 480,176	\$ 499,248
Supplemental cash flow information:		
Interest paid	\$ 140	\$ 9
Income taxes paid	\$ 10,652	\$ 8,058

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

**Table of Contents****LOGITECH INTERNATIONAL S.A.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**

(In thousands)

(Unaudited)

	Registered shares			Treasury shares		Retained earnings	Accumulated other comprehensive loss	Total
	Shares	Amount	Additional paid-in capital	Shares	Amount			
March 31, 2007	191,606	\$ 33,370	\$ 72,779	9,364	\$ (217,073)	\$ 995,606	\$ (40,158)	\$ 844,524
Net income						170,688		170,688
Cumulative translation adjustment							15,019	15,019
Minimum pension liability adjustment							306	306
Realized hedging loss							(992)	(992)
Total comprehensive income								185,021
Adjustment for the adoption of FASB Interpretation No. 48 (FIN 48)						8,314		8,314
Tax benefit from exercise of stock options			5,773					5,773
Purchase of treasury shares				4,741	(137,890)			(137,890)
Sale of shares upon exercise of options and purchase rights			(42,633)	(3,948)	83,003			40,370
Share-based compensation expense related to employee stock options and stock purchase plan			15,259					15,259
December 31, 2007	191,606	\$ 33,370	\$ 51,178	10,157	\$ (271,960)	\$ 1,174,608	\$ (25,825)	\$ 961,371
March 31, 2008	191,606	\$ 33,370	\$ 49,821	12,431	\$ (338,293)	\$ 1,234,629	\$ (19,483)	\$ 960,044
Net income						142,110		142,110
Cumulative translation adjustment							(34,987)	(34,987)
Minimum pension liability adjustment							261	261
Deferred hedging loss							(191)	(191)
Total comprehensive income								107,193
Tax benefit from exercise of stock options			12,245					12,245
Purchase of treasury shares				2,803	(78,870)			(78,870)
Sale of shares upon exercise of options and purchase rights			(25,042)	(2,164)	48,538			23,496
Share-based compensation expense related to employee stock options and stock purchase plan			18,052					18,052
December 31, 2008	191,606	\$ 33,370	\$ 55,076	13,070	\$ (368,625)	\$ 1,376,739	\$ (54,400)	\$ 1,042,160

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



**Table of Contents**

**LOGITECH INTERNATIONAL S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1 The Company**

Logitech International S.A. is a global leader in peripherals for personal computers and other digital platforms, developing and marketing innovative products in PC navigation, Internet communications, digital music, home-entertainment control, video security, interactive gaming and wireless devices. For the PC, the Company's products include mice, trackballs, keyboards, gaming controllers, multimedia speakers, headsets, webcams and 3D control devices. For digital music devices, the Company's products include speakers, headphones, earphones and custom in-ear monitors. For gaming consoles, the Company offers a range of controllers and other accessories. In addition, Logitech offers wireless music solutions for the home, advanced remote controls for home entertainment systems and PC-based video security systems for a home or small business. The Company generates revenues from sales of its products to a worldwide network of retail distributors and resellers and to original equipment manufacturers ( OEMs ). The Company's sales to its retail channels comprise the large majority of its revenues.

Logitech was founded in Switzerland in 1981, and Logitech International S.A. has been the parent holding company of Logitech since 1988. Logitech International S.A. is a Swiss holding company with its registered office in Apples, Switzerland, which conducts its business through subsidiaries in the Americas, Europe, Middle East, Africa and Asia Pacific. Shares of Logitech International S.A. are listed on both the Nasdaq Global Select Market, under the trading symbol LOGI, and the SIX Swiss Exchange, under the trading symbol LOGN.

**Note 2 Summary of Significant Accounting Policies**

***Basis of Presentation***

The consolidated financial statements include the accounts of Logitech and its subsidiaries. All intercompany balances and transactions have been eliminated. The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) for interim financial information and therefore do not include all the information required by U.S. GAAP for complete financial statements. They should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended March 31, 2008 included in its Annual Report on Form 10-K. Certain prior year financial statement amounts have been reclassified to conform to the current year presentation with no impact on previously reported net income.

In the opinion of management, these financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the periods presented. Operating results for the three and nine months ended December 31, 2008 are not necessarily indicative of the results that may be expected for the year ending March 31, 2009 or any future periods.

***Fiscal Year***

The Company's fiscal year ends on March 31. Interim quarters are thirteen-week periods, each ending on a Friday. For purposes of presentation, the Company has indicated its quarterly periods as ending on the month end.

---

## **Table of Contents**

### ***Changes in Significant Accounting Policies***

Effective April 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS 157 ), which defines fair value, establishes a fair value hierarchy and requires expanded disclosures about fair value measurements. The impact of adopting SFAS 157 was not material to our consolidated financial statements.

The Company also adopted Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Liabilities including an amendment of FASB Statement No. 115* ( SFAS 159 ) as of April 1, 2008. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. The Company did not elect the fair value option for any financial assets and liabilities existing at April 1, 2008 which had not previously been carried at fair value. Therefore, the adoption of SFAS 159 has not impacted our consolidated financial statements. Any future transacted financial assets or liabilities will be evaluated for the fair value election as prescribed by SFAS 159.

There have been no other substantial changes in our significant accounting policies during the three and nine months ended December 31, 2008 compared with the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended March 31, 2008.

### ***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make judgments, estimates and assumptions that affect reported amounts of assets, liabilities, net sales and expenses, and the disclosure of contingent assets and liabilities. Although these estimates are based on management's best knowledge of current events and actions that may impact the Company in the future, actual results could differ from those estimates.

### ***Recent Accounting Pronouncements***

In December 2007, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* ( SFAS 141R ). SFAS 141R will significantly change the accounting for business combinations in a number of areas including the treatment of contingent consideration, contingencies, acquisition costs, in-process research and development and restructuring costs. SFAS 141R is effective for fiscal years beginning after December 15, 2008 and, as such, we will adopt this standard for any future acquisitions beginning in fiscal year 2010, except that resolution of certain tax contingencies and adjustments to valuation allowances related to business combinations, which previously were adjusted to goodwill, will be adjusted to income tax expense for all such adjustments after April 1, 2009, regardless of the date of the original business combination.

In February 2008, the FASB issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157* ( FSP 157-2 ). FSP 157-2 permits a one-year deferral in applying the measurement provisions of SFAS 157 to non-financial assets and non-financial liabilities that are not recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). The Company will adopt FSP 157-2 in the first quarter of fiscal year 2010. We are currently evaluating the impact FSP 157-2 will have on the Company's consolidated financial statements and disclosures.

The FASB also issued FASB Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset when the Market for that Asset is not Active*, ( FSP 157-3 ) in October 2008. FSP 157-3 clarifies the application of SFAS 157 in an inactive market and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 is effective immediately and was adopted by the Company as of October 1, 2008. The impact of adopting FSP 157-3 was not material to the Company's consolidated financial statements.

**Table of Contents**

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133* ( SFAS 161 ). This Statement requires enhanced disclosures about an entity's derivative and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. We will adopt SFAS 161 in the first quarter of fiscal year 2010, and we are evaluating the disclosure impact.

In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP 142-3 ). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ( SFAS 142 ). The objective of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company will adopt FSP 142-3 in the first quarter of fiscal year 2010 and is currently evaluating the potential impact that the adoption of FSP 142-3 may have on its consolidated financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ( SFAS 162 ). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for nongovernmental entities. SFAS 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Company is currently evaluating the impact, if any, of SFAS 162 on its consolidated financial statements.

In December 2008, the FASB issued Staff Position No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* ( FSP 132(R)-1 ). FSP 132(R)-1 requires detailed disclosures regarding the investment strategies, fair value measurements, and concentrations of risk of plan assets of a defined benefit pension or other postretirement plan. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009. We will adopt FSP 132(R)-1 in the first quarter of fiscal year 2010, and are evaluating the disclosure impact.

**Note 3 Net Income per Share**

The computations of basic and diluted net income per share for the Company were as follows (in thousands except per share amounts):

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
Net income	\$ 40,493	\$ 133,572	\$ 142,110	\$ 170,688
Weighted average shares - basic	178,497	181,549	178,721	181,602
Effect of potentially dilutive stock options and stock purchase plan	2,648	7,265	4,763	7,146
Weighted average shares - diluted	181,145	188,814	183,484	188,748
Net income per share - basic	\$ 0.23	\$ 0.74	\$ 0.80	\$ 0.94
Net income per share - diluted	\$ 0.22	\$ 0.71	\$ 0.77	\$ 0.90

Share equivalents attributable to outstanding stock options of 11,941,055 and 3,703,425 for the three months ended December 31, 2008 and 2007, and 8,711,837 and 3,828,675 for the nine months ended December 31, 2008 and 2007, were excluded from the calculation of diluted net income per share because the exercise prices of these options were greater than the average market price of the Company's shares, and therefore their inclusion would have been anti-dilutive.

**Table of Contents**

Employee equity share options, non-vested shares and similar equity instruments granted by the Company are treated as potential shares in computing diluted net income per share. Diluted shares outstanding include the dilutive effect of in-the-money options which is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount that the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares. The following table presents the effect of in-the-money employee stock options treated as potential shares in computing diluted earnings per share (in thousands except per share amounts):

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
In-the-money employee stock options treated as potential shares	7,760	15,417	11,605	16,570
Percentage of basic weighted average shares outstanding	4.3%	8.5%	6.5%	9.1%
Average share price	\$ 15.26	\$ 33.40	\$ 23.73	\$ 29.01

The following table illustrates the dilution effect of stock options granted and exercised (in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
Basic weighted average shares outstanding as of December 31	178,497	181,549	178,721	181,602
Stock options granted	3,484	3,012	3,936	3,710
Stock options canceled, forfeited, or expired	(184)	(152)	(460)	(391)
Net options granted	3,300	2,860	3,476	3,319
Grant dilution <sup>(1)</sup>	1.8%	1.6%	1.9%	1.8%
Stock options exercised	304	1,392	1,847	3,711
Exercise dilution <sup>(2)</sup>	0.2%	0.8%	1.0%	2.0%

(1) The percentage of grant dilution is computed based on net options granted as a percentage of basic weighted average shares outstanding.

(2) The percentage of exercise dilution is computed based on options exercised as a percentage of weighted average shares outstanding.

**Note 4 Fair Value Measurements**

As described in Note 2, the Company adopted SFAS 157 effective April 1, 2008. SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes the following three-level fair value hierarchy that prioritizes the inputs used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted market prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

**Table of Contents**

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following table presents the Company's financial assets and liabilities that were accounted for at fair value as of December 31, 2008, classified by the level within the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 480,176	\$	\$
Short-term investments			2,176
Foreign exchange derivative assets	2,259		
Total assets at fair value	\$ 482,435	\$	\$ 2,176
Foreign exchange derivative liabilities	\$ 742	\$	\$
Total liabilities at fair value	\$ 742	\$	\$

Notes 5 and 14 describe the inputs and valuation techniques used to determine fair value.

**Note 5 Cash and Cash Equivalents and Short-term Investments**

Cash and cash equivalents consist of bank demand deposits and time deposits. The time deposits have terms of less than 30 days. Cash and cash equivalents are carried at cost, which is equivalent to fair value.

The Company's short-term investments portfolio as of December 31, 2008 and March 31, 2008 consisted of auction rate securities collateralized by residential and commercial mortgages. The short-term investments are classified as available-for-sale and reported at estimated fair value. Auction rate securities generally have maturity dates greater than 10 years, with interest rates that typically reset through an auction every 28 days. All our short-term investments as of December 31, 2008 have maturity dates in excess of 10 years. Since August 2007, auctions for these investments have failed. Consequently, the investments are not currently liquid and the Company will not be able to realize the proceeds, if any, from these investments until a future auction of these investments is successful or a buyer is found outside of the auction process.

The fair value of our short-term investments is determined by estimating the values of the underlying collateral using published mortgage indices or interest rate spreads for comparably-rated collateral and applying discounted cash flow or option pricing methods to the estimated collateral value. The mortgage indices and spreads are adjusted for factors such as the issuance date of the auction rate security and the rating of the underlying assets. In addition, inputs to the valuation methods include factors such as the timing and amount of cash flow streams, the default risk underlying the collateral, discount rates, and overall capital market liquidity. Under SFAS 157, such adjustments indicate the inputs fall within Level 3 of the fair value hierarchy.

**Table of Contents**

The following table presents the change in fair value of the Company's short-term investments during the nine months ended December 31, 2008:

Balance as of March 31, 2008	\$ 3,940
Unrealized loss	(576)
Balance as of June 30, 2008	3,364
Unrealized loss	(403)
Unrealized gain	457
Balance as of September 30, 2008	3,418
Unrealized loss	(785)
Reversal of unrealized gain	(457)
Balance as of December 31, 2008	\$ 2,176

The par value of our short-term investments portfolio at December 31, 2008 and March 31, 2008 was \$47.5 million. The unrealized loss recorded in other income, net during the three and nine months ended December 31, 2008 related to the other-than-temporary decline in the estimated fair value of these investments due to continuing declines in the residential mortgage markets. As of December 31, 2008 and March 31, 2008, the Company had not recognized any unrealized gains or losses related to its short-term investments in other comprehensive income.

**Note 6 Acquisitions***SightSpeed*

In October 2008, the Company acquired SightSpeed Inc., a privately held company that provides high-quality Internet video communications services. The acquisition of SightSpeed will provide Logitech with video calling technology and a software and services development team that can be focused on future video calling initiatives to enable cross-platform video communications.

Total consideration paid was \$31.1 million, which includes \$1.0 million in transaction costs. Under the terms of the purchase agreement, the Company acquired all of the outstanding shares of SightSpeed.

The acquisition has been accounted for using the purchase method of accounting. Accordingly, the total consideration was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. Fair values were determined by Company management based on information available at the date of acquisition. The results of operations of SightSpeed were included in Logitech's consolidated financial statements from the date of acquisition, and were not material to the Company's reported results.

The preliminary allocation of total consideration, including transaction costs, to the assets acquired and liabilities assumed based on the estimated fair value of SightSpeed was as follows (in thousands):

	November 3, 2008	Estimated Life
Tangible assets acquired	\$ 370	
Intangible assets acquired		
Existing technology	1,800	5 years
Patents and core technology	2,700	5 years
Trademark/trade name	200	2 years
Customer relationships and other	1,200	4.9 years
Goodwill	26,214	
	32,484	
Liabilities assumed	(756)	

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Deferred tax liability, net (591)

Total consideration \$ 31,137

## **Table of Contents**

The existing technology of SightSpeed relates to internet video communications services that allow users to make video calls, computer-to-computer voice calls, and calls to regular telephones with free and prepaid versions. Existing technology includes \$1.0 million of in-process research and development, which had not reached technological feasibility at the time of the acquisition and had no further alternative uses, and was expensed immediately to research and development expense upon consummation of the acquisition. The value of the technology was determined based on the present value of estimated expected cash flows attributable to the technology. The patents and core technology represent awarded patents, filed patent applications and core architectures used in SightSpeed's current and planned future products. Trademark/trade name relates to the SightSpeed brand names. The value of the patents, core technology and trademark/trade name was estimated by capitalizing the estimated profits saved as a result of acquiring or licensing the asset. Customer relationships and other relates to the ability to sell existing, in-process, and future versions of the technology to SightSpeed's existing customer base, valued based on projected discounted cash flows generated from customers in place. The intangible assets acquired are amortized on a straight-line basis over their estimated useful lives. The goodwill associated with the acquisition is not subject to amortization and is not expected to be deductible for income tax purposes. The deferred tax liability relates to the acquired intangible assets which are also not expected to be deductible for income tax purposes.

### *Ultimate Ears*

In August 2008, the Company acquired the Ultimate Ears companies ( Ultimate Ears ), a privately held group of companies that offers a range of earphones for portable-music enthusiasts as well as a line of custom-fit in-ear monitors for music professionals. The acquisition is part of the Company's strategy to expand its portfolio of digital audio products, providing more options for portable music listening.

Total consideration paid was \$34.4 million, which includes \$0.5 million in transaction costs. Under the terms of the purchase agreement, the Company acquired all of the outstanding equity interests of Ultimate Ears for \$33.8 million, including a \$6.9 million holdback provision relating to potential indemnification claims, of which \$1.8 million has been recorded as a liability in the accompanying consolidated financial statements and \$5.1 million has been held in escrow. The holdback provision has been included as part of the purchase price allocation below.

The acquisition has been accounted for using the purchase method of accounting. Accordingly, the total consideration was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. Fair values were determined by Company management based on information available at the date of acquisition. The results of operations of Ultimate Ears were included in Logitech's consolidated financial statements from the date of acquisition, and were not material to the Company's reported results.

**Table of Contents**

The preliminary allocation of total consideration, including transaction costs, to the assets acquired and liabilities assumed based on the estimated fair value of Ultimate Ears was as follows (in thousands):

	August 19, 2008	Estimated Life
Tangible assets acquired	\$ 4,182	
Intangible assets acquired		
Existing technology	5,900	4 years
Patents and core technology	1,900	4 years
Trademark/trade name	2,900	5 years
Customer relationships and other	2,500	5 years
Goodwill	24,443	
	41,825	
Liabilities assumed	(2,236)	
Deferred tax liability, net	(5,235)	
<b>Total consideration</b>	<b>\$ 34,354</b>	

The existing technology of Ultimate Ears relates to the technical components used in the in-ear monitors and earplugs. The value of the technology was determined based on the present value of estimated expected cash flows attributable to the technology. The patents and core technology represent awarded patents, filed patent applications and core architectures used in Ultimate Ears' current and planned future products. Trademark/trade name relates to the Ultimate Ears brand names. The value of the patents, core technology and trademark/trade name was estimated by capitalizing the estimated profits saved as a result of acquiring or licensing the asset. Customer relationships and other relates to Ultimate Ears' existing customer base, valued based on projected discounted cash flows generated from customers in place. The intangible assets acquired are amortized on a straight-line basis over their estimated useful lives. The goodwill associated with the acquisition is not subject to amortization and is not expected to be deductible for income tax purposes. The deferred tax liability relates to the acquired intangible assets which are also not expected to be deductible for income tax purposes.

**Table of Contents****Note 7 Balance Sheet Components**

The following provides the components of certain balance sheet amounts (in thousands):

	December 31, 2008	March 31, 2008
<b>Accounts receivable:</b>		
Accounts receivable	\$ 525,166	\$ 504,406
Allowance for doubtful accounts	(3,186)	(2,497)
Allowance for returns	(24,761)	(21,099)
Cooperative marketing arrangements	(50,583)	(41,516)
Customer incentive programs	(58,152)	(49,341)
Price protection	(13,516)	(16,334)
	\$ 374,968	\$ 373,619
<b>Inventories:</b>		
Raw materials	\$ 44,127	\$ 46,315
Work-in-process	16	13
Finished goods	295,375	199,409
	\$ 339,518	\$ 245,737
<b>Other current assets:</b>		
Tax and VAT refund receivables	\$ 27,932	\$ 23,882
Deferred taxes	24,052	18,961
Prepaid expenses and other	21,086	17,825
	\$ 73,070	\$ 60,668
<b>Property, plant and equipment:</b>		
Plant and buildings	\$ 31,627	\$ 33,815
Equipment	131,569	123,104
Computer equipment	48,220	47,027
Computer software	59,118	51,552
	270,534	255,498
Less: accumulated depreciation	(182,785)	(167,153)
	87,749	88,345
Construction-in-progress	16,388	12,866
Land	3,080	3,250
	\$ 107,217	\$ 104,461
<b>Other assets:</b>		
Deferred taxes	\$ 21,924	\$ 22,618
Cash surrender value of life insurance contracts	12,111	12,793
Deposits and other	6,082	4,631
	\$ 40,117	\$ 40,042
<b>Accrued liabilities:</b>		

Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Accrued marketing expenses	\$ 29,305	\$ 30,764
Accrued personnel expenses	40,051	40,586
Income taxes payable - current	18,758	15,051
Accrued freight and duty	17,818	13,969
Other accrued liabilities	62,364	55,724
	\$ 168,296	\$ 156,094
Long-term liabilities:		
Income taxes payable - non-current	\$ 102,084	\$ 95,013
Obligation for management deferred compensation	12,399	14,934
Other long-term liabilities	13,050	13,846
	\$ 127,533	\$ 123,793

**Table of Contents****Note 8 Goodwill and Other Intangible Assets**

The following table summarizes the activity in the Company's goodwill account during the nine months ended December 31, 2008 (in thousands):

Balance as of March 31, 2008	\$ 194,383
Additions	52,788
Balance as of December 31, 2008	\$ 247,171

Additions to goodwill were primarily related to our acquisitions of SightSpeed and Ultimate Ears during the nine months ended December 31, 2008, and also included a \$2.0 million pre-acquisition contingency recorded during the three months ended December 31, 2008 related to our WiLife acquisition. The Company intends to fully integrate SightSpeed's and Ultimate Ears' businesses into its existing operations, and discrete financial information for the two companies will not be maintained. Accordingly, the acquired goodwill will be evaluated for impairment at the total enterprise level. The Company performs its annual goodwill impairment test during its fourth fiscal quarter or more frequently if events or circumstances indicate that an impairment may have occurred.

The Company's acquired other intangible assets subject to amortization were as follows (in thousands):

	December 31, 2008			March 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademark/tradename	\$ 24,442	\$ (18,223)	\$ 6,219	\$ 21,385	\$ (16,896)	\$ 4,489
Technology	49,268	(24,886)	24,382	37,523	(20,911)	16,612
Customer contracts	7,018	(3,152)	3,866	2,318	(1,689)	629
	\$ 80,728	\$ (46,261)	\$ 34,467	\$ 61,226	\$ (39,496)	\$ 21,730

During the nine months ended December 31, 2008, changes in the gross carrying amount of other intangible assets related to our acquisitions of SightSpeed and Ultimate Ears, patent rights acquired pursuant to a patent settlement agreement, and foreign currency translation adjustments.

For the three months ended December 31, 2008 and 2007, amortization expense for other intangible assets was \$2.3 million and \$1.2 million. For the nine months ended December 31, 2008 and 2007, amortization expense for other intangible assets was \$5.8 million and \$3.7 million. The Company expects that amortization expense for the three-month period ending March 31, 2009 will be \$1.8 million, and annual amortization expense for fiscal years 2010, 2011, 2012 and 2013 will be \$8.8 million, \$8.5 million, \$7.5 million and \$5.3 million; and \$2.6 million in total thereafter.

**Note 9 Financing Arrangements**

The Company had several uncommitted, unsecured bank lines of credit aggregating \$142.0 million at December 31, 2008. There are no financial covenants under these lines of credit with which the Company must comply. At December 31, 2008, the Company had no outstanding borrowings under these lines of credit.

**Table of Contents****Note 10 Shareholders Equity****Share Capital**

The Company's nominal share capital is CHF 47,901,655, consisting of 191,606,620 shares with a par value of CHF 0.25 each, all of which were issued and 13,069,754 of which were held in treasury as of December 31, 2008.

Pursuant to the Company's Articles of Incorporation, the Board of Directors was previously authorized to increase the share capital of the Company through the issuance of up to 40,000,000 shares. This authorization expired in July 2008 and was not renewed.

In September 2008, the Company's shareholders approved an amendment to the Company's Articles of Incorporation which decreased the conditional capital reserved for potential issuance on the exercise of rights granted under the Company's employee equity incentive plans from 60,661,860 shares to 25,000,000 shares. The Board of Directors determined that the reduced amount of conditional capital, together with a portion of its shares held in treasury, was adequate to cover employee equity incentives without impacting the ability of the Company to maintain employee equity incentive plans.

In September 2008, the shareholders also approved the creation of conditional capital representing the issuance of up to 25,000,000 shares to cover any conversion rights under a future convertible bond issuance. The Company has no present intention to issue convertible bonds. However, this conditional capital was created in order to provide financing flexibility for future expansion, investments or acquisitions.

**Share Repurchases**

During the three and nine months ended December 31, 2008 and 2007, the Company had the following approved share buyback programs in place (in thousands):

<b>Date of Announcement</b>	<b>Approved Buyback Amount</b>	<b>Expiration Date</b>	<b>Completion Date</b>	<b>Amount Remaining</b>
June 2007	\$ 250,000	June 2010		\$ 126,025
May 2006	\$ 250,000	June 2009	February 2008	\$

In addition, in September 2008, the Company's Board of Directors approved a new share buyback program, which authorizes the Company to invest up to \$250 million to purchase its own shares. The September 2008 program is subject to the approval of the Swiss Takeover Board and will begin after the Company completes its current share buyback program of \$250 million.

During the three and nine months ended December 31, 2008 and 2007, the Company repurchased shares under its share buyback programs as follows (in thousands):

<b>Date of Announcement</b>	<b>Three months ended December 31, <sup>(1)</sup></b>				<b>Nine months ended December 31, <sup>(1)</sup></b>			
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>
June 2007	200	\$ 2,853		\$	2,803	\$ 78,870		\$
May 2006			1,275	\$ 44,328			4,741	\$ 137,890
	200	\$ 2,853	1,275	\$ 44,328	2,803	\$ 78,870	4,741	\$ 137,890

<sup>(1)</sup> Represents the amount in U.S. dollars, calculated based on exchange rates on the repurchase dates.



**Table of Contents****Note 11 Comprehensive Income**

Comprehensive income is defined as the total change in shareholders' equity during the period other than from transactions with shareholders. Comprehensive income consists of net income and other comprehensive income, a component of shareholders' equity.

Comprehensive income for the three and nine months ended December 31, 2008 and 2007 was as follows (in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
Net income	\$ 40,493	\$ 133,572	\$ 142,110	\$ 170,688
Other comprehensive income (loss):				
Cumulative translation adjustment	(21,216)	1,051	(34,987)	15,019
Minimum pension liability adjustment	113		261	306
Reversal of unrealized gain on investment	(457)			
Deferred unrealized hedging gains (losses)	(191)	1,373	(191)	(992)
Comprehensive income	\$ 18,742	\$ 135,996	\$ 107,193	\$ 185,021

The components of accumulated other comprehensive loss were as follows (in thousands):

	December 31, 2008	March 31, 2008
Cumulative translation adjustment	\$ (45,403)	\$ (10,416)
Unrealized hedging loss	(191)	
Pension liability adjustments	(8,806)	(9,067)
	\$ (54,400)	\$ (19,483)

**Note 12 Employee Benefit Plans****Employee Share Purchase Plans and Stock Option Plans**

As of December 31, 2008, the Company offers the 2006 Employee Share Purchase Plan (Non-U.S.) ( 2006 ESPP ), the 1996 Employee Share Purchase Plan (U.S.) ( 1996 ESPP ), and the 2006 Stock Incentive Plan. Shares issued to employees as a result of purchases or exercises under these plans are generally issued from shares held in treasury.

The Company follows the accounting provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-based Payment* ( SFAS 123R ), for share-based awards granted to employees and directors including stock options, performance restricted stock units ( RSUs ) and share purchases under the 2006 ESPP and 1996 ESPP. The following table summarizes the share-based compensation expense and related tax benefit recognized in accordance with SFAS 123R for the three and nine months ended December 31, 2008 and 2007 (in thousands).

**Table of Contents**

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
Cost of goods sold	\$ 888	\$ 662	\$ 2,288	\$ 2,002
Share-based compensation expense included in gross profit	888	662	2,288	2,002
<b>Operating expenses:</b>				
Marketing and selling	2,070	2,143	5,908	5,788
Research and development	1,157	947	3,266	2,454
General and administrative	2,126	1,571	6,490	5,014
Share-based compensation expense included in operating expenses	5,353	4,661	15,664	13,256
Total share-based compensation expense related to employee stock options, RSUs and employee stock purchases	6,241	5,323	17,952	15,258
Tax benefit	2,386	596	4,584	3,227
Share-based compensation expense related to employee stock options, RSUs and employee stock purchases, net of tax	\$ 3,855	\$ 4,727	\$ 13,368	\$ 12,031
<b>Share-based compensation expense per share:</b>				
Basic	\$ 0.02	\$ 0.03	\$ 0.07	\$ 0.07
Diluted	\$ 0.02	\$ 0.03	\$ 0.07	\$ 0.06

As of December 31, 2008 and 2007, \$0.8 million and \$0.7 million of share-based compensation cost was capitalized to inventory. As of December 31, 2008, total compensation cost related to non-vested stock options not yet recognized was \$53.3 million, which is expected to be recognized over the next 37 months on a weighted-average basis.

The fair value of employee stock options granted and shares purchased under the Company's employee purchase plans was estimated using the Black-Scholes-Merton option-pricing valuation model applying the following assumptions:

	Three Months Ended December 31,				Nine months Ended December 31,			
	2008		2007		2008		2007	
	Purchase Plans		Stock Option Plans		Purchase Plans		Stock Option Plans	
Dividend yield	0%	0%	0%	0%	0%	0%	0%	0%
Expected life	6 months	6 months	3.7 years	3.8 years	6 months	6 months	3.7 years	3.8 years
Expected volatility	41%	31%	36%	32%	45%	33%	35%	33%
Risk-free interest rate	1.96%	4.92%	2.48%	4.01%	2.38%	4.97%	2.46%	4.09%

The dividend yield assumption is based on the Company's history and future expectations of dividend payouts. The Company has not paid dividends since 1996.

The expected option life represents the weighted-average period the stock options or purchase offerings are expected to remain outstanding. The expected life is based on historical settlement rates, which the Company believes are most representative of future exercise and post-vesting termination behaviors.

Expected share price volatility is based on historical volatility using daily prices over the term of past options or purchase offerings. The Company considers historical share price volatility as most representative of future stock option volatility. The risk-free interest rate assumptions are based upon the implied yield of U.S. Treasury zero-coupon issues appropriate for the term of the Company's stock options or purchase offerings.

**Table of Contents**

During the three months ended December 31, 2008, the Company granted RSUs to certain senior company executives pursuant to the 2006 Stock Incentive Plan. The RSUs vest at the end of two years from the grant date upon meeting certain performance criteria against market conditions. Compensation expense related to RSUs will be recognized over the two year vesting period and is included in the total share-based compensation expense disclosed above. As of December 31, 2008, total compensation cost related to RSUs not yet recognized was \$2.3 million, which is expected to be recognized over the next 21 months.

During the three and nine months ended December 31, 2008 we granted 93,750 RSUs with a grant date fair value of \$27.90 per unit. No RSUs were granted during the three and nine months ended December 31, 2007.

The fair value of RSUs granted was estimated using the Monte-Carlo simulation model applying the following assumptions:

Dividend yield	0%
Expected life	2 years
Expected volatility	41%
Risk-free interest rate	1.82%

The dividend yield assumption is based on the Company's history and future expectations of dividend payouts. The expected life of RSUs is the service period at the end of which the RSUs will vest. The volatility assumption is based on the actual volatility of Logitech's daily closing share price over a look-back period of two years. The risk free interest rate is derived from the yield on US Treasury Bonds for a two year term.

The following table represents the expected forfeiture rates and the weighted average grant-date fair values of options granted:

	Three Months Ended December 31,				Nine months Ended December 31,			
	2008 Purchase Plans	2007 Purchase Plans	2008 Stock Option Plans	2007 Stock Option Plans	2008 Purchase Plans	2007 Purchase Plans	2008 Stock Option Plans	2007 Stock Option Plans
Expected forfeitures	0%	0%	7%	7%	0%	0%	7%	7%
Weighted average grant-date fair value of options granted	\$ 7.01	\$ 6.53	\$ 6.23	\$ 9.21	\$ 7.94	\$ 7.01	\$ 6.42	\$ 9.22

The Company uses historical data to estimate pre-vesting option forfeitures and records share-based compensation expense only for those awards that are expected to vest.

A summary of activity under the stock option plans is as follows (in thousands, except per share amounts; exercise prices are weighted averages):

	Three Months ended December 31,				Nine months ended December 31,			
	2008	2007	2008	2007	2008	2007	2008	2007
	Number	Exercise Price	Number	Exercise Price	Number	Exercise Price	Number	Exercise Price
Outstanding, beginning of year	16,585	\$ 18	17,016	\$ 13	17,952	\$ 17	18,876	\$ 12
Granted	3,484	\$ 21	3,012	\$ 31	3,936	\$ 21	3,710	\$ 30
Exercised	(304)	\$ 4	(1,392)	\$ 10	(1,847)	\$ 9	(3,711)	\$ 9
Cancelled or expired	(184)	\$ 25	(152)	\$ 24	(460)	\$ 25	(391)	\$ 21
Outstanding, end of year	19,581	\$ 18	18,484	\$ 16	19,581	\$ 18	18,484	\$ 16
Exercisable, end of year	11,203	\$ 14	10,203	\$ 11	11,203	\$ 14	10,203	\$ 11

The total pretax intrinsic value of options exercised during the three months ended December 31, 2008 and 2007 was \$3.3 million and \$32.7 million and the tax benefit realized for the tax deduction from options exercised during those periods was \$8.4 million and \$7.1 million. The

## Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

total pretax intrinsic value of options exercised during the nine months ended December 31, 2008 and 2007 was \$32.5 million and \$75.2 million and the tax benefit realized for the tax deduction from options exercised during those periods was \$16.2 million and \$17.5 million.

**Table of Contents****Defined Contribution Plans**

Certain of the Company's subsidiaries have defined contribution employee benefit plans covering all or a portion of their employees. Contributions to these plans are discretionary for certain plans and are based on specified or statutory requirements for others. The charges to expense for these plans for the three months ended December 31, 2008 and 2007 were \$1.9 million and \$1.7 million and during the nine months ended December 31, 2008 and 2007 were \$6.1 million and \$5.3 million.

**Defined Benefit Plans**

Certain of the Company's subsidiaries sponsor defined benefit pension plans covering substantially all of their employees. Retirement benefits are provided based on employees' years of service and earnings, or in accordance with applicable employee benefit regulations. The Company's practice is to fund amounts sufficient to meet the requirements set forth in the applicable employee benefit and tax regulations.

The net periodic benefit cost for the three and nine months ended December 31, 2008 and 2007 was as follows (in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
Service cost	\$ 567	\$ 539	\$ 1,815	\$ 1,568
Interest cost	344	245	1,102	713
Expected return on plan assets	(352)	(304)	(1,131)	(881)
Amortization of net transition obligation	1	1	3	3
Recognized net actuarial loss	104	35	331	104
Net periodic benefit cost	\$ 664	\$ 516	\$ 2,120	\$ 1,507

**Note 13 Income Taxes**

The Company is incorporated in Switzerland but operates in various countries with differing tax laws and rates. Further, a portion of the Company's income before taxes and the provision for income taxes are generated outside of Switzerland. For the three months ended December 31, 2008 and 2007, the income tax provision was \$12.6 million and \$13.1 million based on effective income tax rates of 23.7% and 9.0%. For the nine months ended December 31, 2008 and 2007, the income tax provision was \$26.1 million and \$24.1 million based on effective income tax rates of 15.5% and 12.4%. The increase in the income tax rates for the three and nine months ended December 31, 2008 was primarily due to a decrease in income before income taxes and changes in the Company's geographic mix of income.

On October 3, 2008, *The Emergency Economic Stabilization Act of 2008*, which contains the *Tax Extenders and Alternative Minimum Tax Relief Act of 2008*, was enacted into law by the U.S. Congress. Under the Act, the research tax credit was retroactively extended for amounts paid or incurred after December 31, 2007 and before January 1, 2010. As a result, the effective tax rate for the three and nine months ended December 31, 2008 reflected a \$1.2 million tax benefit for research and development expenses related to fiscal year 2009.

As of December 31, 2008 and March 31, 2008, the total amount of unrecognized tax benefits under FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48) was \$108.8 million and \$101.5 million, of which \$98.5 million and \$89.1 million would affect the effective tax rate if recognized.

## **Table of Contents**

The Company recognizes interest and penalties related to unrecognized tax positions in income tax expense. As of December 31, 2008 and March 31, 2008, the Company had approximately \$10.2 million and \$8.8 million of accrued interest and penalties related to uncertain tax positions.

The Company files Swiss and foreign tax returns. For all these tax returns, the Company is generally not subject to tax examinations for years prior to 1999. The Internal Revenue Service has initiated an examination of the Company's U.S. subsidiary for fiscal year 2006. At this time it is not possible to estimate the potential impact that the examination may have on income tax expense.

Although timing of the resolution or closure on audits is highly uncertain, the Company does not believe it is reasonably possible that the unrecognized tax benefits would materially change in the next 12 months.

### **Note 14 Derivative Financial Instruments Foreign Exchange Hedging**

#### ***Cash Flow Hedges***

The Company enters into foreign exchange forward contracts to hedge against exposure to changes in foreign currency exchange rates related to its subsidiaries' forecasted inventory purchases. The Company has designated these derivatives as cash flow hedges in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). These hedging contracts generally mature within three months. Gains and losses in the fair value of the effective portion of the hedges are deferred as a component of accumulated other comprehensive loss until the hedged inventory purchases are sold, at which time the gains or losses are reclassified to cost of goods sold. The Company assesses the effectiveness of the hedges by comparing changes in the spot rate of the currency underlying the forward contract with changes in the spot rate of the currency in which the forecasted transaction will be consummated. If the underlying transaction being hedged fails to occur or if a portion of the hedge does not generate offsetting changes in the foreign currency exposure of forecasted inventory purchases, the Company immediately recognizes the gain or loss on the associated financial instrument in other income (expense). Such losses were immaterial during the three and nine months ended December 31, 2008. The notional amounts of foreign exchange forward contracts outstanding related to forecasted inventory purchases were \$39.0 million at December 31, 2008. There were no such contracts outstanding at December 31, 2007. The notional amount represents the future cash flows under contracts to purchase foreign currencies. Deferred unrealized losses recorded in accumulated other comprehensive loss totaled \$0.2 million at December 31, 2008 and are expected to be reclassified to cost of goods sold when the related inventory is sold.

#### ***Other Derivatives***

The Company also enters into foreign exchange forward contracts to reduce the short-term effects of foreign currency fluctuations on certain foreign currency receivables or payables. These forward contracts generally mature within one to three months. The Company may also enter into foreign exchange swap contracts to economically extend the terms of its foreign exchange forward contracts. The gains or losses on foreign exchange forward contracts are recognized in earnings based on the changes in fair value.

The notional amounts of foreign exchange forward contracts outstanding at December 31, 2008 and 2007 relating to foreign currency receivables or payables were \$15.5 million and \$13.2 million. The notional amounts of foreign exchange swap contracts outstanding at December 31, 2008 and 2007 were \$24.4 million and \$22.6 million.

Unrealized net gains on foreign exchange forward and swap contracts outstanding at December 31, 2008 were \$1.7 million. Net losses due to changes in fair value of forward contracts related to forecasted inventory purchases recognized into cost of goods sold during the three and nine months ended December 31, 2007 were \$4.0 million and \$4.2 million.

---

**Table of Contents**

The fair value of all our foreign exchange forward contracts and foreign exchange swap contracts is determined based on quoted foreign exchange forward rates. Under SFAS 157, quoted foreign exchange forward rates are observable inputs that are classified as Level 1 within the fair value hierarchy. Fair value of our foreign exchange derivative assets as of December 31, 2008 was \$2.3 million. Fair value of our foreign exchange derivative liabilities as of December 31, 2008 was \$0.7 million.

**Note 15 Commitments and Contingencies**

At December 31, 2008, fixed purchase commitments for capital expenditures amounted to \$13.2 million, and primarily related to commitments for tooling, computer software and computer hardware. Also, the Company has commitments for inventory purchases made in the normal course of business to original design manufacturers, contract manufacturers and other suppliers. At December 31, 2008, fixed purchase commitments for inventory amounted to \$104.0 million, which are expected to be fulfilled by September 30, 2009. The Company also had other commitments totaling \$41.5 million for consulting services, marketing arrangements, advertising and other services. Although open purchase orders are considered enforceable and legally binding, the terms generally allow the Company the option to reschedule and adjust its requirements based on the business needs prior to delivery of goods or performance of services.

The Company has guaranteed the purchase obligations of some of its contract manufacturers and original design manufacturers to certain component suppliers. These guarantees generally have a term of one year and are automatically extended for one or more years as long as a liability exists. The amount of the purchase obligations of these manufacturers varies over time, and therefore the amounts subject to Logitech's guarantees similarly vary. At December 31, 2008, the amount of outstanding guaranteed purchase obligations was approximately \$1.3 million. The maximum potential future payments under two of the three guarantee arrangements is limited to \$2.8 million. The other guarantee is limited to purchases of specified components from the named supplier. The Company does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee arrangements.

Logitech International S.A., the parent holding company, has guaranteed certain contingent liabilities of various subsidiaries related to specific transactions occurring in the normal course of business. The maximum amount of the guarantees was \$5.3 million as of December 31, 2008. As of December 31, 2008, no amounts were outstanding under these guarantees.

Logitech indemnifies some of its suppliers and customers for losses arising from matters such as intellectual property rights and product safety defects, subject to certain restrictions. The scope of these indemnities varies, but in some instances, includes indemnification for damages and expenses, including reasonable attorneys' fees. In addition, the Company has entered into indemnification agreements with its officers and directors, and the bylaws of our subsidiaries contain similar indemnification obligations to our agents. No amounts have been accrued for indemnification provisions at December 31, 2008. The Company does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under its indemnification arrangements.

In December 2006, the Company acquired Slim Devices, Inc., a privately held company specializing in network-based audio systems for digital music. The purchase agreement provides for a possible performance-based payment, payable in the first calendar quarter of 2010. The performance-based payment is based on net revenues from the sale of products and services in calendar year 2009 derived from Slim Devices technology. The maximum performance-based payment is \$89.5 million, and no payment is due if the applicable net revenues total \$40 million or less. The total performance-based payment, if any, will be recorded in goodwill and will not be known until the end of calendar year 2009.

In November 2007, the Company acquired WiLife, Inc., a privately held company that manufactures PC-based video cameras for self-monitoring a home or a small business. The purchase agreement provides for a possible performance-based payment, payable in the first calendar quarter of 2011. The performance-based payment is based on net revenues attributed to WiLife during calendar year 2010. No payment is due if the applicable net revenues total \$40 million or less. The maximum performance-based payment is \$64.0 million. The total performance-based payment amount, if any, will be recorded in goodwill and will not be known until the end of calendar year 2010.

**Table of Contents**

The Company is involved in a number of lawsuits and claims relating to commercial matters that arise in the normal course of business. The Company believes these lawsuits and claims are without merit and intends to vigorously defend against them. However, there can be no assurances that its defenses will be successful, or that any judgment or settlement in any of these lawsuits would not have a material adverse impact on the Company's business, financial condition, results of operations or cash flows. The Company's accruals for lawsuits and claims as of December 31, 2008 were not material.

**Note 16 Segment Information**

The Company operates in one operating segment, which is the design, manufacturing and marketing of personal peripherals for personal computers and other digital platforms. Geographic net sales information in the table below is based on the location of the selling entity. Long-lived assets, primarily fixed assets, are reported below based on the location of the asset.

Retail and OEM net sales to unaffiliated customers by geographic region were as follows (in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
EMEA	\$ 297,741	\$ 362,752	\$ 810,619	\$ 822,501
Americas	218,029	280,210	654,796	676,874
Asia Pacific	111,696	101,273	335,469	269,887
Total net sales	\$ 627,466	\$ 744,235	\$ 1,800,884	\$ 1,769,262

No single country other than the United States and Germany represented more than 10% of the Company's total consolidated net sales for the three months ended December 31, 2008. No single country other than the United States represented more than 10% of the Company's total consolidated net sales for the nine months ended December 31, 2008 and for the three and nine months ended December 31, 2007. One customer group represented 15% of net sales in the three and nine months ended December 31, 2008. The same customer group represented 13% and 15% of net sales in the three and nine months ended December 31, 2007.

Net sales by product family were as follows (in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
Retail - Pointing Devices	\$ 149,060	\$ 186,555	\$ 473,503	\$ 449,010
Retail - Keyboards & Desktops	106,294	147,628	312,324	346,405
Retail - Audio	152,429	147,976	352,459	364,669
Retail - Video	71,153	67,003	198,631	178,748
Retail - Gaming	38,111	55,223	107,651	113,151
Retail - Remotes	28,490	48,234	84,353	88,304
OEM	81,929	91,616	271,963	228,975
Total net sales	\$ 627,466	\$ 744,235	\$ 1,800,884	\$ 1,769,262

**Table of Contents**

Long-lived assets by geographic region were as follows (in thousands):

	December 31, 2008	March 31, 2008
EMEA	\$ 15,820	\$ 20,386
Americas	41,113	36,122
Asia Pacific	54,273	50,330
 Total long-lived assets	 \$ 111,206	 \$ 106,838

Long-lived assets in China and the United States each represented more than 10% of the Company's total consolidated long-lived assets at December 31, 2008. Long-lived assets in China, the United States and Switzerland each represented more than 10% of the Company's total consolidated long-lived assets at March 31, 2008.

**Note 17 Subsequent Event**

On January 5, 2009, Logitech announced a restructuring plan in response to deteriorating global economic conditions which will reduce salaried workforce globally by between 550 and 600 employees. The workforce reduction is part of the Company's ongoing actions to reduce operating expenses and improve financial results.

The majority of the workforce reduction is expected to be completed by March 31, 2009. The Company expects to incur approximately \$16 million to \$18 million in pre-tax restructuring charges related to employee termination costs, contract termination costs and other associated costs in the fourth quarter of fiscal year 2009, and an additional \$4 million to \$6 million in fiscal year 2010.

---

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*You should read the following discussion in conjunction with the interim unaudited Consolidated Financial Statements and related notes.*

*This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. These forward-looking statements include, among other things, statements regarding current or future general economic conditions, consumer demands for our products, plans, strategies and objectives of management for future operations, including the execution of cost reduction programs and restructuring plans, the impact of restructuring and product innovation on future performance, the expected size and timing of the restructuring and restructuring charge, our current or future revenue mix, potential promotional actions, the financial condition of our suppliers and customers, or our anticipated costs and expenses. Forward-looking statements also include, among others, those statements including the words expects, anticipates, intends, believes and similar language. These forward looking statements involve risks and uncertainties that could cause our actual results to differ materially from those projected in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section titled Risk Factors in Part II, Item 1A of this quarterly report on Form 10-Q. You should carefully review the risks described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q or Current Reports on Form 8-K that we file in fiscal year 2009 and our fiscal year 2008 Form 10-K, which was filed on May 30, 2008, in which we discuss our business in greater detail. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.*

**Overview of Our Company**

Logitech is a global leader in peripherals for personal computers and other digital platforms. We develop and market innovative products in PC navigation, Internet communications, digital music, home-entertainment control, video security, interactive gaming and wireless devices.

For the PC, our products include mice, trackballs, keyboards, gaming controllers, multimedia speakers, headsets, webcams, and 3D control devices. For digital music devices, our products include speakers, headphones, earphones and custom in-ear monitors. For gaming consoles, we offer a range of controllers and other accessories. In addition, we offer wireless music solutions for the home, advanced remote controls for home entertainment systems and PC-based video security systems for a home or small business.

We sell our products to a network of distributors and resellers ( retail ) and to original equipment manufacturers ( OEMs ). Our worldwide retail network includes wholesale distributors, consumer electronics retailers, mass merchandisers, specialty electronics stores, computer and telecommunications stores, value-added resellers and online merchants. Our sales to our retail channels were 84.9% and 87.1% of our net sales for the nine months ended December 31, 2008 and 2007. The large majority of our revenues are derived from sales of our products for use by consumers.

Our markets are extremely competitive and characterized by short product life cycles, frequent new product introductions, rapidly changing technology, evolving customer demands, and aggressive promotional and pricing practices. We believe that the current global economic downturn has further increased competition in our markets, as competitors with larger financial resources than us, such as Microsoft, seek to gain market share by discounting prices or offering more favorable terms to customers, and competitors with smaller financial resources also discount prices or engage in other promotional practices in order to maintain their market share. We believe continued investment in product research and development is critical to driving the innovation required to strengthen our competitive advantage. We are

---

## **Table of Contents**

committed to identifying and meeting current and future customer trends with new and improved product technologies, as well as emphasizing the value of the Logitech brand from a competitive, channel partner and consumer experience perspective. We believe innovation and product quality are important to gaining market acceptance and maintaining market leadership.

Over the last several years, we have expanded and improved our supply chain operations, invested in product development and marketing, delivered innovative new products and pursued new market opportunities. We have broadened our product offerings and the markets in which we sell. Our product expansion has been primarily organic, but we have also grown as a result of a limited number of acquisitions that expanded our business into new product categories. In light of the current global economic situation, we will continue to evaluate our strategy related to our product offerings.

### **Summary of Financial Results**

The global recession significantly deepened in the three months ended December 31, 2008, which had a substantial negative impact on our financial results, particularly on our profitability. Our total net sales (retail and OEM) for the quarter decreased 16% to \$627.5 million compared with the same period in the prior year, with declines of 22% in the Americas and 18% in the Europe, Middle East and Africa ( EMEA ) region, reflecting the deteriorating retail environment and the strengthening of the U.S. dollar relative to the Euro. Net sales in our Asia Pacific region for the three months ended December 31, 2008 increased 10%. For the nine months ended December 31, 2008, net sales increased 2% to \$1,800.9 million, with growth of 24% in Asia Pacific, and declines of 1% in EMEA and 3% in the Americas.

Compared with the same periods in the prior fiscal year, total net sales of all product lines except audio and video decreased significantly during the three months ended December 31, 2008, resulting in net sales declines for the nine months ended December 31, 2008 in all product lines except pointing devices, video and gaming. Our gross margin in the three and nine months ended December 31, 2008 decreased to 29.9% and 32.7% compared with 36.9% and 35.9% in the prior fiscal year, primarily due to the rapid strengthening of the U.S. dollar and increased promotional activity. Promotional activity includes contractual customer marketing and sales incentive programs, volume and consumer rebates and price protection programs, which impact our net sales and gross margin. Net income for the three and nine months ended December 31, 2008 decreased to \$40.5 million and \$142.1 million compared with \$133.6 million and \$170.7 million in the prior fiscal year. Net income for the three and nine months ended December 31, 2007 included a net realized gain of \$27.8 million on the sale of short-term investments. Net income for the nine months ended December 31, 2007 also included an unrealized loss of \$72.9 million related to other-than-temporary declines in the estimated fair value of our short-term investments.

### **Trends in Our Business**

Most of our revenue comes from sales to our retail channels, which resell to consumers. As a result, our customers' demand for our products depends on their reactions to current economic conditions, as well as trends in consumer confidence and consumer spending. In the fiscal quarter ended December 31, 2008, our customers substantially decreased their inventory purchases below our expectations, in reaction to the global decline in consumer demand. We believe it is likely that this decline in demand will continue in all our regions in the coming quarters. We believe that in the quarter ending March 31, 2009 we will see year-over-year declines in sales, operating income and gross margin that are similar to or likely worse than the year-over-year declines we experienced in the quarter ended December 31, 2008. Operating income in the quarter ending March 31, 2009 will be further negatively impacted by the restructuring charges discussed below.

We have a large and varied portfolio of product lines, grouped in several product families. Our total sales and profitability have recently been impacted by deteriorating general economic conditions. However, within and subject to the general trend of decreasing sales and profitability, we believe that increases or decreases in the retail sales level of a product family are primarily the result of the innovation we have designed into the product, customer acceptance of the product line, the popularity of the digital platforms the product line relates to, and the prices at which products are available. Historically, sales of individual product lines rise and fall over time, and we expect these types of trends to continue.

---

**Table of Contents**

Trends in our OEM sales are closely related to trends in the OEM customers' products with which they are sold. Our OEM sales of computer mice, which have historically comprised most of our OEM sales, have been growing more slowly in recent years and declined in the most recent two fiscal quarters. We believe this trend is due to the growing popularity of notebook and smaller form factor PCs, which manufacturers typically do not sell with mice, as well as more recently to the general decline of PC sales. Consequently, we expect the trend of slowing OEM mice sales to continue. In total, our OEM sales have been growing faster than our retail sales, due to our sales of microphones for use with particular game titles for gaming consoles. These sales are tied to the title distributor agreeing to distribute our microphone with their game, and to the popularity of the particular game title. We believe future OEM growth depends on the development of new titles or products, consumers gaming purchase activity, and the manufacturers' decision to combine our products with theirs, none of which is assured to occur.

Retail seasonality has traditionally characterized our business, and we expect will continue to do so. Our sales are typically highest during our third fiscal quarter (October to December), due primarily to the increased demand for our products during the year-end holiday buying season, and lowest in the first fiscal quarter (April to June), before new products are introduced. Therefore quarterly sales and financial performance trends are most meaningful when compared with the same quarter of the preceding year, rather than the sequential quarter. The deteriorating global retail environment in the three months ended December 31, 2008 resulted in an atypical sales pattern, with sales remaining flat sequentially as compared with the quarter ended September 30, 2008. Also, a significant portion of our quarterly retail sales has historically occurred in the last weeks of the quarter. This lack of sales linearity increases the difficulty of predicting quarterly revenue and profits, and adjusting operating expenses and production quickly to align with sales volumes. We are working with our customers to improve forecasts of consumer and product demand in order to increase sales linearity throughout each quarter.

Although our financial results are reported in U.S. dollars, nearly half of our sales are made in currencies other than the U.S. dollar, such as the Euro, Chinese renminbi yuan and Japanese yen. Our product costs are primarily in Chinese yuan and U.S. dollars, and our operating expenses are incurred in over 30 different currencies. Our pricing strategy generally includes, among other factors, raising or lowering selling prices in other currencies to avoid disparity with U.S. dollar prices and to respond to currency-driven competitive pricing actions. Although over time we attempt to adjust prices to reflect currency movements, our financial results could be significantly affected in the short term by fluctuations in foreign exchange rates. For example, the rapid and significant strengthening of the U.S. dollar in the three months ended December 31, 2008 contributed to a substantial decline in gross margin compared with the same period in the preceding fiscal year.

Our gross margins also vary with the mix of products sold, competitive activity, product life cycle, new product introductions, unit volumes, commodity and supply chain costs, geographic sales mix, and the complexity and functionality of new product introductions. Changes in consumer demand affect the need for us to undertake promotional efforts, such as cooperative marketing arrangements, customer incentive programs or price protection, which alters our product gross margins. The increase in promotional efforts in response to sagging consumer demand in the three months ended December 31, 2008 also contributed to the gross margin decline in the quarter. We believe that in the quarter ending March 31, 2009 we will see a year-over-year decline in gross margin that is similar to or likely worse than the year-over-year decline we experienced in the quarter ended December 31, 2008.

Logitech is incorporated in Switzerland but operates in various countries with differing tax laws and rates. A portion of our income before taxes and the provision for income taxes are generated outside of Switzerland. Therefore, our effective tax rate depends on the amount of profits generated in each of the various tax jurisdictions in which we operate. The higher effective tax rates for the nine months ended December 31, 2008 compared with December 31, 2007 are principally the result of decreased income before income taxes and changes in the geographical mix of income. We expect our effective tax rate to continue to be higher than it has been in the same year-ago periods for the next three to nine months.

In January 2009, we announced a plan to reduce Logitech's salaried workforce globally by between 550 and 600 employees. The majority of the workforce reduction is expected to be completed by March 31, 2009. We expect to incur approximately \$16 million to \$18 million in pre-tax restructuring charges related

---

## **Table of Contents**

to employee termination costs, contract termination costs and other associated costs in the fourth quarter of fiscal year 2009, and an additional \$4 million to \$6 million in fiscal year 2010. The restructuring plan is expected to generate annual cost savings beginning in fiscal year 2010 of approximately \$50 million. The size and timing of the restructuring charges and cost savings are estimates subject to significant future economic, competitive and other uncertainties.

### **Critical Accounting Estimates**

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles in the United States of America ( U.S. GAAP ) requires the Company to make judgments, estimates and assumptions that affect reported amounts of assets, liabilities, net sales and expenses, and the disclosure of contingent assets and liabilities.

We consider an accounting estimate critical if it: (i) requires management to make judgments and estimates about matters that are inherently uncertain; and (ii) is important to an understanding of Logitech's financial condition and operating results.

We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of current events and actions that may impact the Company in the future, actual results could differ from those estimates. Management has discussed the development, selection and disclosure of these critical accounting estimates with the Audit Committee of the Board of Directors.

There have been no significant changes during the three and nine months ended December 31, 2008 to the nature of the critical accounting estimates disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended March 31, 2008.

### ***Recent Accounting Pronouncements***

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* ( SFAS 141R ). SFAS 141R will significantly change the accounting for business combinations in a number of areas including the treatment of contingent consideration, contingencies, acquisition costs, in-process research and development and restructuring costs. SFAS 141R is effective for fiscal years beginning after December 15, 2008 and, as such, we will adopt this standard for any future acquisitions beginning in fiscal year 2010, except that resolution of certain tax contingencies and adjustments to valuation allowances related to business combinations, which previously were adjusted to goodwill, will be adjusted to income tax expense for all such adjustments after April 1, 2009, regardless of the date of the original business combination.

In February 2008, the FASB issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157* ( FSP 157-2 ). FSP 157-2 permits a one-year deferral in applying the measurement provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS 157 ) to non-financial assets and non-financial liabilities that are not recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). We will adopt FSP 157-2 in the first quarter of fiscal year 2010. We are currently evaluating the impact FSP 157-2 will have on the Company's consolidated financial statements and disclosures.

The FASB also issued FASB Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset when the Market for that Asset is not Active*, ( FSP 157-3 ) in October 2008. FSP 157-3 clarifies the application of SFAS 157 in an inactive market and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 is effective immediately and was adopted by the Company as of October 1, 2008. The impact of adopting FSP 157-3 was not material to our consolidated financial statements.

**Table of Contents**

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133* ( SFAS 161 ). This Statement requires enhanced disclosures about an entity’s derivative and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. We will adopt SFAS 161 in the first quarter of fiscal year 2010, and we are evaluating the disclosure impact.

In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP 142-3 ). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ( SFAS 142 ). The objective of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We will adopt FSP 142-3 in the first quarter of fiscal year 2010 and we are currently evaluating the potential impact that the adoption of FSP 142-3 may have on our consolidated financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ( SFAS 162 ). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for nongovernmental entities. SFAS 162 is effective 60 days following the Securities and Exchange Commission’s approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. We are currently evaluating the impact, if any, of SFAS 162 on our consolidated financial statements.

In December 2008, the FASB issued Staff Position No. 132(R)-1, *Employers’ Disclosures about Postretirement Benefit Plan Assets* ( FSP 132(R)-1 ). FSP 132(R)-1 requires detailed disclosures regarding the investment strategies, fair value measurements, and concentrations of risk of plan assets of a defined benefit pension or other postretirement plan. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009. We will adopt FSP 132(R)-1 in the first quarter of fiscal year 2010, and are evaluating the disclosure impact.

**Table of Contents****Results of Operations****Three Months Ended December 31, 2008 Compared with Three Months Ended December 31, 2007***Net Sales*

Net sales by channel and product family for the three months ended December 31, 2008 and 2007 were as follows (in thousands):

	<b>Three Months Ended</b>		<b>Change %</b>
	<b>2008</b>	<b>2007</b>	
<b>Net sales by channel:</b>			
Retail	\$ 545,537	\$ 652,619	(16%)
OEM	81,929	91,616	(11%)
Total net sales	\$ 627,466	\$ 744,235	(16%)
<b>Net sales by product family:</b>			
Retail - Pointing Devices	\$ 149,060	\$ 186,555	(20%)
Retail - Keyboards & Desktops	106,294	147,628	(28%)
Retail - Audio	152,429	147,976	3%
Retail - Video	71,153	67,003	6%
Retail - Gaming	38,111	55,223	(31%)
Retail - Remotes	28,490	48,234	(41%)
OEM	81,929	91,616	(11%)
Total net sales	\$ 627,466	\$ 744,235	(16%)

Logitech's pointing devices product family includes our mice, trackballs and other pointing devices. Keyboards and desktops include cordless and corded keyboards and desktops. Audio includes speakers and headset products for the PC, the home, and mobile entertainment platforms, earphones and in-ear monitors, and wireless music systems. Video is comprised of PC webcams and WiLife video security monitoring systems; gaming includes console and PC gaming peripherals; and remotes is comprised of our advanced remote controls.

The rapidly deteriorating retail environment caused sales declines in all channels and most product families in the quarter ended December 31, 2008, as retailers and OEMs reduced purchases and inventory levels in response to significantly decreased consumer demand. Audio and video product lines produced modest retail sales growth, driven by sales of iPod speakers, PC headsets, and WiLife video security products. Net sales declined in our Americas and EMEA regions, and increased in our Asia Pacific region.

Approximately 49% of the Company's sales were denominated in currencies other than the U.S. dollar in the three months ended December 31, 2008. If foreign currency exchange rates in the three months ended December 31, 2008 had been the same as in the three months ended December 31, 2007, our total net sales decrease would have been 12%. The significant strengthening of the dollar, particularly against the Euro and the Great British Pound, over a relatively short period of time combined with the deteriorating demand environment created a significant impact on net sales for the three months ended December 31, 2008.

*Retail Pointing Devices.* Retail sales of our pointing devices decreased 20% and units decreased 19% in the three months ended December 31, 2008 compared with the same period in the prior fiscal year. The decline was primarily attributable to corded mice sales, which decreased 30% with units decreasing 25%. Sales of cordless mice decreased only 10% and units decreased 6%, bolstered by strong sales of the V450 and V550 Cordless Laser mice for notebooks. Sales of all notebook mice were comparable to the prior year, with sales and units decreasing only 2%.

**Table of Contents**

*Retail Keyboards and Desktops.* Sales of keyboards and desktops decreased 28% and units decreased 15% during the quarter ended December 31, 2008 compared with the same quarter last year. The decline occurred primarily in cordless desktop sales, which decreased 37% while units decreased 28%, with stronger sales of high-end cordless desktops and greater weakness in the mid-price range. Keyboard sales decreased only 3% with units declining 11% compared with the prior year.

*Retail Audio.* Retail audio sales increased 3% with units growing 12% during the quarter ended December 31, 2008 compared with the same quarter in the prior fiscal year, primarily due to higher sales of iPod speakers and PC headsets. Sales of our iPod speakers grew 34% and units grew 32%, driven by sales of our PureFi Anywhere speakers which we launched earlier in this fiscal year. PC headset sales and units increased 25% and 19%, anchored by sales of our new ClearChat PC Wireless headset. PC speaker sales decreased 14% with units remaining flat, due to the general economic decline and product transitions. Sales of our Streaming Media Systems increased substantially, and our Ultimate Ears line of earphones and in-ear monitors contributed significantly to the total sales increase.

*Retail Video.* Video sales increased 6% and units increased 8% during the quarter compared with last year, primarily attributable to sales of our WiLife video monitoring products. Sales of our recently-launched QuickCam IM Plus, Communicate MP and QuickCam Connect were also strong during the quarter, but were partially offset by a decline in sales of our QuickCam Communicate STX and QuickCam Communicate Deluxe webcams.

*Retail Gaming.* Retail sales of our gaming products decreased 31% while units decreased 27% in the three months ended December 31, 2008 compared with the same period in the prior fiscal year. Console gaming sales decreased 42% with a unit decline of 37% due to declining sales of our Driving Force Pro steering wheel, partially offset by increased sales of our new GT Driving Force Wheel. PC gaming sales declined 25% and units declined 19%, with lower sales for all products.

*Retail Remotes.* Retail remote sales decreased 41% with units decreasing 8% during the quarter ended December 31, 2008 compared with the prior year. The significantly better unit performance was primarily driven by strong demand for our less-expensive Harmony One remote control.

*Retail Regional Performance.* Sales in our Americas and EMEA regions decreased 21% and 19%, with units decreasing 10% and 16% during the quarter as compared with the prior year. Sales in our Asia Pacific region increased 8% and units increased 9%. Sales declined in all product lines except video in the Americas region, reflecting the deteriorating economy in the U.S. The disparity between sales and unit decreases in the Americas region was primarily due to a shift in consumer demand towards value products. In the EMEA region, sales of remotes increased and sales of audio products were flat compared with the prior year, while sales of all other product families declined. Sales of audio, video and pointing device products drove the sales growth in the Asia Pacific region; sales of other product lines declined.

*OEM.* Sales of OEM products decreased 11% and units decreased 14% during the quarter as compared with the same period last year, with declines in pointing devices, keyboards and desktops, and console gaming. Sales of console microphones, as a percentage of total revenue were slightly higher compared with the prior year, but were lower in absolute dollars, as this gaming-related opportunity evolves through the typical sales cycle.

**Table of Contents****Gross Profit**

Gross profit for the three months ended December 31, 2008 and 2007 was as follows (in thousands):

	<b>Three Months Ended December 31,</b>		<b>Change</b>
	<b>2008</b>	<b>2007</b>	
Net sales	\$ 627,466	\$ 744,235	(16%)
Cost of goods sold	439,970	469,801	(6%)
<b>Gross profit</b>	<b>\$ 187,496</b>	<b>\$ 274,434</b>	<b>(32%)</b>

Gross margin 29.9% 36.9%

Gross profit consists of net sales, less cost of goods sold which includes materials, direct labor and related overhead costs, costs of manufacturing facilities, costs of purchasing components from outside suppliers, distribution costs and write-down of inventories.

Gross profit declined as a percentage of revenue in the three months ended December 31, 2008 compared with the same period in the prior fiscal year, primarily due to the stronger U.S. dollar, an increasingly promotional environment, especially in the U.S., and the mix of products sold. The U.S. dollar strengthened rapidly compared with the Euro in a relatively short time period, causing a decline in the U.S. dollar value of our Euro sales.

**Operating Expenses**

Operating expenses for the three months ended December 31, 2008 and 2007 were as follows (in thousands):

	<b>Three Months Ended December 31,</b>		<b>Change</b>
	<b>2008</b>	<b>2007</b>	
Marketing and selling	\$ 86,046	\$ 98,512	(13%)
% of net sales	14%	13%	
Research and development	32,401	31,378	3%
% of net sales	5%	4%	
General and administrative	26,273	28,318	(7%)
% of net sales	4%	4%	
<b>Total operating expenses</b>	<b>\$ 144,720</b>	<b>\$ 158,208</b>	<b>(9%)</b>

**Marketing and Selling**

Marketing and selling expense consists of personnel and related overhead costs, corporate and product marketing, promotions, advertising, trade shows, customer and technical support and facilities costs.

Marketing and selling expenses decreased 13% in the three months ended December 31, 2008 compared with the same period in the prior fiscal year primarily due to reductions in advertising programs and marketing development funds. These reductions were partly in response to lower sales and partly due to cost reduction efforts. Personnel costs increased only 2% compared with the quarter ended December 31, 2007 due to headcount increases compared with the quarter ended December 31, 2007 offset by decreases in company performance bonuses. The impact of year-over-year exchange rate changes on translation of foreign currency marketing and selling expenses to our U.S. dollar financial statements, particularly from the weaker Euro relative to the U.S. dollar, also contributed to the decrease.

**Research and Development**

## Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

Research and development expense consists of personnel and related overhead costs, contractors and outside consultants, supplies and materials, equipment depreciation and facilities costs, all associated with the design and development of new products and enhancements of existing products.

**Table of Contents**

Research and development expense increased compared with the prior fiscal year due to the acquisition of Ultimate Ears and SightSpeed. This increase was partially offset by decreases in company performance bonuses, resulting in a 4% decrease in personnel costs during the quarter ended December 31, 2008 compared with the same quarter last year. The impact of year-over-year exchange rate changes on translation of foreign currency research and development expenses to our U.S. dollar financial statements, particularly from the weaker Euro, Swiss franc and Taiwanese dollar relative to the U.S. dollar, also offset the increase in expenses.

**General and Administrative**

General and administrative expense consists primarily of personnel and related overhead and facilities costs for the finance, information systems, executive, human resources and legal functions.

General and administrative expense decreased 7% due to decreases in consulting fees, travel and entertainment expenses, and company performance bonuses. The decrease in consulting fees and travel and entertainment expenses was the result of company-wide cost reduction efforts in response to the deteriorating demand environment. Also, the number of general and administrative personnel declined 4% compared with the same quarter last year. The impact of year-over-year exchange rate changes on translation of foreign currency general and administrative expenses to our U.S. dollar financial statements, particularly from the weaker Euro and Swiss franc to the U.S. dollar, also contributed to the decrease.

**Interest Income, Net**

Interest income and expense for the three months ended December 31, 2008 and 2007 were as follows (in thousands):

	<b>Three Months Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>Change</b>
Interest income	\$ 2,223	\$ 4,375	(49%)
Interest expense	(11)	(74)	85%
Interest income, net	\$ 2,212	\$ 4,301	(49%)

Interest income was lower for the three months ended December 31, 2008 compared with the prior year due to lower interest rates combined with lower invested balances.

**Other Expense, Net**

Other income and expense for the three months ended December 31, 2008 and 2007 were as follows (in thousands):

	<b>Three Months Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>Change</b>
Foreign currency exchange gains (losses), net	\$ 9,824	\$ 2,777	254%
Write-down of investments	(785)	(5,504)	(86%)
Gain on sale of investments		27,761	(100%)
Other, net	(938)	1,148	(182%)
Other expense, net	\$ 8,101	\$ 26,182	(69%)

**Table of Contents**

During the quarter ended December 31, 2008, we recorded an unrealized loss of \$1.2 million related to the other-than-temporary decline in the estimated fair value of our short-term investments; \$0.5 million of the loss represented a reversal of the unrealized temporary gain recorded in accumulated other comprehensive loss during the three months ended September 30, 2008. During the quarter ended December 31, 2007, we recorded an unrealized loss of \$5.5 million related to the other-than-temporary decline in fair value of our short-term investments, a realized gain of \$33.7 million on short-term investments sold as part of a confidential settlement agreement, and a realized loss of \$6.0 million related to the sale of all of our short-term investments collateralized by corporate debt.

The increase in foreign exchange gains during the three months ended December 31, 2008 was due to gains related to sales of Euros for U.S. dollars. We do not speculate in currency positions, but we are alert to opportunities to maximize foreign exchange gains.

***Provision for Income Taxes***

The provision for income taxes and effective tax rate for the three months ended December 31, 2008 and 2007 were as follows (in thousands):

	<b>Three Months Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Provision for income taxes	\$ 12,596	\$ 13,137
Effective income tax rate	23.7%	9.0%

The provision for income taxes consists of income and withholding taxes. Logitech operates in multiple jurisdictions and its profits are taxed pursuant to tax laws of these jurisdictions. Our effective income tax rate may be affected by changes in tax laws or interpretations of tax laws in any given jurisdiction, utilization of net operating loss and tax credit carryforwards, changes in geographical mix of income and expense, and changes in management's assessment of matters such as the ability to realize deferred tax assets.

The provision for income taxes for the three months ended December 31, 2008 and 2007 included a \$2.4 million and \$0.6 million tax benefit related to share-based compensation expense.

The increase in the effective tax rate to 23.7% in the third quarter of fiscal year 2009 compared with 9.0% in the same period in the prior fiscal year is primarily due to the decreased income before income taxes and changes in the geographic mix of income.

On October 3, 2008, *The Emergency Economic Stabilization Act of 2008*, which contains the *Tax Extenders and Alternative Minimum Tax Relief Act of 2008*, was enacted into law by the U.S. Congress. Under the Act, the research tax credit was retroactively extended for amounts paid or incurred after December 31, 2007 and before January 1, 2010. As a result, the effective tax rate for the three months ended December 31, 2008 reflected a \$1.2 million tax benefit for research and development expenses related to fiscal year 2009.

**Table of Contents****Nine months Ended December 31, 2008 Compared with Nine months Ended December 31, 2007***Net Sales*

Net sales by channel and product family for the nine months ended December 31, 2008 and 2007 were as follows (in thousands):

	<b>Nine months ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>Change %</b>
<b>Net sales by channel:</b>			
Retail	\$ 1,528,921	\$ 1,540,287	(1%)
OEM	271,963	228,975	19%
<b>Total net sales</b>	<b>\$ 1,800,884</b>	<b>\$ 1,769,262</b>	<b>2%</b>
<b>Net sales by product family:</b>			
Retail - Pointing Devices	\$ 473,503	\$ 449,010	5%
Retail - Keyboards & Desktops	312,324	346,405	(10%)
Retail - Audio	352,459	364,669	(3%)
Retail - Video	198,631	178,748	11%
Retail - Gaming	107,651	113,151	(5%)
Retail - Remotes	84,353	88,304	(4%)
OEM	271,963	228,975	19%
<b>Total net sales</b>	<b>\$ 1,800,884</b>	<b>\$ 1,769,262</b>	<b>2%</b>

The decline in retail sales for the nine months ended December 31, 2008 was primarily attributable to lower sales in all product lines except pointing devices and video. OEM sales were higher as a result of continued demand for our microphones for singing games.

Approximately 44% of the Company's sales were denominated in currencies other than the U.S. dollar in the nine months ended December 31, 2008. If foreign currency exchange rates in the nine months ended December 31, 2008 had been the same as in the nine months ended December 31, 2007, our total sales increase would have been 1%. The significant strengthening of the dollar, particularly against the Euro and the Great British Pound, over a relatively short period of time combined with the deteriorating demand environment created a significant impact on net sales for the three months ended December 31, 2008. As a result, the positive effect of foreign currency exchange rate fluctuations which benefited net sales in the six months ended September 30, 2008 was eliminated in the nine months ended December 31, 2008.

*Retail Pointing Devices.* Retail sales of our pointing devices increased 5% and units increased 7% in the nine months ended December 31, 2008 compared with the same period in the prior fiscal year. Sales of cordless mice increased 18% and units increased 20%, primarily driven by sales of our VX Nano Cordless Laser Mouse for Notebooks, our V220 Cordless Optical Mouse for Notebooks and our V450 Nano Cordless Mouse for Notebooks. Sales of corded mice declined 4%, with units increasing 1%.

*Retail Keyboards and Desktops.* Sales of keyboards and desktops decreased 10% and units decreased 2% during the nine months ended December 31, 2008 compared with the same period last year. Sales of cordless desktops decreased 21%, units decreasing 15%, primarily due to lower sales of two products, the MX 5000 Laser and the EX 110. Sales of corded keyboards increased 4%, with a 3% unit growth, partially offsetting the overall decline.

*Retail Audio.* Retail audio sales declined 3% with units remaining flat, primarily due to lower PC speaker sales which decreased 16% in dollars and 6% in units during the nine months ended December 31, 2008 compared with the same period in the prior fiscal year. The decline in PC speaker sales was primarily attributable to weakness in our product line due to product transitions, in addition to the deteriorating demand environment. Sales of our iPod speakers increased 18% with a 10% increase in units, primarily due to strong contributions from our PureFi Anywhere speakers. PC headset sales grew 16% and units increased 9%, driven by our new ClearChat Pro and ClearChat Comfort USB headsets.



**Table of Contents**

*Retail Video.* Video sales increased 11% and units increased 4% during the nine months ended December 31, 2008 compared with last year, primarily attributable to sales of our WiLife video monitoring products. Sales of our recently-launched QuickCam IM Plus, Communicate MP and QuickCam Connect were also strong during the nine months ended December 31, 2008, but were offset by a decline in sales of our QuickCam Communicate STX and QuickCam Communicate Deluxe webcams.

*Retail Gaming.* Retail sales of our gaming peripherals decreased 5% while units decreased 18% in the nine months ended December 31, 2008 compared with the same period in the prior fiscal year. PC gaming sales decreased 7% with a 13% decrease in units, primarily due to lower sales of our G15 gaming keyboard and our MOMO Racing Force Feedback steering wheel. Console gaming sales increased 2% with a 26% decline in units primarily attributable to the growth in sales of our GT Driving Force steering wheel.

*Retail Remotes.* Retail remote sales decreased 4% and units increased 25% during the nine months ended December 31, 2008 compared with the same period in the prior year. The significantly better unit performance was primarily driven by sales of our new lower-priced Harmony One remote control.

*Retail Regional Performance.* Sales in our Americas and EMEA regions decreased 2% and 9%, with units decreasing 2% and 1% during the nine months ended December 31, 2008 as compared with the same period in the prior fiscal year. Sales in our Asia Pacific region increased 27% and units increased 17%, driven by double-digit growth in all product lines. The EMEA region's sales decline primarily resulted from decreases in sales of keyboards and desktops, partially offset by growth in pointing devices and remotes. In the Americas region, sales declined across all product lines except video. The disparity between sales growth and unit growth in the Asia Pacific region was primarily due to product mix and foreign currency fluctuations.

*OEM.* Sales of OEM products increased 19% and units increased 9% during the nine months ended December 31, 2008 compared with the same period last year, primarily due to the continued success of our microphones for singing games for Playstation 3, Wii and Xbox 360.

**Gross Profit**

Gross profit for the nine months ended December 31, 2008 and 2007 was as follows (in thousands):

	Nine months ended December 31,		Change
	2008	2007	
Net sales	\$ 1,800,884	\$ 1,769,262	2%
Cost of goods sold	1,211,742	1,134,088	7%
Gross profit	\$ 589,142	\$ 635,174	(7%)

Gross margin

32.7%

35.9%

Gross profit decreased 7% in dollars and declined as a percentage of revenue primarily due to a strengthening of the U.S. dollar, an increasingly promotional environment and the mix of products sold as well as higher labor and material input costs and higher freight costs in the nine months ended December 31, 2008 compared with the same period last year.

**Table of Contents****Operating Expenses**

Operating expenses for the nine months ended December 31, 2008 and 2007 were as follows (in thousands):

	Nine months ended December 31,		Change
	2008	2007	
Marketing and selling	\$ 248,066	\$ 239,762	3%
% of net sales	14%	14%	
Research and development	99,011	91,082	9%
% of net sales	5%	5%	
General and administrative	89,202	83,789	6%
% of net sales	5%	5%	
<b>Total operating expenses</b>	<b>\$ 436,279</b>	<b>\$ 414,633</b>	<b>5%</b>

**Marketing and Selling**

Marketing and selling expenses increased 3% in the nine months ended December 31, 2008 compared with the same period in the prior fiscal year primarily due to increased personnel costs related to a 9% addition to headcount during the last twelve months. Personnel costs increased 14% compared with the nine months ended December 31, 2007 primarily due to the addition of the WiLife product marketing group, as well as the continued growth in worldwide marketing groups and regional sales and marketing organizations. In addition, merchandising expenses and information technology costs also increased during the period compared with the prior year. Offsetting these increases was lower spending in advertising and public relations compared with the prior year. The impact of year-over-year exchange rate changes on translation of foreign currency marketing and selling expenses to our U.S. dollar financial statements, particularly from the stronger Swiss franc and Japanese yen relative to the U.S. dollar during the nine months ended December 31, 2008, also contributed to the increase.

**Research and Development**

The increase in research and development expense of 9% was primarily related to our continued investment in research and development initiatives, particularly in the video, remotes and control devices product lines. Personnel costs increased 5%, reflecting headcount additions during the last 12 months. Information technology costs also increased during the nine months ended December 31, 2008 compared with the prior year. The impact of year-over-year exchange rate changes on translation of foreign currency research and development expenses to our U.S. dollar financial statements, particularly from the stronger Swiss franc and Taiwanese dollar relative to the U.S. dollar during the nine months ended December 31, 2008, also contributed to the increase.

**General and Administrative**

General and administrative expense increased 6% primarily as a result of an increase in personnel expenses. Personnel costs increased 9% during the nine months ended December 31, 2008 due to salary increases and promotions during the fourth quarter of fiscal year 2008, partially offset by reductions in company performance bonuses. The impact of year-over-year exchange rate changes on translation of foreign currency general and administrative expenses to our U.S. dollar financial statements, particularly from the stronger Swiss franc and Euro relative to the U.S. dollar in the nine months ended December 31, 2008, also contributed to the increase.

**Table of Contents****Interest Income, Net**

Interest income and expense for the nine months ended December 31, 2008 and 2007 were as follows (in thousands):

	Nine months ended December 31,		Change
	2008	2007	
Interest income	\$ 7,680	\$ 11,880	(35%)
Interest expense	(141)	(116)	(22%)
Interest income, net	\$ 7,539	\$ 11,764	(36%)

Interest income was lower for the nine months ended December 31, 2008 due to significantly lower interest rates combined with lower invested balances as compared with the prior year.

**Other Expense, Net**

Other income and expense for the nine months ended December 31, 2008 and 2007 were as follows (in thousands):

	Nine months ended December 31,		Change
	2008	2007	
Foreign currency exchange gains, net	\$ 10,995	\$ 5,730	92%
Write-down of investments	(1,764)	(72,923)	(98%)
Gain on sale of investments		27,761	(100%)
Other, net	(1,422)	1,910	(174%)
Other expense, net	\$ 7,809	\$ (37,522)	(121%)

During the nine months ended December 31, 2008 and 2007, we recorded unrealized losses of \$1.8 million and \$72.9 million related to other-than-temporary declines in the estimated fair value of our short-term investments. During the nine months ended December 31, 2007, we also recorded a realized gain of \$33.7 million on short-term investments sold as part of a confidential settlement agreement, and a realized loss of \$6.0 million related to the sale of all of our short-term investments collateralized by corporate debt.

The increase in foreign exchange gains during the nine months ended December 31, 2008 was due to gains related to sales of Euros for U.S. dollars. We do not speculate in currency positions, but we are alert to opportunities to maximize foreign exchange gains.

**Provision for Income Taxes**

The provision for income taxes and effective tax rate for the nine months ended December 31, 2008 and 2007 were as follows (in thousands):

	Nine months ended December 31,	
	2008	2007
Provision for income taxes	\$ 26,101	\$ 24,095
Effective income tax rate	15.5%	12.4%

The provision for income taxes for the nine months ended December 31, 2008 and 2007 included a \$4.6 million and \$3.2 million tax benefit related to share-based compensation expense.

## Edgar Filing: LOGITECH INTERNATIONAL SA - Form 10-Q

The increase in the effective tax rate to 15.5% during the nine months ended December 31, 2008 compared with 12.4% in the same period in the prior fiscal year is primarily due to decreased income before income taxes and changes in the geographic mix of income.

## **Table of Contents**

On October 3, 2008, *The Emergency Economic Stabilization Act of 2008*, which contains the *Tax Extenders and Alternative Minimum Tax Relief Act of 2008*, was enacted into law by the U.S. Congress. Under the Act, the research tax credit was retroactively extended for amounts paid or incurred after December 31, 2007 and before January 1, 2010. As a result, the effective tax rate for the nine months ended December 31, 2008 reflected a \$1.2 million tax benefit for research and development expenses related to fiscal year 2009.

## **Liquidity and Capital Resources**

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

At December 31, 2008, net working capital was \$740.7 million, compared with \$723.2 million at March 31, 2008. The increase in working capital from March 31, 2008 was primarily due to an increase in inventories, partially offset by an increase in accounts payable.

During the nine months ended December 31, 2008, operating activities generated cash of \$175.0 million. Our largest source of operating cash flows was cash collections from our customers. We used \$103.5 million in investing activities during the period, \$64.4 million of which was paid for our acquisition of Ultimate Ears and SightSpeed, net of cash acquired, and \$38.6 million was for capital expenditures for manufacturing equipment, leasehold improvements, tooling costs and computer hardware and software purchases. Net cash used in financing activities was \$48.7 million. We used \$78.9 million during the nine months ended December 31, 2008 to repurchase shares under our share buyback program while the exercise of stock options provided \$23.5 million.

At December 31, 2008, we had cash and cash equivalents of \$480.2 million and short-term investments of \$2.2 million. Cash and cash equivalents are carried at cost, which is equivalent to fair value. Short-term investments are carried at fair value, determined by estimating the value of the underlying collateral using published mortgage indices or interest rate spreads for comparably rated collateral and applying discounted cash flow or option pricing methods to the estimated value. The Company considers the inputs used to measure the fair value of its short-term investments as Level 3 within the fair value hierarchy, as described in Note 4 of our consolidated financial statements. Due to continued disruptions in the U.S. credit market, we recorded a \$1.8 million impairment loss related to the other-than-temporary decline in the fair value of our short-term investments during the nine months ended December 31, 2008. Further changes in the fair value of our short-term investments would not materially affect our liquidity or capital resources.

The Company has credit lines with several European and Asian banks totaling \$142.0 million as of December 31, 2008. As is common for businesses in European and Asian countries, these credit lines are uncommitted and unsecured. Despite the lack of formal commitments from the banks, we believe that these lines of credit will continue to be made available because of our long-standing relationships with these banks. At December 31, 2008, we had no outstanding borrowings under these lines of credit. There are no financial covenants under these facilities.

The Company has financed its operating and capital requirements primarily through cash flow from operations and, to a lesser extent, from capital markets and bank borrowings. Our normal short-term liquidity and long-term capital resource requirements are provided from three sources: cash flow generated from operations, cash and cash equivalents on hand, and borrowings, as needed, under our credit facilities.

Based upon our available cash balances and credit lines, and the trend of our historical cash flow generation, we believe we have sufficient liquidity to fund operations for the foreseeable future, despite the anticipated decline in sales and profits.

**Table of Contents****Cash Flow from Operating Activities**

The following table presents selected financial information and statistics as of December 31, 2008 and 2007 (dollars in thousands):

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Accounts receivable, net	\$ 374,968	\$ 444,090
Inventories	339,518	252,661
Working capital	740,721	716,826
Days sales in accounts receivable (DSO) <sup>(1)</sup>	54 days	54 days
Inventory turnover (ITO) <sup>(2)</sup>	5.2x	7.4x
Net cash provided by operating activities	\$ 174,969	\$ 289,907

<sup>(1)</sup> DSO is determined using ending accounts receivable as of the most recent quarter-end and net sales for the most recent quarter.

<sup>(2)</sup> ITO is determined using ending inventories and annualized cost of goods sold (based on the most recent quarterly cost of goods sold). Net cash provided by operating activities decreased to \$175.0 million as compared with \$289.9 million in the prior year, primarily due to higher ending inventory. DSO for the quarter remained the same as last year. Inventory turnover decreased compared with the prior year primarily as a result of the decline in sales in the Americas and EMEA region due to the deteriorating retail environment. Typical payment terms require customers to pay for product sales generally within 30 to 60 days; however, terms may vary by customer type, by country and by selling season. Extended payment terms are sometimes offered to a limited number of customers during the second and third fiscal quarters. The Company does not modify payment terms on existing receivables, but may offer discounts for early payment.

**Cash Flow from Investing Activities**

Cash flows from investing activities during the nine months ended December 31, 2008 and 2007 were as follows (in thousands):

	<b>Nine months ended</b>	
	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Purchases of property, plant and equipment	\$ (38,631)	\$ (41,289)
Purchases of short-term investments		(379,793)
Sales of short-term investments		538,479
Proceeds from sale of investment		11,308
Acquisitions, net of cash acquired	(64,430)	(21,911)
Premiums paid on cash surrender value life insurance policies	(427)	(346)
Net cash provided by (used in) investing activities	\$ (103,488)	\$ 106,448

Our purchases of plant and equipment during the nine months ended December 31, 2008 were principally for computer hardware and software purchases, machinery and equipment and normal expenditures for tooling. In August 2008, the Company acquired the Ultimate Ears companies for \$31.8 million, net of cash acquired of \$0.2 million and including \$0.5 million in transaction costs. In addition, in November 2008, the Company acquired SightSpeed for \$31.1 million in cash including transaction costs of \$1.0 million.

Our purchases of plant and equipment during the nine months ended December 31, 2007 were principally for machinery and equipment for two new production and manufacturing facilities, including a new surface mount technology factory in China, leasehold improvements for a new office facility in Switzerland, computer hardware and software purchases, and normal expenditures for tooling.



**Table of Contents**

We no longer invest in the auction rate securities which generated the purchase and sale activity in the nine months ended December 31, 2007. In April 2007, we received \$11.3 million from the sale in March 2007 of our investment in Anoto Group AB. In November 2007, the Company acquired WiLife, Inc. for \$21.9 million, net of cash acquired of \$0.1 million and including \$0.6 million in transaction costs.

**Cash Flow from Financing Activities**

The following tables present information on our cash flows from financing activities, including information on our share repurchases during the nine months ended December 31, 2008 and 2007 (in thousands except per share amounts):

	Nine months ended December 31,	
	2008	2007
Repayment of short-term debt	\$	\$ (11,739)
Purchases of treasury shares	(78,870)	(137,890)
Proceeds from sale of shares upon exercise of options and purchase rights	23,496	40,371
Excess tax benefits from share-based compensation	6,641	14,080
<b>Net cash used in financing activities</b>	<b>\$ (48,733)</b>	<b>\$ (95,178)</b>

	Nine months ended December 31,	
	2008	2007
Number of shares repurchased	2,803	4,741
Value of shares repurchased	\$ 78,870	\$ 137,890
Average price per share	\$ 28.14	\$ 29.08

During the nine months ended December 31, 2008, we repurchased 2.8 million shares for \$78.9 million under the Company's June 2007 buyback program. The sale of shares upon exercise of options pursuant to the Company's stock plans realized \$23.5 million. In addition, cash of \$6.6 million was provided by excess tax benefits recognized on the exercise of share-based payment awards.

During the nine months ended December 31, 2007, we repaid short-term debt borrowings of \$11.7 million. We also repurchased 4.7 million shares for \$137.9 million under the buyback program announced in May 2006. The sale of shares upon exercise of options pursuant to the Company's stock plans realized \$40.4 million during the first nine months of fiscal year 2008. In addition, cash of \$14.1 million was provided by tax benefits from the exercise of share-based payment awards.

**Cash Outlook**

We have financed our operations and capital requirements primarily through cash flow from operations and, to a lesser extent, capital markets and bank borrowings. Our working capital requirements and capital expenditures may increase to support future expansion of Logitech operations. Future acquisitions or expansion of our operations may be significant and may require the use of cash.

In June 2007, we announced the approval by our Board of Directors of a new share buyback program authorizing the repurchase of up to \$250 million of our shares. The approved amount remaining under the June 2007 program at December 31, 2008 was \$126.0 million. We significantly lowered our share repurchase activity in the quarter ended December 31, 2008 compared with prior fiscal quarters in order to maximize our cash position in light of the economic uncertainty. We expect to continue to favor maximizing cash over share repurchases.

In September 2008, our Board of Directors approved a new share buyback program, which authorizes the Company to invest up to \$250 million to purchase its own shares. The September 2008 program is subject to the approval of the Swiss Takeover Board and will begin after we complete our current share buyback program of \$250 million.

In January 2009, we announced a plan to reduce Logitech's salaried workforce globally by between 550 and 600 employees. The majority of the workforce reduction is expected to be completed by March 31, 2009. We expect to incur approximately \$16 million to \$18 million in pre-tax restructuring charges related to employee termination costs, contract termination costs and other associated costs in the fourth quarter of



## **Table of Contents**

fiscal year 2009, and an additional \$4 million to \$6 million in fiscal year 2010. The restructuring plan is expected to generate annual cost savings beginning in fiscal year 2010 of approximately \$50 million. The size and timing of the restructuring charges and cost savings are estimates subject to significant future economic, competitive and other uncertainties.

Other contractual obligations and commitments of the Company which require cash are described in the following sections.

Over the past several quarters, we have been able to generate positive cash flow from our operating activities. We generated cash from operations of \$91.6 million and \$175.0 million in the three and nine months ended December 31, 2008. Despite the deteriorating economic environment, we believe that our cash and cash equivalents, cash flow generated from operations, and available borrowings under our bank lines of credit will be sufficient to fund our operations for the foreseeable future.

### **Contractual Obligations and Commitments**

As of December 31, 2008, the Company's outstanding contractual obligations and commitments included: (i) equipment financed under capital leases, (ii) facilities leased under operating lease commitments, (iii) purchase commitments and obligations and (iv) long-term liabilities for income taxes payable.

We expect to continue making capital expenditures in the future to support product development activities and ongoing operations. At December 31, 2008, fixed purchase commitments for capital expenditures amounted to \$13.2 million, and primarily related to commitments for tooling, computer software and computer hardware. We also have commitments for inventory purchases made in the normal course of business to original design manufacturers, contract manufacturers and other suppliers. At December 31, 2008, fixed purchase commitments for inventory amounted to \$104.0 million, which are expected to be fulfilled by September 30, 2009. We also had other commitments of \$41.5 million for consulting, marketing arrangements, advertising and other services. Although open purchase commitments are considered enforceable and legally binding, the terms generally allow us the option to reschedule and adjust our requirements based on business needs prior to the delivery of the purchases or performance of services.

In December 2006, we acquired Slim Devices, Inc., a privately held company specializing in network-based audio systems for digital music. The purchase agreement provides for a possible performance-based payment, payable in the first calendar quarter of 2010. The performance-based payment is based on net revenues from the sale of products and services in calendar year 2009 derived from Slim Devices' technology. The maximum performance-based payment is \$89.5 million, and no payment is due if the applicable net revenues total \$40 million or less. The total performance-based payment, if any, will be recorded in goodwill and will not be known until the end of calendar year 2009.

In November 2007, we acquired WiLife, Inc., a privately held company that manufactures PC-based video cameras for self-monitoring a home or a small business. The purchase agreement provides for a possible performance-based payment, payable in the first calendar quarter of 2011. The performance-based payment is based on net revenues attributed to WiLife during calendar year 2010. No payment is due if the applicable net revenues total \$40 million or less. The maximum performance-based payment is \$64.0 million. The total performance-based payment amount, if any, will be recorded in goodwill and will not be known until the end of calendar year 2010.

At December 31, 2008, we had \$102.1 million in non-current income taxes payable, including interest and penalties, related to our FIN 48 income tax liability. At this time, we cannot make a reasonably reliable estimate of the period in which a cash settlement will be made with the tax authorities.

For further detail about our contractual obligations and commitments, please refer to our Annual Report on Form 10-K for the fiscal year ended March 31, 2008.

---

## **Table of Contents**

### **Off-Balance Sheet Arrangements**

The Company has not entered into any transactions with unconsolidated entities whereby we have financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose us to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company.

### ***Guarantees***

The Company has guaranteed the purchase obligations of some of its contract manufacturers and original design manufacturers to certain component suppliers. These guarantees generally have a term of one year and are automatically extended for one or more years as long as a liability exists. The amount of the purchase obligations of these manufacturers varies over time, and therefore the amounts subject to the Company's guarantees similarly varies. At December 31, 2008, the amount of outstanding guaranteed purchase obligations was approximately \$1.3 million. The maximum potential future payments under two of the three guarantee arrangements is limited to \$2.8 million in total. The other guarantee is limited to purchases of specified components from the named supplier. Logitech International S.A., the parent holding company, has guaranteed certain contingent liabilities of various subsidiaries related to specific transactions occurring in the normal course of business. The maximum amount of the guarantees was \$5.3 million as of December 31, 2008. As of December 31, 2008, no amounts were outstanding under these guarantees. We do not believe, based on historical experience and information available as of the date of this report, that it is probable that any amounts will be required to be paid under any of the Company's guarantee arrangements.

### ***Indemnifications***

The Company indemnifies certain of its suppliers and customers for losses arising from matters such as intellectual property rights and safety defects, subject to certain restrictions. The scope of these indemnities varies and may include indemnification for damages and expenses, including reasonable attorneys' fees. In addition, we have entered into indemnification agreements with our officers and directors, and the bylaws of our subsidiaries contain similar indemnification obligations to our agents. No amounts have been accrued for indemnification provisions as of December 31, 2008. We do not believe, based on historical experience and information available as of the date of this report, that it is probable that any amounts will be required to be paid under these indemnification arrangements.

## **ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Market Risk**

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

### ***Foreign Currency Exchange Rates***

The Company is exposed to foreign currency exchange rate risk as it transacts business in multiple foreign currencies, including exposure related to anticipated sales, anticipated purchases and assets and liabilities denominated in currencies other than the U.S. dollar. Logitech transacts business in over 30 currencies worldwide, of which the most significant to operations are the Euro, Chinese renminbi ( CNY ), British pound sterling, Japanese yen, Taiwanese dollar and Mexican peso. The functional currency of the Company's operations is primarily the U.S. dollar. To a lesser extent, certain operations use the Euro, Swiss franc, Japanese yen or the local currency of the country as their functional currencies. Accordingly, unrealized foreign currency gains or losses resulting from the translation of net assets or liabilities denominated in foreign currencies to the U.S. dollar are accumulated in the cumulative translation adjustment component of other comprehensive income in shareholders' equity.

**Table of Contents**

The table below provides information about the Company's underlying transactions that are sensitive to foreign exchange rate changes, primarily assets and liabilities denominated in currencies other than the functional currency, where the net exposure is greater than \$0.5 million at December 31, 2008. The table below represents the U.S. dollar impact on earnings of a 10% appreciation and a 10% depreciation of the functional currency as compared with the transaction currency (in thousands):

Functional Currency	Transaction Currency	Net Exposed Long (Short) Currency Position	FX Gain (Loss) From 10% Appreciation of Functional Currency	FX Gain (Loss) From 10% Depreciation of Functional Currency
U.S. dollar	Chinese renminbi	\$ 119,593	\$ (10,872)	\$ 13,288
Japanese yen	U.S. dollar	(26,993)	2,454	(2,999)
Euro	British pound sterling	23,800	(2,164)	2,644
Taiwanese dollar	U.S. dollar	8,723	(793)	969
Mexican peso	U.S. dollar	(8,366)	761	(930)
Euro	Swiss franc	(2,694)	245	(299)
U.S. dollar	Swiss franc	2,565	(233)	285
U.S. dollar	Canadian dollar	(1,436)	131	(160)
U.S. dollar	Hong Kong dollar	(1,205)	110	(134)
Euro	Norwegian kroner	(944)	86	(105)
Euro	Utd. Arab Emir. Dirham	864	(79)	96
U.S. dollar	Euro	(834)	76	(93)
Australian dollar	U.S. dollar	795	(72)	88
Euro	Swedish krona	740	(67)	82
		\$ 114,608	\$ (10,417)	\$ 12,732

Long currency positions represent net assets being held in the transaction currency while short currency positions represent net liabilities being held in the transaction currency.

The Company's principal manufacturing operations are located in China, with much of its component and raw material costs transacted in CNY. However, the functional currency of its Chinese operating subsidiary is the U.S. dollar as its sales and trade receivables are transacted in U.S. dollars. To hedge against any potential significant appreciation of the CNY, the Company transferred a portion of its cash investments to CNY accounts. At December 31, 2008, net assets held in CNY totaled \$119.6 million. The Company continues to evaluate the level of net assets held in CNY relative to component and raw material purchases and interest rates on cash equivalents.

From time to time, certain subsidiaries enter into forward exchange contracts to hedge inventory purchase exposures denominated in U.S. dollars. The amount of the forward exchange contracts is based on forecasts of inventory purchases. These forward exchange contracts are denominated in the same currency as the underlying transactions. Logitech does not use derivative financial instruments for trading or speculative purposes. Gains and losses in the fair value of the effective portion of contracts are deferred as a component of accumulated other comprehensive loss until the hedged inventory purchases are sold, at which time the gains or losses are reclassified to cost of goods sold. As of December 31, 2008, the notional amount of forward foreign exchange contracts outstanding for forecasted inventory exposures was \$39.0 million. These forward contracts generally mature within three months. Deferred unrealized losses recorded in accumulated other comprehensive loss totaled \$0.2 million at December 31, 2008 and are expected to be reclassified to cost of goods sold when the related inventory is sold.

**Table of Contents**

The Company also enters into foreign exchange forward contracts to reduce the short-term effects of foreign currency fluctuations on certain foreign currency receivables or payables. These forward contracts generally mature within one to three months. The Company may also enter into foreign exchange swap contracts to economically extend the terms of its foreign exchange forward contracts. Gains or losses in fair value on forward contracts which offset translation losses or gains on foreign currency receivables or payables are recognized in earnings monthly and are included in other income (expense).

The notional amounts of foreign exchange forward contracts outstanding at December 31, 2008 were \$15.5 million. The notional amounts of foreign exchange swap contracts outstanding at December 31, 2008 were \$24.4 million. Unrealized net gains on the contracts outstanding at December 31, 2008 were \$1.7 million.

If the U.S. dollar had appreciated by 10% compared with the foreign currencies in which we have forward or swap contracts, an unrealized gain of \$6.4 million in our forward foreign exchange contract portfolio would have occurred. If the U.S. dollar had depreciated by 10% compared with the foreign currencies in which we have forward or swap contracts, a \$6.1 million unrealized loss in our forward foreign exchange contract portfolio would have occurred.

***Interest Rates***

Changes in interest rates could impact the Company's anticipated interest income on its cash equivalents and short-term investments and interest expense on variable rate short-term debt. The Company prepared sensitivity analyses of its interest rate exposures to assess the impact of hypothetical changes in interest rates. Based on the results of these analyses, a 100 basis point decrease or increase in interest rates from the December 31, 2008 and March 31, 2008 period end rates would not have a material effect on the Company's results of operations or cash flows.

**Table of Contents**

**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

Logitech's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Form 10-Q, have concluded that, as of such date, our disclosure controls and procedures are effective.

Disclosure controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls are also designed to reasonably assure that this information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting during the fiscal quarter ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents**

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, we become involved in claims and legal proceedings which arise in the ordinary course of our business. We are currently subject to several such claims and a small number of legal proceedings. We presently do not believe that the resolution of these claims and legal proceedings will have a material impact on our results of operations or financial condition.

**ITEM 1A. RISK FACTORS**

*Declining economic conditions have and could continue to significantly harm our operating results.*

The global deterioration of economic conditions, particularly in retail consumer markets, could continue for an extended future period. Continuing adverse economic conditions have had, and may continue to have, the following negative effects on our business, operating results, and financial condition:

Reduced sales to our customers, reflecting current and anticipated lower end-user consumer demand for our products.

Lower sales levels and increases in bad debt write-offs and receivables reserves as a result of customers who are experiencing financial distress or bankruptcy.

Higher costs for customer incentive programs, cooperative marketing arrangements and price protection used to stimulate demand, which lowers our net sales.

Increased downward pressure on our product prices as we lower prices to stimulate demand or reduce inventory, or as competitors lower prices to gain market share in slow-growing or shrinking markets.

Product returns in excess of our historical experience rate.

Reduced cash flow due to customer delays or failures in receivables payments.

Increased risk of excess and obsolete inventories.

Financial distress or bankruptcy of key suppliers, resulting in insufficient product quantities to meet demand for particular products.

Increased risk of counterparty failures due to the continuing stress on financial institutions, which may negatively impact treasury assets.

An extended and severe global economic downturn could have a significant negative impact on our business, operating results, and financial condition, which has caused the price of our shares to decline, and could cause the price to decline further.

*We may not fully realize the anticipated positive impacts to future financial results from the restructuring plan announced in January 2009.*

We announced a plan in January 2009 to reduce Logitech's salaried workforce globally by between 550 and 600 employees, in addition to other actions aimed at reducing operating expenses.

## **Table of Contents**

Our ability to achieve the anticipated cost savings and other benefits from this restructuring plan within the expected time frame is subject to many estimates and assumptions, and may vary materially based on factors such as local labor regulations, negotiations with third parties, and operational requirements. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. There can be no assurance that we will fully realize the anticipated positive impacts to future financial results from this restructuring plan. To the extent that we are unable to improve our financial performance, further restructuring measures may be required in the future.

If we are unable to implement the planned initiatives effectively, if our estimates and assumptions are incorrect, if we experience delays or if other unforeseen events occur, we may not achieve the cost savings expected in fiscal year 2010 and beyond, and our business and results of operations could be adversely affected.

***Our operating results are difficult to predict and fluctuations in results may cause volatility in the price of our shares.***

Our revenues and profitability are difficult to predict due to the nature of the markets in which we compete and for many other reasons, including the following:

Our operating results are highly dependent on the volume and timing of orders received during the quarter, which are difficult to forecast. Customers generally order on an as-needed basis and we typically do not obtain firm, long-term purchase commitments from our customers. As a result, our revenues in any quarter depend primarily on orders booked and shipped in that quarter.

A significant portion of our quarterly retail sales typically occurs in the last weeks of each quarter, further increasing the difficulty in predicting quarterly revenues and profitability.

We must incur a large portion of our costs in advance of sales orders, because we must plan research and production, order components, buy tooling equipment, and enter into development, sales and marketing, and other operating commitments prior to obtaining firm commitments from our customers. This makes it difficult for us to rapidly adjust our costs during the quarter in response to a revenue shortfall, which could adversely affect our operating results.

Fluctuations in currency exchange rates can impact our revenues, expenses and profitability because we report our financial statements in U.S. dollars, whereas a significant portion of our revenues and expenses are in other currencies. Our objective is to adjust product prices over time to reflect currency movements. However, our operating results in the third quarter of fiscal year 2009 were adversely affected by large and rapid fluctuations in currency exchange rates within the last four quarters, and similar fluctuations with a short time period could significantly affect our operating results in the future.

Because our operating results are difficult to predict, our results may be below the expectations of financial analysts and investors, which could cause the price of our shares to decline.

***If we fail to successfully innovate in our current and emerging product categories, our business and operating results could suffer.***

The personal peripherals industry is characterized by short product life cycles, frequent new product introductions, rapidly changing technology and evolving industry standards. As a result, we must continually innovate in our current and emerging product categories, introduce new products and technologies, and enhance existing products in order to remain competitive.

## Table of Contents

The success of our products depends on several factors, including our ability to:

identify new feature or product opportunities;

anticipate technology, market trends and consumer demands;

develop innovative and reliable new products and enhancements in a cost-effective and timely manner; and

distinguish our products from those of our competitors.

If we do not execute on these factors successfully, products that we introduce or technologies or standards that we adopt may not gain widespread commercial acceptance, and our business and operating results could suffer. In addition, if we do not continue to distinguish our products, particularly our retail products, through distinctive, technologically advanced features, designs, and services, as well as continue to build and strengthen our brand recognition and our access to distribution channels, our business could be harmed.

***Our gross margins can vary significantly depending on multiple factors, which can result in unanticipated fluctuations in our operating results.***

Our gross margins can vary due to consumer demand, competition, product life cycle, new product introductions, unit volumes, commodity and supply chain costs, geographic sales mix, foreign currency exchange rates, and the complexity and functionality of new product innovations. In particular, if we are not able to introduce new products in a timely manner at the product cost we expect, or if consumer demand for our products is less than we anticipate, or if there are product pricing, marketing and other initiatives by our competitors to which we need to react that lower our margins, then our overall gross margin will be less than we project. For example, in the quarter ended December 31, 2008, growing economic uncertainty caused our customers to reduce purchases of our products below what we had forecasted, and also caused us to increase our customer incentives to stimulate demand, which resulted in significant downward pressure on our overall gross margin.

In addition, our gross margins may vary significantly by product line, sales geography and customer type, as well as within product lines. When the mix of products sold shifts from higher margin product lines to lower margin product lines, to lower margin sales geographies, or to lower margin products within product lines, our overall gross margins and our profitability may be adversely affected.

The impact of these factors on gross margins can create unanticipated fluctuations in our operating results, which may cause volatility in the price of our shares.

***If we do not compete effectively, demand for our products could decline and our business and operating results could be adversely affected.***

Our industry is intensely competitive. It is characterized by short product life cycles, continual performance enhancements, and rapid adoption of technological and product advancements by competitors in our retail market, and price sensitivity in the OEM market. We are experiencing aggressive price competition and other promotional activities from our primary competitors and from less-established brands in response to declining consumer demand in both the retail and OEM markets. In addition, our competitors may offer customers terms and conditions which may be more favorable than our terms and conditions. From time to time we may adjust prices or increase our promotional activities, as we did in the quarter ended December 31, 2008, or adjust our cash management efforts, in order to improve our competitive position.

**Table of Contents**

In recent years, we have expanded the categories of products we sell, and entered new markets, such as the market for programmable remote controls, streaming media devices and home or small business video security systems. As we do so, we are confronting new competitors, many of which have more experience in the categories or markets and have greater marketing resources and brand name recognition than we have. In addition, because of the continuing convergence of the markets for computing devices and consumer electronics, we expect greater competition in the future from well-established consumer electronics companies in our developing categories, as well as in future categories we might enter. Many of these companies, such as Microsoft Corporation, have greater financial, technical, sales, marketing and other resources than we have.

Microsoft is a leading producer of operating systems and applications with which our mice, keyboards and webcams are designed to operate. In addition, Microsoft has significantly greater financial, technical, sales, marketing and other resources than Logitech, as well as greater name recognition and a larger customer base. As a result, Microsoft may be able to improve the functionality of its own peripherals to correspond with ongoing enhancements to its operating systems and software applications before we are able to make such improvements. This ability could provide Microsoft with significant lead-time advantages. In addition, Microsoft may be able to offer pricing advantages on bundled hardware and software products that we may not be able to offer, and may be financially positioned to exert significant downward pressure on product prices and upward pressure on promotional incentives in order to gain market share.

*Pointing Devices, Keyboards and Desktops.* Microsoft is our main competitor in the mice, keyboard and desktop product lines. We also experience competition and pricing pressure for corded and cordless mice and desktops from less-established brands, in the lower-price bands, which could potentially impact our market share. The notebook peripheral category is also an area where we face aggressive pricing and promotions, as well as new competitors that have broader notebook product offerings than we do.

*Video.* Our competitors for PC Web cameras include Microsoft, Creative Labs and Philips. We are encountering aggressive pricing practices and promotions on a worldwide basis, which have impacted our revenues and margins. The worldwide market for PC webcams has been depressed for an extended period, and as a result, pricing practices and promotions by our competitors have become more aggressive.

*Audio.* Competitors in audio devices vary by product line. In the PC, mobile entertainment and communication platform speaker business, competitors include Plantronics and its Altec Lansing subsidiary, Creative Labs, and Bose Corporation. In the PC headset and microphone business, our main competitors include Plantronics and its Altec Lansing subsidiary. We have expanded our audio product portfolio to include network-based audio systems for digital music, an emerging market with several small competitors as well as larger established consumer electronics companies, like Sony and Philips.

*Gaming.* Competitors for our interactive entertainment products include Intec, Pelican Accessories, Mad Catz and its Saitek subsidiary. Our controllers for PlayStation also compete against controllers offered by Sony.

*Remotes.* Our competitors for remotes include, among others, Philips, Universal Remote, Universal Electronics, RCA and Sony. We expect that the growth in recent years in consumer demand for personal peripheral devices for home entertainment systems will likely result in increased competition.

If we do not compete effectively, demand for our products could decline, our gross margin could decrease, we could lose market share and our revenues could decline.

***If we do not successfully innovate and market products for notebook PCs and mobile devices, our business and results of operations may suffer.***

We have historically targeted peripherals for the PC platform, a market that is dynamically changing as a result of the declining popularity of desktop PCs and the increasing popularity of notebook PCs and mobile devices, such as netbooks, mobile phones and smaller form factor devices with computing or web surfing capabilities. In our OEM channel, this shift has adversely affected our sales of OEM mice, which are sold with name-brand desktop PCs. Our OEM mice sales have historically made up the bulk of our

## **Table of Contents**

OEM sales, and our OEM sales accounted for 13% and 11% of total revenues during fiscal years 2008 and 2007. If the desktop PC market continues to experience slower growth or decline, and if we do not successfully diversify our OEM business, our OEM revenues could be adversely affected.

In our retail channels, notebook PCs and mobile devices are sold by retailers without peripherals. We believe this creates opportunities to sell products to consumers to help make their devices more productive and comfortable. However, consumer acceptance and demand for peripherals for use with smaller form factor computing devices such as notebook PCs and mobile devices is still uncertain. In particular, the increasing popularity of notebook PCs and mobile devices may result in a decreased demand by consumers for keyboards, desktops and speakers, which could negatively affect our sales of these products. If we do not successfully innovate and market products designed for notebook PCs and other mobile devices, or if general consumer demand for peripherals for use with notebook PCs and mobile devices does not increase, our business and results of operations could be significantly harmed.

***If we do not accurately forecast product demand, our business and operating results could be adversely affected.***

We use our forecasts of product demand to make decisions regarding investments of our resources and production levels of our products. Although we receive forecasts from our customers, many are not obligated to purchase the forecasted demand. Also, actual sales volumes for individual products in our retail distribution channel can be volatile due to changes in consumer preferences and other reasons. In addition, our retail products have short product life cycles, so a failure to accurately predict high demand for a product can result in lost sales that we may not recover in subsequent periods, or higher product costs if we meet demand by paying higher costs for materials, production and delivery. We could also frustrate our customers and lose shelf space. Our failure to predict low demand for a product can result in excess inventory, lower cash flows and lower margins if we are required to reduce product prices in order to reduce inventories.

Over the past few years, we have rapidly and significantly expanded the number and types of products we sell, and the geographic markets in which we sell them, and we will endeavor to further expand our product portfolio and sales reach. The growth of our product portfolio and our sales markets has increased the difficulty of accurately forecasting product demand.

We have experienced large differences between our forecasts and actual demand for our products and expect differences to arise in the future. If we do not accurately predict product demand, our business and operating results could be adversely affected.

***Our business depends in part on access to third-party platforms or technologies, and if the access is withdrawn, denied, or is not available on terms acceptable to us, or if the platforms or technologies change without notice to us, our business and operating results could be adversely affected.***

In recent years we have expanded our product portfolio to include products designed for use with third-party platforms such as the Apple iPod, Microsoft Xbox, Sony PlayStation, and Nintendo Wii. The growth of our business is in part due to sales of these products. However, our business in these categories relies on our access to the platforms of third parties, which can be withdrawn, denied or not be available on terms acceptable to us.

Our access to third-party platforms may require paying a royalty, which lowers our product margins, or may otherwise be on terms that are not acceptable to us. In addition, the third-party platforms or technologies used to interact with our product portfolio can change without prior notice to us, which can result in our having excess inventory or lower margins.

If we are unable to access third-party platforms or technologies, or if our access is withdrawn, denied, or is not available on terms acceptable to us, or if the platforms or technologies change without notice to us, our business and operating results could be adversely affected.

---

**Table of Contents**

***Our principal manufacturing operations and third-party contract manufacturers are located in China, which exposes us to risks associated with doing business in that country.***

Our principal manufacturing operations and third-party contract manufacturers are located in China. Our manufacturing operations in Suzhou, China could be severely impacted by changes in the interpretation and enforcement of legal standards, by strains on China's energy, transportation, communications, trade, public health and other infrastructures, by conflicts, embargoes, increased tensions or escalation of hostilities between China and Taiwan, by labor unrest, and by other trade customs and practices that are dissimilar to those in the United States and Europe. Interpretation and enforcement of China's laws and regulations continue to evolve and we expect differences in interpretation and enforcement to continue in the foreseeable future.

Further, we may be exposed to fluctuations in the value of the Chinese renminbi ( CNY ), the local currency of China. Significant future appreciation of the CNY could increase our component and other raw material costs, as well as our labor costs, and could adversely affect our financial results.

***We purchase key components and products from a limited number of sources, and our business and operating results could be harmed if supply were delayed or constrained or if there were shortages of required components.***

We purchase certain products and key components from a limited number of sources. If the supply of these products or key components, such as micro-controllers and optical sensors, were to be delayed or constrained, or if one or more of our single-source suppliers goes out of business as a result of adverse global economic conditions, we might be unable to find a new supplier on acceptable terms, or at all, and our product shipments to our customers could be delayed, which could harm our business, financial condition and operating results.

Lead times for materials, components and products ordered by us or by our contract manufacturers can vary significantly and depend on factors such as contract terms, demand for a component, and supplier capacity. From time to time, we have experienced component shortages and extended lead times on semiconductors, such as micro-controllers and optical sensors, and base metals used in our products. Shortages or interruptions in the supply of components or subcontracted products, or our inability to procure these components or products from alternate sources at acceptable prices in a timely manner, could delay shipment of our products or increase our production costs, which could adversely affect our business and operating results.

***If we do not successfully coordinate the worldwide manufacturing and distribution of our products, we could lose sales.***

Our business requires us to coordinate the manufacture and distribution of our products over much of the world. We increasingly rely on third parties to manufacture our products, manage centralized distribution centers, and transport our products. If we do not successfully coordinate the timely manufacturing and distribution of our products, we may have insufficient supply of products to meet customer demand and we could lose sales, or we may experience a build-up in inventory.

A significant portion of our quarterly retail orders and product deliveries generally occur in the last weeks of the fiscal quarter. This places pressure on our supply chain and could adversely impact our revenues and profitability if we are unable to successfully fulfill customer orders in the quarter.

***We conduct operations in a number of countries and the effect of business, legal and political risks associated with international operations could significantly harm us.***

We conduct operations in a number of countries. There are risks inherent in doing business in international markets, including:

difficulties in staffing and managing international operations;

**Table of Contents**

compliance with laws and regulations, including environmental and tax laws, which vary from country to country and over time, increasing the costs of compliance and potential risks of non-compliance;

exposure to political and financial instability, leading to currency exchange losses and collection difficulties or other losses;

exposure to fluctuations in the value of local currencies;

difficulties or increased costs in establishing sales and distribution channels in unfamiliar markets, with their own market characteristics and competition, particularly in Latin America, Eastern Europe and Asia;

changes in value-added tax ( VAT ) or VAT reimbursement;

imposition of currency exchange controls; and

delays from customs brokers or government agencies.

Any of these risks could significantly harm our business, financial condition and operating results.

***We may be unable to protect our proprietary rights. Unauthorized use of our technology may result in the development of products that compete with our products.***

Our future success depends in part on our proprietary technology, technical know-how and other intellectual property. We rely on a combination of patent, trade secret, copyright, trademark and other intellectual property laws, and confidentiality procedures and contractual provisions such as nondisclosure terms and licenses, to protect our intellectual property.

We hold various United States patents and pending applications, together with corresponding patents and pending applications from other countries. It is possible that any patent owned by us will be invalidated, deemed unenforceable, circumvented or challenged, that the patent rights granted will not provide competitive advantages to us, or that any of our pending or future patent applications will not be granted. In addition, other intellectual property laws or our confidentiality procedures and contractual provisions may not adequately protect our intellectual property. Also, others may independently develop similar technology, duplicate our products, or design around our patents or other intellectual property rights. Unauthorized parties have copied and may in the future attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Any of these events could significantly harm our business, financial condition and operating results.

***Product quality issues could adversely affect our reputation and could impact our operating results.***

The market for our products is characterized by rapidly changing technology and evolving industry standards. To remain competitive, we must continually introduce new products and technologies. The products that we sell could contain defects in design or manufacture. Defects could also occur in the products or components that are supplied to us. There can be no assurance we will be able to detect and remedy all defects in the hardware and software we sell. Failure to do so could result in product recalls, product redesign efforts, lost revenue, loss of reputation, and significant warranty and other expenses to remedy.

**Table of Contents**

*Our effective tax rates may increase in the future, which could adversely affect our net income.*

We operate in multiple jurisdictions and our profits are taxed pursuant to the tax laws of these jurisdictions. Our effective tax rate may be affected by changes in or interpretations of tax laws in any given jurisdiction, utilization of net operating loss and tax credit carryforwards, changes in geographical allocation of income and expense, and changes in management's assessment of matters such as the realizability of deferred tax assets. In the past, we have experienced fluctuations in our effective income tax rate. Our effective income tax rate in a given fiscal year reflects a variety of factors that may not be present in the succeeding fiscal year or years. There is no assurance that our effective income tax rate will not change in future periods. In addition, we are subject to ongoing audits in various jurisdictions and a material assessment by a governing tax authority could adversely affect our profitability. If our effective tax rate increases in future periods, our net income could be adversely affected.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Share Repurchases**

The following table sets forth certain information related to purchases made by Logitech of its equity securities (in thousands, except share and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid Per Share		Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Programs
		in USD	in CHF		
October, 2008		\$	CHF		128,871
November, 2008	200,000	\$ 14.26	CHF 16.49	200,000	126,025
December, 2008		\$	CHF		126,025
Total	200,000	\$ 14.26	CHF 16.49	200,000	

During the three months ended December 31, 2008, we repurchased shares pursuant to our buyback program announced in June 2007 authorizing the purchase of an additional \$250 million of our shares. The June 2007 program is in effect until the 2010 Annual General Meeting, unless concluded earlier or discontinued.

**Table of Contents**

**ITEM 6. EXHIBITS**

**Exhibit Index**

<b>Exhibit No.</b>	<b>Description</b>
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.**

\*\* This exhibit is furnished herewith, but not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section. Such certifications will not be deemed to be incorporated by reference in any filing under the Securities Act or the Exchange Act, except to the extent that we explicitly incorporate them by reference.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LOGITECH INTERNATIONAL S.A.

/s/ Gerald P. Quindlen  
Gerald P. Quindlen

President and Chief Executive Officer

/s/ Mark J. Hawkins  
Mark J. Hawkins

Chief Financial Officer and U.S. Representative

February 3, 2009