

LOGITECH INTERNATIONAL SA  
Form 10-K  
June 01, 2009

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

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
For the fiscal year ended March 31, 2009

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**  
(Address of principal executive offices and zip code)

**(510) 795-8500**  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

|   |   |
|---|---|
| <u>Title of each class</u>                            | <u>Name of each exchange on which registered</u>              |
| <b>Registered Shares par value CHF 0.25 per share</b> | <b>The NASDAQ Global Select Market<br/>SIX Swiss Exchange</b> |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Smaller reporting company

(Do not check if a 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

The aggregate market value of the voting shares held by non-affiliates of the registrant, based upon the closing sale price of the shares on September 26, 2008, the last business day of the registrant's second fiscal quarter on the NASDAQ Global Select Market, was approximately \$3,503,988,592. For purposes of this disclosure, voting shares held by persons known to the Registrant to beneficially own more than 5% of the Registrant's shares and shares held by officers and directors of the Registrant have been excluded because such persons may be deemed to be affiliates. This determination is not necessarily a conclusive determination for other purposes.

As of May 1, 2009, there were 179,675,378 shares of the Registrant's share capital outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2009 Annual Meeting of Shareholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended March 31, 2009.

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In this document, unless otherwise indicated, references to the "Company" or "Logitech" are to Logitech International S.A., its consolidated subsidiaries and predecessor entities. 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.

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### FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K contains forward-looking statements based on beliefs of our management as of the filing date of this Form 10-K. These forward-looking statements include statements related to:

- our business strategy for fiscal year 2010 and beyond considering current and future general economic conditions;
- our business and product plans for fiscal year 2010 and evolving consumer demand trends affecting our products; and
- the sufficiency of our cash and cash equivalents, cash generated from operations, and available borrowings under our bank lines of credit to fund capital expenditures and working capital needs for the foreseeable future.

Factors that might affect these forward-looking statements include, among other things:

- deteriorating worldwide economic and business conditions, particularly in retail consumer markets;
- general market trends for peripherals for personal computers and other digital platforms and market acceptance of our products;
- the effect of pricing, product, marketing and other initiatives by our competitors and our reaction to them on our sales, gross margins, operating expenses and profitability;
- the impact of a failure to successfully innovate in our current and emerging product categories and identify new feature or product opportunities;
- the impact of our previously announced restructuring on our current operations and future performance;
- consumer demand for our products and our ability to accurately forecast such demand;
- our ability to implement our business strategy during declining or uncertain market conditions; and
- our ability to match production levels with product demand and to successfully coordinate worldwide manufacturing and distribution of our products.

Forward-looking statements also include, among others, those statements including the words "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "may," "plan," "project," "predict," "should," "will" and "would." These statements reflect our views and assumptions as of the date of this Annual Report on Form 10-K. All 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 under Item 1A "Risk Factors," as well as elsewhere in this Annual Report on Form 10-K and in our other filings with the U.S. Securities and Exchange Commission. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. 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.

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## PART I

### ITEM 1. BUSINESS

#### Company Overview

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. For the fiscal year ended March 31, 2009, the Company generated net sales of \$2.2 billion, operating income of \$109.7 million, net income of \$107.0 million, employed approximately 6,400 employees and conducted business in over 100 countries.

Logitech was founded in Switzerland in 1981. Logitech International S.A., the parent holding company of Logitech, is a Swiss holding company with its registered office in Apples, Switzerland, which conducts its business through subsidiaries located throughout the world. Shares of Logitech International S.A. trade on both the Nasdaq Global Select Market, under the trading symbol LOGI, and the SIX Swiss Exchange, under the trading symbol LOGN. References in this Form 10-K to the "Company," "Logitech," "we," "our," and "us" refer to Logitech International S.A. and its consolidated subsidiaries.

Logitech operates in a single industry segment encompassing the design, manufacturing and marketing of personal peripherals for personal computers and other digital platforms. Our research and product management teams are organized along product lines, and are responsible for product strategy, industrial design and development, and technological innovation. Our global marketing and sales organization helps define product opportunities and bring our products to market, and is responsible for building the Logitech brand and consumer awareness of our products. This organization is comprised of retail and OEM sales and marketing groups. Our retail sales and marketing activities are organized into three geographic regions: Americas (including North and South America), Europe-Middle East-Africa ("EMEA"), and Asia Pacific. Our OEM sales team is a worldwide organization with representatives in each of our three regions. Our OEM customers include the majority of the world's largest PC manufacturers. A summary of our net sales and long-lived assets by geographic region can be found in Note 18 to the Consolidated Financial Statements in Item 15, which is incorporated herein by reference. A discussion of factors potentially affecting our operations is set forth in Item 1A Risk Factors, which is incorporated herein by reference.

Since 1994, we have had our own manufacturing operations in Suzhou, China, which currently handle approximately half of our total production. We outsource the remaining production to contract manufacturers and original design manufacturers located in Asia. Both our in-house and outsourced manufacturing is managed by our worldwide operations group. The worldwide operations group also supports the business units and marketing and sales organizations through management of distribution centers and of the product supply chain, and the

provision of technical support, customer relations and other services.

## Industry Overview

Affordable prices and wider availability of business, consumer, education, and communication applications have created a very large installed base of desktop and notebook personal computers. We believe that market penetration of PCs, Mac computers and other information access devices, already high in developed countries, will eventually increase worldwide.

In addition, continuing growth in processing power and communications bandwidth, the increased accessibility of digital content, and the pervasive access and use of the Internet, create opportunities for new applications, new users and dramatically richer interactions between users and digital information. These developments create new demands by users who want to take full advantage of the increased processing power, new applications and new technologies in an intuitive, productive, comfortable and convenient manner.

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Today's desktop and notebook PCs and Mac computers have evolved into affordable multimedia appliances or "digital hubs" capable of creating and manipulating vast amounts of graphics, sound and video. Logitech believes the expanded capabilities of PCs and Mac computers and the large installed base present a significant opportunity for companies that provide innovative personal peripheral products for the computer, since basic input devices alone do not fully enable many of the newest applications, or are not as convenient or comfortable as products available in the after-market (that is, the market for peripheral upgrades and add-ons sold separately from the basic PC or Mac computer). We believe the after-market potential for our products grows as consumers demand more function-rich personal peripheral tools, and as the PC or Mac computer plays an increasing role in the new digital lifestyle.

In addition, we believe that trends established in the consumer technology market — such as brand identity, affordability, ease of installation and use as well as visual appeal — have become important aspects of the purchase decision when buying a desktop or notebook PC or Mac computer and personal peripherals.

We also believe that similar industry dynamics and personal peripheral device opportunities exist for non-PC platforms, such as video game consoles, digital music players and home-entertainment systems. As these additional platforms deliver new functionality, increased processing power and growing communications capabilities, we expect demand to increase for add-on, complementary devices connected to these platforms. The product expertise Logitech has developed around the PC extends to these other platforms as well and provides further opportunity for growth and leverage.

## Consumer Behavior and Customer Experience Strategy

The impact of the current global macroeconomic recession on buying behavior in consumer electronics has been significant. In the current environment, we believe that consumers have become more discerning and more value-oriented and are increasingly moving online both to research and purchase products. Our strategy is to continue to stay close to consumers and adapt rapidly to their changing needs, which is exemplified by our greater emphasis on integrating consumer insights into our product and marketing strategies. We believe that a deeper understanding of the consumer will be one of the major drivers that should enable Logitech to emerge stronger from the downturn.

Two years ago, we established an organization internally whose mission was to focus on understanding and improving the consumer's overall experience with Logitech products. This group's goal is to ensure optimal levels of experience in all Logitech products and at each consumer touch point, especially to suit today's more discerning consumer. Through the use of metrics and consumer feedback mechanisms, we have already helped drive a number of meaningful and measurable improvements in our products. These improvements help drive consumer loyalty over time. By focusing on maximizing the number of consumers who actively recommend Logitech products, we are fueling brand preference within and across our many product categories. This is especially important because we believe today's consumer exhibits increasing skepticism toward manufacturers, yet is more trusting of personal recommendations.

## **Business Strategy**

Logitech's objective is to strengthen our leadership in the market for personal peripherals, linking people to the digital world wherever and whenever they need to access digital information for work or play. We serve the installed base of desktop, notebook and netbook PCs and Mac computers by offering innovative personal peripherals to address needs for comfort and productivity as well as entertainment and communication. While PCs and Mac computers are being used more and more as a digital hub, other platforms such as game consoles, digital music players and home-entertainment systems are also becoming a rich resource for people to access information, communicate, listen to music and enjoy an expanding offering of interactive games.

## **Product Strategy**

What we have learned about the recent changes in consumer behavior has resulted in some modifications to our product development strategy.

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We are placing an increasing emphasis on strengthening the competitiveness of our entry level products. We have always participated at the entry level, but given the increased price sensitivity among a growing number of consumers and what we believe is a resulting shift by consumers to lower priced products, we are taking action to ensure that we are also the consumer's first choice at lower price points.

Beyond the entry level, we have heightened our focus on providing the consumer with the strongest possible overall value across all price points. Our goal, using the lessons we have learned from our customer experience initiatives, is to maximize the product's benefits and the value the consumer associates with those benefits. Maximizing the consumer's perceived value of our products has become the guiding principle of our product strategy above the entry level.

To capitalize on the many opportunities in the growing digital marketplace, Logitech's product strategy focuses on personal peripherals in three digital environments:

- The Office Environment □ Desktop and Notebook Computers
- The Digital Home Environment □ Digital Music Systems, Home-Entertainment Systems, Game Consoles, Video Security Systems
- The Mobile Environment □ Notebook and Netbook Computers, Digital Music Players, Portable Gaming Systems

### *The Office Environment*

Logitech has successfully broadened our desktop presence by introducing new, more innovative, high-performance PC and Mac computer navigation devices. In addition, we have expanded beyond our traditional role as a provider of pointing devices for the desktop or notebook PC or Mac computer into a leading brand for video imaging products, keyboards, PC audio products and control devices for emerging 3D applications and platforms.

### *The Digital Home Environment*

The dramatic proliferation of digital content available for the home provides a significant source of new opportunities for Logitech. We believe that the new digital home □ with a broad and evolving selection of digital entertainment and information content available from multiple sources, and the innovation in affordably priced digital-technology equipment □ will over time allow us to play a significant role in the consumer experience for a much wider audience.

Our product portfolio includes a line of advanced remote controls for home entertainment, a variety of speaker and headphone products, the Squeezebox network music system that allows people to enjoy digital music in any room of the house, the diNovo Mini keyboard and the WiLife video security solution. These products represent part of our strategy to pursue new opportunities in the digital home environment, positioning Logitech at the

convergence of consumer electronics and personal computing in the digital home. Logitech also offers a broad spectrum of products for gamers. We are leveraging our investments in the desktop PC to enhance gaming consoles with our expertise in force and vibration feedback, cordless connectivity, voice input and video input.

### *The Mobile Environment*

As digital information and communication are evolving into the mobile environment, the opportunity exists for Logitech to support an even broader set of platforms. We believe that the growing number of mobile phones, notebook and netbook computers and mobile entertainment and communication platforms, such as portable digital music players and gaming devices, will bring additional demand for complementary personal peripherals. Logitech plans to support this need in mobile environments, as we do in the office and home.

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### **Geographic Expansion**

We believe that the market penetration for Logitech products is low in developing markets such as Latin America, Eastern Europe, India and China. We are committing resources to capitalize on the growth opportunities in key emerging countries, including securing new channel partners, strengthening relationships with existing partners, expanding our sales force and investing in product and marketing initiatives.

### **Manufacturing**

To effectively respond to rapidly changing demand and to leverage economies of scale, we intend to continue our hybrid model of in-house manufacturing and third-party contract manufacturers to supply our products. Through our high-volume manufacturing operations located in Suzhou, China, we believe we have been able to maintain strong quality process controls and have realized significant cost efficiencies. Our Suzhou operation provides for increased production capacity and greater flexibility in responding to product demand. Further, by outsourcing the manufacturing of certain products, we seek to reduce volatility in production volumes as well as improve time to market.

### **Technological Innovation**

Logitech fulfills the increasing demand for interfaces between people and the expanding digital world across multiple platforms and user environments. The interface evolves as platforms, user models and our target markets evolve. The PC has evolved into smaller form factors such as notebooks and netbooks. We believe this provides additional opportunities for Logitech because the relevance of navigation, interaction, video and audio interfaces and applications remains the same. Additionally, as form factors shrink, comfort becomes increasingly important to the user experience. All of these factors continue to support an attractive and sizable opportunity for Logitech.

To capitalize on market opportunities for personal peripherals, we recognize that continued investment in product research and development is critical to facilitating innovation of new and improved products and technologies. Beyond updating our existing line of personal peripherals, we intend to continue to lead the development of new technologies and to create product innovations, such as those introduced in fiscal years 2008 and 2009, which include the MX Air Mouse's Freespace technology, the Wave comfort keyboard design, the Harmony One remote's color touch screen and intuitive button layout, the rechargeable design of the diNovo Mini, the integration of glass lenses with Carl Zeiss optics on the QuickCam Pro 9000 and QuickCam Pro for Notebooks webcams, the omnidirectional speaker technology for the Z-5 omnidirectional speakers for PC and Pure-Fi Express Plus iPod speakers, and the Nano-receiver that was first introduced to the market in the VX Nano mouse and has since proliferated across a wide range of our mice. Logitech is committed to meeting our customers' needs for personal peripheral devices and believes that innovation, value and product quality are important elements to gaining market acceptance and strengthening our market position.

### **Products**

Logitech operates in a single industry segment encompassing the design, development, production, marketing and support of personal peripheral products. Most of our products share certain characteristics such as common customers, common sales channels, common company infrastructure requirements and common company resources such as our worldwide management of sales and marketing, supply chain and administration.

### ***Pointing Devices***

#### *Mice*

Logitech offers many varieties of computer mice, sold through retail, OEM, and system builder channels. Some of our major mice products include:

- The MX1100 Cordless Laser Mouse, introduced in fiscal year 2008, was developed for comfort and productivity and features a contoured, full-sized design, adjustable dpi (dots per inch) and the MicroGear Precision Scroll Wheel.
- The MX Revolution Cordless Laser Mouse, introduced in fiscal year 2007, includes the MicroGear Precision Scroll Wheel, Logitech SmartShift Technology, One-Touch Search and Document Quick-Flip.
- The MX Air Rechargeable Cordless Air Mouse works on the desk or in the air.

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- The VX Nano Cordless Laser Mouse for Notebooks features a Nano-receiver which, when plugged into a laptop, is nearly flush against the notebook.
- The V550 Nano Cordless Laser Mouse for Notebooks features the MicroGear Precision Scroll Wheel, Nano-receiver and a clip-and-go dock that adheres to the top of a laptop so the mouse can be snapped on for easy transport from place to place.
- The V220 Cordless Optical Mouse for Notebooks is an ergonomically designed mouse with soft rubber grips and a convenient mini-receiver.

Our mice products also include an expanded line of gaming mice, including the customizable G9x, which gives PC gamers the ability to modify the mouse for the best personal fit, feel and performance.

All of Logitech's retail mice are bundled with Logitech SetPoint software, enabling users to program mouse buttons for specific tasks. We also sell both corded and cordless mice designed specifically for OEM customers.

#### *Other Pointing Devices*

Some of our other pointing devices include:

- The Cordless Optical TrackMan trackball, featuring a "cruise control" scrolling feature and several programmable buttons.
- 3D input devices such as SpaceNavigator, SpaceExplorer, SpaceNavigator for Notebooks, and SpacePilot.

### ***Keyboards and Desktops***

Logitech offers a variety of corded and cordless keyboards and desktops (keyboard-and-mouse combinations).

Some of our major keyboards and desktops include:

- The diNovo Edge keyboard, our award-winning top-of-the-line rechargeable keyboard.
- The diNovo Edge, Mac Edition keyboard, which brings the elegance of the award-winning diNovo Edge to the Mac community with an optimized Mac layout.
- The diNovo Mini keyboard, the smallest keyboard on the market today combining thumb typing, Windows Media center remote controls, and a touchpad.
- The Cordless Desktop Wave Pro, which features a gradual wave-shaped contour that helps eliminate awkward hand and forearm positions, and a comfortable mouse.



- The Cordless Desktop MX 5500 Revolution, including the Bluetooth wireless technology and other features such as an integrated keyboard display and several buttons designed to help people take advantage of key Windows Vista features, such as Flip 3D and Search.
- The Illuminated Keyboard, a corded keyboard featuring laser-etched, backlighted keys, an ultra-thin 9.3mm design and Logitech PerfectStroke key system.

All premium keyboards offer Logitech's innovative SetPoint software, which enables one-touch access to a variety of common tasks, including music software, the Internet, and Instant Messenger software.

### ***Notebook Essentials***

Logitech offers a range of personal peripherals that help improve the laptop-computing experience. Our products include notebook mice, webcams, speakers, headsets, presentation tools, numeric pads, USB hubs, notebook bags, lapdesks, cooling pads and a family of notebook risers.

Some of our notebook products include:

- The Comfort Lapdesk, a new product category, which is designed for use on the lap to protect the user from laptop heat.

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- The Notebook Riser N110, a notebook stand which is designed for use with an external keyboard and mouse and elevates the laptop screen to an ergonomic level.
- The Cooling Pad N100, introduced in fiscal year 2009, a new category which features a slotted surface that enables airflow around a laptop using the USB-powered fan and can be used on a table or a lap.

### ***Voice and Video Communications***

#### *Web Cameras*

Logitech's premium webcam offerings include:

- QuickCam Pro 9000
- QuickCam Pro for Notebooks
- QuickCam Orbit AF

Our premium webcams feature lenses designed in an exclusive collaboration with Carl Zeiss, a premium autofocus system, and a true 2-megapixel sensor. These webcams also leverage High Quality Video from Skype, a video calling functionality offered through our collaboration with Skype.

Logitech's major mid-range webcams include:

- QuickCam Ultra Vision webcam
- QuickCam Communicate Deluxe for PC users
- QuickCam Vision MP for Mac users

Our mid-range webcams feature glass lenses, auto focus technology, and RightSound and RightLight2 Technology. These webcams record video at up to 30 frames per second and support the 720p high-definition (HD) video format.

Logitech's entire family of webcams work with most popular video messaging applications, including Skype, Windows Live Messenger, Yahoo! Messenger and AIM. In addition, our Logitech Video Effects software has become a favorite application for users wishing to record and post video on the Internet. In November 2008, Google added video chat to their popular gmail application and Logitech webcams offered full support for the

service at launch.

In November 2008, Logitech acquired privately held SightSpeed Inc. The acquisition of SightSpeed provides us with video calling technology and a software and services development team that is focused on future video calling initiatives that can enable cross-platform video communications for people sitting in front of a personal computer or with their family in a living room.

#### *PC Headsets*

We offer headsets and microphones designed for applications such as PC voice communications, Voice-over Internet Protocol (VoIP) applications and online gaming. Some of our major products in this category include the ClearChat Wireless USB headset, the ClearChat Pro USB Headset, the ClearChat Comfort USB Headset, the Logitech Premium Notebook Headset, and the Logitech Desktop Microphone.

#### *Video Security Systems*

In November 2007, Logitech acquired WiLife, Inc. (WiLife), which offers solutions for using a PC and special video cameras to provide remote security monitoring of one's home or small business. The WiLife solution includes monitoring cameras that use the HomePlug Powerline technology to transfer video over standard electrical wiring. The cameras can record video on a scheduled basis, at all times or when they detect motion. The video is stored locally on a computer and can be played back locally on the PC. For an additional fee, the solution offers an Internet-based service and the ability to monitor the video feeds remotely from a PC and Windows-based PDAs or cell phones.

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## **Audio**

### *Speakers and Headphones*

Logitech designs and manufactures a wide variety of multimedia speakers including:

- Logitech Z-5500 Digital speakers are 5.1-channel multi-platform, 505-watt speakers with a 10-inch subwoofer.
- Logitech G51 Surround Sound Speaker System is a 5.1 speaker system featuring 360-degree surround sound with dual Matrix modes.
- Pure-Fi Anywhere 2 speakers include a rechargeable battery, with a battery-life indicator, an improved traveling case, and an advanced remote control with one-touch access to shuffle and repeat for the iPod.
- Pure-Fi Anytime speakers include an iPod/iPhone alarm clock that offers premium sound, motion-activated, backlit controls, AM/FM tuner and a dual alarm.
- Z-5 Omnidirectional speakers are USB-powered speakers designed for Mac and PC use which feature omnidirectional acoustics.
- FreePulse Wireless headphones are designed for use with iPod and other MP3 players.

In August 2008, Logitech acquired the Ultimate Ears companies, a privately held group of companies that offers a range of earphones. The long-established leader in custom in-ear monitors for on-stage professional musicians and sound engineers, Ultimate Ears has over the last few years expanded its product line to include a range of in-ear consumer earphones for portable music enthusiasts, including users of iPhone, iPod and other MP3 players. The acquisition of Ultimate Ears allows Logitech to expand its portfolio of digital audio products, providing more options for portable music listening.

Ultimate Ears began offering custom earphones in early 2004 for users of iPods and other MP3 players, as well as DVD players, notebook computers and home audio systems. Based on the same technology and custom-molded design as Ultimate Ears' professional devices, Ultimate Ears' consumer in-ear earphones are specially tuned to optimize digital sound. In 2004, Ultimate Ears also launched its first universal-fit models, featuring the sophisticated technology of the custom models with a unique fit kit to provide maximum comfort to a wide range of people. Logitech plans to continue all of these product lines.

### *Streaming Media*

Building on our platform and product development expertise, Logitech offers a portfolio of affordable network music systems that make it easier to enjoy and control digital music anywhere in the home. In fiscal year 2008, we expanded our line of streaming music products with the introduction of the Logitech Squeezebox Boom. The Squeezebox Boom is our first all-in-one network music player, featuring an integrated amplifier, high-performance speakers and a simplified setup. Users can plug the Squeezebox Boom into a power outlet and use an existing home network to listen to music on their computers, Internet radio stations, and music subscription services.

To expand the home network music system, Logitech also offers other players, including the Logitech Squeezebox Duet network music system, Squeezebox Classic network music player or the hi-end Transporter network music player.

During fiscal year 2009, we also expanded the music services supported by the Squeezebox family of products, which now include (either free or via partner subscription) Amazon CD, BBC, Deezer, Classical.com, Last.fm, MediaFly, MP3Tunes, Napster, Pandora, Radio IO, RadioTime, Rhapsody, SIRIUS and Slacker.

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### **Gaming**

#### *PC Game Controllers*

Logitech offers a full range of dedicated game controllers for PC gamers including joysticks, steering wheels, gamepads, mice and keyboards, and headsets.

Our PC gaming products include:

- Logitech G9x Laser Mouse is a fully customizable mouse and includes features such as interchangeable grips, on-the-fly, full-speed USB laser tracking, an onboard-memory profiling system, weight tuning, a custom-color LED and the hyper-fast MicroGear Precision Scroll Wheel. In the United States, users can also order a special G9 ID Grip that they can customize with their own artwork or photo.
- Logitech G13 advanced gameboard, a CES Innovations Winner in the Electronic Gaming category, features a built-in LCD screen, 25 programmable keys and onboard memory.
- Logitech G19 Gaming Keyboard features a tiltable, color LCD screen, VoIP communication data, and customization options such as user-selectable character backlighting color and 12 fully programmable G-keys.
- Logitech G25 Racing Wheel includes several advanced features such as a six-speed gated shifter and clutch pedal, a high-torque, dual-motor force-feedback mechanism, 900 degrees of rotation, an 11-inch wheel, and premium materials such as stainless steel and leather.

#### *Console Game Controllers and Accessories*

We offer gaming products for console platforms such as PlayStation2, PlayStation3, PSP (PlayStation Portable), Xbox, Xbox 360 and Nintendo Wii.

In July 2008, Logitech and Activision Publishing, Inc. announced a collaboration to develop and market premium instrument controllers for the Guitar Hero franchise. Logitech's first product, the Logitech Wireless Guitar Premiere Edition for PlayStation 3, features authentic materials including a wood neck, a rosewood fingerboard and metal frets.

Our other major console gaming products include the Driving Force Wireless wheel and Vantage headset for PlayStation 3, Speed Force Wireless and Cordless Keyboard for Wii, and the Vantage USB Microphone for all

platforms. Logitech also offers protective cases for the Nintendo DS Lite and Sony PlayStation Portable (PSP). In addition, we sell USB microphones bundled with several top-selling singing game titles.

### **Remote Controls**

Our current line of Harmony advanced remote controls uses our patented Smart State Technology. The Logitech family of remotes includes:

- Harmony One remote which features a touch-screen with backlit buttons positioned in logical zones to make it easy to navigate, even in the dark.
- Harmony 1100 features a customizable 3.5-inch color touch-screen and includes radio frequency (RF) wireless technology that lets the user control devices.

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### **Competitive Strengths**

We believe the key competitive strengths that allow Logitech to be successful and competitive in our product markets include:

- Our understanding of product definition, technology and industrial design excellence, as demonstrated by the various awards that our product designs continue to receive.
- Our expertise in key engineering disciplines that underlie our products and our continued enhancement of our products through the use of advanced technologies.
- Our continuing to embrace new technologies and standards, with a list of nearly 100 industry "firsts" to our name and a patent portfolio of approximately 400 patents.
- The Logitech brand name and industrial designs which are recognized worldwide as symbols of product quality, innovation, ease of use and price-performance value.
- Our volume manufacturing and distribution capabilities which allow us to maintain strong quality process controls and realize significant cost efficiencies.
- Our global presence, capable of drawing upon the strengths of our global resources, global distribution system and geographical revenue mix.
- Our expertise in a broad array of PC peripherals.

We believe that we have competed successfully based on these factors. We believe that Logitech's future lies with our ability to continue to capitalize on these strengths.

### **Research and Development**

We believe that continued investment in product research and development is critical to Logitech's success. Our international structure provides advantages and synergies to our overall product development efforts. We have development centers in the United States, Switzerland, Ireland, Canada, Germany and Taiwan.

Our research and development expenses for fiscal years 2009, 2008 and 2007 were \$128.8 million, \$124.5 million and \$108.3 million. We expect to continue to devote significant resources to research and development, including wireless technologies, power management, user interfaces and device database management to sustain our competitive position.

### **Marketing, Sales and Distribution**

**Principal Markets**

Net sales to unaffiliated customers by geographic region were as follows (in thousands):

|                 | <b>Year ended March 31,</b> |              |              |
|-----------------|-----------------------------|--------------|--------------|
|                 | <b>2009</b>                 | <b>2008</b>  | <b>2007</b>  |
| EMEA            | \$ 1,001,337                | \$ 1,117,060 | \$ 1,027,852 |
| Americas        | 785,862                     | 888,529      | 729,207      |
| Asia Pacific    | 421,633                     | 364,907      | 309,510      |
| Total net sales | \$ 2,208,832                | \$ 2,370,496 | \$ 2,066,569 |

Revenues from sales to customers in Switzerland, our home domicile, represented a small portion of our total consolidated net sales in fiscal year 2009 and no single country other than the United States represented more than 10% of our total consolidated net sales. In fiscal years 2009, 2008 and 2007, Ingram Micro Inc. and its affiliated entities together accounted for 14% of our net sales in each year. No other customers individually accounted for more than 10% of our net sales during fiscal years 2009, 2008 and 2007. The material terms of our distribution agreements with Ingram Micro Inc. and its affiliated entities are summarized as follows:

- The agreements are non-exclusive in the particular territory and contain no minimum purchase requirements.
- Each agreement may be terminated for convenience at any time by either party. Most agreements provide for termination on 30 days' written notice from either party, with two Ingram Micro agreements providing for termination on 90 days' notice.

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- We generally offer an allowance for marketing activities equal to a negotiated percentage of sales and volume rebates related to purchase volumes or sales of specific products to specified retailers. These terms vary by agreement.
- Most agreements allow price protection credits to be issued for on-hand or in transit new inventory if we, in our sole discretion, lower the price of the product.
- We grant limited rights to return product, which vary by distributor. Under most of the Ingram Micro agreements, the Ingram Micro entities may return defective products and may return up to 10% of the previous quarter's purchases, if they place an offsetting order for the amount they returned.

**Marketing**

Logitech builds awareness of our products and recognition of our brand through targeted advertising, public relations efforts, distinct packaging of our retail products, in-store promotions and merchandising, a Worldwide Web site and other efforts. We also acquire knowledge of our users through customer feedback and market research, including focus groups, product registrations, user questionnaires, primary and multi-client surveys and other techniques. In addition, manufacturers of PCs and other products also receive customer feedback and perform user market research, which sometimes results in requests to Logitech for specific products, features or enhancements.

**Sales and Distribution**

Logitech sells through many distribution channels, including distributors, OEMs and regional and national retail chains, including online retailers. We support these retail channels with third-party distribution centers located in North America, Europe and Asia Pacific. These centers perform final configuration of products and

product localization with local language manuals, packaging, software CDs and power plugs. In addition, Logitech's distribution mix includes e-commerce in the U.S. as well as e-commerce capabilities in several European countries.

In retail channels, Logitech's direct sales force sells to distributors and large retailers. Our distributor customers typically resell products to retailers, value-added resellers, and systems integrators with whom Logitech does not have a direct relationship. These distributors in the U.S. include D&H Distributing, Ingram Micro Inc. and Tech Data Corporation. In Europe, pan-European distributors include Tech Data Corporation, Ingram Micro and Gem Distribution. We also sell to many regional distributors such as Actebis in Germany, MC Dos in the Netherlands, Vinzeo in Spain and Channel Distribution in the United Arab Emirates.

Logitech's products can be found in major retail chains, where they typically have access to significant shelf space. These chains in the U.S. include Best Buy, Office Depot, Staples, Target and Wal-Mart, and in Europe include MediaMarkt/Saturn, Carrefour, KESA Group, FNAC, Dixons Stores Group PLC and most key national consumer electronics chains. Logitech products can also be found at the top online e-tailers, which include Amazon.com, Buy.com, CDW, Insight, and others.

Logitech's OEM products are sold to large OEM customers through a direct sales force, and we support smaller OEM customers through distributors. We count the majority of the world's largest PC manufacturers among our customers.

Through our operating subsidiaries, we maintain sales offices or sales representatives in 41 countries.

## **Backlog**

In our experience, the actual amount of backlog at any particular time is not a meaningful indication of our future business prospects. Our backlog often increases in anticipation of or immediately following new product introductions as retailers anticipate shortages and is often reduced once retailers and customers believe they can obtain sufficient supply. In addition, our backlog is occasionally subject to cancellation or rescheduling by customers. Because of the uncertainty of order cancellations or rescheduling, we do not believe our backlog as of any particular date is indicative of actual sales for any future period. Because of the foregoing, we believe that backlog information is not material to an understanding of our overall business.

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## **Customer Service and Technical Support**

Logitech maintains customer service and technical support operations in the United States, Canada, Europe, Asia and Australia. Customer service and technical personnel provide support services to retail purchasers of products through telephone, e-mail, facsimile and the Logitech Web site. The Logitech Web site is designed to expedite overall response time while minimizing the resources required for effective customer support. In general, OEMs provide customer service and technical support for their products, including components purchased from suppliers such as Logitech. Logitech provides warranties on our branded products which range from one to five years.

## **Manufacturing**

Logitech's manufacturing operations consist principally of final assembly and testing. Our high-volume manufacturing facility is located in Suzhou, China. The Suzhou facilities are designed to allow production growth as well as flexibility in responding to changing demands for Logitech's products. We continue to focus on ensuring the efficiency of the Suzhou facilities, through the implementation of quality management and employee involvement programs.

New product launches, process engineering, commodities management, logistics, quality assurance, operations management and management of Logitech's contract manufacturers occur in Hsinchu, Taiwan, Suzhou, China, Shenzhen, China and Hong Kong, China. Certain components are manufactured to Logitech's specifications by vendors in Asia, the United States and Europe. We also use contract manufacturers to supplement internal capacity and to reduce volatility in production volumes. In addition, some products, including

most keyboards, certain gaming devices and audio products, are manufactured by third-party suppliers to Logitech's specifications. Retail product localization with local language manuals, packaging, software CDs and power plugs is performed at distribution centers in North America, Europe and Asia Pacific.

## Competition

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 experience aggressive price competition and other promotional activities from our primary competitors and from less-established brands, and we may choose to adjust prices or increase promotional activities to improve our competitive position. We may also encounter more competition if any of our competitors decide to enter other markets in which we currently operate.

In addition, we have been expanding the categories of products we sell, and entering new markets, such as the market for streaming media devices and home or small business video security. 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 future ones we might enter. Many of these companies have greater financial, technical, sales, marketing and other resources than we have.

We expect continued competitive pressure in both our retail and OEM business, including in the terms and conditions that our competitors offer customers, which may be more favorable than our terms and conditions and may require us to take actions to increase our customer incentive programs, which could impact our revenues and operating margins.

*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 very competitive, and as a result, pricing practices and promotions by our competitors have become more aggressive.

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*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.

## Intellectual Property and Proprietary Rights

Intellectual property rights that apply to Logitech's products and services include patents, trademarks, copyrights and trade secrets.

We hold various United States patents and pending applications, together with corresponding patents and pending applications from other countries. While we believe that patent protection is important, we also believe that patents are of less competitive significance than factors such as technological expertise and innovation, ease of use, and quality design. No single patent is in itself essential to Logitech as a whole. From time to time we receive claims that we may be infringing on patents or other intellectual property rights of others. Claims are referred to counsel, and current claims are in various stages of evaluation and negotiation. If necessary or desirable, we may seek licenses for certain intellectual property rights. Refer also to the discussion in Item 1A Risk Factors "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."

To distinguish genuine Logitech products from competing products and counterfeit products, Logitech has used, registered, or applied to register certain trademarks and trade names in the U.S. and in foreign countries and jurisdictions. Logitech enforces its trademark and trade name rights in the U.S. and abroad. In addition, the software for Logitech's products and services is entitled to copyright protection, and we generally require our customers to obtain a software license before providing them with that software. We also protect details about our products and services as trade secrets through employee training, license and non-disclosure agreements and technical measures.

## **Environmental Regulation**

We are subject to laws and regulations in many jurisdictions regulating the materials used in our products and, increasingly, the recycling of our products and of their packaging.

*Europe.* In Europe we are subject to the European Union's (EU) Directive on the Restriction of Use of Certain Hazardous Substances in Electrical and Electronics Equipment (RoHS). This directive restricts the placement into the EU market of electrical and electronic equipment containing certain hazardous materials including lead, mercury, cadmium, chromium, and halogenated flame-retardants. Most Logitech products are covered by the directive and have been modified, if necessary, to be RoHS compliant. Logitech has an active program to ensure compliance with the RoHS directive and continues to source and introduce the use of RoHS compliant components and manufacturing methods in order to comply with the requirements of the directive.

We are also subject to a number of End of Life (EOL) Stewardship directives including the EU's Waste Electrical and Electronic Equipment Directive ("WEEE"), the EU Packaging Directive and the EU Battery Directive which require producers of electrical goods, packaging and batteries to be financially responsible for costs of specified collection, recycling, treatment and disposal of covered products. Where applicable, we have provided for the estimated costs, which are not material, of managing and recycling historical and future waste equipment, packaging and batteries.

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Logitech has also assessed the applicability of the European REACH directive (Regulation (EC) No. 1907/2006 for Registration, Evaluation, Authorization, and Restrictions of Chemicals). This directive does not currently impact Logitech due to our current manufacturing structure and product content. If the directive impacts Logitech in the future, we will comply with the applicable requirements.

*China.* In China we are subject to China's law on Management Methods on the Control of Pollution Caused by Electronic Information Products (China RoHS). This is substantially similar to the EU RoHS directive and as such, Logitech products are already compliant. China RoHS requires additional labelling of product that will be shipped in China and Logitech has taken steps to help ensure we comply with these requirements.

*United States and Canada.* In the U.S., we are subject to, among other laws, Appliance Efficiency Regulations adopted via the U.S. Energy Independence and Security Act of 2007. The regulations set out standards for the energy consumption performance of products within the scope of the regulations, which includes some of Logitech's products. The standards apply to appliances sold or offered for sale throughout the U.S., and Logitech



has redesigned or changed products to comply with these regulations. We are also subject to California's Proposition 65, which requires that clear and reasonable warnings be given to consumers who are exposed to certain chemicals deemed by the State of California to be dangerous, such as lead.

In Canada, we are subject to laws in various Canadian provinces that impose fees to cover the cost of recycling packaging.

*Australia and New Zealand.* In Australia and New Zealand, we are subject to the Minimum Energy Performance Standards (MEPS) regulations. These regulations set out standards for the energy consumption performance of products within the scope of the regulations, which includes some of Logitech's products. We have taken steps to modify products to ensure they are in compliance with MEPS.

We expect further laws governing product and packaging recycling to be introduced in other jurisdictions, many or most of which could impose fees to cover recycling costs, the cumulative impact of which could be significant. If such legislation is enacted in other countries, Logitech intends to develop compliance programs as necessary. However, until that time, we are not able to estimate any possible impact.

The effects on Logitech's business of complying with other government regulations are limited to the cost of allocation of the appropriate resources for agency fees and testing as well as the time required to obtain agency approvals. The costs and schedule requirements are industry requirements and therefore do not represent an undue burden relative to Logitech's competitive position. As regulations change, we will seek to modify our products or processes to address those changes.

### **Seasonality**

Our retail product sales are typically seasonal. Sales are generally 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 to a lesser extent in the fourth fiscal quarter (January to March). Our sales in the first and second quarters can vary significantly as a result of new product introductions and other factors. Accordingly, we believe that year-over-year comparisons are more indicative of variability in our results of operations than quarter-over-quarter comparisons. The deteriorating retail environment in the second half of fiscal year 2009 resulted in an atypical sales pattern, with sales declining in the second half of fiscal year 2009 compared with the first half.

### **Materials**

We purchase some of our products and the key components used in our products 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, 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. Due to the recent global economic downturn, we are subject to a higher risk of insolvency of our key suppliers, possibly resulting in product delays. In addition, 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.

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### **Employees**

As of March 31, 2009, we employed 6,348 people. None of Logitech's U.S. employees are represented by a labor union or are subject to a collective bargaining agreement. Certain foreign countries, such as China, provide by law for employee rights, which include requirements similar to collective bargaining agreements. We believe that our employee relations are good.

**Executive Officers of the Registrant**

The following sets forth certain information regarding our executive officers as of June 1, 2009:

| <b>Name</b>        | <b>Age</b> | <b>Nationality</b> | <b>Position</b>   |
|--------------------|------------|--------------------|---|
| Guerrino De Luca   | 56         | Italian            | Chairman of the Board   |
| Gerald P. Quindlen | 49         | U.S.               | President and Chief Executive Officer                               |
| Werner Heid        | 50         | German             | Sr. Vice President, Worldwide Sales and Marketing                   |
| David Henry        | 52         | U.S.               | Sr. Vice President, Customer Experience and Chief Marketing Officer |
| Junien Labrousse   | 51         | French             | Executive Vice President, Products                                  |
| L. Joseph Sullivan | 55         | U.S.               | Sr. Vice President, Worldwide Operations                            |

Guerrino De Luca became Chairman of the Logitech Board of Directors in January 2008, turning over his responsibilities as President and Chief Executive Officer to Gerald P. Quindlen. Mr. De Luca joined the Company as President and Chief Executive Officer in February 1998, and became an executive member of the Board of Directors in June 1998. Prior to joining Logitech, Mr. De Luca served as Executive Vice President of Worldwide Marketing for Apple, Inc. from February 1997 to September 1997, and as President of Claris Corporation, a U.S. personal computing software vendor, from May 1994 to February 1997. Prior to joining Claris, Mr. De Luca held various positions with Apple in the United States and in Europe. Mr. De Luca holds a BS degree in Electronic Engineering from the University of Rome, Italy.

Gerald P. Quindlen became the President and Chief Executive Officer of Logitech in January 2008. Mr. Quindlen joined Logitech as Senior Vice President, Worldwide Sales and Marketing in October 2005. From August 1987 to September 2004, Mr. Quindlen worked for Eastman Kodak Company where he was most recently Vice President of Global Sales and Operations for the Consumer and Professional Imaging Division and previously held senior sales or marketing management positions in the United States, Japan and Asia Pacific. From September 2004 to September 2005, Mr. Quindlen was a private consultant. Prior to his 17 year tenure at Eastman Kodak, he worked for Mobil Oil Corporation in engineering. Mr. Quindlen holds a BS degree in chemical engineering from Villanova University in Pennsylvania, and an MBA degree in Finance from the University of Pennsylvania's Wharton School.

Werner Heid joined Logitech as Senior Vice President, Worldwide Sales & Marketing, in February 2009. Prior to joining Logitech, Mr. Heid was a consultative CEO to private equity firms from 2006 to 2009. Previously, he served as the president and chief executive officer of Iomega Corporation, the provider of consumer and small-business data-storage solutions, from 2001 to 2006. Before joining Iomega, Mr. Heid was the executive vice president of global sales, marketing and service for InFocus Corporation, a leading supplier of multimedia projection systems for consumers and business, from 2000 to 2001. He joined InFocus when it acquired Proxima Corporation, where Mr. Heid served as president from 1998 to 2000. Prior to taking on his leadership role at Proxima, Mr. Heid was with Hewlett-Packard Corporation for 14 years, in both Europe and the United States. At Hewlett-Packard, he led the business definition and the successful global market launch of the company's All-In-One and color copier product businesses. Mr. Heid holds a masters degree in electrical engineering from University Karlsruhe in Germany.

David Henry joined Logitech as Senior Vice President, Control Devices Business Unit, in August 2001 and was named Senior Vice President, Customer Experience and Chief Marketing Officer in March 2007. From January 2000 to June 2001, Mr. Henry served as Vice President of Business Development and Product Management of Xigo Inc., a U.S. on-line intelligence software company. From November 1997 to January 2000, Mr. Henry held various positions with Iomega, a U.S. portable storage company. His last position with Iomega was Vice President and General Manager of Magnetic Products. Mr. Henry holds a BS degree in Mechanical Engineering from Union College of New York.

Junien Labrousse joined Logitech as Vice President of the Video Division in 1997. He was named Senior Vice President, Video Business Unit in April 2001, Senior Vice President, Entertainment and Communications in July 2005 and Executive Vice President, Products in March 2007. Prior to joining Logitech, he was Vice President of Engineering from 1995 to 1997 at Winnov LP, a U.S. company engaged in the development and marketing of

multimedia products. For more than 10 years he held several engineering and management positions at Royal Philips Electronics NV, a global electronics company, in research and in the semiconductor business division. Mr. Labrousse holds an MS degree in Electrical Engineering from the Ecole Supérieure d'Ingenieurs de Marseille, France and an MBA degree from Santa Clara University in California.

L. Joseph Sullivan joined Logitech in October 2005 as Vice President, Operations Strategy, and was appointed Senior Vice President, Worldwide Operations in April 2006. Prior to joining Logitech, Mr. Sullivan was Vice President of Operational Excellence and Quality for Carrier Corporation, a subsidiary of United Technologies, from 2001 to 2005. Previously, he was with ACCO Brands, Inc. in engineering and manufacturing management roles from 1998 to 2001. Mr. Sullivan holds a BS degree in Marketing Management and an MBA degree in Operations Management from Suffolk University in Massachusetts.

## Available Information

Our Investor Relations Web site is located at <http://ir.logitech.com>. We post and maintain an archive of our earnings and other press releases, current reports, annual and quarterly reports, earnings release schedule, information regarding annual general meetings, further information on corporate governance, and other information regarding the Company on the Investor Relations Web site. The information we post includes, and in the future will include, filings we make with the U.S. Securities and Exchange Commission (SEC), including reports on Forms 10-K, 10-Q, 20-F, 6-K, 8-K, our proxy statement related to our annual shareholders' meeting and any amendments to those reports or statements filed or furnished pursuant to U.S. securities laws. All such filings and information are available free of charge on the web site, and we make them available on the web site as soon as reasonably possible after we file or furnish them with the SEC. The contents of these web sites are not intended to be incorporated by reference into this report or in any other report or document we file and our references to these Web sites are intended to be inactive textual references only.

In addition, Logitech publishes press releases upon occurrence of significant events within Logitech. Shareholders and members of the public may elect to receive e-mails when Logitech issues press releases upon occurrence of significant events within Logitech or other press releases by subscribing through <http://ir.logitech.com/alerts.cfm>.

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As a Swiss company traded on the SIX Swiss Exchange, and as a company subject to the provisions of Section 16 of the Securities Exchange Act of 1934, as amended, we file reports on transactions in Logitech securities by members of Logitech's board of directors and executive officers. The reports that we file with the Securities and Exchange Commission on Forms 3, 4 and 5 may be accessed on our website or on the Securities and Exchange Commission's website at <http://www.sec.gov>, and the reports that we file that are published by the SIX Swiss Exchange may be accessed at [http://www.six-swiss-exchange.com/admission/being\\_public/mtrans/publication\\_en.html](http://www.six-swiss-exchange.com/admission/being_public/mtrans/publication_en.html).

For no charge, a copy of our annual reports and filings made with the SEC can be requested by contacting our Investor Relations department: Logitech Investor Relations, 6505 Kaiser Drive, Fremont, CA 94555 USA, Main 510-795-8500, e-mail: [investorrelations@logitech.com](mailto:investorrelations@logitech.com)

The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

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## 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 as well as a shift in consumer buying patterns toward lower-priced products.
- Reduced sales to our customers as they continue to lower their required inventory levels.
- Increased risk of customer bankruptcy or business failures, resulting in lower sales levels and increases in bad debt write-offs and receivables reserves.
- 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, resulting in higher returns reserves rates.
- 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 cash, cash equivalents and short-term investments.

An extended and severe global economic downturn could have a significant negative impact on our business, operating results, and financial condition. Declining economic conditions and fluctuations in our operating results may cause our results in a given quarter to be below the expectations of financial analysts and investors, which could cause the price of our shares to decline.

***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. We attempt to adjust product prices over time to offset the impact of currency movements. However, our operating results in the second half of fiscal year 2009 were

adversely affected by large and rapid fluctuations in currency exchange rates, and similar fluctuations within 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.

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 second half of fiscal year 2009, growing economic uncertainty caused our customers to reduce purchases of our products below what we had forecasted, and also led us to increase our customer incentives to stimulate demand, which significantly lowered 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.

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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 and may require us to take actions to increase our customer incentive programs, which could impact our revenues and operating margins.

In recent years, we have expanded the categories of products we sell, and entered new markets, such as the market for 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 very competitive, 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.

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*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 OEM sales, and our OEM sales accounted for 15% and 13% of total revenues during fiscal years 2009 and 2008. 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 addition, the increasing popularity of notebook PCs and mobile devices may result in a decreased demand by consumers for keyboards 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 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.

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***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.***

Our product portfolio includes products designed for use with third-party platforms such as the Apple iPod, Microsoft Xbox, Sony PlayStation, and Nintendo Wii. 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.

***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 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.

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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;
- 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.

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***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. We are currently 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.

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

In the fiscal quarter ended March 31, 2009, we implemented a restructuring which reduced Logitech's salaried workforce globally by 515 employees, in addition to other actions aimed at reducing operating expenses. The restructuring plan is expected to generate annual personnel cost savings beginning in fiscal year 2010 of approximately \$50 million, and approximately \$50 million additional variable cost savings through efforts to limit production costs and operating expenses.

Our ability to achieve the anticipated variable cost savings and other benefits from this restructuring within the expected time frame is subject to many estimates and assumptions, and may vary materially based on factors such as 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. In the event that the current economic conditions significantly worsen, further restructuring measures may be required in the future.

If our estimates and assumptions are incorrect 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.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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## ITEM 2. PROPERTIES

The table below represents our principal locations, their approximate square footage and their purposes as of March 31, 2009:

| Location                        | Purpose   | Approximate Square Footage |
|---------------------------------|---|----------------------------|
| <b>Americas:</b>                |   |                            |
| Fremont, California             | Americas Headquarters, research and development, product marketing, sales management, technical support, administration | 194,000                    |
| Vancouver, Washington           | Audio Business Unit   | 38,000                     |
| Mountain View, California       | Streaming Media Group   | 18,000                     |
| Mississauga, Canada             | Remote Controls Group   | 20,000                     |
| Irvine, California              | Ultimate Ears Group   | 13,500                     |
| Draper, Utah                    | Video Security Group  | 7,000                      |
| Olive Branch, Mississippi       | Distribution center   | 468,000                    |
| <b>EMEA:</b>                    |   |                            |
| Romanel-sur-Morges, Switzerland | Research and development, product marketing and technical   | 33,300                     |

|                       |  |         |
|-----------------------|--|---------|
| Morges, Switzerland   | support<br>EMEA headquarters, sales and marketing management,<br>technical support, administration   | 62,300  |
| Nijmegen, Netherlands | Finance, administration, distribution center support   | 29,000  |
| Cork, Ireland         | Finance, administration, research and development  | 18,000  |
| Seefeld, Germany      | Research and development, manufacturing  | 15,000  |
| Venray, Netherlands   | Distribution center  | 183,000 |
| Venlo, Netherlands    | Distribution center  | 80,000  |
| Zalaegerzeg, Hungary  | Distribution center  | 45,500  |
| <b>Asia Pacific:</b>  |  |         |
| Hsinchu, Taiwan       | Asia Pacific headquarters, mechanical engineering, new<br>product launches, process engineering, commodities<br>management, logistics, quality assurance, and administration | 112,000 |
| Suzhou, China         | High-volume manufacturing  | 854,000 |
| Suzhou, China         | Vertical integration, core technology development, molding<br>operations, video modules assembly   | 277,000 |
| Tokyo, Japan          | Sales, logistics, finance, administration and human resources  | 10,100  |

(1) Contracted through a third-party warehouse management company

Logitech also contracts with various distribution services throughout the world for additional warehouses in which we store inventory.

We also have leased sales offices in more than 60 locations in 41 countries, with various expiration dates from 2009 to 2027.

We believe that Logitech's manufacturing and distribution facilities are adequate for our ongoing needs and we continue to evaluate the need for facilities to meet current and anticipated future requirements.

### ITEM 3. 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, cash flows or financial condition.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Logitech's shares are listed and traded on both the SIX Swiss Exchange, where the share price is denominated in Swiss francs, and on the Nasdaq Global Select Market, where the share price is denominated in U.S. dollars. Prior to October 2006, Logitech's American Depositary Shares (ADSs) traded on the Nasdaq Global Select Market, with each ADS representing one registered share. In October 2006, we exchanged Logitech shares for our ADSs on a one-for-one basis, so that the same Logitech shares trade on the Nasdaq Global Select Market as on the SIX Swiss Exchange.

The trading symbol for Logitech shares is LOGI on Nasdaq and LOGN on the SIX Swiss Exchange. As of May 1, 2009, there were 191,606,620 shares issued (including 11,931,242 shares held as treasury stock) held by 16,094 holders of record, and the closing price of our shares was CHF 15.41 (\$13.52 based on exchange rates on such date) per share on the SIX Swiss Exchange and \$13.67 per share as reported by the Nasdaq Stock Market.

### ***SIX Swiss Exchange***

The following table sets forth certain historical share price information for the Company's shares traded on the SIX Swiss Exchange, as reported by the SIX Swiss Exchange. The U.S. dollar equivalent is based on the noon buying rate on the trading day of the month in which the high or low closing sales price occurred. The noon buying rate is the rate in New York City for cable transfers in selected currencies as certified for customs purposes by the Federal Reserve Bank of New York.

|                                  | <b>Price per Registered Share on the SIX Swiss Exchange</b> |                |                |               |
|----------------------------------|---|----------------|----------------|---------------|
|                                  | <b>High CHF</b>   | <b>Low CHF</b> | <b>High \$</b> | <b>Low \$</b> |
| <b>Quarterly Highs and Lows:</b> |   |                |                |               |
| Fiscal 2008:                     |   |                |                |               |
| First quarter                    | 34.95   | 31.20          | 28.81          | 25.43         |
| Second quarter                   | 34.66   | 30.65          | 29.69          | 25.45         |
| Third quarter                    | 41.52   | 34.16          | 36.82          | 28.93         |
| Fourth quarter                   | 40.50   | 23.44          | 36.38          | 23.77         |
| Fiscal 2009:                     |   |                |                |               |
| First quarter                    | 34.22   | 24.18          | 32.65          | 24.13         |
| Second quarter                   | 30.46   | 24.56          | 27.92          | 22.35         |
| Third quarter                    | 25.14   | 14.29          | 22.43          | 11.68         |
| Fourth quarter                   | 18.01   | 9.00           | 16.26          | 7.74          |

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### ***Nasdaq Global Select Market***

The following table sets forth certain historical share price information for the Company's shares traded on the Nasdaq Global Select Market.

|                                  | <b>Price per share on Nasdaq</b> |               |
|----------------------------------|----------------------------------|---------------|
|                                  | <b>High \$</b>                   | <b>Low \$</b> |
| <b>Quarterly Highs and Lows:</b> |                                  |               |
| Fiscal 2008:                     |                                  |               |
| First quarter                    | 28.96                            | 25.36         |
| Second quarter                   | 29.55                            | 25.76         |
| Third quarter                    | 37.07                            | 29.00         |
| Fourth quarter                   | 36.20                            | 23.91         |
| Fiscal 2009:                     |                                  |               |
| First quarter                    | 33.34                            | 24.13         |
| Second quarter                   | 27.91                            | 21.98         |
| Third quarter                    | 22.59                            | 11.17         |
| Fourth quarter                   | 16.11                            | 7.64          |

### **Dividends**

Under Swiss law, a corporation may only pay dividends upon a vote of its shareholders. This vote typically follows the recommendation of the corporation's board of directors. Logitech has not paid dividends since 1996 in order to retain earnings for use in the operation and expansion of the business and, in more recent years, to repurchase its shares.

Dividends paid and similar cash or in-kind distributions made by Logitech to a holder of Logitech shares (including dividends or liquidation proceeds and stock dividends) are subject to a Swiss federal anticipatory tax at a rate of 35%. The anticipatory tax must be withheld by Logitech from the gross distribution, and paid to the Swiss Federal Tax Administration.

A Swiss resident holder and beneficial owner of Logitech shares may qualify for a full refund of the Swiss anticipatory tax withheld from such dividends. A holder and beneficial owner of Logitech shares who is a non-resident of Switzerland, but a resident of a country that maintains a double tax treaty with Switzerland, may qualify for a full or partial refund of the Swiss anticipatory tax withheld from such dividends by virtue of the provisions of the applicable treaty between Switzerland and the country of residence of the holder and beneficial owner of the Logitech shares.

In accordance with the tax convention between the United States and the Swiss Confederation ("Treaty"), a mechanism is provided whereby a United States resident (as determined under the Treaty), and United States corporations, other than U.S. corporations having a "permanent establishment" or a fixed base, as defined in the Treaty, in Switzerland, generally can obtain a refund of the Swiss anticipatory tax withheld from dividends in respect of Logitech shares, to the extent that 15% of the gross dividend is withheld as final withholding tax (i.e. 20% of the gross dividend may generally be refunded). In specific cases, U.S. companies not having a "permanent establishment" or a fixed base in Switzerland owning at least 10% of Logitech registered shares may receive a refund of the Swiss anticipatory tax withheld from dividends to the extent it exceeds 5% of the gross dividend (i.e. 30% of the gross dividend may be refunded). To get the benefit of a refund, holders must beneficially own Logitech shares at the time such dividend becomes due.

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## 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<br>of Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Programs | Average Price Paid Per<br>Share |           | Approximate<br>Dollar<br>Value of<br>Shares That<br>May<br>Yet Be<br>Purchased<br>Under the<br>Programs |
|----------------|---|---------------------------------|-----------|---|
|                |   | in USD                          | in CHF    |   |
| April 2008     | -   | -                               | -         | \$ 204,616  |
| May 2008       | 928,000   | \$ 31.07                        | CHF 32.21 | 175,788   |
| June 2008      | 624,000   | \$ 32.35                        | CHF 33.24 | 155,599   |
| July 2008      | -   | -                               | -         | 155,599   |
| August 2008    | 470,000   | \$ 26.95                        | CHF 27.87 | 142,931   |
| September 2008 | 581,000   | \$ 24.67                        | CHF 27.03 | 128,599   |
| October 2008   | -   | -                               | -         | 128,599   |
| November 2008  | 200,000   | \$ 14.26                        | CHF 16.49 | 125,746   |
| December 2008  | -   | -                               | -         | 125,746   |
| January 2009   | -   | -                               | -         | 125,746   |
| February 2009  | -   | -                               | -         | 125,746   |

|            |           |   |   |         |
|------------|-----------|---|---|---------|
| March 2009 | -         | - | - | 125,746 |
| Total      | 2,803,000 |   |   |         |

In fiscal year 2009, 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. All share repurchases by the Company during fiscal year 2009 were made as part of publicly announced programs. 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 the completion of our current share buyback program of \$250 million.

## Performance Graph

*The information contained in the Performance Graph shall not be deemed to be [soliciting material] or [filed] with the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the [Exchange Act]), except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933, as amended (the [Securities Act]), or the Exchange Act.*

The following graph compares the cumulative total stockholder return on our shares, the Nasdaq Composite Index, and the S&P 500 Information Technology Index. The graph assumes that \$100 was invested in our shares, the Nasdaq Composite Index and the S&P 500 Information Technology Index on March 31, 2004, and calculates the return quarterly through March 31, 2009. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

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|                        | March 31, |        |        |        |        |       |
|------------------------|-----------|--------|--------|--------|--------|-------|
|                        | 2004      | 2005   | 2006   | 2007   | 2008   | 2009  |
| Logitech               | \$ 100    | \$ 133 | \$ 174 | \$ 243 | \$ 222 | \$ 90 |
| Nasdaq Composite Index | \$ 100    | \$ 100 | \$ 117 | \$ 121 | \$ 114 | \$ 77 |
| S&P 500 Index          | \$ 100    | \$ 105 | \$ 115 | \$ 126 | \$ 117 | \$ 71 |

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## ITEM 6. Selected Financial Data

The financial data below should be read in conjunction with Item 7 [Management]'s Discussion and Analysis of Financial Condition and Results of Operations. These historical results are not necessarily indicative of the results to be expected in the future.

|  | Year ended March 31,                     |              |              |                     |              |
|--|--|--------------|--------------|---------------------|--------------|
|  | 2009                                     | 2008         | 2007         | 2006 <sup>(1)</sup> | 2005         |
|  | (In thousands, except per share amounts) |              |              |                     |              |
| <b>Consolidated statements of operations and cash flow data:</b> |  |              |              |                     |              |
| Net sales  | \$ 2,208,832                             | \$ 2,370,496 | \$ 2,066,569 | \$ 1,796,715        | \$ 1,488,000 |
| Gross profit   | 691,226                                  | 849,118      | 709,525      | 574,110             | 500,000      |
| Operating expenses:  |  |              |              |                     |              |
| Marketing and selling  | 319,167                                  | 324,451      | 272,264      | 221,504             | 200,000      |
| Research and development   | 128,755                                  | 124,544      | 108,256      | 87,953              | 70,000       |
| General and administrative                                       | 113,103                                  | 113,443      | 98,143       | 65,742              | 50,000       |
| Restructuring charges  | 20,547                                   | -            | -            | -                   | -            |

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|  |            |            |            |            |       |
|--|------------|------------|------------|------------|-------|
| Total operating expenses                     | 581,572    | 562,438    | 478,663    | 375,199    | 33    |
| Operating income                             | 109,654    | 286,680    | 230,862    | 198,911    | 17    |
| Net income                                   | \$ 107,032 | \$ 231,026 | \$ 229,848 | \$ 181,105 | \$ 14 |
| Net income per share:                        |            |            |            |            |       |
| Basic  | \$ 0.60    | \$ 1.27    | \$ 1.26    | \$ 1.00    | \$    |
| Diluted                                      | \$ 0.59    | \$ 1.23    | \$ 1.20    | \$ 0.92    | \$    |
| Shares used to compute net income per share: |            |            |            |            |       |
| Basic  | 178,811    | 181,362    | 182,635    | 181,361    | 17    |
| Diluted                                      | 182,911    | 187,942    | 190,991    | 198,769    | 19    |
| Net cash provided by operating activities    | \$ 200,587 | \$ 393,079 | \$ 303,825 | \$ 152,217 | \$ 21 |

|   | 2009         | 2008         | March 31,<br>2007<br>(In thousands) | 2006         | 2005    |
|---|--------------|--------------|-------------------------------------|--------------|---------|
| <b>Consolidated balance sheet data:</b>   |              |              |                                     |              |         |
| Cash and cash equivalents                 | \$ 492,759   | \$ 482,352   | \$ 196,197                          | \$ 245,014   | \$ 34   |
| Short-term investments                    | \$ 1,637     | \$ 3,940     | \$ 214,625                          | \$ -         | \$      |
| Total assets                              | \$ 1,421,530 | \$ 1,526,932 | \$ 1,327,463                        | \$ 1,057,064 | \$ 1,02 |
| Long-term debt, net of current maturities | \$ -         | \$ -         | \$ -                                | \$ 4         | \$ 14   |
| Shareholders' equity                      | \$ 997,708   | \$ 960,044   | \$ 844,524                          | \$ 685,176   | \$ 52   |

- (1) Net income for fiscal years 2006 and 2005 does not include the effect of share-based compensation expense, because Logitech implemented Financial Accounting Standards No. 123 (revised 2004), *Share-based Payment*, effective April 1, 2006.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these statements as a result of certain factors, including those set forth above in Item 1A [Risk Factors], and below in Item 7A [Quantitative and Qualitative Disclosures about Market Risk].

### 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 85% and 87% of our net sales for the fiscal years ended March 31, 2009 and 2008. 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 committed to identifying and meeting current and future customer trends with new and improved product technologies, as well as leveraging 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 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 severe global economic recession had a substantial negative impact on our financial results for fiscal year 2009. Our total net sales (retail and OEM) for the year decreased 7% to \$2,208.8 million compared with the prior fiscal year, with retail sales declining 23% and OEM sales declining 21% in the last six months of the fiscal year compared with the same period in the prior fiscal year. Retail sales in our Americas region and Europe, Middle East and Africa (EMEA) region declined 15% and 11% in fiscal year 2009 compared with fiscal year 2008, reflecting consumers' reluctance to spend and their preference for purchasing lower-price products, as well as our channel partners' decisions to reduce inventory levels. Retail sales in our Asia Pacific region for fiscal year 2009 increased 16%. An increase in Asia Pacific sales of 38% in the first six months of the fiscal year was partially offset by a decline of 3% in the last six months.

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Retail sales of all product lines except video decreased during fiscal year 2009. Video retail sales increased compared with the depressed sales levels in fiscal year 2008. Our gross margin for fiscal year 2009 decreased to 31.3% compared with 35.8% in the prior fiscal year, primarily due to the mix of products sold 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 fiscal year ended March 31, 2009 decreased to \$107.0 million compared with \$231.0 million in the prior fiscal year. Net income for fiscal year 2009 included the negative impact of \$20.5 million in costs related to the restructuring plan initiated in January 2009 to reduce operating expenses and improve financial results in response to deteriorating global economic conditions.

### **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 second half of fiscal year 2009, our customers substantially decreased their inventory purchases, in reaction to the global decline in consumer demand and, to a lesser extent, as a result of retailer consolidation. In addition, our sales to customers in Eastern Europe and other emerging markets have declined due to customers' lack of available credit to finance purchases of inventory. We believe it is likely that the decline in demand and sales compared with year-ago periods will continue in all our regions at least through the first quarter of fiscal year 2010.

We have a large and varied portfolio of product lines, grouped in several product families. Our total sales and profitability have been impacted recently 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 dependent on 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.

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 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. We believe our future sales growth will be significantly affected by our ability to develop sales and innovations in our current products as well as emerging product categories which are not PC-dependent.

In addition, in our OEM channel, the shift away from desktop PCs 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 OEM sales, and our OEM sales accounted for 15% and 13% of total revenues during fiscal years 2009 and 2008. We expect the trend of slowing OEM mice sales to continue. Our OEM sales were growing despite the decline in sales of mice due to our sales of microphones for use with particular game titles for gaming consoles. However, 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 sales 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.

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, British pound, Chinese renminbi and Japanese yen. Our product costs are primarily in U.S. dollars and Chinese renminbi. Our operating expenses are incurred in U.S. dollars, euros, Swiss francs, Taiwanese dollars and, to a lesser extent, 25 other currencies. In previous years, our pricing strategy generally included, among other factors, raising or lowering selling prices in other currencies over time to avoid disparity with U.S. dollar prices and to respond to currency-driven competitive pricing actions. In the current global economic downturn, our ability to manage local currency selling prices in response to changes in the U.S. dollar has been reduced because of weak consumer spending. We have chosen to prioritize sustaining and gaining market share in our product lines, rather than managing short-term exchange rate fluctuations.

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Our gross margins vary with the mix of products sold, competitive activity, product life cycle, new product introductions, unit volumes, commodity and supply chain costs, foreign currency exchange rate fluctuations, 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. Gross margins declined in fiscal year 2009, compared with the prior fiscal year, due to product mix and increases in promotional efforts in response to sagging consumer demand. We expect these trends to also affect gross margins in fiscal year 2010.

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 fiscal year ended March 31, 2009 compared with the prior fiscal year are principally the result of decreased income before income taxes and changes in the geographical mix of income.

In the fiscal quarter ended March 31, 2009, we implemented a restructuring plan which reduced Logitech's salaried workforce globally by 515 employees, in addition to other actions aimed at reducing operating expenses. We incurred approximately \$20.5 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. We expect to incur an additional \$4 million to \$6 million in related charges in fiscal year 2010. The restructuring plan is expected to generate annual personnel cost savings beginning in fiscal year 2010 of approximately \$50 million, and approximately \$50 million additional variable cost savings through efforts to limit production costs and operating

expenses. The size and timing of future restructuring charges and cost savings are estimates subject to significant future economic, competitive and other uncertainties, and there can be no assurance that we will fully realize the anticipated future results. In the event that the current economic conditions significantly worsen, further restructuring measures may be required in the future.

### **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.

We believe the following accounting estimates are most critical to our business operations and to an understanding of our financial condition and results of operations, and reflect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

#### ***Accruals for Customer Programs***

We record accruals for product returns, cooperative marketing arrangements, customer incentive programs and price protection. The estimated cost of these programs is accrued in the period the Company sells the product or commits to the program as a reduction of revenue or as an operating expense, if we receive a separately identifiable benefit from the customer and can reasonably estimate the fair value of that benefit. Significant management judgment and estimates must be used to determine the cost of these programs in any accounting period.

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*Returns.* The Company grants limited rights to return product. Return rights vary by customer, and range from just the right to return defective product to stock rotation rights to return a limited percentage of the previous quarter's purchases. Estimates of expected future product returns are recognized at the time of sale based on analyses of historical return trends by customer and by product, inventories owned by and located at distributors and retailers, current customer demand, current operating conditions, and other relevant customer and product information, such as stage of product life-cycle. Return trends are influenced by the timing of the sale, the type of customer, operational policies and procedures, product sell-through, product quality issues, sales levels, market acceptance of products, competitive pressures, new product introductions, product life cycle status, and other factors. Return rates can fluctuate over time, but are sufficiently predictable to allow us to estimate expected future product returns.

*Cooperative Marketing Arrangements.* The Company's cooperative marketing arrangements include contractual customer marketing and sales incentive programs. We enter into customer marketing programs with many of our distribution and retail customers allowing customers to receive a credit equal to a set percentage of their purchases of the Company's products, or a fixed dollar credit for various marketing programs. The objective of these programs is to encourage advertising and promotional events to increase sales of our products. Accruals for the estimated costs of these marketing programs are recorded based on the contractual percentage of product purchased in the period we recognize revenue. The Company also offers rebates and discounts for certain types of sell-through programs. Accruals for these sales incentive programs are recorded at the time of sale, or time of commitment, based on negotiated terms, historical experience and inventory levels in the channel.

*Customer Incentive Programs.* Customer incentive programs include volume and consumer rebates. We offer volume rebates to our distribution and retail customers related to purchase volumes or sales of specific products by distributors to specified retailers. Reserves for volume rebates are recognized as a reduction of the sale price at the time of sale. Estimates of required reserves are determined based on negotiated terms, consideration of historical experience, anticipated volume of future purchases, and inventory levels in the channel. Consumer rebates are offered from time to time at the Company's discretion directly to end-users. Estimated costs of consumer rebates and similar incentives are recorded at the time the incentive is offered, based on the specific terms and conditions. Certain incentive programs, including consumer rebates, require management to estimate the number of customers who will actually redeem the incentive based on historical experience and the specific terms and conditions of particular programs.

*Price Protection and Special Pricing.* We have contractual agreements with certain of our customers that contain terms allowing price protection credits to be issued in the event of a subsequent price reduction (contractual price protection). At management's discretion, we also offer special pricing discounts to certain customers. Special pricing discounts are usually offered only for limited time periods or for sales to specific indirect partners. Our decision to make price reductions is influenced by channel inventory levels, product life cycle stage, market acceptance of products, the competitive environment, new product introductions and other factors. Credits are issued for units that customers have on hand or in transit at the date of the price reduction. Reserves for the estimated amounts to be reimbursed to qualifying customers are established quarterly based on planned price reductions, analyses of qualified inventories on hand with distributors and retailers and historical trends by customer and by product.

We regularly evaluate the adequacy of our accruals for product returns, cooperative marketing arrangements, customer incentive programs and price protection. Future market conditions and product transitions may require the Company to take action to increase such programs. In addition, when the variables used to estimate these costs change, or if actual costs differ significantly from the estimates, we would be required to record incremental reductions to revenue or increase operating expenses. If, at any future time, the Company becomes unable to reasonably estimate these costs, recognition of revenue might be deferred until products are sold to end-users, which would adversely impact revenue in the period of transition.

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### ***Short-term Investments***

We have short-term investments that are primarily auction rate securities and are classified as available-for-sale as of March 31, 2009. Auction rate securities generally have maturity dates greater than 10 years, with interest rates that typically reset through an auction every 28 days. The Company's short-term investments are reported at estimated fair value. The fair value of short-term investments is estimated based on quoted market prices, if available, or 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 markets for the auction rate securities we hold as of March 31, 2009 have failed since August 2007, and due to continuing dislocations in the worldwide credit markets, are not expected to resume in the foreseeable future, if at all. As a result, the Company has valued the remaining \$1.6 million in short-term investments in its portfolio as of March 31, 2009 solely by pricing the underlying collateral using published mortgage indices or interest rate spreads for comparably-rated collateral pools and applying discounted cash flow or option pricing methods to the estimated collateral value.

### ***Allowance for Doubtful Accounts***

We sell our products through a worldwide network of distributors, retailers and OEM customers. Logitech generally does not require any collateral from its customers. However, we seek to control our credit risk through ongoing credit evaluations of our customers' financial condition.

We regularly evaluate the collectibility of our accounts receivable and maintain allowances for doubtful accounts. The allowances are based on management's assessment of the collectibility of specific customer accounts, including their credit worthiness and financial condition, as well as the Company's historical experience with bad debts and customer deductions, receivables aging, current economic trends and geographic or country-specific risks and the financial condition of our distribution channel. If management determines that a

customer's accounts receivable balance is uncollectible, recognition of revenue from that customer is deferred until collectibility is reasonably assured.

As of March 31, 2009, two customers represented 18% and 10% of total accounts receivable. The customers comprising the ten highest outstanding trade receivable balances accounted for approximately 55% of total accounts receivable as of March 31, 2009. A deterioration of a significant customer's financial condition could cause actual write-offs to be materially different from the estimated allowance. If any of these customers' receivable balances should be deemed uncollectible or if actual write-offs are higher than historical experience, we would have to make adjustments to our allowance for doubtful accounts, which could result in an increase in the Company's operating expenses.

### ***Inventory Valuation***

The Company must order components for its products and build inventory in advance of customer orders. Further, our industry is characterized by rapid technological change, short-term customer commitments and rapid changes in demand.

We record inventories at the lower of cost or market value and record write-downs of inventories which are obsolete or in excess of anticipated demand or market value. A review of inventory is performed each fiscal quarter that considers factors including the marketability and product life cycle stage, product development plans, component cost trends, demand forecasts and current sales levels. We identify inventory exposures by comparing inventory on hand, in the channel and on order to historical and forecasted sales over six month periods. Inventory on hand which is not expected to be sold or utilized based on review of forecasted sales and utilization is considered excess, and we recognize the write-off in cost of sales at the time of such determination. At the time of loss recognition, a new, lower-cost basis for that inventory is established and subsequent changes in facts and circumstances would not result in an increase in the cost basis. If there were an abrupt and substantial decline in demand for Logitech's products or an unanticipated change in technological or customer requirements, we may be required to record additional write-downs which could adversely affect gross margins in the period when the write-downs are recorded.

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### ***Share-Based Compensation Expense***

Share-based compensation expense includes compensation expense, reduced for estimated forfeitures, for awards granted after April 1, 2006 based on the grant-date fair value estimated using the Black-Scholes-Merton option-pricing valuation model for stock options and stock purchases and the Monte-Carlo simulation model for restricted stock units (RSUs). Compensation expense for these awards is recognized on a straight-line basis over the service period of the award. For share-based compensation awards granted prior to but not yet vested as of April 1, 2006, share-based compensation expense is based on the grant-date fair value estimated using the Black-Scholes-Merton option-pricing valuation model reduced for estimated forfeitures, and recognized on a straight-line basis over the service period for each separately vesting portion of the award. See Note 13-Employee Benefit Plans in the Notes to the Consolidated Financial Statements for further discussion of share-based compensation.

Our estimates of share-based compensation expense require a number of complex and subjective assumptions including our stock price volatility, employee exercise patterns, future forfeitures, dividend yield, related tax effects and the selection of an appropriate fair value model. We estimate expected share price volatility based on historical volatility using daily prices over the term of past options, RSUs or purchase offerings, as we consider historical share price volatility as most representative of future stock option volatility. We estimate expected life based on historical settlement rates, which we believe are most representative of future exercise and post-vesting termination behaviors. We use historical data to estimate pre-vesting option forfeitures, and we record share-based compensation expense only for those awards that are expected to vest. The dividend yield assumption is based on the Company's history and future expectations of dividend payouts.

The assumptions used in calculating the fair value of share-based compensation expense and related tax effects represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, or if we

decide to use a different valuation model, our share-based compensation expense could be materially different in the future from what we have recorded in the current period, which could materially affect our results of operations.

### **Accounting for Income Taxes**

Logitech operates in multiple jurisdictions and its profits are taxed pursuant to the tax laws of these jurisdictions. The Company's effective tax rate may be affected by the changes in 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. As a result of these considerations, we must estimate income taxes in each of the jurisdictions in which we operate. This process involves estimating current tax exposure together with assessing temporary differences resulting from different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheet.

We assess the likelihood that our deferred tax assets will be recovered from future taxable income, considering all available evidence such as historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax strategies. We believe it is more likely than not that such assets will be realized; however, ultimate realization could be negatively impacted by market conditions and other variables not known or anticipated at this time. In the event we determine that we would not be able to realize all or part of our deferred tax assets, an adjustment would be charged to earnings in the period such determination is made. Likewise, if we later determine that it is more likely than not that the deferred tax assets would be realized, the previously provided valuation allowance would be reversed.

We adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* [an interpretation of FASB Statement No. 109 (FIN 48)] as of April 1, 2007, as required. The implementation of the provisions of FIN 48 requires us to make certain estimates and judgments about the application of tax law, the expected resolution of uncertain tax positions and other matters. In the event that uncertain tax positions are resolved for amounts different than our estimates, or the related statutes of limitations expire without the assessment of additional income taxes, we will be required to adjust the amounts of the related assets and liabilities in the period in which such events occur. Such adjustments may have a material impact on our income tax provision and our results of operations. Note 14 of the consolidated financial statements describes FIN 48 and the effects on our results of operations and financial position arising from its adoption.

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### **Valuation of Long-Lived Assets**

We review long-lived assets, such as investments, property, plant and equipment, and goodwill and other intangible assets for impairment whenever events indicate that the carrying amount of these assets might not be recoverable. Factors considered important which could require us to review an asset for impairment include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of use of the assets or the strategy for the Company's overall business;
- significant negative industry or economic trends;
- significant decline in the Company's stock price for a sustained period; and
- market capitalization relative to net book value.

Recoverability of investments, property, plant and equipment, and other intangible assets is measured by comparing the projected undiscounted cash flows the asset is expected to generate with its carrying amount. If an asset is considered impaired, the impairment to be recognized is measured by the excess of the carrying amount of the asset over its fair value.

We evaluate goodwill for impairment on an annual basis and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable from our estimated future cash flows. Recoverability of goodwill is measured at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired, and a second test is performed to measure the amount of impairment loss. While the Company has fully integrated all of its acquired companies, it continues to maintain discrete financial information for 3Dconnexion and accordingly determines impairment for the goodwill acquired with the 3Dconnexion acquisition at the entity level. All other acquired goodwill is evaluated for impairment at a total enterprise level.

In determining fair value, we consider various factors including estimates of future market growth and trends, forecasted revenue and costs, expected periods over which our assets will be utilized, and other variables. We calculate the Company's fair value based on the present value of projected cash flows using a discount rate determined by management to be commensurate to the risk inherent in the Company's current business model. To date, we have not recognized any impairment of goodwill. Logitech bases its fair value estimates on assumptions it believes to be reasonable, but which are inherently uncertain.

### 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 April 2009, the FASB issued FASB Staff Position No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* ("FSP 141R-1"). This FSP amends the accounting in SFAS 141R for assets and liabilities arising from contingencies in a business combination. FSP 141R-1 requires that pre-acquisition contingencies be recognized at fair value, if fair value can be reasonably determined. If fair value cannot be reasonably determined, FSP 141R-1 requires measurement based on the best estimate in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*. FSP 141R-1 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.

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In April 2009, the FASB issued FASB Staff Position No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ("FSP 157-4"). Based on the guidance, if an entity determines that the level of activity for an asset or liability has significantly decreased and that a transaction is not orderly, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transaction or quoted prices may be necessary to estimate fair value in accordance with FASB Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). FSP 157-4 is to be applied prospectively and is effective for interim and annual periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. Logitech will adopt FSP 157-4 in the first quarter of fiscal year 2010. We do not expect that FSP 157-4 will have a material impact on the Company's consolidated financial statements and disclosures.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ("FSP 107-1"), which amends FASB Statement No. 107, *Disclosures about Fair Values of Financial Instruments*, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. FSP 107-1 also amends Accounting Principles Board Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP 107-1 is effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company will adopt FSP 107-1 in the

first quarter of fiscal year 2010 and does not expect that the adoption of the FSP will have a material impact on the Company's consolidated financial statements and disclosures.

In April 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP 115-2 and 124-2), which amends the other-than-temporary guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP 115-2 and 124-2 is effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company will adopt FSP 115-2 and 124-2 in the first quarter of fiscal year 2010 and does not expect that the adoption of the FSP will have a material impact on the Company's consolidated financial statements and disclosures.

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 FSP 142-3 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. FSP 142-3 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 December 2008, the FASB issued FASB 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 fiscal year 2010, and are evaluating the disclosure impact.

## Results of Operations

### Year Ended March 31, 2009 Compared with Year Ended March 31, 2008

#### Net Sales

Net sales by channel and product family for fiscal years 2009 and 2008 were as follows (in thousands):

|                                     | 2009         | 2008         | Change % |
|-------------------------------------|--------------|--------------|----------|
| <b>Net sales by channel:</b>        |              |              |          |
| Retail                              | \$ 1,887,343 | \$ 2,067,288 | (9%)     |
| OEM                                 | 321,489      | 303,208      | 6%       |
| Total net sales                     | \$ 2,208,832 | \$ 2,370,496 | (7%)     |
| <b>Net sales by product family:</b> |              |              |          |
| Retail - Pointing Devices           | \$ 579,775   | \$ 615,524   | (6%)     |
| Retail - Keyboards & Desktops       | 384,809      | 464,984      | (17%)    |
| Retail - Audio                      | 445,362      | 478,455      | (7%)     |
| Retail - Video                      | 248,339      | 238,728      | 4%       |
| Retail - Gaming                     | 127,052      | 146,016      | (13%)    |
| Retail - Remotes                    | 102,006      | 123,581      | (17%)    |
| OEM                                 | 321,489      | 303,208      | 6%       |
| Total net sales                     | \$ 2,208,832 | \$ 2,370,496 | (7%)     |

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 and wireless music systems. Our video product family

is comprised of PC webcams and WiLife video security systems. Gaming includes console and PC gaming peripherals. Remotes is comprised of our advanced remote controls. Net sales reflect accruals for product returns, cooperative marketing arrangements, customer incentive programs and price protection.

The decline in retail sales in fiscal year 2009 compared with fiscal year 2008 was attributable to the global economic downturn, as reflected in consumers' reluctance to spend and their buying preference for lower-price products, and our channel partners' decisions to reduce inventory levels. Retail sales declined 23% in the last six months of fiscal year 2009, compared with an increase of 11% in the first six months. OEM sales were higher for fiscal year 2009, due to demand in the first three fiscal quarters of the year for our microphones for singing games.

Approximately 46% of our sales in fiscal year 2009 were denominated in currencies other than the U.S. dollar, which compares with approximately 45% in fiscal year 2008. If foreign currency exchange rates in fiscal year 2009 had been the same as in fiscal year 2008, our total sales decrease would have been 6% instead of 7%. The negative impact on net sales of the strengthening of the U.S. dollar in the six months ended March 31, 2009 offset the positive effect of foreign currency exchange rate fluctuations which benefited net sales in the six months ended September 30, 2008, resulting in an immaterial impact of exchange rates on net sales for the fiscal year considered as a whole.

*Retail Pointing Devices.* Retail sales of our pointing devices decreased 6% and units decreased 2% in fiscal year 2009 compared with the prior fiscal year. Sales of corded mice declined 13%, with units decreasing 8%. Sales of cordless mice increased 4% and units increased 10%, primarily driven by sales of our notebook mice: the V450 Nano Cordless Mouse, the V220 Cordless Optical Mouse, and the V550 Nano Cordless Laser Mouse. The slower decline or higher increase in unit sales compared with dollar sales for cordless and corded mice indicates consumers' current preference for the value segment of our product lines.

*Retail Keyboards and Desktops.* Sales of keyboards and desktops decreased 17% and units decreased 10% during fiscal year 2009 compared with fiscal year 2008. Sales of corded keyboards and desktops decreased 5% and units decreased 7%. Sales of cordless keyboards and desktops decreased 21%, with a 17% decline in units, with strong sales of our cordless desktops EX 100 and MX 5500 more than offset by declines in sales of the MX5000 Laser and EX 110 cordless desktops.

*Retail Audio.* Retail audio sales declined 7% in fiscal year 2009, with units down 2%, primarily due to lower PC speaker sales, which decreased 20% in dollars and 8% in units. 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 22% in fiscal year 2009, with an 8% increase in units, primarily due to strong contributions from our PureFi Anywhere 2 speakers. PC headset sales grew 9% and units increased 3%, driven by our new ClearChat PC Wireless and ClearChat Comfort USB headsets. Streaming Media and Ultimate Ears products also provided positive contributions to retail audio sales.

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*Retail Video.* Video sales increased 4% and units increased 3%, primarily attributable to sales of our WiLife video security products in fiscal year 2009, and depressed comparative sales in fiscal year 2008. Sales of our Communicate MP and QuickCam Connect webcams were also strong, but were offset by a decline in sales of our QuickCam Communicate STX.

*Retail Gaming.* Retail sales of our gaming peripherals decreased 13% while units decreased 22% in fiscal year 2009. PC gaming sales decreased 13% with an 18% decrease in units, primarily due to lower sales of our G15 gaming keyboard and our MOMO Racing Force Feedback steering wheel, partially offset by sales of our G25 Racing Wheel. Console gaming sales decreased 12% with a 28% decline in units. The growth in sales of our GT Driving Force steering wheel were more than offset by declines in the sale of PlayStation gamepads and the Driving Force Pro steering wheel.

*Retail Remotes.* Retail remote sales decreased 17% and units increased 8% in fiscal year 2009, reflecting strong sales of our lower-priced Harmony One remote control, increased promotional activity and declines in the sales of our Harmony 880 and the higher-priced Harmony 1000.



**Retail Regional Performance.** Sales in our Americas region decreased 15% and units decreased 5% in fiscal year 2009 compared with fiscal year 2008, with sales declines in all product lines except video. The lower decline in units compared with sales dollars reflects a higher proportion of value-segment products in the overall product mix. Retail sales declined 26% in the Americas region in the last six months of the fiscal year, compared with flat sales in the first six months. EMEA region retail sales declined 11% in U.S. dollars and 8% in local currency across all product lines in fiscal year 2009, with units decreasing 8%. Sales in Eastern Europe and other emerging markets were particularly depressed, reflecting the economic downturn, customers' lack of available credit to finance purchases of inventory, and currency volatility. EMEA retail sales in the last six months of fiscal year 2009 decreased 26% over the prior year, compared with an increase of 12% in the first six months of the fiscal year. Sales in our Asia Pacific region increased 16% in U.S. dollars and 11% in local currency in fiscal year 2009, and units increased 8%, driven by growth in all product lines. Asia Pacific region retail sales declined 3% in the last six months of fiscal year 2009, compared with an increase of 38% in the first six months.

**OEM.** Sales of OEM products increased 6% and units increased 2% during fiscal year 2009 compared with fiscal year 2008, primarily due to the continued success of our microphones for singing games for Playstation 3, Wii and Xbox 360 in the first three quarters of the fiscal year. OEM sales increased 38% in the first six months of fiscal year 2009 and declined 21% in the second six months. The Company does not expect sales of microphones for singing games to be a primary driver of OEM sales growth in the near future.

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### Gross Profit

Gross profit for fiscal years 2009 and 2008 was as follows (in thousands):

|                    | <b>2009</b>  | <b>2008</b>  | <b>Change %</b> |
|--------------------|--------------|--------------|-----------------|
| Net sales          | \$ 2,208,832 | \$ 2,370,496 | (7%)            |
| Cost of goods sold | 1,517,606    | 1,521,378    | (0%)            |
| Gross profit       | \$ 691,226   | \$ 849,118   | (19%)           |
| Gross margin       | 31.3%        | 35.8%        |                 |

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 decreased 19% in dollars and declined as a percentage of revenue primarily due to the decline in net sales, an increasingly promotional environment, the mix of products sold, and higher freight and intangible amortization costs in fiscal year 2009 compared with fiscal year 2008.

### Operating Expenses

Operating expenses for fiscal years 2009 and 2008 were as follows (in thousands):

|                            | <b>2009</b> | <b>2008</b> | <b>Change %</b> |
|----------------------------|-------------|-------------|-----------------|
| Marketing and selling      | \$ 319,167  | \$ 324,451  | (2%)            |
| % of net sales             | 14.4%       | 13.7%       |                 |
| Research and development   | 128,755     | 124,544     | 3%              |
| % of net sales             | 5.8%        | 5.3%        |                 |
| General and administrative | 113,103     | 113,443     | 0%              |
| % of net sales             | 5.1%        | 4.8%        |                 |
| Restructuring charges      | 20,547      | -           | 0%              |
| % of net sales             | 0.9%        | 0.0%        |                 |
| Total operating expenses   | \$ 581,572  | \$ 562,438  | 3%              |

### ***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 personnel costs increased in fiscal year 2009 compared with fiscal year 2008. Headcount was higher in the first three quarters of fiscal year 2009, partially due to the addition of the WiLife product marketing group. The impact of the 9% decrease in headcount resulting from the restructuring in the fourth quarter of fiscal year 2009 will be reflected in future quarters' expenses. Bad debt expense also increased significantly in fiscal year 2009, due to customers' financial difficulties related to the economic downturn. The increase in personnel costs and bad debt expense was more than offset by lower spending in advertising, marketing development funds and travel expenses 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 was not material.

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### ***Research and Development***

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

Research and development expense increased in fiscal year 2009 due to research and development costs of companies acquired in fiscal years 2009 and 2008. 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 fiscal year ended March 31, 2009, also contributed to the increase. These increases were partially offset by decreased travel and other discretionary expenses in the second half of fiscal year 2009. Personnel costs were approximately the same in fiscal years 2009 and 2008. The impact of the 8% decrease in research and development headcount resulting from the restructuring in the fourth quarter of fiscal year 2009 will be reflected in future quarters' 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 was approximately the same in fiscal years 2009 and 2008. Personnel costs increased 2% during fiscal year 2009 primarily due to an increase in share-based compensation expense. The impact of the 22% decrease in general and administrative headcount resulting from the restructuring in the fourth quarter of fiscal year 2009 will be reflected in future quarters' expenses. 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 relative to the U.S. dollar during the fiscal year ended March 31, 2009, also contributed to the increase. These increases were offset by decreases in consulting fees and travel expenses resulting from cost containment efforts in fiscal year 2009.

### ***Restructuring Charges***

Restructuring charges consist of termination benefits, asset impairment charges, contract termination costs and other charges associated with the restructuring plan initiated in January 2009.

The restructuring plan reduced our salaried workforce by 515 employees, resulting in \$16.4 million in termination benefits to those employees. Termination benefits are calculated based on regional benefit practices and local statutory requirements. An additional \$3.4 million in pension plan curtailment and settlement costs were incurred as a result of the terminations. Restructuring charges also included exit costs associated with the closure of existing facilities and write downs of fixed assets that will not be placed in service due to the

abandonment of the related projects.

The following table summarizes restructuring-related activities during fiscal year 2009 (in thousands):

|                           | <b>Total</b> | <b>Termination Benefits</b> | <b>Asset Impairments</b> | <b>Contract Termination Costs</b> | <b>Other</b> |
|---------------------------|--------------|-----------------------------|--------------------------|-----------------------------------|--------------|
| Balance at March 31, 2008 | \$ -         | \$ -                        | \$ -                     | \$ -                              | \$ -         |
| Charges                   | 20,547       | 16,428                      | 556                      | 200                               | 3,364        |
| Cash payments             | (12,764)     | (12,579)                    | -                        | (185)                             | -            |
| Charges against assets    | (556)        | -                           | (556)                    | -                                 | -            |
| Other                     | (3,485)      | (121)                       | -                        | -                                 | (3,364)      |
| Foreign Exchange          | 51           | 51                          | -                        | -                                 | -            |
| Balance at March 31, 2009 | \$ 3,794     | \$ 3,779                    | \$ -                     | \$ 15                             | \$ -         |

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### **Interest Income, Net**

Interest income and expense for fiscal years 2009 and 2008 were as follows (in thousands):

|                      | <b>2009</b> | <b>2008</b> | <b>Change %</b> |
|----------------------|-------------|-------------|-----------------|
| Interest income      | \$ 8,648    | \$ 15,752   | (45%)           |
| Interest expense     | (20)        | (244)       | (92%)           |
| Interest income, net | \$ 8,628    | \$ 15,508   | (44%)           |

Interest income was lower for fiscal year 2009 due to significantly lower interest rates compared with the prior year.

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

Other income and expense for fiscal years 2009 and 2008 were as follows (in thousands):

|                                      | <b>2009</b> | <b>2008</b> | <b>Change %</b> |
|--------------------------------------|-------------|-------------|-----------------|
| Foreign currency exchange gains, net | \$ 13,680   | \$ 10,616   | 29%             |
| Gain on sale of investments, net     | -           | 27,761      | (100%)          |
| Write-down of investments            | (2,727)     | (79,823)    | (97%)           |
| Other, net                           | (2,442)     | 2,072       | (218%)          |
| Other income (expense), net          | \$ 8,511    | \$ (39,374) | (122%)          |

The increase in foreign exchange gains during fiscal year 2009 was due to gains on 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.

During the fiscal years ended March 31, 2009 and 2008, we recorded write-downs of \$2.7 million and \$79.8 million related to other-than-temporary declines in the estimated fair value of our short-term investments. During fiscal year 2008, 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.

Other, net decreased significantly during fiscal year 2009 compared with the prior year, due primarily to losses in our management deferred compensation plan investments. Other income in fiscal year 2008 also includes \$1.0 million gain on the sale of our ioPen retail product line.

### Provision for Income Taxes

The provision for income taxes and effective tax rate for fiscal years 2009 and 2008 were as follows (in thousands):

|                            | <b>2009</b> | <b>2008</b> |
|----------------------------|-------------|-------------|
| Provision for income taxes | \$ 19,761   | \$ 31,788   |
| Effective income tax rate  | 15.6%       | 12.1%       |

The provision for income taxes consists of income and withholding taxes. The increase in the effective tax rate to 15.6% compared with 12.1% in fiscal year 2008 is primarily due to decreased income before income taxes and changes in the Company's geographic mix of income.

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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 income tax expense for fiscal year 2009 reflected a \$2.0 million tax benefit for research tax credits.

On February 20, 2009, California budget legislation was enacted that will affect the methodology used by corporate taxpayers to apportion income to California. These changes will become effective for the Company's fiscal year ending March 31, 2012. The Company believes that these changes will not have a material impact on its results of operations or financial condition.

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### Year Ended March 31, 2008 Compared with Year Ended March 31, 2007

#### Net Sales

Net sales by channel and product family for fiscal years 2008 and 2007 were as follows (in thousands):

|                                     | <b>2008</b>  | <b>2007</b>  | <b>Change %</b> |
|-------------------------------------|--------------|--------------|-----------------|
| <b>Net sales by channel:</b>        |              |              |                 |
| Retail                              | \$ 2,067,288 | \$ 1,844,395 | 12%             |
| OEM                                 | 303,208      | 222,174      | 36%             |
| Total net sales                     | \$ 2,370,496 | \$ 2,066,569 | 15%             |
| <b>Net sales by product family:</b> |              |              |                 |
| Retail - Pointing Devices           | \$ 615,524   | \$ 508,449   | 21%             |
| Retail - Keyboards & Desktops       | 464,984      | 372,266      | 25%             |
| Retail - Audio                      | 478,455      | 408,314      | 17%             |
| Retail - Video                      | 238,728      | 314,514      | (24%)           |
| Retail - Gaming                     | 146,016      | 149,113      | (2%)            |
| Retail - Remotes                    | 123,581      | 91,739       | 35%             |
| OEM                                 | 303,208      | 222,174      | 36%             |
| Total net sales                     | \$ 2,370,496 | \$ 2,066,569 | 15%             |

Retail sales growth in fiscal year 2008 was primarily attributable to strong contributions from pointing devices, keyboards, desktops, audio products and remotes. OEM sales were higher as a result of strong sales of gaming peripherals, keyboards and desktops. We achieved strong sales growth in spite of a highly promotional market that resulted in higher consumer rebates as compared with the prior fiscal year. Approximately 54% of the Company's sales were denominated in currencies other than the U.S. dollar in fiscal year 2008. Net sales growth benefited from the strengthening of the euro during fiscal year 2008; however this benefit does not consider the impact that currency fluctuations had on our pricing strategy, which may result in selling prices in one currency being raised or lowered to avoid disparity with U.S. dollar prices and to respond to currency-driven competitive pricing actions.

*Retail Pointing Devices.* Sales of our pointing devices increased 21% and units increased 13% during fiscal year 2008 compared with fiscal year 2007. The growth was led by sales of our cordless mice which increased 30% during the year, with units increasing 40%. Our VX Nano Cordless Laser Mouse for notebooks, our V220 Cordless Optical Mouse for notebooks and our V320 Cordless Mouse for notebooks were the primary contributors to the sales growth during the year.

*Retail Keyboards and Desktops.* Sales of keyboards and desktops increased 25% and units increased 19% during fiscal year 2008 compared with the prior fiscal year, primarily due to strong contributions from our Cordless Desktop Wave and our MX 3200 Laser Cordless Desktop in our high-end category and the Cordless Desktop EX 90 in our value segment. Our notebook stands also contributed to our growth in this category.

*Retail Audio.* Our retail audio sales increased 17% in dollars and 2% in units in fiscal year 2008 compared with the prior year. The growth was primarily from sales of PC speakers, which increased 38% with unit growth of 26%, driven by sales of our Z-5500 Digital speakers and our X-240 and Z-2300 speakers. Sales of our Pure-Fi Anywhere speakers in the digital music category also contributed to the sales of our audio products.

*Retail Video.* The Company's video sales in dollars and units decreased 24% in fiscal year 2008 compared with fiscal year 2007, primarily due to slower than expected consumer demand in the webcam market, particularly in our EMEA region, where video sales decreased 40% as compared with the prior fiscal year. The decline in video sales in comparison with the prior year began in the fourth quarter of fiscal year 2007.

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*Retail Gaming.* Sales of retail gaming peripherals in fiscal year 2008 decreased 2% and units decreased 17% compared with the prior fiscal year. PC gaming sales increased 3%, primarily driven by sales of our G15 Gaming Keyboard and our G25 Racing Wheel. Console gaming sales decreased 13% and units decreased 28% as compared with the prior fiscal year, due to a decline in sales related to peripherals for prior generation consoles, particularly the PlayStation 2. Sales of our cordless controllers for PlayStation 3 did not offset the decline in prior generation consoles.

*Retail Remotes.* Remote control sales in fiscal year 2008 increased 35% and units increased 20% as compared with fiscal year 2007. The growth was primarily attributable to sales of our new Harmony One and our Harmony 1000 remote controls.

*Retail Regional Performance.* The Company's Americas and Asia Pacific regions achieved double-digit retail sales growth of 12% and 32% and unit growth of 8% and 13% compared with the prior fiscal year. Growth in the Americas region was driven by solid contributions from sales of pointing devices, remotes, keyboards and desktops. In the Asia Pacific region, all product lines except video achieved double-digit retail sales growth. Retail sales in the EMEA region increased 8% and units increased 2%, led by sales of remotes, audio products, pointing devices, keyboards and desktops. Sales in the EMEA region have been disproportionately impacted by the decline in video sales, which decreased 40% compared with the prior fiscal year. Modest sales growth in the EMEA region has hindered the Company's overall sales growth for each of the four quarters of fiscal year 2008. The disparity between sales growth and unit growth in all regions was primarily due to product mix and currency fluctuations. In particular, the strengthening of the euro in fiscal year 2008 positively impacted the sales growth in the EMEA region; however this benefit does not consider the impact that currency fluctuations have on the Company's pricing strategy, which may result in selling prices in one currency being raised or lowered to avoid disparity with U.S. dollar prices and to respond to currency-driven competitive pricing actions.

*OEM.* Our OEM products achieved 36% sales growth and 12% unit growth during fiscal year 2008 compared with fiscal year 2007. OEM sales of gaming peripherals increased significantly, driven by microphones for singing games for PlayStation 3, Wii and Xbox 360. Keyboards and desktops also made a strong contribution to our OEM sales growth in fiscal year 2008.

### **Gross Profit**

Gross profit for fiscal years 2008 and 2007 was as follows (in thousands):

|                    | <b>2008</b>  | <b>2007</b>  | <b>Change %</b> |
|--------------------|--------------|--------------|-----------------|
| Net sales          | \$ 2,370,496 | \$ 2,066,569 | 15%             |
| Cost of goods sold | 1,521,378    | 1,357,044    | 12%             |
| Gross profit       | \$ 849,118   | \$ 709,525   | 20%             |
| Gross margin       | 35.8%        | 34.3%        |                 |

Gross profit increased 20% in fiscal year 2008 compared with the prior fiscal year. The growth resulted from an increase in sales combined with higher margins associated with our newly launched products. Gross margin improvements were achieved primarily on cordless mice, cordless keyboards, PC speakers and console gaming peripherals. In addition, we continued to make an effort to reduce product costs and increase supply chain efficiencies during fiscal year 2008.

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### **Operating Expenses**

Operating expenses for fiscal years 2008 and 2007 were as follows (in thousands):

|                            | <b>2008</b> | <b>2007</b> | <b>Change %</b> |
|----------------------------|-------------|-------------|-----------------|
| Marketing and selling      | \$ 324,451  | \$ 272,264  | 19%             |
| % of net sales             | 13.7%       | 13.2%       |                 |
| Research and development   | 124,544     | 108,256     | 15%             |
| % of net sales             | 5.3%        | 5.2%        |                 |
| General and administrative | 113,443     | 98,143      | 16%             |
| % of net sales             | 4.8%        | 4.7%        |                 |
| Total operating expenses   | \$ 562,438  | \$ 478,663  | 18%             |

### **Marketing and Selling**

Marketing and selling expenses increased 19% in fiscal year 2008 compared with fiscal year 2007 primarily due to increased personnel costs related to headcount additions during the year to support higher retail sales levels as well as increased advertising and product promotion costs such as our advertising campaign for our remotes product line launched during the fourth quarter of fiscal year 2008. The impact of exchange rate changes on translation of foreign currency marketing and selling expenses to the Company's U.S. dollar financial statements, particularly from the stronger euro and Swiss franc relative to the U.S. dollar, also contributed to the increase.

### **Research and Development**

The increase in research and development expense reflects our commitment to continued investment in research and development initiatives, particularly in the audio, video and control devices product lines. Increased personnel costs related to headcount additions in the last half of fiscal year 2007 were the largest contributor to the increases in research and development expense for fiscal year 2008. The impact of exchange rate changes on translation of foreign currency research and development expenses to the Company's U.S. dollar financial

statements, particularly from the stronger euro, Swiss franc and Canadian dollar relative to the U.S. dollar, also contributed to the increase.

### **General and Administrative**

General and administrative expense increased primarily as a result of an increase in personnel and occupancy expenses. Personnel costs increased 19% during the year due to headcount increases in the latter half of fiscal year 2007 to support new systems and internal control procedures implemented during fiscal year 2007. Depreciation expense increased significantly compared with the prior fiscal year primarily due to equipment and computer hardware purchases during fiscal year 2008. Rent expense also increased during the year due to expanded facilities. The impact of exchange rate changes on translation of foreign currency general and administrative expenses to the Company's U.S. dollar financial statements, particularly from the stronger euro and Swiss franc relative to the U.S. dollar, also contributed to the increase.

### **Interest Income, Net**

Interest income and expense for fiscal years 2008 and 2007 were as follows (in thousands):

|                      | <b>2008</b> | <b>2007</b> | <b>Change %</b> |
|----------------------|-------------|-------------|-----------------|
| Interest income      | \$ 15,752   | \$ 9,083    | 73%             |
| Interest expense     | (244)       | (350)       | (30%)           |
| Interest income, net | \$ 15,508   | \$ 8,733    | 78%             |

Interest income was higher for fiscal year 2008 due to higher invested balances in cash, short-term bank deposits and short-term investments, and slightly higher returns earned on invested amounts.

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

Other income and expense for fiscal years 2008 and 2007 were as follows (in thousands):

|                                      | <b>2008</b> | <b>2007</b> | <b>Change %</b> |
|--------------------------------------|-------------|-------------|-----------------|
| Foreign currency exchange gains, net | \$ 10,616   | \$ 6,190    | 72%             |
| Gain on sale of investments, net     | 27,761      | 9,048       | 207%            |
| Write-down of investments            | (79,823)    | -           | -               |
| Other, net                           | 2,072       | 724         | 186%            |
| Other income (expense), net          | \$ (39,374) | \$ 15,962   | (347%)          |

During fiscal year 2008, we recorded a write-down of \$79.8 million related to an other-than-temporary decline in the estimated fair value of our short-term investments. We also recorded a gain of \$33.7 million related to the short-term investments that we sold as part of a confidential settlement agreement in the third quarter of fiscal year 2008. In addition, we sold all of our investments collateralized by corporate debt during the third quarter of fiscal year 2008 and recorded a realized loss of \$6.0 million. The change in foreign currency exchange gains during fiscal year 2008 resulted primarily from gains related to the sale of the Company's euro currency for U.S. dollars. The Company does not speculate in currency positions, but is alert to opportunities to maximize its foreign exchange gains. Other income also includes \$1.0 million gain on the sale of our ioPen retail product line.

Other income for fiscal year 2007 included a gain of \$9.1 million on the sale of our investment in Anoto Group AB, a publicly traded Swedish technology company from which we licensed our digital pen technology.

### **Provision for Income Taxes**

The provision for income taxes and effective tax rate for fiscal years 2008 and 2007 were as follows (in thousands):

|                            | <b>2008</b> | <b>2007</b> |
|----------------------------|-------------|-------------|
| Provision for income taxes | \$ 31,788   | \$ 25,709   |
| Effective income tax rate  | 12.1%       | 10.1%       |

The provision for income taxes consists of income and withholding taxes. The increase in the effective tax rate to 12.1% compared with 10.1% in fiscal year 2007 is primarily due to changes in the Company's geographic mix of income and other-than-temporary declines in the estimated fair value of our short-term investments. The Company did not derive a tax benefit from the other-than-temporary declines in the estimated fair value of short-term investments.

## Liquidity and Capital Resources

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

At March 31, 2009, net working capital was \$709.4 million, compared with \$723.2 million at March 31, 2008. The decrease in working capital over the prior year was due to a decrease in accounts receivable and inventory balances, partially offset by a decrease in accounts payable and accrued liabilities.

During fiscal year 2009, operating activities generated cash of \$200.6 million. Our largest source of operating cash flows was cash collections from customers. We used \$113.1 million in investing activities, \$64.4 million of which was paid primarily for our acquisitions of Ultimate Ears and SightSpeed, and \$48.3 million was used for capital expenditures, including investments for manufacturing equipment, leasehold improvements, tooling costs and computer hardware and software purchases. Net cash used in financing activities was \$41.2 million. We used \$78.9 million during fiscal year 2009 to repurchase shares under our share buyback programs, while proceeds from the exercise of employee stock options provided \$31.1 million.

At March 31, 2009, we had cash and cash equivalents of \$492.8 million and short-term investments of \$1.6 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 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 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 \$2.7 million impairment loss related to the other-than-temporary decline in the fair value of our short-term investments during fiscal year 2009. We also recorded an unrealized gain of \$0.4 million related to temporary increases in the fair value of our short-term investments. 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 \$139.0 million as of March 31, 2009. 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 and our current financial condition. At March 31, 2009, the Company 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 its 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.

### **Cash Flow from Operating Activities**

The following table presents selected financial information and statistics for fiscal years 2009, 2008 and 2007 (dollars in thousands):

|  | <b>2009</b> | <b>2008</b> | <b>2007</b> |
|--|-------------|-------------|-------------|
| Accounts receivable, net                               | \$ 213,929  | \$ 373,619  | \$ 310,377  |
| Inventories  | \$ 233,467  | \$ 245,737  | \$ 217,964  |
| Working capital  | \$ 709,382  | \$ 723,221  | \$ 549,125  |
| Days sales in accounts receivable (DSO) <sup>(1)</sup> | 47 days     | 56 days     | 54 days     |
| Inventory turnover (ITO) <sup>(2)</sup>                | 5.2x        | 6.3x        | 6.2x        |
| Net cash provided by operating activities              | \$ 200,587  | \$ 393,079  | \$ 303,825  |

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

(2) ITO is determined using ending inventories and annualized cost of goods sold (based on the most recent quarterly cost of goods sold).

During fiscal year 2009, the Company's operating activities generated net cash of \$200.6 million compared with \$393.1 million in the prior year. The decrease was due primarily to a decline in net income during the year. DSO for fiscal year 2009 improved by 9 days compared with fiscal year 2008 due to higher collections and lower sales. 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. Inventory turnover decreased compared with the prior year because sales decreased at a faster rate than inventory was reduced.

During fiscal year 2008, the Company's operating activities generated net cash of \$393.1 million compared with \$303.8 million in the prior year. The increase was primarily due to improved working capital efficiency and operating profit. DSO for fiscal year 2008 increased by 2 days compared with fiscal year 2007. Our accounts receivable increased at a faster rate than our net sales, which contributed to the increase in DSO.

### **Cash Flow from Investing Activities**

Cash flows from investing activities during fiscal years 2009, 2008 and 2007 were as follows (in thousands):

|   | <b>2009</b>  | <b>2008</b> | <b>2007</b>  |
|---|--------------|-------------|--------------|
| Purchases of property, plant and equipment                    | \$ (48,263)  | \$ (57,900) | \$ (47,246)  |
| Purchases of short-term investments                           | -            | (379,793)   | (416,475)    |
| Sales of short-term investments                               | -            | 538,479     | 201,850      |
| Sale of investment  | -            | 13,308      | 12,874       |
| Acquisitions, net of cash acquired                            | (64,430)     | (59,722)    | (20,524)     |
| Premiums paid on cash surrender value life insurance policies | (427)        | (1,151)     | (537)        |
| Net cash provided by (used in) investing activities           | \$ (113,120) | \$ 53,221   | \$ (270,058) |

Our purchases of plant and equipment during fiscal year 2009 were principally for computer hardware and software purchases, machinery and equipment and normal expenditures for tooling.

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In fiscal year 2009, we acquired the Ultimate Ears companies for \$31.8 million, net of cash acquired of \$0.2 million, including transaction costs of \$0.5 million and excluding a \$1.8 million holdback provision which has been recorded as a liability in the accompanying consolidated financial statements. We also acquired SightSpeed for \$31.1 million in cash including transaction costs of \$1.0 million. In addition, we paid \$2.0 million for a pre-acquisition contingency recorded during the third quarter of fiscal year 2009 related to our WiLife acquisition and \$0.4 million for patent rights acquired pursuant to a patent settlement agreement.

Our purchases of plant and equipment during fiscal year 2008 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.

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During the third quarter of fiscal year 2008, we sold 50% of all of our short-term investments as part of a confidential settlement agreement and received \$84.3 million in cash. In addition, we sold our remaining short-term investments collateralized by corporate debt for \$28.3 million, at a realized loss of \$6.0 million. We also reinvested \$130.9 million into short-term bank deposits, which are classified as cash equivalents in the Company's balance sheet. The balance of the activity in short-term investments related to purchases and sales made during the first quarter of fiscal year 2008. The Company no longer invests in auction rate securities.

We received \$11.3 million during fiscal year 2008 from the sale in March 2007 of the balance of our investment in Anoto. We also received \$2.0 million from the sale of our ioPen retail product line.

In fiscal year 2008, the Company acquired WiLife, Inc. for \$22.0 million, net of cash acquired of \$0.1 million and including \$0.7 million in transaction costs. We also paid a deferred payment of \$37.7 million to the former shareholders of Intrigue Technologies, Inc., which we acquired in May 2004.

The Company's purchases of property, plant and equipment in fiscal year 2007 were primarily normal expenditures for tooling costs, machinery and equipment, and computer hardware and software. In April 2006, we sold 42% of our Anoto stock for \$12.9 million. In fiscal year 2007, we acquired Slim Devices Inc. for \$20.4 million, net of \$0.2 million cash acquired 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 fiscal years 2009, 2008 and 2007 (in thousands except per share amounts):

|   | <b>2009</b> | <b>2008</b>  | <b>2007</b> |
|---|-------------|--------------|-------------|
| Repayments of short-term debt, net  | \$ -        | \$ (11,739)  | \$ (2,181)  |
| Purchases of treasury shares  | (78,870)    | (219,742)    | (138,095)   |
| Proceeds from sale of shares upon exercise of options and purchase rights | 31,119      | 50,603       | 44,706      |
| Excess tax benefits from share-based compensation                         | 6,592       | 15,231       | 13,076      |
| Net cash used in financing activities                                     | \$ (41,159) | \$ (165,647) | \$ (82,494) |

|                              | <b>2009</b> | <b>2008</b> | <b>2007</b> |
|------------------------------|-------------|-------------|-------------|
| Number of shares repurchased | 2,803       | 7,784       | 5,610       |
| Value of shares repurchased  | \$ 78,870   | \$ 219,742  | \$ 138,095  |
| Average price per share      | \$ 28.14    | \$ 28.23    | \$ 24.62    |

Cash used in financing activities during fiscal year 2009 included share repurchases of 2.8 million shares, totaling \$78.9 million under the Company's June 2007 buyback program. The buyback program announced in June 2007 authorized the purchase of up to \$250.0 million in Logitech shares. We received proceeds of \$31.1 million from the sale of 3.1 million shares upon exercise of employee stock options and share purchases under our stock

plans. In addition, tax benefits recognized on the exercise of share-based payment awards provided \$6.6 million.

During fiscal year 2008, we repaid in full our short-term debt borrowings of \$11.7 million. We also repurchased 7.8 million shares for \$219.7 million under the buyback programs announced in May 2006 and June 2007. The buyback program announced in May 2006 authorized the purchase of up to \$250.0 million in Logitech shares. The sale of 4.7 million shares upon exercise of employee stock options pursuant to the Company's stock plans realized \$50.6 million during fiscal year 2008. In addition, cash of \$15.2 million was provided by tax benefits recognized on the exercise of share-based payment awards.

During fiscal year 2007, we used \$138.1 million for share repurchases of 5.6 million shares pursuant to the Company's buyback programs announced in June 2005 and May 2006. The buyback program announced in June 2005 authorized the purchase of up to CHF 300.0 million (approximately \$235.0 million based on exchange rates at the date of announcement) in Logitech shares. Cash flow from financing activities included \$44.7 million in proceeds from the sale of 5.2 million shares under the Company's employee option and share purchase plans, and \$13.1 million related to tax benefits recognized on the exercise of share-based payment awards. Short-term debt was reduced by \$2.2 million.

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### **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 addition, continued deterioration of global economic conditions may adversely affect our operations and may also 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 March 31, 2009 was \$125.7 million. We significantly lowered our share repurchase activity in the second half of fiscal year 2009 compared with the prior fiscal year in order to maximize our cash position in light of the current economic environment.

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 the completion of our current share buyback program of \$250 million.

In the fiscal quarter ended March 31, 2009, we implemented a restructuring plan which reduced Logitech's salaried workforce globally by 515 employees, in addition to other actions aimed at reducing operating expenses. We incurred \$20.5 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. We expect to incur an additional \$4 million to \$6 million in fiscal year 2010. The restructuring plan is expected to generate annual personnel cost savings beginning in fiscal year 2010 of approximately \$50 million, and approximately \$50 million additional variable cost savings through efforts to limit production costs and operating expenses. The size and timing of future restructuring charges and cost savings are estimates subject to significant future economic, competitive and other uncertainties, and there can be no assurance that we will fully realize the anticipated future results. In the event that the current economic conditions significantly worsen, further restructuring measures may be required in the future.

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 amount, if any, will be recorded in goodwill and will not be final until the end of calendar year 2009. As of March 31, 2009, no amounts were payable towards performance-based payments under our acquisition agreement.

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 \$40.0 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.

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

Over the past several years, we have been able to generate positive cash flow from our operating activities. We generated cash from operations of \$200.6 million in fiscal year 2009. 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.

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### Contractual Obligations and Commitments

As of March 31, 2009, 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, (iv) long-term liabilities for income taxes payable, and (v) defined benefit pension plan obligations. The following summarizes our contractual obligations and commitments at March 31, 2009 (in thousands):

|   | Total      | Payments Due by Period <sup>(1)</sup> |           |           |                   |
|---|------------|---------------------------------------|-----------|-----------|-------------------|
|   |            | Less than 1 year                      | 1-3 years | 4-5 years | More than 5 years |
| Operating leases                              | \$ 46,850  | \$ 12,805                             | \$ 16,945 | \$ 10,140 | \$ 6,960          |
| Purchase commitments - inventory              | 106,686    | 106,686                               | -         | -         | -                 |
| Purchase obligations - capital expenditures   | 8,267      | 8,267                                 | -         | -         | -                 |
| Purchase obligations - operating expenses     | 27,616     | 27,616                                | -         | -         | -                 |
| Other liabilities <sup>(2)</sup>              | 137,401    | -                                     | -         | -         | -                 |
| Total contractual obligations and commitments | \$ 326,820 | \$ 155,374                            | \$ 16,945 | \$ 10,140 | \$ 6,960          |

(1) The table above does not include the performance based payments that we may have to make as part of our acquisition agreements described above.

(2) Other liabilities at March 31, 2009 included \$10.5 million for deferred compensation, \$101.5 million related to our FIN 48 income tax liability, \$22.7 million in pension liability related to our defined benefit pension plans, of which \$2.9 million is payable in the next 12 months, and \$2.7 million related to various other obligations. As the specific payment dates for these obligations are unknown, the related balances have not been reflected in the "Payments Due by Period" section of the table.

### Operating Leases

The remaining terms on our non-cancelable operating leases expire in various years through 2027. Our asset retirement obligations on these leases as of March 31, 2009 were not material.

### ***Purchase Commitments***

We expect to continue making capital expenditures in the future to support product development activities and ongoing and expanded operations. At March 31, 2009, fixed purchase commitments for capital expenditures amounted to \$8.3 million, and primarily related to commitments for manufacturing equipment, 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 March 31, 2009, fixed purchase commitments for inventory amounted to \$106.7 million, which are expected to be fulfilled by December 31, 2009. We also had other commitments of \$27.6 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.

### ***Income Taxes Payable***

At March 31, 2009, we had \$101.5 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.

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### ***Defined Benefit Pension Plan Obligations***

At March 31, 2009, we had \$22.7 million in pension liability related to our defined benefit pension plans, of which \$2.9 million is payable in the next 12 months. See Note 13 □ Employee Benefit Plans for more information.

### ***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 March 31, 2009, the amount of outstanding guaranteed purchase obligations was approximately \$0.1 million. The maximum potential future payments under two of the three guarantee arrangements is limited to \$2.8 million in total. The third 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 \$4.9 million as of March 31, 2009. As of March 31, 2009, \$4.9 million was 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 March 31, 2009. 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.

## Research and Development

For a discussion of the Company's research and development activities, patents and licenses, please refer to Item 1 "Business".

## ITEM 7A. QUANTITATIVE AND QUALITATIVE 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 Chinese renminbi ("CNY"), euro, British pound, Japanese yen, Taiwanese dollar, Mexican peso and Swiss franc. 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.

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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 March 31, 2009. 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     | \$ 104,088                                 | \$ (9,463)  | \$ 11,565   |
| Euro                | British pound        | 24,949                                     | (2,268)   | 2,772   |
| Japanese yen        | U.S. dollar          | (23,341)                                   | 2,122   | (2,593)   |
| Taiwanese dollar    | U.S. dollar          | 12,540                                     | (1,140)   | 1,393   |
| Mexican peso        | U.S. dollar          | (7,184)                                    | 653   | (798)   |
| U.S. dollar         | Swiss franc          | (6,916)                                    | 629   | (768)   |
| Euro                | Swiss franc          | (4,222)                                    | 384   | (469)   |

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|             |                             |            |            |           |
|-------------|-----------------------------|------------|------------|-----------|
| U.S. dollar | Euro                        | 3,152      | (287)      | 350       |
| U.S. dollar | Canadian dollar             | (1,697)    | 154        | (189)     |
| Euro        | Swedish krona               | (1,500)    | 136        | (167)     |
| Euro        | Croatian kuna               | 980        | (89)       | 109       |
| Euro        | United Arab Emirates dirham | 942        | (86)       | 105       |
| Euro        | Danish krone                | 684        | (62)       | 76        |
| Euro        | Czech koruna                | (566)      | 51         | (63)      |
| Euro        | Polish zloty                | 522        | (47)       | 58        |
|             |                             | \$ 102,431 | \$ (9,313) | \$ 11,381 |

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 March 31, 2009, net assets held in CNY totaled \$104.1 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 March 31, 2009, the notional amount of forward foreign exchange contracts outstanding for forecasted inventory exposures was \$21.9 million. These forward contracts generally mature within three months. Deferred realized gains of \$1.5 million and deferred unrealized losses of \$1.3 million are recorded in accumulated other comprehensive loss at March 31, 2009, and are expected to be reclassified to cost of goods sold when the related inventory is sold.

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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 March 31, 2009 were \$8.0 million. The notional amounts of foreign exchange swap contracts outstanding at March 31, 2009 were \$20.2 million. Unrealized net losses on the contracts outstanding at March 31, 2009 were \$0.4 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 \$4.2 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 \$4.2 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. 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 March 31, 2009 and March 31, 2008 period end rates would not have a material effect on the Company's results of operations or cash flows.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Logitech's financial statements and supplementary data required by this item are set forth as a separate section of this Form 10-K. See Item 15 (a) for a listing of financial statements provided in the section titled "Financial Statements and Supplementary Data."

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

Logitech's Chief Executive Officer and acting 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-K, 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-K, 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 acting Chief Financial Officer, to allow timely decisions regarding required disclosure.

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## **Management's Report on Internal Control over Financial Reporting**

Logitech's management, with oversight by the Board of Directors, is responsible for establishing and maintaining adequate internal control over financial reporting. Logitech's internal control system was designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation and fair presentation of financial statements in accordance with generally accepted accounting principles in the United States.

Logitech's management assessed the effectiveness of our internal control over financial reporting as of March 31, 2009. In making this assessment, management used the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management concluded that our internal control over financial reporting was effective as of March 31, 2009.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of the Company's internal control over financial reporting as of March 31, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in Item 8.



## 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 March 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## ITEM 9B. OTHER INFORMATION

None.

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding our executive officers is incorporated herein by reference to Part I, Item 1, above.

Other information required by this Item may be found in the definitive Proxy Statement for the 2009 Annual Meeting of Shareholders and is incorporated herein by reference. The definitive Proxy Statement will be filed with the Commission within 120 days after our fiscal year end of March 31, 2009 (the Proxy Statement).

The Company's code of ethics policy entitled, "Business Ethics and Conflict of Interest Policy of Logitech International S.A.," covers members of the Company's board of directors and its executive officers (including the principal executive officer, principal financial officer and controller) as well as all other employees.

The code of ethics addresses, among other things, the following items:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- Full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the Commission and in other public communications made by us;
- Compliance with applicable governmental laws, rules and regulations;
- The prompt internal reporting to an appropriate person or persons identified in the code of violations of any of the provisions described above; and
- Accountability for adherence to the code.

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Any amendments or waivers of the code of ethics for members of the Company's board of directors or executive officers will be disclosed in the investor relations section of the Company's Web site within four business days following the date of the amendment or waiver and will also be disclosed either on a Form 8-K or the Company's next Form 10-K filing. During fiscal year 2009, no waivers or amendments were made to the code of ethics for any Director or Executive Officer.

Logitech's code of ethics is available on the Company's Web site at [www.logitech.com](http://www.logitech.com), and for no charge, a copy of the Company's code of ethics can be requested via the following address or phone number:

Logitech  
Investor Relations  
6505 Kaiser Drive  
Fremont, CA 94555 USA  
Main 510-795-8500

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item may be found in the Proxy Statement for the 2009 Annual Meeting of Shareholders and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information with respect to this item may be found in the Proxy Statement for the 2009 Annual Meeting of Shareholders and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The following information is incorporated herein by reference to the Proxy Statement:

- Information regarding transactions with related persons is set forth under Certain Related Person Transactions.
- Information regarding director independence is set forth under Election of Directors.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information with respect to this item may be found in the Proxy Statement for the 2009 Annual Meeting of Shareholders and is incorporated herein by reference.

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements

Report of the Independent Registered Public Accounting Firm

Consolidated Statements of Income  Years Ended March 31, 2009, 2008 and 2007

Consolidated Balance Sheets  March 31, 2009 and 2008

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Consolidated Statements of Cash Flows  Years Ended March 31, 2009, 2008 and 2007

Consolidated Statements of Changes in Shareholders' Equity  Years Ended March 31, 2009, 2008 and 2007

Notes to Consolidated Financial Statements

Unaudited Quarterly Financial Data

2. Financial Statement Schedule

Schedule II  Valuation and Qualifying Accounts

## 3. Exhibits

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## Index to Exhibits

| Exhibit No. | Exhibit  | Form | Incorporated by Reference File No. | Filing Date | Exhibit No. | Filed Herewith |
|-------------|--|------|------------------------------------|-------------|-------------|----------------|
| 3.1         | Articles of Incorporation of Logitech International S.A. as amended  | 10-Q | 0-29174                            | 11/04/08    | 3.1         |                |
| 3.2         | Organizational Regulations of Logitech International S.A. as amended   |      |                                    |             |             | X              |
| 10.1        | 1996 Stock Plan, as amended **   | S-8  | 333-100854                         | 05/27/03    | 4.2         |                |
| 10.2        | Logitech International S.A. 2006 Stock Incentive Plan (including related forms of option grant agreements) **  | S-8  | 333-140429                         | 02/02/07    | 4.2         |                |
| 10.3        | Representative form of Performance Restricted Stock Unit agreement under the Logitech International S.A. 2006 Stock Incentive Plan **  |      |                                    |             |             | X              |
| 10.4        | Logitech Inc. Management Deferred Compensation Plan **   | 10-Q | 0-29174                            | 11/04/08    | 10.1        |                |
| 10.5        | 1996 Employee Share Purchase Plan (U.S.), as amended **  | S-8  | 333-157038                         | 01/30/09    | 10.1        |                |
| 10.6        | 2006 Employee Share Purchase Plan (Non-U.S.), as amended **  | S-8  | 333-157038                         | 01/30/09    | 10.2        |                |
| 10.7        | Form of Director and Officer Indemnification Agreement with Logitech International S.A. **   | 20-F | 0-29174                            | 05/21/03    | 4.1         |                |
| 10.8        | Form of Director and Officer Indemnification Agreement with Logitech Inc. **   | 20-F | 0-29174                            | 05/21/03    | 4.2         |                |
| 10.9        | Logitech Management Performance Bonus Plan **  | 8-K  | 0-29174                            | 05/13/08    | 10.1        |                |
| 10.10       | Employment Agreement dated December 3, 2008 between Logitech Inc. and Gerald P. Quindlen **  | 8-K  | 0-29174                            | 12/09/08    | 10.1        |                |
| 10.11       | Change of Control Severance Agreement dated December 3, 2008 among Logitech International S.A., Logitech Inc. and Gerald P. Quindlen **  | 8-K  | 0-29174                            | 12/09/08    | 10.4        |                |
| 10.12       | Employment agreement dated January 28, 2008 between Logitech Inc. and Guerrino De Luca **  | 10-K | 0-29174                            | 05/30/08    | 10.10       |                |
| 10.13       | Change of Control Severance Agreement dated December 3, 2008 among Logitech International S.A., Logitech Inc. and Guerrino De Luca **  | 8-K  | 0-29174                            | 12/09/08    | 10.5        |                |
| 10.14       | Form of Employment Agreement dated December 3, 2008 between Logitech Inc. and each of Mark J. Hawkins, David Henry, Junien Labrousse, and L. Joseph Sullivan **                    | 8-K  | 0-29174                            | 12/09/08    | 10.2        |                |
| 10.15       | Form of Change of Control Severance Agreement between Logitech Inc., Logitech International S.A. and executive officers other than the Chairman and the Chief Executive Officer ** | 10-K | 0-29174                            | 05/30/08    | 10.6        |                |
| 10.16       | Offer letter dated December 24, 2008 between Logitech Inc. and Werner Heid **  |      |                                    |             |             | X              |
| 21.1        |  |      |                                    |             |             | X              |

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|      | List of subsidiaries of Logitech International S.A.   |  |   |
|------|---|--|---|
| 23.1 | Consent of Independent Registered Public Accounting Firm  |  | X |
| 24.1 | Power of Attorney (incorporated by reference to the signature page of this Annual Report of Form 10-K)                                  |  | X |
| 31.1 | Certification by acting Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002                               |  | X |
| 31.2 | Certification by Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002                                      |  | X |
| 32.1 | Certification by Chief Executive Officer and acting Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002 * |  | X |

\* 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 certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that we explicitly incorporate it by reference.

\*\* Indicates management compensatory plan, contract or arrangement.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of 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/ Thomas E. Fergoda  
 Thomas E. Fergoda  
 Vice President and Corporate  
 Controller

June 1, 2009

**POWER OF ATTORNEY**

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KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Gerald P. Quindlen and Thomas E. Fergoda, jointly and severally, his or her attorney-in-fact, with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

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| <b>Signature</b>                             | <b>Title</b>   | <b>Date</b>  |
|--|--|--------------|
| /s/ Gerald P. Quindlen<br>Gerald P. Quindlen | President and Chief Executive Officer (Principal Executive Officer)                                    | June 1, 2009 |
| /s/ Thomas E. Fergoda<br>Tom E. Fergoda      | Vice President and Corporate Controller (Principal Financial Officer and Principal Accounting Officer) | June 1, 2009 |
| /s/ Guerrino De Luca<br>Guerrino De Luca     | Chairman of the Board  | June 1, 2009 |
| /s/ Gerald P. Quindlen<br>Gerald P. Quindlen | Director   | June 1, 2009 |
| /s/ Daniel Borel<br>Daniel Borel             | Director   | June 1, 2009 |
| /s/ Matthew Bousquette<br>Matthew Bousquette | Director   | June 1, 2009 |
| /s/ Erh-Hsun Chang<br>Erh-Hsun Chang         | Director   | June 1, 2009 |
| /s/ Kee-Lock Chua<br>Kee-Lock Chua           | Director   | June 1, 2009 |
| /s/ Sally Davis<br>Sally Davis               | Director   | June 1, 2009 |
| /s/ Robert Malcolm<br>Robert Malcolm         | Director   | June 1, 2009 |
| /s/ Monika Ribar<br>Monika Ribar             | Director   | June 1, 2009 |
| /s/ Richard Laube<br>Richard Laube           | Director   | June 1, 2009 |

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**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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**REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders of Logitech International S.A.

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Logitech International S.A. and its subsidiaries at March 31, 2009 and March 31, 2008, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2009 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material aspects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 14 the Company changed the manner in which it accounts for uncertainty in income taxes starting April 1, 2007.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
May 29, 2009

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**LOGITECH INTERNATIONAL S.A.**

**CONSOLIDATED STATEMENTS OF INCOME**  
**(In thousands, except per share amounts)**

|  | Year ended March 31, |              |              |
|--|----------------------|--------------|--------------|
|  | 2009                 | 2008         | 2007         |
| Net sales                                    | \$ 2,208,832         | \$ 2,370,496 | \$ 2,066,569 |
| Cost of goods sold                           | 1,517,606            | 1,521,378    | 1,357,044    |
| Gross profit                                 | 691,226              | 849,118      | 709,525      |
| Operating expenses:                          |                      |              |              |
| Marketing and selling                        | 319,167              | 324,451      | 272,264      |
| Research and development                     | 128,755              | 124,544      | 108,256      |
| General and administrative                   | 113,103              | 113,443      | 98,143       |
| Restructuring charges                        | 20,547               | -            | -            |
| Total operating expenses                     | 581,572              | 562,438      | 478,663      |
| Operating income                             | 109,654              | 286,680      | 230,862      |
| Interest income, net                         | 8,628                | 15,508       | 8,733        |
| Other income (expense), net                  | 8,511                | (39,374)     | 15,962       |
| Income before income taxes                   | 126,793              | 262,814      | 255,557      |
| Provision for income taxes                   | 19,761               | 31,788       | 25,709       |
| Net income                                   | \$ 107,032           | \$ 231,026   | \$ 229,848   |
| Net income per share:                        |                      |              |              |
| Basic  | \$ 0.60              | \$ 1.27      | \$ 1.26      |
| Diluted                                      | \$ 0.59              | \$ 1.23      | \$ 1.20      |
| Shares used to compute net income per share: |                      |              |              |
| Basic  | 178,811              | 181,362      | 182,635      |
| Diluted                                      | 182,911              | 187,942      | 190,991      |

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

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**LOGITECH INTERNATIONAL S.A.**

**CONSOLIDATED BALANCE SHEETS**  
**(In thousands, except share and per share amounts)**

|                           | March 31,  |            |
|---------------------------|------------|------------|
|                           | 2009       | 2008       |
| <b>ASSETS</b>             |            |            |
| Current assets:           |            |            |
| Cash and cash equivalents | \$ 492,759 | \$ 482,352 |

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|                               |              |              |
|-------------------------------|--------------|--------------|
| Short-term investments        | 1,637        | 3,940        |
| Accounts receivable           | 213,929      | 373,619      |
| Inventories                   | 233,467      | 245,737      |
| Other current assets          | 56,884       | 60,668       |
| Total current assets          | 998,676      | 1,166,316    |
| Property, plant and equipment | 104,132      | 104,461      |
| Goodwill                      | 242,909      | 194,383      |
| Other intangible assets       | 32,109       | 21,730       |
| Other assets                  | 43,704       | 40,042       |
| Total assets                  | \$ 1,421,530 | \$ 1,526,932 |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

|                           |            |            |
|---------------------------|------------|------------|
| Current liabilities:      |            |            |
| Accounts payable          | \$ 157,798 | \$ 287,001 |
| Accrued liabilities       | 131,496    | 156,094    |
| Total current liabilities | 289,294    | 443,095    |
| Other liabilities         | 134,528    | 123,793    |
| Total liabilities         | 423,822    | 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 March 31, 2009; 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   | 45,012       | 49,821       |
| Shares in treasury, at cost, 12,124,078 at March 31, 2009 and 12,431,093 at March 31, 2008   | (341,454)    | (338,293)    |
| Retained earnings  | 1,341,661    | 1,234,629    |
| Accumulated other comprehensive loss   | (80,881)     | (19,483)     |
| Total shareholders' equity   | 997,708      | 960,044      |
| Total liabilities and shareholders' equity   | \$ 1,421,530 | \$ 1,526,932 |

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

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**LOGITECH INTERNATIONAL S.A.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)**

|  | Year ended March 31, |            |            |
|--|----------------------|------------|------------|
|  | 2009                 | 2008       | 2007       |
| Cash flows from operating activities:  |                      |            |            |
| Net income   | \$ 107,032           | \$ 231,026 | \$ 229,848 |
| Non-cash items included in net income:   |                      |            |            |
| Depreciation   | 44,021               | 43,831     | 35,239     |
| Amortization of other intangible assets  | 8,166                | 5,391      | 4,876      |
| Share-based compensation expense related to options, restricted stock units ("RSUs") and stock purchase rights | 24,503               | 21,040     | 19,464     |
| Write-down of investments  | 2,727                | 79,823     | -          |
| Gain on sale of investments  | -                    | (27,761)   | (8,980)    |
| Excess tax benefits from share-based compensation  | (6,592)              | (15,231)   | (13,076)   |
| Loss (gain) on cash surrender value of life insurance policies   | 2,868                | (724)      | (1,006)    |
| In-process research and development  | 1,000                | -          | 1,000      |



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|   |                  |                  |                  |
|---|------------------|------------------|------------------|
| Deferred income taxes and other   | (10,387)         | (2,138)          | (9,175)          |
| <b>Changes in assets and liabilities, net of acquisitions:</b>            |                  |                  |                  |
| Accounts receivable   | 152,496          | (31,212)         | (9,917)          |
| Inventories   | (9,078)          | (10,230)         | (11,478)         |
| Other assets  | 14,615           | (10,725)         | (8,637)          |
| Accounts payable  | (123,802)        | 61,096           | 33,890           |
| Accrued liabilities   | (6,982)          | 48,893           | 41,777           |
| <b>Net cash provided by operating activities</b>                          | <b>200,587</b>   | <b>393,079</b>   | <b>303,825</b>   |
| <b>Cash flows from investing activities:</b>                              |                  |                  |                  |
| Purchases of property, plant and equipment                                | (48,263)         | (57,900)         | (47,246)         |
| Purchases of short-term investments                                       | -                | (379,793)        | (416,475)        |
| Sales of short-term investments   | -                | 538,479          | 201,850          |
| Sale of investment  | -                | 13,308           | 12,874           |
| Acquisitions, net of cash acquired  | (64,430)         | (59,722)         | (20,524)         |
| Premiums paid on cash surrender value life insurance policies             | (427)            | (1,151)          | (537)            |
| <b>Net cash provided by (used in) investing activities</b>                | <b>(113,120)</b> | <b>53,221</b>    | <b>(270,058)</b> |
| <b>Cash flows from financing activities:</b>                              |                  |                  |                  |
| Repayments of short-term debt, net  | -                | (11,739)         | (2,181)          |
| Purchases of treasury shares  | (78,870)         | (219,742)        | (138,095)        |
| Proceeds from sale of shares upon exercise of options and purchase rights | 31,119           | 50,603           | 44,706           |
| Excess tax benefits from share-based compensation                         | 6,592            | 15,231           | 13,076           |
| <b>Net cash used in financing activities</b>                              | <b>(41,159)</b>  | <b>(165,647)</b> | <b>(82,494)</b>  |
| Effect of exchange rate changes on cash and cash equivalents              | (35,901)         | 5,502            | (90)             |
| <b>Net increase (decrease) in cash and cash equivalents</b>               | <b>10,407</b>    | <b>286,155</b>   | <b>(48,817)</b>  |
| Cash and cash equivalents at beginning of period                          | 482,352          | 196,197          | 245,014          |
| Cash and cash equivalents at end of period                                | \$ 492,759       | \$ 482,352       | \$ 196,197       |
| <b>Supplemental cash flow information:</b>                                |                  |                  |                  |
| Interest paid   | \$ 143           | \$ 22            | \$ 178           |
| Income taxes paid   | \$ 15,268        | \$ 11,655        | \$ 10,165        |

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

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**LOGITECH INTERNATIONAL S.A.**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(In thousands)**

|  | Registered shares |           | Additional<br>paid-in<br>capital | Treasury shares |              | Retain<br>earnin |
|--|-------------------|-----------|----------------------------------|-----------------|--------------|------------------|
|  | Shares            | Amount    |                                  | Shares          | Amount       |                  |
| March 31, 2006   | 191,606           | \$ 33,370 | \$ 100,339                       | 8,955           | \$ (186,080) | \$ 76            |
| Net income   | -                 | -         | -                                | -               | -            | 22               |
| Cumulative translation<br>adjustment   | -                 | -         | -                                | -               | -            | -                |
| Change in unrealized gain on<br>investment, net of tax of \$601                            | -                 | -         | -                                | -               | -            | -                |
| Reclassification adjustment for net realized<br>gains on investment, net of tax of \$1,058 | -                 | -         | -                                | -               | -            | -                |
| Deferred realized hedging gain   | -                 | -         | -                                | -               | -            | -                |
| <b>Total comprehensive income</b>  |                   |           |                                  |                 |              |                  |

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|  |         |           |           |         |              |    |        |
|--|---------|-----------|-----------|---------|--------------|----|--------|
| Adoption of SFAS 158,<br>net of tax of \$859   | -       | -         | -         | -       | -            | -  | -      |
| Tax benefit from exercise of<br>stock options  | -       | -         | 14,668    | -       | -            | -  | -      |
| Purchase of treasury shares  | -       | -         | -         | 5,610   | (138,095)    | -  | -      |
| Sale of shares upon exercise of<br>options and purchase rights   | -       | -         | (62,396)  | (5,201) | 107,102      | -  | -      |
| Share-based compensation expense<br>related to employee stock options<br>and stock purchase plan         | -       | -         | 20,168    | -       | -            | -  | -      |
| March 31, 2007   | 191,606 | \$ 33,370 | \$ 72,779 | 9,364   | \$ (217,073) | \$ | 99,233 |
| Net income   | -       | -         | -         | -       | -            | -  | 23     |
| Cumulative translation<br>adjustment   | -       | -         | -         | -       | -            | -  | -      |
| Deferred realized hedging loss   | -       | -         | -         | -       | -            | -  | -      |
| Actuarial loss on pension plan,<br>net of tax of \$31  | -       | -         | -         | -       | -            | -  | -      |
| Total comprehensive income   | -       | -         | -         | -       | -            | -  | -      |
| Change in pension plan measurement date  | -       | -         | -         | -       | -            | -  | -      |
| Adjustment for the adoption of FASB<br>Interpretation No. 48 (FIN 48)                                    | -       | -         | -         | -       | -            | -  | -      |
| Tax benefit from exercise of<br>stock options  | -       | -         | 3,894     | -       | -            | -  | -      |
| Purchase of treasury shares  | -       | -         | -         | 7,784   | (219,742)    | -  | -      |
| Sale of shares upon exercise of<br>options and purchase rights   | -       | -         | (47,919)  | (4,717) | 98,522       | -  | -      |
| Share-based compensation expense<br>related to employee stock options<br>and stock purchase plan         | -       | -         | 21,067    | -       | -            | -  | -      |
| March 31, 2008   | 191,606 | \$ 33,370 | \$ 49,821 | 12,431  | \$ (338,293) | \$ | 1,233  |
| Net income   | -       | -         | -         | -       | -            | -  | 10     |
| Cumulative translation<br>adjustment, net of tax of \$1,018  | -       | -         | -         | -       | -            | -  | -      |
| Net deferred hedging gains   | -       | -         | -         | -       | -            | -  | -      |
| Actuarial loss on pension plan,<br>net of tax of \$182   | -       | -         | -         | -       | -            | -  | -      |
| Unrealized gain on investment  | -       | -         | -         | -       | -            | -  | -      |
| Total comprehensive income   | -       | -         | -         | -       | -            | -  | -      |
| Tax benefit from exercise of<br>stock options  | -       | -         | 15,253    | -       | -            | -  | -      |
| Purchase of treasury shares  | -       | -         | -         | 2,803   | (78,870)     | -  | -      |
| Sale of shares upon exercise of<br>options and purchase rights   | -       | -         | (44,590)  | (3,110) | 75,709       | -  | -      |
| Share-based compensation expense<br>related to employee stock options,<br>RSUs and stock purchase rights | -       | -         | 24,528    | -       | -            | -  | -      |
| March 31, 2009   | 191,606 | \$ 33,370 | \$ 45,012 | 12,124  | \$ (341,454) | \$ | 1,343  |

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

**LOGITECH INTERNATIONAL S.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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 (EMEA) 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). 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.

Net income for fiscal year 2009 includes \$6.7 million in pretax charges related to revenue adjustments, accounting for warranties, accounting for employee benefit accruals and other adjustments from fiscal year 2008. The total pretax charge of \$6.7 million was corrected in the first, third and fourth quarters of fiscal year 2009. We reviewed the accounting errors utilizing SEC Staff Accounting Bulletin No. 99, *Materiality* (SAB 99) and SEC Staff Accounting Bulletin No. 108, *Effects of Prior Year Misstatements on Current Year Financial Statements* (SAB 108), and determined the impact of the errors to be immaterial to any period presented.

Certain prior year financial statement amounts have been reclassified to conform to the current year presentation with no impact on previously reported net income.

### ***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.

### ***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.

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### ***Foreign Currencies***

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. The financial statements of the Company's subsidiaries whose functional currency is other than the U.S. dollar are translated to U.S. dollars using period-end rates of exchange for assets and liabilities and monthly average rates for revenues and expenses. Cumulative translation gains and losses are included as a component of

shareholders' equity in accumulated other comprehensive loss. Gains and losses arising from transactions denominated in currencies other than a subsidiary's functional currency are reported in other income (expense), net in the consolidated statement of income.

### **Revenue Recognition**

Revenues are recognized when all of the following criteria are met:

- evidence of an arrangement exists between the Company and the customer;
- delivery has occurred and title and risk of loss transfer to the customer;
- the price of the product is fixed or determinable; and
- collectibility of the receivable is reasonably assured.

Revenues from sales to distributors and authorized resellers are recognized net of estimated product returns and expected payments for cooperative marketing arrangements, customer incentive programs and price protection. Significant management judgments and estimates must be used to determine the cost of these programs in any accounting period.

The Company grants limited rights to return product. Return rights vary by customer, and range from just the right to return defective product to stock rotation rights to return a limited percentage of the previous quarter's purchases. Estimates of expected future product returns are recognized at the time of sale based on analyses of historical return trends by customer and by product, inventories owned by and located at distributors and retailers, current customer demand, current operating conditions, and other relevant customer and product information, such as stage of product life-cycle. Return trends are influenced by the timing of the sale, the type of customer, operational policies and procedures, product sell-through, product quality issues, sales levels, market acceptance of products, competitive pressures, new product introductions, product life cycle status, and other factors. Return rates can fluctuate over time, but are sufficiently predictable to allow us to estimate expected future product returns.

The Company's cooperative marketing arrangements include contractual customer marketing and sales incentive programs. We enter into customer marketing programs with many of our distribution and retail customers allowing customers to receive a credit equal to a set percentage of their purchases of the Company's products, or a fixed dollar credit for various marketing programs. The objective of these programs is to encourage advertising and promotional events to increase sales of our products. Accruals for the estimated costs of these marketing programs are recorded based on the contractual percentage of product purchased in the period we recognize revenue. The Company also offers rebates and discounts for certain types of sell-through programs. Accruals for these sales incentive programs are recorded at the time of sale, or time of commitment, based on negotiated terms, historical experience and inventory levels in the channel.

Customer incentive programs include volume and consumer rebates. We offer volume rebates to our distribution and retail customers related to purchase volumes or sales of specific products by distributors to specified retailers. Reserves for volume rebates are recognized as a reduction of the sale price at the time of sale. Estimates of required reserves are determined based on negotiated terms, consideration of historical experience, anticipated volume of future purchases, and inventory levels in the channel. Consumer rebates are offered from time to time at the Company's discretion directly to end-users. Estimated costs of consumer rebates and similar incentives are recorded at the time the incentive is offered, based on the specific terms and conditions. Certain incentive programs, including consumer rebates, require management to estimate the number of customers who will actually redeem the incentive based on historical experience and the specific terms and conditions of particular programs.

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The Company has contractual agreements with certain of its customers that contain terms allowing price protection credits to be issued in the event of a subsequent price reduction (contractual price protection). At management's discretion, the Company also offers special pricing discounts to certain customers. Special pricing discounts are usually offered only for limited time periods or for sales to specific indirect partners. Management's decision to make price reductions is influenced by channel inventory levels, product life cycle stage, market acceptance of products, the competitive environment, new product introductions and other factors. Credits are issued for units that customers have on hand or in transit at the date of the price reduction. Reserves for the

estimated amounts to be reimbursed to qualifying customers are established quarterly based on planned price reductions, analyses of qualified inventories on hand with distributors and retailers and historical trends by customer and by product.

The Company regularly evaluates the adequacy of our accruals for product returns, cooperative marketing arrangements, customer incentive programs and price protection. Future market conditions and product transitions may require the Company to take action to increase such programs. In addition, when the variables used to estimate these costs change, or if actual costs differ significantly from the estimates, we would be required to record incremental reductions to revenue or increase operating expenses. If, at any future time, the Company becomes unable to reasonably estimate these costs, recognition of revenue might be deferred until products are sold to end-users, which would adversely impact revenue in the period of transition.

The Company's shipping and handling costs are included in cost of sales in the accompanying Consolidated Statements of Income for all periods presented.

### ***Research and Development Costs***

Costs related to research, design and development of products, which consist primarily of personnel, product design and infrastructure expenses, are charged to research and development expense as they are incurred.

### ***Advertising Costs***

Advertising costs are expensed as incurred and amounted to \$151.2 million, \$188.5 million and \$169.8 million in fiscal years 2009, 2008 and 2007. Advertising costs are recorded as either a marketing and selling expense or a deduction from revenue. Advertising costs reimbursed by the Company to a customer must have an identifiable benefit and an estimable fair value in order to be classified as an operating expense. If these criteria are not met, the cost is classified as a reduction of revenue.

### ***Cash Equivalents***

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

### ***Concentration of Credit Risk***

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

The Company sells to large OEMs, distributors and key retailers and, as a result, maintains individually significant receivable balances with such customers. As of March 31, 2009, two customers represented 18% and 10% of total accounts receivable. As of March 31, 2008, two customers each represented 15% of total accounts receivable. 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.

The Company's OEM customers tend to be well-capitalized, multi-national companies, while distributors and key retailers may be less well-capitalized. The Company manages its accounts receivable credit risk through ongoing credit evaluation of its customers' financial condition. The Company generally does not require collateral from its customers.

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### ***Allowances for Doubtful Accounts***

Allowances for doubtful accounts are maintained for estimated losses resulting from the inability of the Company's customers to make required payments. The allowances are based on the Company's regular assessment of the credit worthiness and financial condition of specific customers, as well as its historical experience with bad debts and customer deductions, receivables aging, current economic trends, geographic or country-specific risks and the financial condition of its distribution channels.

### ***Inventories***

Inventories are stated at the lower of cost or market. Cost is computed on a first-in, first-out basis. The Company records write-downs of inventories which are obsolete or in excess of anticipated demand or market value based on a consideration of product life cycle stage, technology trends, historical sales, product development plans, component cost trends and assumptions about future demand and market conditions.

### ***Investments***

The Company's short-term investments are primarily auction rate securities and are classified as available-for-sale as of March 31, 2009. Auction rate securities generally have maturity dates greater than 10 years, with interest rates that typically reset through an auction every 28 days. The Company's short-term investments are reported at estimated fair value. The fair value of short-term investments is estimated based on quoted market prices, if available, or 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.

### ***Property, Plant and Equipment***

Property, plant and equipment are stated at cost. Additions and improvements are capitalized, and maintenance and repairs are expensed as incurred. The Company capitalizes the cost of software developed for internal use in connection with major projects. Costs incurred during the feasibility stage are expensed, whereas costs incurred during the application development stage are capitalized.

With the exception of tooling, depreciation is provided using the straight-line method. Plant and buildings are depreciated over estimated useful lives from ten to twenty-five years, equipment over useful lives from three to five years, software development over useful lives of three to five years and leasehold improvements over the life of the lease, generally not exceeding five years. Tooling is depreciated over the forecasted life of the tool, not to exceed one year from the time it is placed into production. Depreciation for tooling is calculated based on the forecasted production volume and adjusted quarterly based on actual production. When property and equipment is retired or otherwise disposed of, the cost and accumulated depreciation are relieved from the accounts and the net gain or loss is included in the determination of net income.

### ***Goodwill and Other Intangible Assets***

The Company's intangible assets principally include goodwill, acquired technology, trademarks, customer contracts and customer relationships, and other. Intangible assets with finite lives, which include acquired technology, trademarks, customer contracts and customer relationships, and other, are recorded at cost and amortized using the straight-line method over their useful lives ranging from two years to ten years. Intangible assets with indefinite lives, which include goodwill, are recorded at cost and evaluated at least annually for impairment.

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### ***Impairment of Long-Lived Assets***

The Company reviews long-lived assets, such as investments, property and equipment, and intangible assets, for impairment whenever events indicate that the carrying amounts might not be recoverable. Recoverability of investments, property and equipment, and other intangible assets is measured by comparing the projected undiscounted net cash flows associated with those assets to their carrying values. If an asset is considered

impaired, it is written down to fair value, which is determined based on the asset's projected discounted cash flows or appraised value, depending on the nature of the asset. Goodwill is evaluated for impairment at least annually.

### **Income Taxes**

The Company provides for income taxes using the liability method, which requires that deferred tax assets and liabilities be recognized for the expected future tax consequences of temporary differences resulting from differing treatment of items for tax and accounting purposes. In estimating future tax consequences, expected future events are taken into consideration, with the exception of potential tax law or tax rate changes.

During the first quarter of fiscal year 2008, Logitech adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48 (As Amended) *Accounting for Uncertainty in Income Taxes* (an interpretation of FASB Statement No. 109 (FIN 48)). Note 14 of the consolidated financial statements describes FIN 48 and the effects on our results of operations and financial position arising from its adoption.

The Company's assessment of uncertain tax positions under FIN 48 requires that management make estimates and judgments about the application of tax law, the expected resolution of uncertain tax positions and other matters. In the event that uncertain tax positions are resolved for amounts different than the Company's estimates, or the related statutes of limitations expire without the assessment of additional income taxes, the Company will be required to adjust the amounts of the related assets and liabilities in the period in which such events occur. Such adjustments may have a material impact on the Company's income tax provision and its results of operations.

### **Fair Value of Financial Instruments**

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.

The carrying value of certain of the Company's financial instruments, including cash, cash equivalents, accounts receivable, accounts payable and accrued liabilities approximates fair value due to their short maturities. The Company's short-term investments are reported at estimated fair value. The fair value of short-term investments is estimated based on quoted market prices, if available, or 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 fair value of all our derivative financial instruments is determined based on quoted foreign exchange forward rates.

### **Net Income per Share**

Basic net income per share is computed by dividing net income by the weighted average outstanding shares. Diluted net income per share is computed using the weighted average outstanding shares and dilutive share equivalents. Dilutive share equivalents consist of employee stock options.

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The dilutive effect of in-the-money stock options is calculated based on the average share price for each fiscal period using the treasury stock method, which assumes that the amount used to repurchase shares includes the

amount the employee must pay for exercising stock options, the amount of compensation cost not yet recognized for future service, and the amount of tax impact that would be recorded in additional paid-in capital when the award becomes deductible.

### ***Share-Based Compensation Expense***

Share-based compensation expense includes compensation expense, reduced for estimated forfeitures, for share-based compensation awards granted after April 1, 2006 based on the grant-date fair value estimated using the Black-Scholes-Merton option-pricing valuation model for stock options and stock purchases, and the Monte-Carlo simulation model for restricted stock units (RSUs). These compensation costs are recognized on a straight-line basis over the service period of the award, which is generally the vesting term of four years (single-option approach) for stock options and two years for RSUs.

For share-based compensation awards granted prior to but not yet vested as of April 1, 2006, share-based compensation expense is based on the grant-date fair value estimated using the Black-Scholes-Merton option-pricing valuation model reduced for estimated forfeitures. These compensation costs are recognized on a straight-line basis over the service period for each separately vesting portion of the award (multiple-option approach).

Tax benefits resulting from the exercise of stock options are classified as cash flows from financing activities in the consolidated statement of cash flows. Excess tax benefits are realized tax benefits from tax deductions for exercised options in excess of the deferred tax asset attributable to share-based compensation costs for such options.

The Company will recognize a benefit from share-based compensation in paid-in capital only if an incremental tax benefit is realized after all other available tax attributes have been utilized. For income tax footnote disclosure, the Company has elected to offset deferred tax assets against the valuation allowance related to the net operating loss and tax credit carryforwards from accumulated tax benefits. The Company will recognize these tax benefits in paid-in capital when the deduction reduces cash taxes payable. In addition, the Company has elected to account for the indirect benefits of share-based compensation on the research tax credit through the income statement (continuing operations) rather than through paid-in capital.

### ***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. Other comprehensive income is comprised of foreign currency translation adjustments from those entities not using the U.S. dollar as their functional currency, unrealized gains and losses on marketable equity securities, net deferred gains and losses and prior service costs for defined benefit pension plans, and net deferred gains and losses on hedging activity.

### ***Derivative Financial Instruments***

The Company enters into foreign exchange forward contracts to reduce the short-term effects of foreign currency fluctuations on certain foreign currency receivables or payables and to provide against exposure to changes in foreign currency exchange rates related to its subsidiaries' forecasted inventory purchases. These forward contracts generally mature within one to three months. The Company may also enter into foreign exchange swap contracts to extend the terms of its foreign exchange forward contracts.

Gains and losses in the fair value of the effective portion of our forward contracts related to forecasted inventory purchases 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. 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), net. Effective January 1, 2009, the Company adopted 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.



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**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 April 2009, the FASB issued FASB Staff Position No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP 141R-1). This FSP amends the accounting in SFAS 141R for assets and liabilities arising from contingencies in a business combination. FSP 141R-1 requires that pre-acquisition contingencies be recognized at fair value, if fair value can be reasonably determined. If fair value cannot be reasonably determined, FSP 141R-1 requires measurement based on the best estimate in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*. FSP 141R-1 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.

In April 2009, the FASB issued FASB Staff Position No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4). Based on the guidance, if an entity determines that the level of activity for an asset or liability has significantly decreased and that a transaction is not orderly, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transaction or quoted prices may be necessary to estimate fair value in accordance with FASB Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). FSP 157-4 is to be applied prospectively and is effective for interim and annual periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. Logitech will adopt FSP 157-4 in the first quarter of fiscal year 2010. We do not expect that FSP 157-4 will have a material impact on the Company's consolidated financial statements and disclosures.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP 107-1), which amends FASB Statement No. 107, *Disclosures about Fair Values of Financial Instruments*, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. FSP 107-1 also amends Accounting Principles Board Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP 107-1 is effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company will adopt FSP 107-1 in the first quarter of fiscal year 2010 and does not expect that the adoption of the FSP will have a material impact on the Company's consolidated financial statements and disclosures.

In April 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP 115-2 and 124-2), which amends the other-than-temporary guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP 115-2 and 124-2 is effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company will adopt FSP 115-2 and 124-2 in the first quarter of fiscal year 2010 and does not expect that the adoption of the FSP will have a material impact on the Company's consolidated financial statements and disclosures.

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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 FSP 142-3 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. FSP 142-3 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 December 2008, the FASB issued FASB 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 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):

|                                   | Year ended March 31, |            |            |
|-----------------------------------|----------------------|------------|------------|
|                                   | 2009                 | 2008       | 2007       |
| Net income — basic and diluted    | \$ 107,032           | \$ 231,026 | \$ 229,848 |
| Weighted average shares - basic   | 178,811              | 181,362    | 182,635    |
| Effect of dilutive stock options  | 4,100                | 6,580      | 8,356      |
| Weighted average shares - diluted | 182,911              | 187,942    | 190,991    |
| Net income per share — basic      | \$ 0.60              | \$ 1.27    | \$ 1.26    |
| Net income per share — diluted    | \$ 0.59              | \$ 1.23    | \$ 1.20    |

During fiscal years 2009, 2008 and 2007, 10,567,217, 3,957,572 and 3,327,825 share equivalents attributable to outstanding stock options and RSUs 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.

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 impact 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):

|   | Year Ended March 31, |          |          |
|---|----------------------|----------|----------|
|   | 2009                 | 2008     | 2007     |
| In-the-money employee stock options treated as potential shares | 9,313                | 15,881   | 18,035   |
| Percentage of basic weighted average shares outstanding         | 5.2%                 | 8.8%     | 9.9%     |
| Average share price   | \$ 20.55             | \$ 28.74 | \$ 23.44 |

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

|  | Year ended March 31, |         |         |
|--|----------------------|---------|---------|
|  | 2009                 | 2008    | 2007    |
| Basic weighted average shares outstanding as of March 31 | 178,811              | 181,362 | 182,635 |
| Stock options and RSUs granted                           | 4,239                | 3,891   | 2,555   |
| Stock options canceled, forfeited, or expired            | (1,163)              | (652)   | (688)   |
| Net options granted                                      | 3,076                | 3,239   | 1,867   |
| Grant dilution <sup>(1)</sup>                            | 1.7%                 | 1.8%    | 1.0%    |
| Stock options exercised                                  | 2,037                | 4,162   | 4,599   |
| Exercise dilution <sup>(2)</sup>                         | 1.1%                 | 2.3%    | 2.5%    |

(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

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.
- 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 March 31, 2009, classified by the level within the fair value hierarchy (in thousands):

|   | Level 1    | Level 2 | Level 3  |
|---|------------|---------|----------|
| Cash and cash equivalents               | \$ 492,759 | \$ -    | \$ -     |
| Short-term investments                  | -          | -       | 1,637    |
| Foreign exchange derivative assets      | 208        | -       | -        |
| Total assets at fair value              | \$ 492,967 | \$ -    | \$ 1,637 |
| Foreign exchange derivative liabilities | \$ 1,849   | \$ -    | \$ -     |
| Total liabilities at fair value         | \$ 1,849   | \$ -    | \$ -     |

Notes 5 and 15 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 March 31, 2009 and 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 March 31, 2009 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.

The following table presents the changes in fair value of the Company's short-term investments during fiscal years 2009 and 2008:

|                           | <b>March 31,</b> |             |
|---------------------------|------------------|-------------|
|                           | <b>2009</b>      | <b>2008</b> |
| Beginning balance         | \$ 3,940         | \$ 214,625  |
| Purchases                 | -                | 379,793     |
| Sales                     | -                | (538,479)   |
| Write-down of investments | (2,727)          | (79,823)    |
| Unrealized gain           | 424              | -           |
| Gain on sale, net of loss | -                | 27,824      |
| Ending balance            | \$ 1,637         | \$ 3,940    |

The par value of our short-term investments portfolio at March 31, 2009 and 2008 was \$47.5 million. The write-down of investments recorded in other income (expense), net related to the other-than-temporary decline in the estimated fair value of these investments due to continuing declines in the residential mortgage markets. The unrealized gain as of March 31, 2009 related to temporary increases in the fair value and was recorded in other comprehensive income. As of 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.

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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):

|                                     | <b>November<br/>3,<br/>2008</b> | <b>Estimated<br/>Life</b> |
|-------------------------------------|---------------------------------|---------------------------|
| Tangible assets acquired            | \$ 370                          |                           |
| Intangible assets acquired          |                                 |                           |
| Existing technology                 | 800                             | 5 years                   |
| In-process research and development | 1,000                           | -                         |
| Patents and core technology         | 2,700                           | 5 years                   |
| Trademark/trade name                | 200                             | 2 years                   |
| Customer relationships and other    | 1,200                           | 4.9 years                 |
| Goodwill                            | 21,985                          | -                         |
|                                     | 28,255                          |                           |
| Liabilities assumed                 | (567)                           |                           |
| Deferred tax asset, net             | 3,424                           |                           |
| <b>Total consideration</b>          | <b>\$ 31,112</b>                |                           |

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. In-process research and development 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 asset relates to the tax benefit of a net operating loss carryforward, net of the deferred tax liability related to intangible assets.

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### *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.

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Total consideration paid was \$34.3 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.

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):

|                                  | <b>August 19,<br/>2008</b> | <b>Estimated<br/>Life</b> |
|----------------------------------|----------------------------|---------------------------|
| 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                         | 24,508                     | -                         |
|                                  | 41,890                     |                           |
| Liabilities assumed              | (2,334)                    |                           |
| Deferred tax liability, net      | (5,235)                    |                           |
|                                  | 41,890                     |                           |
| Total consideration              | \$ 34,321                  |                           |

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.

#### WiLife

In November 2007, the Company acquired WiLife, Inc. (WiLife), a privately held company that manufactures PC-based video cameras for self-monitoring a home or a small business. The acquisition is part of the Company's strategy to expand its presence in digital home products.

Total consideration paid, net of cash acquired was \$22.0 million, which includes \$0.7 million in transaction costs. Under the terms of the purchase agreement, the Company acquired all of the outstanding shares of WiLife for \$21.7 million in cash, plus 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 \$40.0 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.

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 as of the date of acquisition. The results of operations of WiLife were included in Logitech's consolidated financial statements from the date of acquisition, and were not material to the Company's reported results.

The allocation of total consideration to the assets acquired and liabilities assumed based on the estimated fair value of WiLife is presented in the following table.

|                                  | November 13,<br>2007 | Estimated<br>Life |
|----------------------------------|----------------------|-------------------|
| Tangible assets acquired         | \$ 3,432             |                   |
| Intangible assets acquired       |                      |                   |
| Existing technology              | 3,000                | 6 years           |
| Patents and core technology      | 3,700                | 5 years           |
| Trademark/trade name             | 1,300                | 5 years           |
| Customer relationships and other | 200                  | 3 years           |
| Goodwill                         | 15,855               | -                 |
|                                  | 27,487               |                   |
| Liabilities assumed              | (6,016)              |                   |
| Deferred tax asset, net          | 639                  |                   |
| Total consideration              | \$ 22,110            |                   |

The existing technology relates to the video surveillance cameras and software used in WiLife's PC-based video security systems. 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 WiLife's current and planned future products. Trademark/trade name relates to the WiLife 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 WiLife'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 asset relates to the tax benefit of a net operating loss carryforward, net of the deferred tax liability related to intangible assets.

#### *Slim Devices*

In October 2006, the Company acquired Slim Devices, Inc. ("Slim Devices"), a privately held company specializing in network-based audio systems for digital music, based in Mountain View, California. The acquisition is part of the Company's strategy to expand its presence in the digital music and home-entertainment control environment.

Total consideration paid was \$20.6 million, which includes \$0.6 million in transaction costs. Under the terms of the purchase agreement, the Company acquired all of the outstanding shares of Slim Devices for \$20.0 million in cash, plus 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. No payment is due if the applicable net revenues total \$40 million or

less. The maximum performance-based payment is \$89.5 million. The total performance-based payment amount, if any, will be recorded in goodwill and will not be final until the end of calendar year 2009. As of March 31, 2009, no amounts were payable towards performance-based payments under our acquisition agreement.

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 as of the date of acquisition. The results of operations of Slim Devices were included in Logitech's consolidated financial statements from the date of acquisition, and were not material to the Company's reported results.

The total consideration, including transaction costs, was allocated to the fair values of assets acquired and liabilities assumed as follows (in thousands):

|  | <b>October<br/>17,<br/>2006</b> | <b>Estimated<br/>Life</b> |
|--|---------------------------------|---------------------------|
| Tangible assets acquired                                     | \$ 1,749                        |                           |
| Intangible assets acquired                                   |                                 |                           |
| Technology   | 9,000                           | 5 years                   |
| In-process research and development                          | 1,000                           | -                         |
| Trademark/trade name   | 3,100                           | 6.5 years                 |
| Customer relationships and other                             | 520                             | 3.7 years                 |
| Goodwill   | 10,683                          | -                         |
|  | 26,052                          |                           |
| Liabilities assumed  | (473)                           |                           |
| Deferred tax liability related to intangible assets acquired | (4,998)                         |                           |
|  | 26,052                          |                           |
| Total consideration  | \$ 20,581                       |                           |

The technology relates to proprietary hardware and software developed by Slim Devices including the Squeezebox, the Transporter, the SlimServer software and the SqueezeNetwork. The SqueezeNetwork delivers content to devices such as the Squeezebox and Transporter directly from the Internet, without requiring a PC.

Trademark/trade name relates to the Slim Devices product brand names. The value of the trademark/trade name was determined using the royalty savings approach, which estimates the value of the assets by capitalizing the royalties saved as a result of acquiring the assets. The intangible assets acquired are amortized on a straight-line basis over their estimated useful lives. In-process research and development 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 values of the existing technology, in-process technology and customer relationships were determined by estimating the expected cash flows from the projects once commercially viable, discounting the net cash flows back to their present value and then applying a percentage of completion to the calculated value. The goodwill associated with the acquisition is not subject to amortization and is not expected to be deductible for income tax purposes.

**Note 7 □ Balance Sheet Components**

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

|                      | <b>March 31,<br/>2009</b> | <b>2008</b> |
|----------------------|---------------------------|-------------|
| Accounts receivable: |                           |             |
| Accounts receivable  | \$ 339,903                | \$ 504,406  |



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|  |            |            |
|--|------------|------------|
| Allowance for doubtful accounts                  | (6,705)    | (2,497)    |
| Allowance for returns                            | (25,470)   | (21,099)   |
| Cooperative marketing arrangements               | (41,082)   | (41,516)   |
| Customer incentive programs                      | (40,369)   | (49,341)   |
| Price protection                                 | (12,348)   | (16,334)   |
|  | \$ 213,929 | \$ 373,619 |
| <b>Inventories:</b>                              |            |            |
| Raw materials                                    | \$ 30,959  | \$ 46,315  |
| Work-in-process                                  | 19         | 13         |
| Finished goods                                   | 202,489    | 199,409    |
|  | \$ 233,467 | \$ 245,737 |
| <b>Other current assets:</b>                     |            |            |
| Tax and VAT refund receivables                   | \$ 17,275  | \$ 23,882  |
| Deferred taxes                                   | 25,546     | 18,961     |
| Prepaid expenses and other                       | 14,063     | 17,825     |
|  | \$ 56,884  | \$ 60,668  |
| <b>Property, plant and equipment:</b>            |            |            |
| Plant, buildings and improvements                | \$ 56,211  | \$ 58,101  |
| Equipment  | 108,779    | 98,818     |
| Computer equipment                               | 49,532     | 47,027     |
| Computer software                                | 60,259     | 51,552     |
|  | 274,781    | 255,498    |
| Less: accumulated depreciation                   | (188,371)  | (167,153)  |
|  | 86,410     | 88,345     |
| Construction-in-progress                         | 14,708     | 12,866     |
| Land   | 3,014      | 3,250      |
|  | \$ 104,132 | \$ 104,461 |
| <b>Other assets:</b>                             |            |            |
| Deferred taxes                                   | \$ 27,718  | \$ 22,618  |
| Cash surrender value of life insurance contracts | 10,685     | 12,793     |
| Deposits and other                               | 5,301      | 4,631      |
|  | \$ 43,704  | \$ 40,042  |
| <b>Accrued liabilities:</b>                      |            |            |
| Accrued marketing expenses                       | \$ 21,984  | \$ 30,764  |
| Accrued personnel expenses                       | 34,373     | 40,586     |
| Income taxes payable - current                   | 6,828      | 15,051     |
| Accrued freight and duty                         | 9,048      | 13,969     |
| Accrued restructuring                            | 3,794      | -          |
| Other accrued liabilities                        | 55,469     | 55,724     |
|  | \$ 131,496 | \$ 156,094 |
| <b>Long-term liabilities:</b>                    |            |            |
| Income taxes payable - non-current               | \$ 101,463 | \$ 95,013  |
| Obligation for management deferred compensation  | 10,499     | 14,806     |
| Defined benefit pension plan liability           | 19,822     | 12,309     |
| Other long-term liabilities                      | 2,744      | 1,665      |
|  | \$ 134,528 | \$ 123,793 |

The following table presents the changes in the allowance for doubtful accounts during fiscal years ended March 31, 2009 and 2008 (in thousands):

|                              | March 31, |          |          |
|------------------------------|-----------|----------|----------|
|                              | 2009      | 2008     | 2007     |
| Beginning balance            | \$ 2,497  | \$ 3,322 | \$ 2,988 |
| Bad debt expense             | 5,102     | 603      | 527      |
| Write-offs net of recoveries | (894)     | (1,428)  | (193)    |
| Ending balance               | \$ 6,705  | \$ 2,497 | \$ 3,322 |

**Note 8 □ Goodwill and Other Intangible Assets**

The following table summarizes the activity in the Company's goodwill account during fiscal years ended March 31, 2009 and 2008 (in thousands):

|                                    | March 31,  |            |
|------------------------------------|------------|------------|
|                                    | 2009       | 2008       |
| Beginning balance                  | \$ 194,383 | \$ 179,991 |
| Additions                          | 48,526     | 17,569     |
| Cumulative translation adjustments | -          | (3,177)    |
| Ending balance                     | \$ 242,909 | \$ 194,383 |

Additions to goodwill during fiscal year 2009 were primarily related to our acquisitions of SightSpeed and Ultimate Ears, as well as a \$2.0 million pre-acquisition contingency related to our WiLife acquisition.

Additions to goodwill during fiscal year 2008 were primarily due to the acquisition of WiLife. Goodwill also increased by \$4.0 million due to an increase in the deferred payment amount payable to the former shareholders of Intrigue Technologies, Inc. During the third quarter of fiscal year 2008, the Company determined that the functional currency of an entity acquired in fiscal year 2005 was incorrectly designated. The Company recorded an adjustment of \$7.5 million to reduce goodwill with a corresponding amount recorded in cumulative translation adjustment which is a component of accumulated other comprehensive loss. This correcting adjustment was recorded in the third quarter of fiscal year 2008 since the impact was not material to goodwill, accumulated other comprehensive loss and comprehensive income in this period or any prior periods. The remainder of the change in goodwill related to foreign currency translation adjustments. None of the goodwill is expected to be deductible for tax purposes.

The Company intends to fully integrate SightSpeed's, Ultimate Ears' and WiLife's businesses into its existing operations, and discrete financial information for the 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 has fully integrated all of its acquired companies, and evaluates acquired goodwill for impairment at the total enterprise level, with the exception of 3Dconnexion which is a separate reporting unit. The Company maintains discrete financial information for 3Dconnexion and determines impairment of the goodwill acquired at the entity level. Based on impairment tests performed, there has been no impairment of the Company's goodwill to date.

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

|                     | March 31, 2009              |                             |                           | March 31, 2008              |                             |                           |
|---------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
|                     | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Trademark/tradename | \$ 24,398                   | \$ (18,559)                 | \$ 5,839                  | \$ 21,385                   | \$ (16,896)                 | \$ 4,489                  |

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|                    |           |             |           |           |             |           |
|--------------------|-----------|-------------|-----------|-----------|-------------|-----------|
| Technology         | 49,268    | (26,598)    | 22,670    | 37,523    | (20,911)    | 16,612    |
| Customer contracts | 7,018     | (3,418)     | 3,600     | 2,318     | (1,689)     | 629       |
|                    | \$ 80,684 | \$ (48,575) | \$ 32,109 | \$ 61,226 | \$ (39,496) | \$ 21,730 |

During fiscal years 2009, 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 fiscal years 2009, 2008 and 2007, amortization expense for other intangible assets was \$8.2 million, \$5.4 million and \$4.9 million. The Company expects that annual amortization expense for the fiscal years ending 2010, 2011, 2012, 2013 and 2014 will be \$8.8 million, \$8.5 million, \$7.6 million, \$5.0 million and \$2.2 million.

**Note 9 □ Financing Arrangements**

The Company had several uncommitted, unsecured bank lines of credit aggregating \$139.0 million at March 31, 2009. There are no financial covenants under these lines of credit with which the Company must comply. At March 31, 2009, the Company had no outstanding borrowings under these lines of credit.

**Note 10 □ Shareholders' Equity**

**Stock Split**

In June 2006, the Company's shareholders approved a two-for-one split of Logitech's shares, which took effect on July 14, 2006. All references to share and per-share data for all periods presented herein have been adjusted to give effect to this stock split.

**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 12,124,078 of which were held in treasury as of March 31, 2009.

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. This conditional capital was created in order to provide financing flexibility for future expansion, investments or acquisitions.

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**Dividends**

Pursuant to Swiss corporate law, Logitech International S.A. may only pay dividends in Swiss francs. The payment of dividends is limited to certain amounts of unappropriated retained earnings (CHF 354.9 million or \$311.7 million based on exchange rates at March 31, 2009) and is subject to shareholder approval.

**Legal Reserves**

Under Swiss corporate law, a minimum of 5% of the Company's annual net income must be retained in a legal reserve until this legal reserve equals 20% of the Company's issued and outstanding aggregate par value per share capital. These legal reserves represent an appropriation of retained earnings that are not available for distribution and totaled \$8.4 million at March 31, 2009 (based on exchange rates at March 31, 2009).

Additionally, under Swiss corporate law, the Company is required to establish a reserve equal to the amount of treasury shares repurchased at year-end. The reserve for treasury shares, which is not available for distribution, totaled \$342.2 million at March 31, 2009.

**Share Repurchases**

During fiscal years 2009, 2008 and 2007, the Company had the following approved share buyback programs in place (in thousands):

| Date of Announcement | Approved Buyback |         | Equivalent USD        |         | Expiration Date | Completion Date | Amount Remaining |
|----------------------|------------------|---------|-----------------------|---------|-----------------|-----------------|------------------|
|                      | Amount           |         | Amount <sup>(1)</sup> |         |                 |                 |                  |
| June 2007            | USD              | 250,000 | \$                    | 250,000 | June 2010       | -               | \$ 125,746       |
| May 2006             | USD              | 250,000 | \$                    | 250,000 | June 2009       | February 2008   | \$ -             |
| June 2005            | CHF              | 300,000 | \$                    | 235,000 | June 2008       | November 2006   | \$ -             |

<sup>(1)</sup> Represents the approved buyback amount in U.S. dollars, calculated based on exchange rates on the announcement date.

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 the completion of the current share buyback program of \$250 million.

The Company repurchased shares under these buyback programs as follows (in thousands):

| Date of Announcement | Program to date |            | Amount Repurchased During Year ended March 31, <sup>(1)</sup> |           |        |            |        |            |
|----------------------|-----------------|------------|---|-----------|--------|------------|--------|------------|
|                      | Shares          | Amount     | 2009  |           | 2008   |            | 2007   |            |
|                      | Shares          | Amount     | Shares  | Amount    | Shares | Amount     | Shares | Amount     |
| June 2007            | 4,553           | \$ 124,254 | 2,803   | \$ 78,870 | 1,750  | \$ 45,384  | -      | \$ -       |
| May 2006             | 8,760           | 250,968    | -   | -         | 6,034  | 174,358    | 2,726  | 76,610     |
| June 2005            | 11,286          | 236,098    | -   | -         | -      | -          | 2,884  | 61,485     |
|                      | 24,599          | \$ 611,320 | 2,803   | \$ 78,870 | 7,784  | \$ 219,742 | 5,610  | \$ 138,095 |

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

**Note 11 Accumulated Other Comprehensive Loss**

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

|  | March 31,   |             |
|--|-------------|-------------|
|  | 2009        | 2008        |
| Cumulative translation adjustment                            | \$ (66,399) | \$ (10,416) |
| Pension liability adjustments, net of tax of \$990 and \$821 | (15,122)    | (9,067)     |

|                                |             |             |
|--------------------------------|-------------|-------------|
| Unrealized gain on investments | 424         |             |
| Net deferred hedging gains     | 216         | -           |
|                                | \$ (80,881) | \$ (19,483) |

**Note 12 ☐ Restructuring**

In January 2009, Logitech initiated a restructuring plan (☐2009 Restructuring Plan☐) in order to reduce operating expenses and improve financial results in response to deteriorating global economic conditions. We completed a majority of the restructuring activity during the three months ended March 31, 2009. As part of this restructuring plan, the Company reduced its salaried workforce by 515 employees. All charges related to the 2009 Restructuring Plan are presented as restructuring charges in our consolidated statements of income.

The following table summarizes restructuring related activities during fiscal year 2009 (in thousands):

|                           | <b>Total</b> | <b>Termination Benefits</b> | <b>Asset Impairments</b> | <b>Contract Termination Costs</b> | <b>Other</b> |
|---------------------------|--------------|-----------------------------|--------------------------|-----------------------------------|--------------|
| Balance at March 31, 2008 | \$ -         | \$ -                        | \$ -                     | \$ -                              | \$ -         |
| Charges                   | 20,547       | 16,428                      | 556                      | 200                               | 3,364        |
| Cash payments             | (12,764)     | (12,579)                    | -                        | (185)                             | -            |
| Charges against assets    | (556)        | -                           | (556)                    | -                                 | -            |
| Other                     | (3,485)      | (121)                       | -                        | -                                 | (3,364)      |
| Foreign Exchange          | 51           | 51                          | -                        | -                                 | -            |
| Balance at March 31, 2009 | \$ 3,794     | \$ 3,779                    | \$ -                     | \$ 15                             | \$ -         |

Termination benefits incurred pursuant to the 2009 Restructuring Plan are calculated based on regional benefit practices and local statutory requirements. Asset impairments have been recorded to write down fixed assets that will not be placed in service due to the abandonment of the related projects. Contract termination costs relate to exit costs associated with the closure of existing facilities. Other charges primarily consist of pension curtailment and settlement costs of \$3.4 million which are reflected in other charges in the preceding table, as the corresponding balance sheet amounts are reflected as a reduction of pension assets. We expect to substantially complete the restructuring by the end of the second quarter of fiscal year 2010.

**Note 13 ☐ Employee Benefit Plans****Employee Share Purchase Plans and Stock Incentive Plans**

As of March 31, 2009, 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.

Under the 1996 ESPP and 2006 ESPP plans, eligible employees may purchase shares at the lower of 85% of the fair market value at the beginning or the end of each six-month offering period. Subject to continued participation in these plans, purchase agreements are automatically executed at the end of each offering period. A total of 16,000,000 shares have been reserved for issuance under both the 1996 and 2006 ESPP plans. As of March 31, 2009, a total of 3,845,908 shares were available for issuance under these plans.

On June 16, 2006, Logitech's shareholders approved adoption of the 2006 Stock Incentive Plan (the ☐2006 Plan☐) with an expiration date of June 16, 2016. The 2006 Plan provides for the grant to eligible employees and non-employee directors of stock options, stock appreciation rights, restricted stock and restricted stock units, which are bookkeeping entries reflecting the equivalent of shares. Stock options granted under the 2006 Plan will generally vest over three years for non-executive Directors and over four years for employees. All stock options under this plan will have terms not exceeding ten years and will be issued at exercise prices not less than the fair market value on the date of grant. Awards under the 2006 Plan may be conditioned on continued employment,

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the passage of time or the satisfaction of performance vesting criteria. An aggregate of 14,000,000 shares was reserved for issuance under the 2006 Plan. As of March 31, 2009, a total of 5,064,930 shares were available for issuance under this plan.

The following table summarizes the share-based compensation expense and related tax benefit recognized for fiscal years 2009 and 2008 (in thousands).

|   | Year Ended March 31, |           |
|---|----------------------|-----------|
|   | 2009                 | 2008      |
| Cost of goods sold  | \$ 3,163             | \$ 2,706  |
| Share-based compensation expense included in gross profit   | 3,163                | 2,706     |
| <b>Operating expenses:</b>  |                      |           |
| Marketing and selling   | 7,989                | 7,696     |
| Research and development  | 4,488                | 3,505     |
| General and administrative  | 8,863                | 7,132     |
| Share-based compensation expense included in operating expenses   | 21,340               | 18,333    |
| Total share-based compensation expense related to employee stock options, RSUs and employee stock purchases       | 24,503               | 21,039    |
| Tax benefit   | 3,102                | 4,773     |
| Share-based compensation expense related to employee stock options, RSUs and employee stock purchases, net of tax | \$ 21,401            | \$ 16,266 |

As of March 31, 2009 and 2008 \$0.8 million and \$0.7 million of share-based compensation cost was capitalized to inventory. As of March 31, 2009, total compensation cost related to non-vested stock options not yet recognized was \$44.7 million, which is expected to be recognized over the next 35 months on a weighted-average basis. As of March 31, 2009, total compensation cost related to RSUs not yet recognized was \$2.0 million, which is expected to be recognized over the next 18 months.

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 and values:

|                         | Year ended March 31, |          |          |                    |           |           |
|-------------------------|----------------------|----------|----------|--------------------|-----------|-----------|
|                         | Purchase Plans       |          |          | Stock Option Plans |           |           |
|                         | 2009                 | 2008     | 2007     | 2009               | 2008      | 2007      |
| Dividend yield          | 0%                   | 0%       | 0%       | 0%                 | 0%        | 0%        |
| Expected life           | 6 months             | 6 months | 6 months | 3.7 years          | 3.8 years | 3.9 years |
| Expected volatility     | 63%                  | 38%      | 33%      | 36%                | 33%       | 40%       |
| Risk-free interest rate | 1.23%                | 4.23%    | 4.98%    | 2.40%              | 4.01%     | 4.75%     |

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.

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The Company estimates forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. 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.

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

|   | Year ended March 31, |         |         |                    |         |         |
|---|----------------------|---------|---------|--------------------|---------|---------|
|   | 2009                 |         |         | 2008               |         |         |
|   | Purchase Plans       |         |         | Stock Option Plans |         |         |
| Weighted average grant-date fair value of options granted | \$ 5.46              | \$ 7.63 | \$ 5.87 | \$ 6.25            | \$ 9.14 | \$ 8.11 |
| Expected forfeitures                                      | 0%                   | 0%      | 0%      | 7%                 | 7%      | 8%      |

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

|                                | Year ended March 31, |                |         |                |         |                |
|--------------------------------|----------------------|----------------|---------|----------------|---------|----------------|
|                                | 2009                 |                | 2008    |                | 2007    |                |
|                                | Number               | Exercise Price | Number  | Exercise Price | Number  | Exercise Price |
| Outstanding, beginning of year | 17,952               | \$ 17          | 18,876  | \$ 12          | 21,608  | \$ 10          |
| Granted                        | 4,145                | \$ 21          | 3,890   | \$ 30          | 2,555   | \$ 22          |
| Exercised                      | (2,037)              | \$ 9           | (4,162) | \$ 9           | (4,599) | \$ 7           |
| Cancelled or expired           | (1,163)              | \$ 24          | (652)   | \$ 21          | (688)   | \$ 13          |
| Outstanding, end of year       | 18,897               | \$ 18          | 17,952  | \$ 17          | 18,876  | \$ 12          |
| Exercisable, end of year       | 10,981               | \$ 14          | 9,934   | \$ 12          | 10,437  | \$ 9           |

The total pretax intrinsic value of options exercised during the fiscal years ended March 31, 2009, 2008 and 2007 was \$33.2 million, \$84.9 million and \$72.0 million and the tax benefit realized for the tax deduction from options exercised during those periods was \$8.5 million, \$18.9 million and \$16.5 million. The total fair value of options vested as of March 31, 2009, 2008 and 2007 was \$57.7 million, \$42.9 million and \$37.9 million.

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The following table summarizes significant ranges of outstanding and exercisable options as of March 31, 2009 (in thousands except per share data; exercise prices and contractual lives are weighted averages):

| Range of Exercise Prices | Options Outstanding |                |                          |                           | Options Exercisable |                |                          |                           |
|--------------------------|---------------------|----------------|--------------------------|---------------------------|---------------------|----------------|--------------------------|---------------------------|
|                          | Number              | Exercise Price | Contractual Life (years) | Aggregate Intrinsic Value | Number              | Exercise Price | Contractual Life (years) | Aggregate Intrinsic Value |
|                          | \$ 1.00-\$ 9.19     | 3,473          | \$ 8                     | 3.6                       | \$ 9,300            | 3,317          | \$ 8                     | 3.3                       |
| \$ 9.20-\$ 13.29         | 3,723               | \$ 11          | 3.9                      | 1,167                     | 3,623               | \$ 11          | 3.8                      | 1,157                     |
| \$ 13.30-\$ 21.49        | 3,641               | \$ 17          | 6.7                      | -                         | 2,195               | \$ 18          | 5.8                      | -                         |
| \$ 21.50-\$ 23.50        | 3,962               | \$ 22          | 8.6                      | -                         | 746                 | \$ 22          | 6.6                      | -                         |
| \$ 23.51-\$ 35.40        | 4,098               | \$ 29          | 8.3                      | -                         | 1,100               | \$ 29          | 7.8                      | -                         |
| \$ 1.00-\$ 35.40         | 18,897              | \$ 18          | 6.3                      | \$ 10,467                 | 10,981              | \$ 14          | 4.6                      | \$ 10,102                 |

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on options with an exercise price less than the Company's closing price of \$10.28 at March 31, 2009, which would have been received by the option holders had these option holders exercised their options as of that date. The total number of fully vested in-the-money options exercisable as of March 31, 2009 was 4,574,389. As of March 31, 2009, 7,915,787 options were unvested, of which 7,333,185 are expected to vest, based on an estimated forfeiture rate of 7%.

During fiscal year 2009, 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 share price performance criteria measured 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 March 31, 2009, total compensation cost related to RSUs not yet recognized was \$2.0 million, which is expected to be recognized over the next 18 months.

During fiscal year 2009 the Company granted 93,750 RSUs with a grant date fair value of \$27.90 per unit. No RSUs were granted during fiscal year 2008.

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.

### **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 fiscal years 2009, 2008 and 2007, were \$8.3 million, \$7.0 million and \$5.7 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 Company recognizes the underfunded or overfunded status of defined benefit pension and postretirement plans as an asset or liability in its statement of financial position, and recognizes changes in the funded status in the year in which the changes occur through accumulated other comprehensive loss, which is a component of stockholders' equity. Each plan's assets and benefit obligations are measured as of March 31.

In fiscal year 2009, the Company added a defined benefit pension plan in Japan, and amended the existing plan in Switzerland. In addition, the restructuring which occurred in the fourth quarter of fiscal year 2009 resulted in a curtailment of benefits and a settlement transaction related to the terminated employees who participated in the existing defined benefit pension plans.



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The net periodic benefit cost for fiscal years 2009 and 2008 was as follows (in thousands):

|   | <b>Year ended March 31,</b> |             |
|---|-----------------------------|-------------|
|   | <b>2009</b>                 | <b>2008</b> |
| Service cost                              | \$ 2,391                    | \$ 2,568    |
| Interest cost                             | 1,452                       | 1,157       |
| Expected return on plan assets            | (1,489)                     | (1,486)     |
| Amortization of net transition obligation | 5                           | 5           |
| Recognized net actuarial loss             | 444                         | 141         |
| Net periodic benefit cost                 | \$ 2,803                    | \$ 2,385    |

Additional benefit costs of \$3.4 million related to the restructuring were recognized in restructuring expenses in fiscal year 2009.

The changes in projected benefit obligations for fiscal years 2009 and 2008 were as follows (in thousands):

|   | <b>March 31,</b> |             |
|---|------------------|-------------|
|   | <b>2009</b>      | <b>2008</b> |
| Projected benefit obligation, beginning of year | \$ 49,808        | \$ 34,787   |
| Service cost                                    | 2,391            | 2,568       |
| Interest cost                                   | 1,452            | 1,157       |
| Plan participant contributions                  | 1,656            | 1,430       |
| Actuarial loss due to assumption changes        | 3,828            | -           |
| Actuarial loss due to plan experience           | 988              | 2,962       |
| Benefits paid                                   | (1,286)          | (500)       |
| Plan amendments                                 | 2,590            | -           |
| Settlement/curtailment                          | (9,503)          | -           |
| Initial adoption of Japanese plan               | 431              | -           |
| Administrative expense paid                     | (183)            | (211)       |
| Foreign currency exchange rate changes          | (6,062)          | 7,615       |
| Projected benefit obligation, end of year       | \$ 46,110        | \$ 49,808   |

The accumulated benefit obligation for all defined benefit pension plans as of March 31, 2009 and 2008 was \$39.0 million and \$42.0 million.

The following table presents the changes in the fair value of plan assets for fiscal years 2009 and 2008 (in thousands):

|  | <b>March 31,</b> |             |
|--|------------------|-------------|
|  | <b>2009</b>      | <b>2008</b> |
| Fair value of plan assets, beginning of year | \$ 35,059        | \$ 27,362   |
| Actual return on plan assets                 | (4,928)          | (2,050)     |
| Employer contributions                       | 3,404            | 3,041       |
| Plan participant contributions               | 1,656            | 1,430       |
| Benefits paid                                | (1,286)          | (500)       |
| Settlement                                   | (6,580)          | -           |
| Initial adoption of Japanese plan            | 244              | -           |
| Administrative expenses paid                 | (183)            | (211)       |
| Foreign currency exchange rate changes       | (3,971)          | 5,987       |
| Fair value of plan assets, end of year       | \$ 23,415        | \$ 35,059   |

The defined benefit pension plans have the following asset allocations. Investment strategies are determined by the insurer or the applicable governmental regulatory agency.

**March 31,**

|                   | <b>2009</b> | <b>2008</b> |
|-------------------|-------------|-------------|
| Cash              | 0.0%        | 4.3%        |
| Equity securities | 24.4%       | 30.7%       |
| Debt securities   | 53.2%       | 44.0%       |
| Real estate       | 5.3%        | 5.5%        |
| Other             | 17.1%       | 15.5%       |
|                   | 100.0%      | 100.0%      |

The funded status of the defined benefit pension plans is the fair value of plan assets less benefit obligations. Projected benefit obligations exceeded plan assets for all plans by \$22.7 million and \$14.7 million as of March 31, 2009 and 2008. Amounts recognized on the balance sheet for the plans were as follows (in thousands):

|                         | <b>March 31,</b> |             |
|-------------------------|------------------|-------------|
|                         | <b>2009</b>      | <b>2008</b> |
| Current assets          | \$ 990           | \$ 902      |
| Current liabilities     | (2,873)          | (2,440)     |
| Non-current liabilities | (19,822)         | (12,309)    |
| Net liability           | \$ (21,705)      | \$ (13,847) |

Amounts recognized in other comprehensive income were as follows (in thousands):

|  | <b>March 31,</b> |             |
|--|------------------|-------------|
|  | <b>2009</b>      | <b>2008</b> |
| Net prior service cost                           | \$ 2,077         | \$ -        |
| Net actuarial loss                               | 14,000           | 9,842       |
| Amortization of net transition obligation        | 35               | 46          |
| Accumulated other comprehensive income           | 16,112           | 9,888       |
| Deferred tax benefit                             | (990)            | (821)       |
| Accumulated other comprehensive loss, net of tax | \$ 15,122        | \$ 9,067    |

Changes in accumulated other comprehensive loss related to the defined benefit pension plans were as follows (in thousands):

|   | <b>March 31,</b> |             |
|---|------------------|-------------|
|   | <b>2009</b>      | <b>2008</b> |
| Accumulated other comprehensive loss, beginning of year | \$ 9,067         | \$ 2,728    |
| Transition obligation recognized                        | (5)              | (5)         |
| Loss recognized   | (415)            | (138)       |
| Settlement/curtailment loss recognized                  | (6,225)          | -           |
| Prior service cost occurred                             | 2,443            | -           |
| Loss occurred   | 10,812           | 6,448       |
| Deferred tax benefit                                    | (182)            | 31          |
| Foreign currency exchange rate changes                  | (373)            | 3           |
| Accumulated other comprehensive loss, end of year       | \$ 15,122        | \$ 9,067    |

The following table presents the amounts included in accumulated other comprehensive loss as of March 31, 2009, which are expected to be recognized as a component of net periodic benefit cost in fiscal year 2010 (in thousands):

|   |          |
|---|----------|
| Amortization of net transition obligation | \$ 4     |
| Amortization of net prior service costs   | 133      |
| Amortization of net actuarial loss        | 882      |
|   | \$ 1,019 |

The Company reassesses its benefit plan assumptions on a regular basis. The actuarial assumptions for the pension plans for fiscal year 2009 are as follows:

|  | <b>Benefit Obligation</b> | <b>Periodic Cost</b> |
|--|---------------------------|----------------------|
| Discount rate                                  | 2.00% to 3.00%            | 2.50% to 3.50%       |
| Estimated rate of compensation increase        | 2.50% to 4.00%            | 2.50% to 4.25%       |
| Expected average rate of return on plan assets | 1.00% to 4.25%            | 2.75% to 4.75%       |

The discount rate is estimated based on relevant bond market yields. The Company bases the compensation increase assumptions on historical experience and future expectations. The expected average rate of return for the Company's retirement benefit plans represents the average rate of return expected to be earned on plan assets over the period that the benefit obligations are expected to be paid, based on government bond notes in the respective country, adjusted for corporate risk premiums as appropriate.

The following table reflects the benefit payments that the Company expects the plans to pay in the periods noted (in thousands):

| Year ending March 31, |                  |
|-----------------------|------------------|
| 2010                  | \$ 2,874         |
| 2011                  | 2,252            |
| 2012                  | 2,276            |
| 2013                  | 2,291            |
| 2014                  | 2,285            |
| Thereafter            | 11,672           |
|                       | <b>\$ 23,650</b> |

The Company expects to contribute approximately \$3.8 million to its defined benefit pension plans during fiscal year 2010.

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### ***Deferred Compensation Plan***

One of the Company's subsidiaries offers a management deferred compensation plan which permits eligible employees to make 100%-vested salary and incentive compensation deferrals within established limits, which are invested in Company-owned life insurance contracts held in a Rabbi Trust. The Company does not make contributions to the plan. The cash surrender value of the insurance contracts was approximately \$10.7 million and \$12.8 million at March 31, 2009 and 2008 and was included in other assets. Expenses and gains or losses related to the insurance contracts are included in other income (expense), net and have not been significant to date. The unsecured obligation to pay the compensation deferred, adjusted to reflect the positive or negative performance of investment measurement options selected by each participant, was approximately \$10.5 million and \$14.8 million at March 31, 2009 and 2008 and was included in other liabilities. The additional compensation expenses related to investment performance have not been significant to date.

### **Note 14 □ 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.

Income before income taxes for the fiscal years ended March 31, 2009, 2008 and 2007 is summarized as follows (in thousands):

|             |             |             |
|-------------|-------------|-------------|
| <b>2009</b> | <b>2008</b> | <b>2007</b> |
|-------------|-------------|-------------|

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|                             |    |         |                       |
|-----------------------------|----|---------|-----------------------|
| Income before income taxes: |    |         |                       |
| Swiss                       | \$ | 40,717  | \$ 145,403 \$ 141,749 |
| Non-Swiss                   |    | 86,076  | 117,411 113,808       |
| Total                       | \$ | 126,793 | \$ 262,814 \$ 255,557 |

The provision for income taxes is summarized as follows (in thousands):

|           | Year ended March 31, |          |                     |
|-----------|----------------------|----------|---------------------|
|           | 2009                 | 2008     | 2007                |
| Current:  |                      |          |                     |
| Swiss     | \$                   | 53       | \$ 2,509 \$ 4,644   |
| Non-Swiss |                      | 32,274   | 31,055 36,295       |
| Deferred: |                      |          |                     |
| Swiss     |                      | (36)     | (75) (89)           |
| Non-Swiss |                      | (12,530) | (1,701) (15,141)    |
| Total     | \$                   | 19,761   | \$ 31,788 \$ 25,709 |

The difference between the provision for income taxes and the expected tax provision at the statutory income tax rate is reconciled below (in thousands):

|  | Year ended March 31, |         |                     |
|--|----------------------|---------|---------------------|
|  | 2009                 | 2008    | 2007                |
| Expected tax provision at statutory income tax rates | \$                   | 10,777  | \$ 22,339 \$ 21,722 |
| Income taxes at different rates                      |                      | 7,221   | 12,245 10,194       |
| Research and development tax credits                 |                      | (2,524) | (1,572) (1,868)     |
| Unrealized investment income                         |                      | 1,004   | (248) -             |
| Stock Compensation                                   |                      | 2,767   | 423 391             |
| Other  |                      | 516     | (1,399) (4,730)     |
| Total provision for income taxes                     | \$                   | 19,761  | \$ 31,788 \$ 25,709 |

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The Company has negotiated a tax holiday on certain earnings in China which is effective from January 2006 through December 2010. The tax holiday represents a tax exemption aimed to attract foreign technological investment in China. The tax holiday decreased income tax expense by approximately \$4.0 million and \$7.3 million for fiscal years 2009 and 2008. The benefit of the tax holiday on net income per share (diluted) was approximately \$0.02 and \$0.05 respectively.

Deferred income tax assets and liabilities consist of the following (in thousands):

|                                   | March 31, |                  |
|-----------------------------------|-----------|------------------|
|                                   | 2009      | 2008             |
| Deferred tax assets:              |           |                  |
| Net operating loss carry forwards | \$        | 8,781 \$ 4,171   |
| Accruals                          |           | 35,610 29,977    |
| Depreciation and amortization     |           | 8,100 6,630      |
| Share-based compensation          |           | 11,983 7,504     |
| Gross deferred tax assets         |           | 64,474 48,282    |
| Deferred tax liabilities:         |           |                  |
| Acquired intangible assets        |           | (11,462) (6,992) |
| Gross deferred tax liabilities    |           | (11,462) (6,992) |
| Net deferred tax assets           | \$        | 53,012 \$ 41,290 |

The current and deferred tax provision is calculated based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed. Adjustments for differences between the tax provisions and tax returns are recorded when identified, which is generally in the third or fourth quarter of the subsequent year.

Management regularly assesses the ability to realize deferred tax assets recorded in the Company's entities based upon the weight of available evidence, including such factors as the recent earnings history and expected future taxable income. In the event that future taxable income is below management's estimates or is generated in tax jurisdictions different than projected, the Company could be required to establish the valuation allowance for deferred tax assets. This would result in an increase in the Company's effective tax rate.

Deferred tax assets relating to tax benefits of employee stock option grants and RSUs have been reduced to reflect exercises in fiscal years 2009 and 2008. Some exercises resulted in tax deductions in excess of previously recorded benefits based on the option value at the time of grant ("windfalls"). Although these additional tax benefits are reflected in net operating loss carryforwards, the additional tax benefit associated with the windfall is not recorded until the deduction reduces cash taxes payable. During fiscal years 2009 and 2008, the Company recorded a credit to equity of \$15.3 million and \$3.9 million.

As of March 31, 2009, the Company had foreign net operating loss and tax credit carryforwards for income tax purposes of \$182.9 million and \$17.8 million. Approximately \$145.6 million of the net operating loss carryforwards and substantially all of the tax credit carryforwards, if realized, will be credited to equity since they have not met the applicable realization criteria. Unused net operating loss carryforwards will expire at various dates in fiscal years 2012 to 2029, and the tax credit carryforwards will start expiring beginning in fiscal year 2010.

Effective April 1, 2007, the Company adopted the provisions of FIN 48, which contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

As a result of the implementation of FIN 48, the Company reduced the liability for net unrecognized tax benefits and related accrued interest and penalties by approximately \$8.3 million, and accounted for the reduction as the cumulative effect of a change in accounting principle, which resulted in an increase to retained earnings of approximately \$8.3 million during the first quarter of fiscal year 2008. As of March 31, 2009 and 2008, the total amount of unrecognized tax benefits was \$108.2 million and \$101.5 million, of which \$88.1 million and \$80.2 million would affect the effective tax rate if realized. The Company classified unrecognized tax benefits under FIN 48 as non-current income taxes payable, as no amounts appear payable within the next 12 months.

The aggregate changes in gross unrecognized tax benefits were as follow (in thousands):

|  |           |
|--|-----------|
| Beginning balance as of April 1, 2007 (Date of adoption)                       | \$ 82,435 |
| Lapse of statute of limitations  | (1,202)   |
| Decreases in balances related to tax positions taken during prior periods      | (6,471)   |
| Increases in balances related to tax positions taken during the current period | 17,885    |
| Balance as of March 31, 2008   | \$ 92,647 |
| Lapse of statute of limitations  | (1,978)   |
| Decreases in balances related to tax positions taken during prior periods      | -         |
| Increases in balances related to tax positions taken during the current period | 6,958     |
| Balance as of March 31, 2009   | \$ 97,627 |

The Company continues to recognize interest and penalties related to unrecognized tax positions in income tax expense. Upon the adoption of FIN 48, the total amount of accrued interest and penalties relating to unrecognized tax benefits was \$7.2 million. The Company recognized \$1.8 million and \$1.6 million in interest and penalties in income tax expense during fiscal years 2009 and 2008. As of March 31, 2009 and 2008, the Company had approximately \$10.7 million and \$8.8 million of accrued interest and penalties related to uncertain tax positions.

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, income tax expense for fiscal year 2009 reflected a \$2.0 million tax benefit for research tax credits.

On February 20, 2009, California budget legislation was enacted that will affect the methodology used by corporate taxpayers to apportion income to California. These changes will become effective for the Company's fiscal year ending March 31, 2012. The Company believes that these changes will not have a material impact on its results of operations or financial condition.

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.

Swiss income taxes and non-Swiss withholding taxes associated with the repatriation of earnings or for other temporary differences related to investments in non-Swiss subsidiaries have not been provided for, as the Company intends to reinvest the earnings of such subsidiaries indefinitely or the Company has concluded that no additional tax liability would arise on the distribution of such earnings. If these earnings were distributed to Switzerland in the form of dividends or otherwise, or if the shares of the relevant non-Swiss subsidiaries were sold or otherwise transferred, the Company may be subject to additional Swiss income taxes and non-Swiss withholding taxes. Determination of the amount of unrecognized deferred income tax liability related to these earnings is not practicable.

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## **Note 15 □ 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 primary risk managed by using derivative instruments is the foreign currency exchange rate risk. 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 year ended March 31, 2009. The notional amounts of foreign exchange forward contracts outstanding related to forecasted inventory purchases were \$21.9 million (17.4 million euros) at March 31, 2009. There were no such contracts outstanding at March 31, 2008. The notional amount represents the future cash flows under contracts to purchase foreign currencies.

### ***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 primary risk managed by using

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forward and swap contracts is the foreign currency exchange rate risk. 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 March 31, 2009 and 2008 relating to foreign currency receivables or payables were \$8.0 million and \$8.4 million. Open forward contracts as of March 31, 2009 consisted of contracts in British pounds to purchase euros at a future date at a pre-determined exchange rate. The notional amounts of foreign exchange swap contracts outstanding at March 31, 2009 and 2008 were \$20.2 million and \$21.5 million. Swap contracts outstanding at March 31, 2009 consisted of contracts in Mexican pesos, Japanese yen and British pounds.

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.

The following table presents the fair values of the Company's derivative instruments and their locations on the Balance Sheet as of March 31, 2009 (in thousands):

|   | Asset Derivatives |            | Liability Derivatives |            |
|---|-------------------|------------|-----------------------|------------|
|   | Location          | Fair Value | Location              | Fair Value |
| Derivatives designated as hedging instruments under SFAS 133:     |                   |            |                       |            |
| Cash Flow Hedges  | Other assets      | \$ -       | Other liabilities     | \$ 1,257   |
|   |                   | -          |                       | 1,257      |
| Derivatives not designated as hedging instruments under SFAS 133: |                   |            |                       |            |
| Foreign Exchange Forward Contracts                                | Other assets      | 208        | Other liabilities     | -          |
| Foreign Exchange Swap Contracts                                   | Other assets      | -          | Other liabilities     | 592        |
|   |                   | 208        |                       | 592        |
|   |                   | \$ 208     |                       | \$ 1,849   |

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The following table presents the amounts of gains and losses on the Company's derivative instruments for the year ended March 31, 2009 and their locations on its Financial Statements (in thousands):

|   | Net amount of gain/(loss) deferred as a component of accumulated | Location of gain/(Loss) reclassified from accumulated | Amount of gain/(loss) reclassified from accumulated | Location of gain/(loss) recognized in income | Amount of gain/(loss) recognized in income |
|---|--|---|---|--|--|
|   | other comprehensive loss   | other comprehensive loss into income                  | other comprehensive loss into income                | recognized in income immediately             | immediately                                |
| Derivatives designated as hedging instruments under SFAS 133: |  |   |   |  |  |
| Cash Flow Hedges  | \$ 216   | Cost of goods sold                                    | \$ 1,678  | Other income/expense                         | \$ (12)                                    |
|   | 216  |   | 1,678   |  | (12)                                       |
| Derivatives not designated as hedging                         |  |   |   |  |  |

|                                    |        |          |                            |
|------------------------------------|--------|----------|----------------------------|
| instruments under SFAS 133:        |        |          |                            |
| Foreign Exchange Forward Contracts | -      | -        | Other income/expense 208   |
| Foreign Exchange Swap Contracts    | -      | -        | Other income/expense (592) |
|                                    | -      | -        | (384)                      |
|                                    | \$ 216 | \$ 1,678 | \$ (396)                   |

## Note 16 ☐ Commitments and Contingencies

The Company leases facilities under operating leases, certain of which require it to pay property taxes, insurance and maintenance costs. Operating leases for facilities are generally renewable at the Company's option and usually include escalation clauses linked to inflation. Future minimum annual rentals under non-cancelable operating leases at March 31, 2009 are as follows (in thousands):

|                       |           |
|-----------------------|-----------|
| Year ending March 31, |           |
| 2010                  | \$ 12,805 |
| 2011                  | 9,482     |
| 2012                  | 7,463     |
| 2013                  | 6,723     |
| 2014                  | 3,417     |
| Thereafter            | 6,960     |
|                       | \$ 46,850 |

Rent expense was \$15.5 million, \$13.8 million and \$9.9 million for the years ended March 31, 2009, 2008 and 2007. The Company's asset retirement obligations for its leased facilities as of March 31, 2009 were not material.

At March 31, 2009, fixed purchase commitments for capital expenditures amounted to \$8.3 million, and primarily related to commitments for manufacturing equipment, 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 March 31, 2009, fixed purchase commitments for inventory amounted to \$106.7 million, which are expected to be fulfilled by December 31, 2009. The Company also had other commitments totaling \$27.6 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 March 31, 2009, the amount of outstanding guaranteed purchase obligations was approximately \$0.1 million. The maximum potential future payments under two of the three guarantee arrangements is limited to \$2.8 million. The third 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 \$4.9 million as of March 31, 2009. As of March 31, 2009, \$4.9 million was 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. No amounts have been accrued for indemnification provisions at March 31, 2009. 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 amount, if any, will be recorded in goodwill and will not be final until the end of calendar year 2009. As of March 31, 2009, no amounts were payable towards performance-based payments under our acquisition agreement.

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 2010. No payment is due if the applicable net revenues total \$40.0 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.

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, cash flows and results of operations. The Company's accruals for lawsuits and claims as of March 31, 2009 were not material.

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#### Note 17 Interest and Other Income

Interest and other income (expense), net was comprised of the following (in thousands):

|                                      | <b>Year ended March 31,</b> |             |             |
|--------------------------------------|-----------------------------|-------------|-------------|
|                                      | <b>2009</b>                 | <b>2008</b> | <b>2007</b> |
| Interest income                      | \$ 8,648                    | \$ 15,752   | \$ 9,083    |
| Interest expense                     | (20)                        | (244)       | (350)       |
| Interest income, net                 | \$ 8,628                    | \$ 15,508   | \$ 8,733    |
| Foreign currency exchange gains, net | \$ 13,680                   | \$ 10,616   | \$ 6,190    |
| Gain on sale of investments, net     | -                           | 27,761      | 9,048       |
| Write-down of investments            | (2,727)                     | (79,823)    | -           |
| Other, net                           | (2,442)                     | 2,072       | 724         |
| Other income (expense), net          | \$ 8,511                    | \$ (39,374) | \$ 15,962   |

#### Note 18 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):

|                 | Year ended March 31, |              |              |
|-----------------|----------------------|--------------|--------------|
|                 | 2009                 | 2008         | 2007         |
| EMEA            | \$ 1,001,337         | \$ 1,117,060 | \$ 1,027,852 |
| Americas        | 785,862              | 888,529      | 729,207      |
| Asia Pacific    | 421,633              | 364,907      | 309,510      |
| Total net sales | \$ 2,208,832         | \$ 2,370,496 | \$ 2,066,569 |

In fiscal years 2009, 2008 and 2007, no single country other than the United States represented more than 10% of the Company's total consolidated net sales. Revenues from sales to customers in Switzerland, our home domicile, represented a small portion of the Company's total consolidated net sales in all periods presented. In fiscal years 2009, 2008 and 2007, one customer represented 14% of net sales. As of March 31, 2009, two customers represented 18% and 10% of total accounts receivable. As of March 31, 2008, two customers each represented 15% of total accounts receivable.

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

|                               | Year ended March 31, |              |              |
|-------------------------------|----------------------|--------------|--------------|
|                               | 2009                 | 2008         | 2007         |
| Retail - Pointing Devices     | \$ 579,775           | \$ 615,524   | \$ 508,449   |
| Retail - Keyboards & Desktops | 384,809              | 464,984      | 372,266      |
| Retail - Audio                | 445,362              | 478,455      | 408,314      |
| Retail - Video                | 248,339              | 238,728      | 314,514      |
| Retail - Gaming               | 127,052              | 146,016      | 149,113      |
| Retail - Remotes              | 102,006              | 123,581      | 91,739       |
| OEM                           | 321,489              | 303,208      | 222,174      |
| Total net sales               | \$ 2,208,832         | \$ 2,370,496 | \$ 2,066,569 |

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

|                         | March 31,  |            |
|-------------------------|------------|------------|
|                         | 2009       | 2008       |
| EMEA                    | \$ 13,947  | \$ 20,386  |
| Americas                | 40,093     | 36,122     |
| Asia Pacific            | 53,541     | 50,330     |
| Total long-lived assets | \$ 107,581 | \$ 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 March 31, 2009. 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.

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**LOGITECH INTERNATIONAL S.A.**

**QUARTERLY FINANCIAL DATA  
(Unaudited)**

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The following table contains selected unaudited quarterly financial data for fiscal years 2009 and 2008 (in thousands except per share amounts):

|   | Year ended March 31, 2009 |            |            |             | Year ended March 31, 2008 |            |            |             |
|---|---------------------------|------------|------------|-------------|---------------------------|------------|------------|-------------|
|   | First                     | Second     | Third      | Fourth      | First                     | Second     | Third      | Fourth      |
| Net sales   | \$ 508,711                | \$ 664,707 | \$ 627,466 | \$ 407,948  | \$ 429,537                | \$ 595,490 | \$ 627,466 | \$ 407,948  |
| Gross profit  | 173,572                   | 228,074    | 187,496    | 102,084     | 144,786                   | 215,954    | 187,496    | 102,084     |
| Operating expenses:                                 |                           |            |            |             |                           |            |            |             |
| Marketing and selling                               | 77,280                    | 84,740     | 86,046     | 71,101      | 64,787                    | 76,463     | 86,046     | 71,101      |
| Research and development                            | 33,259                    | 33,351     | 32,401     | 29,744      | 28,765                    | 30,939     | 32,401     | 29,744      |
| General and administrative                          | 33,309                    | 29,620     | 26,273     | 23,901      | 27,322                    | 28,149     | 26,273     | 23,901      |
| Restructuring charges                               | -                         | -          | -          | 20,547      | -                         | -          | -          | 20,547      |
| Total operating expense                             | 143,848                   | 147,711    | 144,720    | 145,293     | 120,874                   | 135,551    | 144,720    | 145,293     |
| Operating income (loss)                             | 29,724                    | 80,363     | 42,776     | (43,209)    | 23,912                    | 80,403     | 42,776     | (43,209)    |
| Net income (loss)                                   | \$ 29,306                 | \$ 72,311  | \$ 40,493  | \$ (35,078) | \$ 25,554                 | \$ 11,562  | \$ 40,493  | \$ (35,078) |
| Net income (loss) per share*:                       |                           |            |            |             |                           |            |            |             |
| Basic   | \$ 0.16                   | \$ 0.41    | \$ 0.23    | \$ (0.20)   | \$ 0.14                   | \$ 0.06    | \$ 0.23    | \$ (0.20)   |
| Diluted   | \$ 0.16                   | \$ 0.39    | \$ 0.22    | \$ (0.20)   | \$ 0.14                   | \$ 0.06    | \$ 0.22    | \$ (0.20)   |
| Shares used to compute net income (loss) per share: |                           |            |            |             |                           |            |            |             |
| Basic   | 179,046                   | 178,630    | 178,497    | 179,065     | 181,802                   | 181,459    | 178,497    | 179,065     |
| Diluted   | 184,692                   | 183,509    | 181,145    | 179,065     | 189,250                   | 188,293    | 181,145    | 179,065     |

\* Basic and diluted earnings per share are computed independently for each of the quarters presented. Therefore, the sum of quarterly basic and diluted per share information may not equal annual basic and diluted earnings per share.

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

|                            | Year ended March 31, 2009 |        |        |        | Year ended March 31, 2008 |        |        |        |
|----------------------------|---------------------------|--------|--------|--------|---------------------------|--------|--------|--------|
|                            | First                     | Second | Third  | Fourth | First                     | Second | Third  | Fourth |
| Net sales                  | 100.0%                    | 100.0% | 100.0% | 100.0% | 100.0%                    | 100.0% | 100.0% | 100.0% |
| Gross profit               | 34.1                      | 34.3   | 29.9   | 25.0   | 33.7                      | 36.3   | 36.9   | 35.0   |
| Operating expenses:        |                           |        |        |        |                           |        |        |        |
| Marketing and selling      | 15.2                      | 12.7   | 13.7   | 17.4   | 15.1                      | 12.8   | 13.2   | 14.0   |
| Research and development   | 6.5                       | 5.0    | 5.2    | 7.3    | 6.7                       | 5.2    | 4.2    | 5.0    |
| General and administrative | 6.6                       | 4.5    | 4.2    | 5.9    | 6.3                       | 4.8    | 3.9    | 4.0    |
| Restructuring charges      | -                         | -      | -      | 5.0    | -                         | -      | -      | 5.0    |
| Total operating expense    | 28.3                      | 22.2   | 23.1   | 35.6   | 28.1                      | 22.8   | 21.3   | 24.0   |
| Operating income (loss)    | 5.8                       | 12.1   | 6.8    | (10.6) | 5.6                       | 13.5   | 15.6   | 11.0   |
| Net income (loss)          | 5.8%                      | 10.9%  | 6.5%   | (8.6%) | 5.9%                      | 1.9%   | 17.9%  | 10.0%  |

**LOGITECH INTERNATIONAL S.A.**  
**VALUATION AND QUALIFYING ACCOUNTS**  
**For the Fiscal Years Ended March 31, 2009, 2008 and 2007 (in thousands)**

|               |            |            |               |
|---------------|------------|------------|---------------|
| Balance<br>at | Charged to | Write-offs | Balance<br>at |
|---------------|------------|------------|---------------|

| <b>Fiscal</b> |                                    | <b>beginning</b> | <b>Income</b>    | <b>charged</b>      | <b>end</b>       |
|---------------|------------------------------------|------------------|------------------|---------------------|------------------|
| <b>Year</b>   | <b>Description</b>                 | <b>of</b>        | <b>Statement</b> | <b>to allowance</b> | <b>of period</b> |
|               |                                    | <b>period</b>    | <b>(1)</b>       | <b>(1)</b>          |                  |
| 2009          | Allowance for doubtful accounts    | \$ 2,497         | \$ 5,102         | \$ (894)            | \$ 6,705         |
| 2008          | Allowance for doubtful accounts    | \$ 3,322         | \$ 603           | \$ (1,428)          | \$ 2,497         |
| 2007          | Allowance for doubtful accounts    | \$ 2,988         | \$ 527           | \$ (193)            | \$ 3,322         |
| 2009          | Cooperative Marketing Arrangements | \$ 41,516        | \$ 143,788       | \$ (144,222)        | \$ 41,082        |
| 2008          | Cooperative Marketing Arrangements | \$ 34,236        | \$ 141,146       | \$ (133,866)        | \$ 41,516        |
| 2007          | Cooperative Marketing Arrangements | \$ 25,646        | \$ 122,088       | \$ (113,498)        | \$ 34,236        |
| 2009          | Customer Incentive Programs        | \$ 49,341        | \$ 131,353       | \$ (140,325)        | \$ 40,369        |
| 2008          | Customer Incentive Programs        | \$ 32,799        | \$ 125,923       | \$ (109,381)        | \$ 49,341        |
| 2007          | Customer Incentive Programs        | \$ 24,388        | \$ 88,650        | \$ (80,239)         | \$ 32,799        |
| 2009          | Reserve for Sales Returns          | \$ 21,099        | \$ 83,419        | \$ (79,048)         | \$ 25,470        |
| 2008          | Reserve for Sales Returns          | \$ 15,821        | \$ 87,114        | \$ (81,836)         | \$ 21,099        |
| 2007          | Reserve for Sales Returns          | \$ 11,653        | \$ 73,899        | \$ (69,731)         | \$ 15,821        |
| 2009          | Price Protection                   | \$ 16,334        | \$ 23,203        | \$ (27,189)         | \$ 12,348        |
| 2008          | Price Protection                   | \$ 7,818         | \$ 41,722        | \$ (33,206)         | \$ 16,334        |
| 2007          | Price Protection                   | \$ 2,359         | \$ 29,304        | \$ (23,845)         | \$ 7,818         |

(1) Transactions related to certain prior year charges and write-offs have been recharacterized to conform to the current year presentation, with no impact on previously reported beginning and ending balances.