

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.

## 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 coul