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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

or

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

Commission File Number: 0-29174

LOGITECH INTERNATIONAL S.A.

(Exact name of registrant as specified in its charter)

Canton of Vaud, Switzerland	**None**
(State or other jurisdiction of incorporation or organization)	**(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)

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 x No ¨

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

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Yes ¨ No x

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

Table of Contents

TABLE OF CONTENTS

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

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

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Table of Contents

LOGITECH INTERNATIONAL S.A.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

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

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

Table of Contents

LOGITECH INTERNATIONAL S.A.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

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

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

5

Table of Contents

LOGITECH INTERNATIONAL S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

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

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

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

Table of Contents

LOGITECH INTERNATIONAL S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(In thousands)

(Unaudited)

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

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

Table of Contents

LOGITECH INTERNATIONAL S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 The Company

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

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

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

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

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

Fiscal Year

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

Table of Contents

Changes in Significant Accounting Policies

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

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

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

Use of Estimates

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

Recent Accounting Pronouncements

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

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

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

Table of Contents

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

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

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

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

Note 3 Net Income per Share

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

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

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

Table of Contents

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

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

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

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

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

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

Note 4 Fair Value Measurements

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

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

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

Table of Contents

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

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

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

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

Note 5 Cash and Cash Equivalents and Short-term Investments

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

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

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

Table of Contents

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

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

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

Note 6 Acquisitions

SightSpeed

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

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

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

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

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

Deferred tax liability, net		(591)
Total consideration	$	31,137

13

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

Ultimate Ears

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

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

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

Table of Contents

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

	August 19, 2008	Estimated Life